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HOUSE OF COMMONS

First Session—Twenty-Seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 34

TUESDAY, JANUARY 10, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.
Bill C-222, An Act respecting Banks and Banking.
Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

Messrs. Joseph Pope; R. G. D. Lafferty; and Terry Howes.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25468—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Addison,
Basford,
Cameron (*Nanaimo-Cowichan-The Islands*),
Cashin,
Chrétien,
Clermont,
Coates,
Comtois,
Flemming,
Fulton,
Gilbert,
Irvine,
Lambert,
Lamontagne,
Latulippe,
Leboe,
Lind,
McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Munro,
Valade,
Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, January 10, 1967.
(68)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:05 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Comtois, Flemming, Gilbert, Gray, Laflamme, Lambert, Lind, McLean (*Charlotte*), More (*Regina City*)—(11)

In attendance: Mr. Joseph Pope, Pope and Company, Toronto; Mr. Denis Baribeau and Miss M. R. Prentis, research assistants.

The Chairman presented the Eighth Report of the Sub-Committee on Agenda and Procedure dated December 21, 1966, which is as follows:

Your Sub-Committee on Agenda and Procedure met at 1:00 p.m. this day and has agreed to recommend as follows:

(a) That the undermentioned be invited to present their briefs to the Committee on the dates shown:

January 10—R. G. D. Lafferty, Montreal; Joseph Pope, Toronto; Terry Howes, Erindale, Ont.

January 12—Frank O'Hearn, Scarborough; Melvin A. Rowat, Elmvale, Ont.; Harry H. Hallatt, Scarborough.

January 17—Canadian Federation of Agriculture CUNA International Inc.

January 19—Mercantile Bank of Canada

(b) That your Sub-Committee consider at a later date the timing of the hearing for Bill S-25, An Act to incorporate The North West Life Assurance Company of Canada, which has been referred to the Committee.

The Chairman reported that it has since been learned that the Mercantile Bank of Canada will be unable to appear on January 19th, but they have agreed to appear on January 24th, and he therefore suggested that a motion to approve the report of the Sub-Committee should include the appropriate amendment regarding the date of appearance of the Mercantile Bank.

On motion of Mr. Clermont, seconded by Mr. Lambert, the Report of the Sub-Committee on Agenda and Procedure was approved, as amended.

The Committee resumed consideration of the banking legislation.

The Chairman introduced the witness, Mr. Pope, who read his brief and was questioned. In accordance with the resolution passed at the meeting of October 13, 1966, Mr. Pope's brief is attached as *Appendix CC*.

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The questioning having been concluded, the Chairman thanked the witness who was permitted to retire.

At 1:00 p.m. the Committee adjourned until 3:45 p.m. this day.

AFTERNOON SITTING

(69)

The Committee resumed at 3:50 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Addison, Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Comtois, Flemming, Gilbert, Gray, Laflamme, Lambert, Lind, McLean (*Charlotte*), More (*Regina City*)—(12)

In attendance: Mr. R. G. D. Lafferty, Lafferty, Harwood and Company, Montreal; Mr. Baribeau and Miss Prentis.

The Chairman introduced the witness, Mr. Lafferty, who summarized his brief and was questioned. In accordance with the resolution passed at the meeting of October 13, 1966, the brief is attached as *Appendix DD*.

The questioning continuing, at 5:50 p.m. the Committee adjourned until 8:00 p.m. this day.

EVENING SITTING

(70)

The Committee resumed at 8:10 p.m., the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Comtois, Fulton, Gilbert, Gray, Laflamme, Lambert, Lind, McLean (*Charlotte*), More (*Regina City*), Wahn—(12)

In attendance: The same as at the afternoon sitting and Mr. Terry Howes, Erindale, Ontario.

Questioning of Mr. Lafferty was continued and concluded. The Chairman thanked the witness who was then permitted to retire.

Mr. Howes was called and questioned. In accordance with the resolution passed at the meeting of October 13, 1966, Mr. Howes' brief is attached as *Appendix EE*.

The questioning having been concluded, the Chairman thanked the witness who was permitted to retire.

At 10:35 p.m. the Committee adjourned until Thursday, January 12, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(*Recorded by Electronic Apparatus*)

TUESDAY, January 10, 1967.

The CHAIRMAN: Gentlemen, we are now in a position to begin our meeting. It will be basically for the purpose of taking evidence. Our witness this morning is Mr. Joseph Pope, proprietor of Pope and Company, which is a member of the Montreal Stock Exchange, the Investment Dealers Association of Canada, and I gather also an associate member of the Boston Stock Exchange and the Philadelphia-Baltimore-Washington Stock Exchanges. Prior to forming his own firm, Mr. Pope spent a number of years with one of the chartered banks and with a major investment firm. Since Mr. Pope's brief is actually brief, rather than attempt to have him summarize it, I am going to ask him to read it to us and then we will enter into our discussion.

Mr. JOSEPH POPE (*Pope & Company, Toronto*): Mr. Chairman and hon. gentlemen. A section of the Bank Act that has received little or no public discussion and yet is far reaching in its effect is section 157. I refer to the new draft. This section was first introduced in the revision that took place in the 1930s. On the face of it, the section would appear to have been inserted merely to forbid an improper use of the word "bank" by unsound institutions wishing to take advantage of the gullibility of the public. In practice, it has brought about greater evils in that by forbidding the use of the words "bank", "banker", or "banking" by those who are not incorporated under the terms of the Bank Act, it has effectively made it impossible for even those foreign banks of the highest repute to offer their services to the Canadian public.

The point that this memorandum wishes to emphasize is that it is not generally realized that the results of this section 157 have been, unwittingly, quite disastrous.

Firstly: By using the word "bank" in this manner, Parliament has in effect changed the normal meaning of the word as commonly used in the English language; as an unfortunate legal implication is that any institution carrying on business in Canada and performing banking functions, but not chartered under the Bank Act, is beyond the control of the federal Parliament. This, of course, is quite contrary to the thought of those who drafted the British North America Act.

Secondly: As the international banks are, as a consequence of this section, forbidden to open branches in either Montreal or Toronto, our public suffers from a considerable limitation in the banking facilities that are offered to it. This is not necessarily a criticism of the facilities offered by our own chartered banks. As we all know, these rank amongst the soundest in the world. The point is, though, that while they are excellent in their chosen fields—and by that I refer to normal commercial banking and savings banking—they are somewhat pro-

vincial in their approach to international banking. Parliament should not put itself in the position of depriving the public of the more sophisticated banking services that are available in foreign financial centres.

Thirdly: Section 157 actually reduces Canada, in matters of international finance, to the status of a third-rate power. It is no exaggeration to say that, financially speaking, the influence of the Canadian dollar abroad is practically nil.

Fourthly: The Canadian dollar, because of this section 157, is merely a local currency rather than an international currency.

Fifthly: Properly speaking, there is no foreign exchange market in Montreal or Toronto worthy of the name. One grants that the foreign exchange trading departments of the various chartered banks are quite adept at making quotations in American dollars, yet the fact remains that any quotation in Canadian dollars for any other foreign currency is merely a reflection of the New York market.

Sixthly: It is again no exaggeration to say that this section has been responsible over the years for the loss by our exporters and manufacturers of a great deal of business. Manufacturers can well have excellent products for sale, but lacking complete financial advice regarding foreign exchange and foreign credit, they are unable to compete with those who have more financial expertise at their disposal.

It is sheer emotional chauvinism to believe that foreign banks are anxious to come into this country to prey on the savings of our widows and orphans. The finest financial centre in the world is London. In that city there are nearly two hundred branches of foreign banks. Of course about a dozen of them are our own Canadian banks. The requirements for the starting of a branch of a foreign bank in London are quite simple. It is merely required that it be licensed by the London Board of Trade, and on its letterhead state the country and year of its incorporation. Contrary to the fears of our chartered banks, a branch of a foreign bank does not deprive local banks of business, but rather brings new business to the financial community. Mr. Chairman, I would like at this time to suggest that my next paragraph on subsection G be removed because it concerns a matter upon which you have had testimony from far more expert witnesses than myself. So, if you like I will just take out that paragraph.

The CHAIRMAN: Well you are as much entitled to present your views on this topic as any other citizen who has indicated a desire to appear before us.

Mr. POPE: Well, I have made a reservation which you have noted.

The CHAIRMAN: Yes, we have noted it.

Mr. POPE: You have noted it gentlemen. By the same token, sub-section "G" of section 75 of Bill C-222 must be considered iniquitous. It is perfectly proper for Parliament to pass legislation seeing to it that foreign guests behave as good citizens. It is another matter entirely though to propose legislation aimed at causing needless harm to a particular well-behaved foreign guest.

The restrictions imposed on ownership of bank shares by the new section 53 are to be deplored. Sub-section 2 of section 53, which limits the shares of a chartered bank that may be held by one group to 10 per cent merely serves to perpetuate control by management rather than control by the owners, which is the more proper thing.

Much of the newspaper discussion regarding the revision of the Bank Act has been on the matter of whether or not a limit should exist on the rate of interest that chartered banks may ask for in granting loans. Most of the arguments in favour of retention of the rate ceiling tend to be emotional rather than rational. There are no sound grounds for believing that the chartered banks would take advantage of this new freedom, were it granted to them, by charging rates that could be considered improper. At the present time, the limit is quite unrealistic and produces unhealthy results.

All of which is respectfully submitted,

The CHAIRMAN: Thank you, Mr. Pope. Before going on, the committee will have to deal with a procedural matter. We are now officially constituted. I should bring to your attention the report of the steering committee of Wednesday, December 21, as follows: (*See Minutes of Proceedings*)

I should point out to the Committee that our Clerk, Miss Ballantine, after looking into this matter appended this note:

> All the above have confirmed that they will appear on the dates mentioned, except the Mercantile Bank of Canada, who will not be able to appear until January 24th.

I would suggest to the committee that we have a formal motion to approve the report with the amendment that the Mercantile Bank will appear on the 24th rather than the 19th. Also, I would suggest hopefully that our Clerk might inquire if the group of junior trust companies might be available on that date. Of course I realise this may be a little too soon, but perhaps we may consider having them on that date if other factors, including the deposit insurance resolution, seem to make it convenient. I just suggest this from the point of view of using our time to the best advantage. Could I have a motion of this kind so that we can proceed properly with any discussion on this report.

(*Translation*)

Mr. CLERMONT: I so move.

Mr. LAMBERT: I second the motion.

(*English*)

The CHAIRMAN: Is there any discussion?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Have we had an answer from the Mercantile Bank on the January 24th date?

The CHAIRMAN: Oh yes. We originally suggested the 19th. However, some of the people we would want to hear from were not available on the 19th; they themselves apparently suggested the 24th, and this fits into our order of business. I would suggest to the Committee that this might therefore be an appropriate time to hear from this group. Is there any further discussion? If not, are all in favour of the report as modified?

Some hon. MEMBERS: Yes.

The CHAIRMAN: Thank you.

Mr. LAMBERT: I have a question arising out of that. Have you been able to ascertain when the Minister of Finance will be available?

The CHAIRMAN: I have not pursued the matter since we adjourned for Christmas.

Mr. LAMBERT: I want to come back to the original charge, that a lot of the consideration that we have been given so far is quite academic. The Government is proposing certain changes and we have had no reasoning by the government. It has been quite impossible and quite improper to try to get anything from Mr. Elderkin in connection with, shall we say, the motivation in respect of a number of these changes, which has made a lot of the discussion with the Canadian Bankers Association and others quite frustrating and sometimes futile. The sooner he gets here and puts his case forward the better.

The CHAIRMAN: As you may recall, the approach the committee generally felt was satisfactory was to hear witnesses who had views to express and then have the minister with us for a lengthy period so that questioning of the minister could proceed in the light of the thoughts brought forward by people outside government circles. Anyway, we appear to be almost done with our witnesses However, I will pursue that aspect further because I think there is no question that we are getting to the stage when the Minister of Finance could make a very useful contribution to our work, and I think we should in any event have the steering committee meeting early next week to come to some definite decision on that point.

May I suggest to the committee that it appears to me that Mr. Pope's brief falls into four sections: his views on the implications of section 157, up to and including the end of the second paragraph on page 2; then there are his remarks on section 75, although, perhaps in fairness to Mr. Pope if he feels that his own expertise does not extend particularly in that direction, you may not wish to discuss this paragraph with him in detail; then his views on subsection 2 of section 53; and finally his views on the interest rate. I would suggest to the committee that we discuss Mr. Pope's brief with him in that order, following which we should have time to raise any other points on which we feel he may have some contribution to make. The first name I have on my list is Mr. Laflamme, followed by Dr. McLean and then Mr. Cameron.

Mr. LAFLAMME: Mr. Chairman, I would just like to know if Mr. Pope was referring to the proposed article 157 in the proposed bill.

(*Translation*)

Mr. POPE: Yes, it is in Bill C-222, sir. It could be found in all bills since 1933, as you know.

Mr. LAFLAMME: I understand, but I would like to know, from the legal point of view, what can eventually be the effect which would be so disastrous with regard to this proposal? What is so wrong about using the word "bank" without providing a definition of that word?

Mr. POPE: But, sir, that is just what is disastrous.

Mr. LAFLAMME: But since there are no legal consequences, what exactly is the nature of that disaster?

Mr. POPE: I see. I was trying to give some broad explanation of the six points, so to speak. The first is that the inclusion of that clause 157 in the Bill

does provide a near-definition of the word "bank". This means that a bank is any institution incorporated under the Bank Act.

This means that nothing else is banking and this is ridiculous. This means that, according to the British North America Act, all banking activities fall under the control of the federal government. But under this clause 157, you limit your control to chartered banks. Trust companies, all sorts of companies that are actually banks, and accept deposits from the public and withdrawals of deposits and cash cheques on demand, are banks in the true sense of the word, in English and in French, but a judge or a lawyer could say: "These are not banks", referring to this clause 157. So you are removing from your control the greater portion of banking operations in the country and you are denying the British North America Act.

Mr. LAFLAMME: You consider that article 157 as it is drawn up, reduces, restricts the meaning of the word "bank"?

Mr. POPE: It changes the sense of the word. There is a sense to this word, a definition to this word in the dictionary:

Mr. LAFLAMME: There is no definition in the Act, even.

Mr. POPE: The words are tricky. Any person who uses the words "banking, or banking operations" who carries on such operations, but does not have a charter is actually against the law. So this means that anyone who is in business, and doing banking business can say "I am not a banker because I do not come under the Bank Act, I was incorporated under the chartered loan corporations in the country—

(English)

Mr. LAFLAMME: —trust and loans Corporations of Ontario.

(Translation)

Mr. POPE: Therefore I am not in the banking business.

Mr. LAFLAMME: Well what would be your suggestion?

Mr. POPE: My suggestion would be that we would do away with this clause. Do you agree with this. This was put in the law in 1930 at a time when all—

(English)

—investment bankers had their tails between their legs because of the depression and the thing has stuck in there ever since. It has had a very evil effect which people do not realize.

Mr. LAFLAMME: Thank you very much.

Mr. MCLEAN *(Charlotte)*: Mr. Pope, would you take 157 right out of the Bank Act?

Mr. POPE: Yes, sir.

Mr. MCLEAN *(Charlotte)*: Was that not put in, in the first place, because they were designated as bankers and issued their own currency?

Mr. POPE: If you are asking me the question, sir, that is not my understanding. My understanding, sir, is that the Bank Act has been in existence practically as long as this country has been in existence. It was enacted shortly after 1867 and this clause was only put in about 1930, sir.

Mr. McLEAN (*Charlotte*): Yes, but was it not put in because they were designated and set apart as bankers and as such they issued their own currency.

Mr. POPE: By a coincidence, sir, it was about the time this section first went in that the banks had their note issuing—

Mr. McLEAN (*Charlotte*): How would you tell a banker from anybody else if the banks were issuing their currency and the other people were not issuing any currency? Are you not a banker today because of your relations with the central bank and other things?

Mr. POPE: Perhaps that is the definition of the word "bank", that legislation has forced on us in this country, but it is my submission that banking could be defined in more simple terms that that. One who accepts deposits or who holds himself open to accept deposits payable on demand and, if you like, offers a chequing facility, is a banker.

Mr. McLEAN (*Charlotte*): Would you not come in conflict with the provinces then? Would the federal government not come in conflict with the provinces?

Mr. POPE: No, sir.

Mr. McLEAN (*Charlotte*): It would not?

Mr. POPE: Not in my opinion, sir. I am not a lawyer but since you have raised the point, sir, I would suggest that if a provincial government chartered what they call the trust companies and now these trust companies receive deposits, fine; it is within the jurisdiction of a provincial government to create incorporations with set purposes, but the federal government has authority over banking and if it finds a provincial creature engaged in banking, it may control it under the B.N.A. Act.

Mr. McLEAN (*Charlotte*): Would it do that down in Quebec?

Mr. POPE: Absolutely.

Mr. McLEAN (*Charlotte*): You come, thirdly, to the section which actually reduces Canada in matters of international finance and the influence of the Canadian dollar abroad is practically nil. Is the American dollar practically nil abroad at the present time?

Mr. POPE: The American dollar and the pound sterling are the two mediums of exchange in international transactions.

Mr. McLEAN (*Charlotte*): Why are they?

Mr. POPE: First, because they have acceptance on the part of other countries; by that I mean that smaller countries are prepared to hold sterling or United States dollars as part of their official reserve rather than gold or in addition to gold.

Second, both New York and London offer very professional banking facilities—loan facilities, discount facilities, deposit facilities—which make it a great convenience to use those currencies. As a consequence, it follows that much international trading, exporting and importing, is done on prices based on either pounds sterling or United States dollars.

Now, where this affects us is that we do not buy abroad with Canadian dollars; we do not sell abroad with Canadian dollars; we tend to quote in the

currencies of other countries. Why? Because our dollar is not used abroad; it is not recognized abroad. If there were foreign banks in Montreal or Toronto, a Brussels' importer wishing to deal directly with Canada to obtain Canadian dollars would find it much easier. At present he merely buys American dollars and has the transaction finalized in New York.

Mr. McLEAN (*Charlotte*): The companies I have been associated with practically all my life are dealing with 62 countries at the present time. We sell abroad in Canadian dollars; we also sell abroad in American dollars, and I cannot see that clause 157 makes any difference to us. The reason that the American dollar and the pound sterling are reserve currencies is that they were established by the International Monetary Fund as reserve currencies. One reason that I think France complains all the time is that the franc is not a reserve currency. In my early days London was the settling point, not New York; but as a result of two wars it came to New York, which will remain a settling point. It is only because they have now got their dollar in trouble that they have guidelines. I do not think the American dollar is any better than the Canadian dollar at the present time, when it comes to dealings outside.

Mr. POPE: It was not suggested it was, sir.

Mr. McLEAN (*Charlotte*): It has really become a domestic dollar. I do not see how clause 157 is going to affect the dollar.

Mr. POPE: I suggested this as a secondary effect. It is an insidious little thing. It does not say that foreign banks may not open foreign branches. It says nobody may use the word "bank". Fine, so the Bank of Brussels cannot open a branch in Montreal because it runs afoul of this clause which deals with it.

Mr. McLEAN (*Charlotte*): How can the Bank of Brussels open a branch in Montreal and be controlled by the central bank?

Mr. POPE: Any guest in this country may be controlled. Parliament is supreme, sir.

Mr. McLEAN (*Charlotte*): Then we would have to pass different legislation to make provision for it. We would have to change our central banking system.

Mr. POPE: I am a simple person, sir. I do not see that if the Bank of Brussels or a bank of such repute chose to open a branch in Montreal, to pick the French-speaking half of the axis, that it would be essential that it came under the Bank of Canada's supervision.

Mr. McLEAN (*Charlotte*): Do not some foreign banks now have what could be referred to as banks in this country? Do they not own trust companies which take deposits and give chequing privileges. Are these not fully owned by a foreign bank?

Mr. POPE: I cannot think of a trust company, offhand, other than the subsidiary of the Mercantile Bank; but you are quite correct, sir, in that two Swiss banks with the highest reputation have opened up offices in Montreal and have chosen to name themselves, very carefully, by avoiding the use of the word "bank". But they limit themselves as to what they actually can do.

Mr. McLEAN (*Charlotte*): It is really a fact that international money has no sovereignty and in our Bank Act we are really trying to keep our own sovereignty. International money owes no patriotism to anybody.

Mr. POPE: No, sir.

The CHAIRMAN: Are there any other questions on clause 157?

I would now like to recognize Mr. Cameron, followed by Mr. Lambert and Mr. Clermont.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Pope, I have been wondering why you think our problems will be solved by deleting that aspect of clause 157 which confines the use of the word "bank" to the chartered banks in Canada. At the present time, as I am sure you must know if you have been following the proceedings of this Committee, the Committee has been quite concerned with the operations of near-banks.

Mr. POPE: Quite.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Do you not think that the best way to solve the problem would be to retain the use of the word "bank" but also to have a definition of the word "banking", which we do not have?

Mr. POPE: Are you asking me a question, sir?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes.

Mr. POPE: I must emphasize that I am not a lawyer, sir, but in answer to your question my feeling is that if Parliament ever chose to try to define "banking", a word that has defied the ability of many jurists to define—immediately it froze the meaning of the word by legislation the courts would run into a great deal of trouble. I have been told this by lawyers and I think I am right in the various opinions I have read. Again, I understand from lawyers that the current definition of "banking" is one composed by a jurist, I believe, on the Judicial Committee of the Privy Council in Great Britain, who said in effect that a "banker" is "one who holds himself open to the accepting of deposits and allows a chequing service." "Allows a chequing service" is an addition which perhaps was put on later. As soon as you incorporate such a phrase in legislation and say that from now on this is banking, immediately, ingenious people will find ways of getting around that and doing something which does not quite follow the definition and are, therefore, outside the intent.

By not defining it and merely bearing in mind that the British North America Act already gives you all control over banking, you do not have to define it. Let the judge worry about that if a court case ever comes up.

The CHAIRMAN: Mr. Pope, why is a judge better able to deal with this than the elected representatives of the Canadian people?

Mr. POPE: I did not say that, sir. I am trying to preserve your jurisdiction. I suggested that as soon as you define it, you merely carve a piece out of it and leave fringy areas as you have now. You have a sad situation now that the provincially incorporated trust companies and the provincially incorporated finance companies are considered—I say they are not—to be outside your jurisdiction because of an interpretation of this clause 157. I say that under the B.N.A. Act they belong to you.

The CHAIRMAN: Can you direct us to any decisions where clause 157 has been used to narrow the federal jurisdiction over banking?

Mr. POPE: Precisely, sir. It is common ground today that the provincially incorporated—

The CHAIRMAN: Just a minute. I asked if you could direct us to any decisions of any courts in Canada based on clause 157?

Mr. POPE: No, sir.

The CHAIRMAN: You were saying what might happen.

Mr. POPE: No, sir. I am saying that it is the opinion of Her Majesty's federal government and all Her Majesty's provincial governments that a provincially incorporated trust company does not fall within your jurisdiction even when it engages in banking. This is absurd.

The CHAIRMAN: I did not know that the doors were closed that fully on the other possibility.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Pope I am sure you will agree that it is necessary to have the institutions which are now termed "banks" under the control of the federal government and in their special relationship to the central bank to the reserve system. Do you agree that this is the case?

Mr. POPE: Yes, but I would put it in a slightly different way. I agree that in a country with a central bank, the large commercial banks should be forced to keep reserves with the central bank.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): So that the central bank may have some control of the total money supply at any time?

Mr. POPE: Precisely.

Mr. CAMERON(*Nanaimo-Cowichan-The Islands*): Do you not think that if you removed this restriction on the use of the word "bank", we shall have a rather confused picture in Canada in the eyes of the public, at least, who will not be able to distinguish between the institutions that have to maintain reserves with the central bank and other institutions which have no such obligation at all?

Mr. POPE: I am a great believer in liberty, sir. I believe that somebody having money to deposit in a place of safekeeping should be guided by a good reputation. There is a bank in this country which is celebrating its 150th anniversary about the same time as we are celebrating our 100th anniversary. This bank has a good reputation, and the public should know about it. That would be a good bank to use. If a financial institution was incorporated two years ago and it did not publish a balance sheet, it would be suspect. Indeed, there are normal rules of prudence by which a person guides himself in his financial affairs. In other words, I might answer by asking another question: Is it the role of Parliament to so surround the area of finance with limitations and difficulties that you render the normal workings of honest business difficult in an effort to stop a thief? A thief is going to find a way of stealing no matter what you do, sir.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I must confess I do not see that you are going to gain anything by removing this restriction on the use of the word "bank". As I say, I think you will just add confusion. Rather, I would think that we should be directing our attention to making the assertion of federal authority which you have suggested should be made.

Mr. POPE: I am suggesting that an unfortunate side product of this section is that by implication it very severely limits the authority which Parliament has under the constitution.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But that restriction would be removed if there were a definition of what constitutes a bank.

Mr. POPE: Admittedly, sir, I think this is a dangerous game to play. I think it would result in difficulties in the courts eventually if one tried to define banking. Yes, I really do, sir. In other words, the situation is ideal. The British North America Act allots banking to your responsibility, the responsibility of the federal government. Fine. That is sufficient definition, "banking". That gives you the whole thing.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, but if you do not know what banking is, how do you do this?

Mr. POPE: First of all there is the common sense of the legislators. When they talk about banking they know pretty well what they mean. If the matter goes to the courts, as it has in England, I suggest that leaving it tenuous in this way gives you more scope for proper legislation, more scope for control and more scope for stepping in and saying that this is a bad situation. In banking we will take steps to correct it which, practically speaking, you do not now because so many people have the idea that you only control through the Inspector General the seven or eight banks that we refer to in this country as chartered banks. The practical result of this wretched section is that you only consider yourself responsible for the seven or eight chartered banks and not all the other bankers. Now, I have broken the law because I used the word "bankers" to describe other people.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No. you have not broken the law, but they would if they used it.

I will leave that point just now. I am interested in your suggestion that the use of the word "bank" which has, as you point out, the effect of preventing foreign banking institutions from establishing themselves in Canada, is necessarily a bad thing. I would like to have from you a little more specific information about the more sophisticated banking services to which you refer. I must admit I am inclined to agree with Dr. McLean that apparently Canadian businesses can do business throughout the rest of the world and I really must point out to you again what Dr. McLean pointed out to you, that the position of sterling and the American dollar is as the result of the decision of the International Monetary Fund, a decision taken because of the economic position of those two countries. It does not matter what we do; we could alter our legislation here as much as we liked and the Canadian dollar would not assume that position vis-à-vis the International Monetary Fund. You stress the fact that we do not buy or sell with Canadian dollars and that foreign currencies are not current in Canada, but this is true of every country. The definition of a currency is that it is the only currency that circulates within a political entity.

Mr. POPE: I was making reference to the practice in continental financial centres where cross markets in foreign exchange are made in every European currency. They are not in Canada.

The CHAIRMAN: Are you suggesting that a Canadian bank will not give you a quotation on the Danish krone in Canadian dollars if you asked them for it?

Mr. POPE: They will give it to you, but they do not make the market themselves; they get it from New York and multiply the New York quotation against—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It is not very long ago that I bought Egyptian currency without the slightest difficulty right here in Ottawa.

Mr. POPE: Granted, sir, and perhaps you think I am being very technical, but from my experience I know how they make their quotation. The quotations are obtained by telephoning New York and asking for the rate on Egyptian pounds for that particular day, and they are advised it is such and such. They then multiply that by the Canadian-U.S. dollar rate and then give you a rate. They look at you with a professional eye as if they were experts in Egyptian pounds. They are not; they did not know the rate until they telephoned New York and got the rate.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Is this not because the American dollar—and sterling—now to a lesser extent is the yardstick by which all other currencies are measured?

Mr. POPE: Not in this field of foreign exchange, sir. In Brussels, Paris, Zurich and Geneva there is a proper foreign exchange market working, but not in Montreal or Toronto.

The CHAIRMAN: How do you define a proper foreign exchange market?

Mr. POPE: Where the representative of the bank in the trading department will make a market on his own capital and he has a principal in more than just one currency. In Canada a foreign exchange trader, an employee of the bank, on a trading desk will make a market in U.S. dollars as a principal and on his own risk. He is doing this as an expert and will not get into trouble, he knows what he is doing, he knows the right rate. If you ask him to quote Belgian francs in Canadian dollars or Swiss francs in Canadian dollars he cannot do it. In Switzerland they can.

The CHAIRMAN: What do you mean he cannot do it? You just told us he will give us a quotation.

Mr. POPE: He cannot do it without asking someone else to give him a rate.

Mr. CLERMONT: Mr. Chairman, if an American bank had a branch in Montreal or Toronto, would they not also call their office in New York and ask for a quotation, or do they do their work in Montreal or Toronto?

Mr. POPE: If an American bank had a branch in Montreal today and there was no colony of foreign bank branches in Montreal or Toronto, the answer to your question would be yes. I am suggesting that if there was a colony of foreign banks operating in Canada that you would have a primary market in Canada for foreign exchange which you do not have.

The CHAIRMAN: What is the benefit beyond what we have now?

Mr. POPE: I will give you an example. It might surprise you to know that when we sell wheat to Russia, all the business—by law, as I understand it—has

to be done through a Canadian grain dealer or grain merchant, commodity merchant. The Wheat Board will only deal with these dealers and the Russian buyer sitting in the Chateau Laurier has to buy the wheat from a dealer. The dealer is responsible for buying the wheat from the Wheat Board, finding a train to take it to a port, finding a ship to take it to Russia, and financing over the nine months or until such time as the Russians pay.

I think there are something like 20 to 40 grain merchants in Winnipeg, three of whom are branches of large New York houses. Generally speaking all the business is done, not by the Canadian grain merchants but by the New York grain merchants who maintain three branches in Winnipeg. Why? Because they have better financial facilities open to them. Two years ago, when a large contract came up, the grain merchants in Winnipeg were aware that the last time they had asked their banks to offer them U.S. dollars for nine months the rate was 5¼ or 5⅛ per cent or something like that, and they went to the banks and told them that they missed the business the last time because the rate which was quoted was too high and they would like to know what the rate was going to be this time. The Canadian banks sharpened their pencils and quoted to all the grain merchants in Winnipeg that at the rate of 4¾ per cent they would lend American dollars. Every Winnipeg grain dealer toddled up to the Chateau Laurier, knocked on the door of the wheat buying commission and quoted a rate laying down wheat in Vladivostok, or what have you. Then the Russian merely laughed at them and said, "Fine. That all-in price of yours is based on an interest rate over 9 months of 4¾ per cent. Are you not aware that the government of Russia commands a rate in international markets over 9 months of 4½ per cent? On your way, little boy".

The New York people, having access through their head offices to the more sophisticated international loan market, if you like, quoted their rates based on a loan rate of 4½ per cent against U.S. dollars and did all the business and our Canadian people did none, because—and I hate to be so blunt—our Canadian banks are not sophisticated in foreign exchange, are not sophisticated in foreign loan rates and are not sophisticated in Euro dollars, and these other things. The wheat deal is a complicated transaction and it goes through a Warsaw bank. The Canadian banks, I suggest in all humility, lack the sophistication to understand these things, to appreciate the risks involved in trying to quote the proper rate. In this case I cited they were out ¼ of one per cent and the result was that not a Canadian grain merchant did any business. It was all done by three large New York houses.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Are you suggesting that if American banks had been established in Canada that the Canadian banks would have gotten the business?

Mr. POPE: I am suggesting that if there was a pool of foreign banks operating branches in the financial axis of Montreal and Toronto that Canadian businessmen would have more facilities, if you like, available to them to enable them to compete on more favourable terms in the international market.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Now, would the same thing apply to transactions with other parts of the non-Communist world?

Mr. POPE: Oh heavens, yes, that is really what I am thinking of more than anything else.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You mentioned the Russian deal. It is a closed economy which is insulated from the financial markets of the world in that way.

Mr. POPE: They were offering to pay in American dollars and they wanted to borrow American dollars for nine months.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, but they had their own set rate on it?

Mr. POPE: They were perfectly well aware of their credit standing, the standing of the Moscow Narodniy bank in Warsaw. They were very well aware of the credit standing of the bank, they knew very well that U.S. dollars were available in Europe for that bank at 4½ per cent and they were not going to pay 4¾ per cent. I suggest that any bank that quoted 4¾ per cent did not know the market.

One can get very technical and complicated on this thing, but another example is there was once a Vancouver exporter who received a tentative order from Tokyo on steel products but he was asked to accept—believe it or not—Siamese account sterling. Naturally he had never heard of Siamese account sterling and so he went to his banker. The banker he approached was the manager of a large branch of a large chartered bank in Vancouver. This manager had never heard of Siamese account sterling and directed the inquiry up the chain. The inquiry eventually reached the Bank of England through the Canadian branch in London that is why it is there, after all, to look after problems like this—of the chartered bank. The Bank of England, sophisticated as they are, knew very well that the Vancouver businessman could do business against Siamese account sterling but they did not particularly want it to happen that way. They knew that legally, properly and ethically it could be done, so they gave an ambiguous answer and the answer they gave was, "We would not approve the transfer of sterling from Siamese account to Canadian accounts". End of answer. The customer in Vancouver was told the transaction could not be done, while that very day it was being done time and time again. Fifty per cent of the world's trade in those days was being done through bilateral sterling, of which Siamese account was merely one example. The business was lost because he was given an ignorant answer. This goes on the whole time. One could multiply and multiply this sort of thing.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Is not your whole argument really based on, to put it bluntly, the incompetence of the Canadian banking system?

Mr. POPE: Very well, sir, I will go along with that. We are incompetent in sophisticated foreign transactions. I would agree.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, I have a question. You say that London was a great international?

Mr. POPE: Absolutely, sir; I have great respect for that market.

Mr. MCLEAN (*Charlotte*): Well, why did they have to come to the United States to get $1 billion or so not long ago in order to keep them from devaluing sterling?

Mr. POPE: I believe one should draw a distinction, sir, between knowledge and expertise and one's wealth and the size of one's profit.

Mr. McLEAN (*Charlotte*): It was purely banking. They had so much sterling out that they could not redeem it. It was a banking situation.

Mr. POPE: It was governmental.

Mr. McLEAN (*Charlotte*): Well, it is more or less governmental, but here is London, the great financial centre of the world, and they have to go to New York to get $1 billion in order to keep sterling afloat. I do not think there is any harm in a Canadian bank going down there to get a little information.

The CHAIRMAN: Dr. McLean, while your question is definitely related to the topic of discussion, it does bring in some broader elements of international financial problems. Do you have further questions, Mr. Cameron? I now recognize Mr. Lambert, followed by Mr. Clermont.

Mr. LAMBERT: Mr. Chairman, my first observation is that while I agree that the act should call for a definition of banking, I do not quite share the fears of Mr. Pope that by defining banking today you will freeze it forever and that therefore the definition of banking could not evolve with the market. There have been attempts such as the case of the Attorney General for Canada versus the Attorney General for Alberta to the Privy Council to freeze the definition of banking back to 1867. The Privy Council, if I may say so, properly rejected that argument by the province of Alberta.

I must confess that I have some difficulty in following the arguments that you have made that clause 157, which is merely to restrict the use of the name "bank" to people who are incorporated or chartered, has had all of these consequences. I regret, Mr. Pope, that I find a certain non sequitur. I do not think that under any possibility could we legislate into being a proper money market.

Mr. POPE: A proper money market?

Mr. LAMBERT: A proper money market.

Mr. POPE: In foreign exchange, sir?

Mr. LAMBERT: Yes, that we could legislate into existence.

Mr. POPE: No, no.

Mr. LAMBERT: This is something that neither—

Mr. POPE: I am suggesting it has been stifled.

Mr. LAMBERT: Well, I am not too sure, because I think one could operate under the name of Credit Suisse, comptoir d'escompte, or what have you. Man's ingenuity in devising names has not been limited. If they wanted to they could operate in Montreal or Toronto, but it may be that the conditions of commerce are not such as to warrant the Belgians, say, establishing an agency. The British did come in with Barclay's.

Mr. POPE: That was a chartered bank, sir.

Mr. LAMBERT: Yes, I know, but they came in and they sold it. I am not too sure that by the passing of legislation you could create a proper money market, because then every banana republic could will into existence a money market by the mere passage of legislation. I agree with you that it is unfortunate that we may not have the appropriate money market, and perhaps the lack of expertise

has resulted in the loss of some transactions, but I am not yet persuaded, sir, that the existence of section 157 has been at the root of that.

Mr. POPE: I see what you mean.

Mr. LAMBERT: While one may say, well, the use of "bank", "banking" or "banker"—

Mr. POPE: Barclay's Bank, a bank of the highest reputation, may not open a branch in Montreal or Toronto. That is a direct result of section 157. That is my point there, sir. I would love to see Barclay's bank—

Mr. LAMBERT: Unless it gets a certificate under the Bank Act.

Mr. POPE: It has to be incorporated as a fully owned subsidiary.

Mr. LAMBERT: All right, it can, and this is what we have a right to insist upon if they are going to use those names. It would not prevent Barclay's bank from operating in Montreal through some merchant banker's name, or something of that nature, but I do agree that the lack of definition of "banking" has allowed a lot of, shall we say, "squatter's rights" operation. That is all I can call a lot of the claims of provincial authorities today, that they are pure "squatter's rights" claims with regard to the operations of trust companies and near banks, and they assert the right to regulate them because they had the right to engender them.

Mr. POPE: But I suggest section 157 is a quasi definition, sir. It is a sort of negative definition. He who is not incorporated under this act is not a banker. It is a double negative. Therefore, only he who is incorporated under this act can engage in the business of banking. That is the unfortunate implication. Take this out and then your house returns to order.

Mr. LAMBERT: I disagree with you. I would like to see that section beefed up to give us a definition of banking. If one will look at some of the judicial decisions over the years there are some excellent suggestions by some of the judges as to what could be a very fluid definition of banking, and it is unfortuate that this has not been picked up. I hope we can make some suggestions a little later on.

That is all I am going to say insofar as that is concerned. While I will agree with some of the things that you have said initially, I regret that some of the subsequent paragraphs, as to the non-existence of a money market, are a bit of a non sequitur as far as I am concerned.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, with regard to Clause 157, Mr. Lambert has just said—and I share his opinion in that connection—that if foreign banks are not established either in Toronto or Montreal, it is because they did not think it in their interest to come and ask the Federal Canadian Parliament for a charter.

Mr. POPE: But do not forget, Sir, that it is not easy to get a charter in Canada. The experience of last year has shown us this. Now, I am offering you, as an instance, a better instance, the way things are done in London. There, there are 200 branches of foreign banks, everybody is happy, things are done in a gentlemanly way and nobody tries to steal anybody else's business. The great English banks are not dissatisfied because there are a great number of foreign banks. They are happy because it is better for business. The situation as it is now

makes it very difficult for a foreign bank to establish itself in Canada. And that is a problem. As you have just suggested, it is not because they do not have the wish to do so. I think it is very hard for them.

Mr. CLERMONT: You say it is very difficult to apply and obtain a charter from the Canadian Parliament. I think that last year we had an instance to the contrary, because Parliament approved two banking charters.

Mr. POPE: Two or one?

Mr. CLERMONT: Two.

Mr. POPE: Yes, but I thought that was three years ago.

Mr. CLERMONT: Did the Bank of British Columbia not get its certificate from Treasury? Parliament did grant permission to two groups to carry on banking operations in Canada. In the United States, the agencies of foreign banks are established mostly in New York and in San Francisco.

Mr. POPE: Those are not branches, they are agencies. Canadian banks do not have the right to accept deposits from New York State residents.

Mr. CLERMONT: But there are branches of foreign banks in the State of New York.

Mr. POPE: I do not know of any.

Mr. CLERMONT: According to the report prepared by a professor there are.

Mr. POPE: These were agencies, Sir.

Mr. CLERMONT: No, these were branches, Sir. An agency established in New York cannot accept deposits from New York State residents.

Mr. POPE: Yes.

Mr. CLERMONT: It can accept deposits from other people, from other residents than those of New York State. I am saying that in the State of New York there are foreign banks that have branches.

Mr. POPE: I do not know of any.

The CHAIRMAN: They were accorded State charters. That is, foreign banks are there only as agencies.

Mr. CLERMONT: I have two cases where the Canadian industry has lost business on account of lack of information furnished by Canadian banks in connection with exchange. Are the two instances you mentioned, Sir, a matter of personal experience or things that were reported to you?

Mr. POPE: A matter of personal experience.

Mr. CLERMONT: Because you mentioned that, among others, our grain brokers landed at the Chateau Laurier and said: "It is very regrettable, you are good boys—

Mr. POPE: I was in contact with both sides. I was trying to find cheaper money than 4¾ myself as an agent. And that is why I know what I am talking about in that case. I offered money at 4⅝ per cent in Winnipeg.

Mr. CLERMONT: Are you familiar with the other cases besides the two you mentioned? Because these were very important transactions.

Mr. POPE: In the case of Winnipeg and the wheat exports, I myself offered to the wheat dealers in Winnipeg money at $4\frac{5}{8}$. I offered a better rate than the banks did, because I can get money at $4\frac{1}{2}$ per cent. I did not want to say that at the outset but to show how I was aware of the situation, I was able to obtain this money at $4\frac{5}{8}$, whereas the Canadian banks would have insisted on $4\frac{3}{4}$ per cent.

Mr. CLERMONT: So you say—

The CHAIRMAN: But this did not prevent you from offering American money?

Mr. POPE: No, Sir.

The CHAIRMAN: How did Clause 157 prevent foreign banks from doing business in the same way here as you did?

(*English*)

Mr. POPE: The point, Mr. Chairman, is that as a lone wolf money operator I was able to offer money to Winnipeg grain dealers at a rate of one-eighth of one per cent cheaper than their own banks were offering it to them. But this rate, sir, was not competitive. In other words, I was not even able to be competitive myself, and my suggestion is that if we had a nucleus of perhaps half a dozen foreign banks operating in here the market would be the right market and the rates would be the proper rates.

The CHAIRMAN: I was just going to say my point—and I believe Mr. Clermont laid the groundwork for this—was that if you, as a private entity, were able to do this in spite of section 157, I find it difficult to see what would prevent a group of these foreign banks from operating in Canada at the present time as entities—not calling themselves banks—in spite of section 157, and doing what you are doing in an even more favourable way because of their greater resources.

Mr. POPE: The proof of the pudding is that I did not succeed.

The CHAIRMAN: No, but my point is that apparently section 157 would not have prevented the foreign banks from doing the same thing as yourself and making a better rate because of their greater resources and know-how. What I am trying to say, sir, is that you yourself seem to have offered as evidence the fact that section 157 is not creating the evil that you claim. This is from your own personal experience, you have just told us about it.

(*Translation*)

Mr. CLERMONT: Instead of striking out clause 157—Mr. Pope, would it not be preferable, according to your judgment, for Parliament to adopt an Act permitting the establishment of agencies with some restrictions.

Mr. POPE: This would be a great improvement on the situation as it now stands. I think I would prefer to see branches rather than agencies. Even agencies would be a great improvement, however. Now we have nothing.

Mr. CLERMONT: You mentioned at certain times the London market. Are foreign banks in Great Britain distributed throughout England or just established in London?

Mr. POPE: There are no branches outside of London as far as I know.

Mr. CLERMONT: Are they interested in obtaining deposits from the public, or just in currency and foreign exchange transactions?

Mr. POPE: I think that they are free to receive deposits from anyone in London.

Mr. CLERMONT: Is it the intention of these foreign banks to go in for deposits or are they only concerned with foreign exchange?

Mr. POPE: I do not understand your question, Sir.

There are perhaps some 200 foreign branches in London. They are there for the business of their countries. For instance, the Bank of Montreal, to give you an instance, because I was an employee of the Bank of Montreal; the Bank of Montreal has two branches in London. They have one in the centre of London for Canadian tourists; who are clients of the Bank of Montreal they do all their business there; they buy sterling and so forth, and there is another branch, in the financial City, for the big financial operations, between Canada and Great Britain. It is essential for the Bank of Montreal—to have branches in London. The Bank of Montreal, the Royal Bank, the Bank of Nova Scotia would be very embarrassed if the laws of Great Britain prevented their having branches in London. Everyone wants to have a bank there. The point is that the great English banks are not dissatisfied with their situation because all these foreign banks bring business for everybody. I have the impression, some people have the feeling that Canadian banks fear competition.

Mr. CLERMONT: But, Mr. Pope, to date there are two banks with foreign capital who have asked the Canadian Parliament for a charter—the Mercantile Bank and the Barclay's Bank. I do not think Barclay's Bank established many branches throughout the country. Now they are merged with another Canadian bank.

Mr. POPE: But they selected the difficult road. Because the Act did not allow branches, they opened chartered banks. But once they had chartered banks, they became Canadian banks. Now they can do what other banks can do. Barclay's Bank opened four or five branches; the Mercantile Bank opened some six or seven.

Mr. CLERMONT: Mr. Chairman, I revert to the first question I asked Mr. Pope. I think, personally, that if foreign banks did not judge it feasible to ask the Canadian Government for a charter, it was because it was not in their interests or in the interests of their countries to come and settle in Canada.

Mr. POPE: You are asking a question?

Mr. CLERMONT: Yes.

Mr. POPE: That is not my opinion, Sir. My opinion is rather that to open a bank—there are things a bank has to do and the various proceedings are so difficult for a foreign bank to open in Canada and get a charter from Parliament that they just do not bother to do so.

Mr. CLERMONT: But you mention London. You do not mention the United States. It is not easy for a Canadian bank to set up branches in the United States.

Mr. POPE: I do not approve of the American system. I am just giving you the London instance as an example which is the primary example of how to do banking business.

Mr. CLERMONT: But you admitted in answering a question from Dr. McLean (Charlotte) that the world market is presently in New York.

Mr. POPE: No I did not say that, Sir. The American are not the bankers. The Londoners are. The fact that the sterling is as weak as it is now, and that they had to borrow a billion in New York, in their weakened state, does not change matters. It is on account of their expertise that the market remains in London, and not in New York, and just for that.

(*English*)

The CHAIRMAN: Do we have further questions? Mr. Gilbert? We are dealing with section 157 and Mr. Pope's views about its effects.

Mr. GILBERT: Mr. Pope, I understand that you want to strike out section 157, and at the same time you do not want to define banking.

Mr. POPE: That is right, sir.

Mr. GILBERT: Is it desirable that the federal government exercise jurisdiction over finance companies and near banks, and so forth?

Mr. POPE: That is a loaded question, sir. My point is this, sir, that under the constitution you, the federal parliament, has jurisdiction over banking; that cannot be taken away from you. It is part of my presentation that this section be taken out completely, and as far as that part of the question concerning near banks is concerned that in as much as banking comes under your jurisdiction then, *ipso facto,* that responsibility is yours.

Mr. GILBERT: Let us get a direct example with regard to finance companies. Let us take the case of Prudential Finance.

Mr. POPE: Yes, sir.

Mr. GILBERT: They have a collapse and the Minister of Finance says, "it is not within my jurisdiction, it is provincial jurisdiction".

Mr. POPE: May I ask the question whether he did or not?

Mr. GILBERT: He did.

Mr. POPE: He did?

Mr. GILBERT: Yes, he did. He said it was provincially incorporated and the only responsibility we had was with regard to federal—

Mr. POPE: That is my point, sir. The unfortunate implication of section 157 is that a minister can get up in the House of Commons and say, "Prudential Finance"—which we all know is engaged in banking—"does not come under my jurisdiction".

Some hon. MEMBERS: No, no.

Mr. POPE: The unfortunate implication is that the Minister of Finance can get up in the House of Commons and say, "This is a provincially incorporated company; it does not fall within our jurisdiction". But Prudential Finance was engaged in the business of banking.

Mr. GILBERT: Well, was it? That is the question. The question is was Prudential Finance in the business of banking?

Mr. POPE: Prudential Finance was doing most of its financing through the sale of notes. If that was all that it did that would take it out of banking, but I believe they also accepted demand deposits, sir.

Mr. GILBERT: No, not to our knowledge.

Mr. POPE: Not to your knowledge?

Some hon. MEMBERS: No.

Mr. POPE: Well then, I am wrong and I withdraw on Prudential.

Mr. GILBERT: And I do not think they provided chequeing facilities either.

Mr. POPE: No, they did not provide chequeing facilities but I did believe that they took some deposits.

Mr. GILBERT: All I am saying to you is that in the absence of a definition you have these practical problems like Prudential Finance, where the federal government does not assert its jurisdiction.

Mr. POPE: If I may make the suggestion, Sir, it depends a great deal on the personality of the responsible member of the cabinet. A strong man would say, "Everything is banking. It is all mine. I do not care what you say, I am acting. Let the courts fight me if they wish". A weak man will take less responsibility and limit the vista of his own responsibility. This, I suggest, is a psychological problem, sir.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I ask a supplementary question?

The CHAIRMAN: Certainly.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Would you not agree that if a minister were prepared to do this—which I submit would be rather rash of him—would he not have to have some argumentation on which to base his action and would that argumentation not, in the final analysis, have to be based on a definition of banking?

Mr. POPE: In the final analysis, yes, sir. The minister to justify himself would merely say, "This is banking. I will chop your head off if you are a bad banker".

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): He would have to have some basis for his decision, surely.

The CHAIRMAN: What Mr. Cameron is trying to say, supported by Mr. More and Mr. Gilbert, is that the Minister of Finance cannot act like the first chancellors in Britain when they started the equity system and they defined equity as being the length of the lord chancellor's foot. We have evolved since then and the minister's views have to be based on the law, either as declared by parliament in legislation or on a decision by the courts.

Mr. POPE: I think the courts would have some decisions pretty quickly.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): There is also the other point, Mr. Pope; how would he exercise his authority?

Mr. POPE: This is wide open, sir, to parliament. Parliament has the responsibility over matters of banking. Therefore it is up to parliament to set up whatever boards or control commissions, or what have you, to supervise these matters. Parliament is supreme in these matters.

Mr. GILBERT: Do you think the same would apply to Caisse Populaire and credit unions?

Mr. POPE: Caisse Populaires are definitely banks, there is no question about it.

Mr. GILBERT: And the same with regard to credit unions?

Mr. POPE: Credit unions in my mind are the same thing as Caisse Populaires.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well then, if the Minister of Finance were to exert his authority, I presume it would have to be based on existing legislation, would it not?

Mr. POPE: Well, you are asking me to imagine a situation in which the minister would exercise certain authority in a case where he thought something was beginning to be rotten in the state of Denmark.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No, not necessarily rotten in the state of Denmark, but where it might become rotten.

Mr. POPE: Where it might become rotten. Fair enough. Now, at the present time, sir, the only organization that has been set up to my knowledge is that of the Inspector General of Banks and I believe a certain little legal section in the Treasury. They are the only two that I know of, but an ingenius minister could expand those very quickly. If he did not want to expand them, parliament could make him do so; parliament is supreme.

The CHAIRMAN: Did you ever hear about the difficulties in getting anything approved by Treasury Board? You say an ingenius minister could expand. I presume you mean the establishment; hiring people and opening offices. There are some ministers who would like to expand their establishments who would give you quite an argument about that.

Mr. POPE: Well, if I were the Minister of Finance and I did not like a little smell that was brewing in one of our cities, I would telephone my inspector general and have him look into it.

(*Translation*)

Mr. CLERMONT: On what would the Minister of Finance base himself to interfere in the operations of a company which had a provincial charter? Even if he is a strong-willed minister, or a dictator?

Mr. POPE: I never said dictator.

Mr. CLERMONT: You said... and the gesture you made...

Mr. POPE: Any provincial government has a right to create incorporated companies. If these creatures carry on banking operations, their operations fall under the jurisdiction of the Federal Parliament, while being the creatures under the provincial government.

(*English*)

The CHAIRMAN: I think what the Committee is trying to get at is this: you are merely suggesting to the Committee that section 157 be swept away, without simultaneously placing in legislation not only a definition of banking but authority for an administrative apparatus to supervise and investigate generally the other institutions you define as banking. You have not called for that and I would think, sir, that even if one was willing to accept your interpretation of the evil effect of section 157, it would be difficult to see—and if I may summarize what the Committee, I think, is trying to get at—how the situation would be improved with respect to supervision over what you define as banking without adding other clauses to the law to give a minister authority to do something. To take a practical example, if the Inspector General of Banking had turned up at the door of Prudential Finance six months ago and the manager of Prudential Finance said to him, "Would you kindly show me under what authority you want to look at my books, what legislative authority do you have to look at my books?" what answer would the Inspector General have been able to give?

Mr. POPE: I am not a lawyer, sir, nor am I a Member of Parliament. I am pointing out a problem that I suggest is the result of clause 157. I am, perhaps, pointing out something that you gentlemen are becoming aware of, which is that there are things going on that really should be more under your supervision than they have been. I did not want to say it but you force me to say it. I have been trying all morning to avoid making such a remark.

The CHAIRMAN: We do not mind that, because many of us have been thinking along those lines for some time.

Mr. POPE: Yes; that is why I dared to say it. But there are other countries in the world that have met the same problem, sir. I am not a lawyer, but either Parliament passes a statute setting up a board of administration, or a board of supervision, on matters of banking, or the legal advisers decide that the present legislation is sufficient; that the B.N.A. Act is sufficient authority for the Treasury Board or the Minister of Finance to set up his own commission.

Mr. LAFLAMME: How can we do that without having a definition of what are matters of banking.

Mr. POPE: I suggest, my dear sir, that for the time being one assumes that the commonsense interpretation of "banker" is "taker of deposits payable on demand."

The CHAIRMAN: What is wrong with writing that into the law.

Mr. POPE: I am not a lawyer, and I insist that I am not a lawyer, but I am afraid, as I have been advised by lawyers, that if one did that one would run into trouble. I am relying on my legal opinions.

The CHAIRMAN: As a lawyer I should point out that one should always be conscious of the advice of lawyers, given off the cuff.

Mr. POPE: You asked me to draw the picture. I am afraid that as soon as you circumscribe banking, as this wretched clause does in a double negative, you will again have fringe operators saying, "I am outside your legislation. Leave me alone". It is silly to define it if you have that.

Mr. LAFLAMME: Mr. Chairman, it is on that question that I have a supplementary to ask.

Mr. GILBERT: I think Mr. Lambert may have asked you this question. You still want to have the provincial governments retain jurisdiction with regard to incorporation of these financial institutions. Why?

Mr. POPE: No; I did not say that, and I gave no opinion on that, but I will now give this opinion, that if the federal parliament pointed out to the provincial parliament that it had no business whatsoever incorporating banking children, I would say that you would be in the right. I would say that you would be in the right, and therefore, the Royal Trust and the Montreal Trust would pass out of existence tomorrow morning, if you ever took that step. The point is that it is an interesting little door that we open there. It could be argued possibly that a provincial parliament has no authority for incorporating the banking infant—creating the banking child; but it could be argued that they could create anything.

The CHAIRMAN: I should just interject that I doubt very much that if a court ruled that the provincial parliament did not have this authority their previous creations would suddenly go out of existence. Since this is a public hearing, and these remarks are being recorded both for our own minutes and by the press, I think we should cast come doubt on your suggestion that these entities would suddenly go out of existence.

Mr. POPE: I would be happy to withdraw the remark and point out that it was said very much in the spirit of jest.

Mr. LAFLAMME: May I ask Mr. Pope another question? Do you accept the principle that the central bank must control credit?

Mr. POPE: Absolutely.

Mr. LAFLAMME: You do; and while doing so, if we remove the definition in Clause 157 for your purpose, to allow some other banks to do banking business here in Canada without being under the control of the Central bank, how could this principle apply?

Mr. POPE: There are two ways, sir. First of all, any foreign bank opening a branch in Montreal or Toronto could be required to keep a certain percentage of its deposits with the central bank. This is no problem at all. Secondly, the deposits of a few foreign banks having branches in Montreal or Toronto would be so small in relation to the deposits of the banking system as a whole that the Bank of Canada's influence would hardly be affected; the loss of influence would be miniscule because of that. It would be a simple matter to require that these banks keep on deposit with the Bank of Canada the same percentage of their deposits as the chartered banks are required to do. This is no problem, sir.

The CHAIRMAN: I will accept a supplementary question from Mr. Lambert.

Mr. LAMBERT: If you were to allow foreign banks to come in and operate for the purposes of a money market and if you were to allow the development of private bankers, would you not agree that it would be essential that they be under the supervision of the superintendent of banking in all of their operations?

Mr. POPE: I think I would agree with that.

Mr. LAMBERT: Private bankers, as well.

Mr. POPE: I think I would agree with that, yes, sir.

Mr. LAMBERT: Although perhaps not in the same degree as the chartered banks operating on the branch basis today.

Mr. POPE: I think I would agree with that. I would love to see a return to private banking. I think it is sadly lacking here.

Mr. LAMBERT: Thank you.

The CHAIRMAN: Do we have any further questions? Yes, Mr. More?

Mr. MORE (*Regina City*): Mr. Chairman, I would like to ask Mr. Pope about money markets. As I understood it, he did not appreciate the American restriction and system in regard to foreign banks, yet this has not stopped New York from becoming a money market.

Mr. POPE: In an imperfect way, sir. They have possibly as many agencies in New York as there are banks in London. It has not stopped New York from becoming a money market, as you say quite correctly, sir; but I emphasize very, very strongly my feeling that New York is not by any means a complete money market in the sense that London is. They have an imperfect system, sir.

I have high standards.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, I have just one question. The Russians have always had a bank in London, under both the Czar and the communists, have they not?

Mr. POPE: I have a feeling that the present bank—

Mr. MCLEAN (*Charlotte*): They also lend money to England. I suppose they take deposits; they lend money there. Why did this Russian deal that went through the United States not go through their own bank in London?

Mr. POPE: It did not go through the United States, sir; it went through a Polish bank in Warsaw.

Mr. MCLEAN (*Charlotte*): Why a Polish bank, when they have their own bank in London?

Mr. POPE: That would be the agency—

Mr. MCLEAN (*Charlotte*): Why, if London is the big financial centre and they have a bank there and have had ever since the time of the Czars?

Mr. POPE: I am not saying the money did not come from London, sir. I am merely saying that the credit that was offered to the people selling the wheat was the credit of a government-sponsored bank in Warsaw. That is the technique they used. The money was raised either in New York, London or Zurich.

Mr. MCLEAN (*Charlotte*): What did the Russians pay with?

Mr. POPE: American dollars.

Mr. MCLEAN (*Charlotte*): I understand they paid with 500 million in gold.

Mr. POPE: They sold gold to buy dollars, and with the dollars—

Mr. MCLEAN (*Charlotte*): American dollars?

Mr. POPE: American dollars; I am sorry.

Mr. McLEAN (*Charlotte*): And they ended up in New York.

Mr. POPE: The deal was done against American dollars.

The CHAIRMAN: Mr. Lind?

Mr. LIND: Returning to Mr. Pope's opinion on the authority of the federal Minister of Finance, has he the right under the present legislation to investigate and regulate a provincially-incorporated company?

Mr. POPE: As I say, that is a legal question sir; I do not really feel qualified to answer it.

Mr. LIND: Well, you made the statement a little while ago that the Minister of Finance could have stepped in and controlled the Prudential Finance Corporation.

An hon. MEMBER: He withdrew that statement.

Mr. LIND: Pardon?

An hon. MEMBER: He withdrew that statement.

The CHAIRMAN: I think, in fairness, we should not try and impose upon Mr. Pope an obligation to deal with questions he does not consider himself qualified to answer.

Mr. POPE: I have been suggesting during my remarks, sir, that all matters of banking fall under the control of the federal parliament. You asked me whether or not the Minister of Finance had the power to do such-and-such a thing. I cannot answer, because I do not know what power parliament has given to the Minister of Finance. That is why I am not able to answer your question.

Mr. LIND: Then how do you come to the conclusion that the Prudential Finance company is in any way a bank? They do not take deposits; they do not issue cheques, or have checking accounts.

Mr. POPE: They do not have checking accounts, no. Their main solicitation of funds was through the sale of notes, which would take them out of banking. I did understand—and I have been corrected by various honourable and learned members of this Committee—that they also took deposits. I am told that that is not the case. Therefore, I think we can conclude, that being the case, that they were not in the business of banking. Therefore, they would not have fallen under federal Parliament supervision.

Mr. LIND: Whose jurisdiction did they fall under?

Mr. POPE: The attorney general, or anybody who is responsible for catching thieves.

Mr. LIND: Well, now, would you explain that answer a little?

Mr. POPE: Yes, sir. We are in a difficult area. It is naturally always the desire of legislators to make it difficult for people to be taken advantage of, or for people to suffer hardship. In other words, it is always the desire of the legislator to protect the public. Because of this desire, the legislators tried to pass laws making it impossible for certain crimes to be committed. I suggest, gentlemen, when it comes to theft, that you can pass all the laws you like, but you will never stop a thief from being genius enough to steal from another citizen.

An hon. MEMBER: Is it worth trying!

Mr. POPE: It is a balance very hard to strike. Unfortunately, much of the legislation aimed at harnessing the efforts of thieves makes it very difficult for honest men to do good business.

The CHAIRMAN: Are you suggesting, for example, that our present legislation, imposing on the chartered banks the obligation to be supervised by the inspector general of banking, makes it difficult for them, as honest businessmen, to do business?

Mr. POPE: No. I believe that the supervision is very benign and paternalistic; it is not oppressive in the slightest.

Mr. LIND: To follow up this question of thieving—and I am not sure that it was thieving, or what it was—you leave the impression that it is purely the responsibility of the attorney general of Ontario to look into this and lay charges if there was thieving. Is that right?

Mr. POPE: That is my personal opinion in this particular case, yes, sir.

Mr. LIND: Then it has nothing to do with the federal Minister of Finance.

Mr. POPE: That is my opinion of this moment, yes, sir.

Mr. LIND: Thank you very much.

The CHAIRMAN: Now may I ask something just briefly before we proceed further?

You have made some very interesting and, I think, quite helpful points with respect to your analysis of the present operations of the foreign exchange market in Canada, and of the operations of Canadian banks. At the same time we all notice advertisements by our Canadian banks showing all the foreign branches they maintain, the foreign agencies, their sources of information in international trade, and so on. In comparison with a lot of banks in the United States and Great Britain we seem to be equally active with respect to opening offices abroad and so on. How is this consistent with your suggestion about our Canadian banks being provincial in the international field?

Mr. POPE: They are certainly very much less provincial than the small banks in the United States, who are "the end" so far as that is concerned. Under the American system where you are not allowed the branch-banking system you have the ultimate in provincialism and lack of proper understanding of banking. The United States is "the end" so far as that is concerned.

The system in Canada, as you point out, is superior to that of the United States, but in my opinion it still leaves much to be desired. A lot of the things you describe are merely advertised as propaganda for public relations.

The CHAIRMAN: Do you mean that they do not have the branches they are advertising?

Mr. POPE: They have the branches they are advertising, sir, but the implication is that they are experts in foreign matters. They are not. They fail our Canadian businessmen—and that I hold strongly.

The CHAIRMAN: Well, because of your own background that is a very helpful and useful suggestion.

I have one further point which has already been raised at least in part. You will agree, will you not, that the removal of this clause will not automatically lead to the creation of the foreign exchange markets and so on which you feel are desirable.

Mr. POPE: I feel, sir, that it removes one obstacle, at least.

The CHAIRMAN: The removal of clause 157 will not alter the fact that Canada is a nation of 20 million, and neither Montreal or Toronto are, in the foreseeable future, unfortunately, the equivalents of New York and London in the world's financial markets.

Mr. POPE: I am hoping that perhaps we might become the equivalent of Brussels which has three British banks, two Amercian banks, four French banks, two Italian banks and one Japanese bank—a total of 12. These figures are four years old, and there might be 15 or 20 by now. But if Brussels, which is half the size of Montreal, can have 12 foreign branches serving it, I do not see why we should be deprived of even one.

The CHAIRMAN: That is a useful suggestion, but as many members of the Committee have attempted to point out to you, some of them find it difficult to see how clause 157 by itself has either prevented this situation from arising, or how its removal will necessarily bring the branches here.

Let us now move on to the next clause.

I do not think, in fairness to our witness, that we will invite questions on what he has had to say about subclause (g) of clause 75, in view of his very reasonable and fair reservation with respect to his own background in this area.

I will invite questions on his views with respect to subclause (2) of clause 53, in the course of which he criticizes the proposal of the government limiting to 10 per cent the shares which may be held by others in a chartered bank.

(*Translation*)

Mr. Laflamme, do you have a question?

Mr. LAFLAMME: On this clause 53, I would like to know the main reasons why you object to the limiting of personal control on a bank.

Mr. POPE: First it removes a certain freedom from the individual. No citizen may now buy up to 11 per cent in Canadian bankshares.

(*English*)

The CHAIRMAN: Also, every person has the right, if he is poor, not to have to sleep under a bridge and be arrested for vagrancy.

Mr. POPE: The point is that you are depriving a citizen of his normal liberty.

(*Translation*)

That is in principle. Generally speaking, the true result is that there is no longer the shareholder control in the bank but management control. All Canadian banks are controlled not by the owners but by management.

Mr. LAFLAMME: We are going to hear a brief this afternoon which is going to contradict that point and insist on the point that we should prevent a group of individuals from dominating—

Mr. POPE: Take the current instance of the Bank of Canada which has just been incorporated, I think that 30 per cent of its shares belong to a group. Now the idea of this bank, is that this is only fair since it is this group which has worked and raised the money required—

Mr. LAFLAMME: But let us speak of the present situation.

Mr. POPE: —say 50 per cent at the present time.

Mr. LAFLAMME: Is it not so, that approximately three Canadian banks chartered banks control an important portion of business generally.

Mr. POPE: This is certainly true that three Canadian banks handle the greater portion of the Canadian depositors.

Mr. LAFLAMME: In this particular circumstance, is it not necessary to establish limitations on individual or corporate participation in the banking business?

Mr. POPE: I think you refer to something that is not so.

Mr. LAFLAMME: But it is so.

Mr. POPE: In three banks you speak of, no one controls 10 per cent.

Mr. LAFLAMME: They control a great deal more.

Mr. POPE: No, sir, no one has a controlling 10 per cent in the Bank of Montreal, the Royal Bank, the Bank of Commerce, or the Bank of Nova Scotia. No one controls them as far as I know.

Mr. LAFLAMME: Let us not speak of individuals, let us speak of interest groups. For instance, I have seen a phrase here.

Mr. POPE: I think I know what you are talking of, Sir. I think this article states that in too many cases, the administrators are the same in all banks.

(*English*)

Mr. LAFLAMME: Just a minute; it was stated here by someone else, that, as is well known, three of the Canadian chartered banks control 70 per cent of the assets of the Canadian chartered banking system.

Mr. POPE: That is right.

Mr. LAFLAMME: Do you accept that?

Mr. POPE: That is true.

Mr. LAFLAMME: Yes, it is true; but do you accept that as a good thing?

Mr. POPE: I have nothing against large size, sir. There three banks are admirable banks. They do their work very, very well.

Mr. LAFLAMME: I agree with that.

Mr. POPE: They are banks that are good, honest banks. They render good service. The fact that they control 70 per cent of the deposits of the Canadian chartered banks is not to me, an evil in itself, sir.

If we are talking about control, I do not know who controls these banks. I have tried to find out. The conclusion I have been forced to come to is that the shareholders do not exercise their control in the case of these three banks and,

therefore, by default, the control falls back on the management itself. The employee becomes the owner, and that is ridiculous.

Mr. LAFLAMME: Do you say that the shareholders do not control at all?

Mr. POPE: I do, sir. They do not exercise their control in the case of these three banks.

Mr. LAFLAMME: But do you not think that a clause which would limit the possibility of controlling any bank is not a good one, in those circumstances?

Mr. POPE: I am trying to keep my thoughts straight. In the case of the three banks, nobody controls them at all, to my knowledge. The shareholders do not exercise their control.

In the case of the three smallest banks one group controls practically all the shares. That is the situation today.

I may be missing your point, sir. In the case of the three largest banks nobody controls them. In effect, the only control is exercised by the management from the general manager down.

Mr. LAFLAMME: That is all, Mr. Chairman.

Mr. MCLEAN (*Charlotte*): Mr. Pope, you seem to be disturbed that management has control of the banks. I think it is a good thing that it has control. I do not know why you take—

Mr. POPE: There is a certain amount of inbreeding going on.

Mr. MCCLEAN (*Charlotte*): You say that this 10 per cent should be raised to perhaps 25 per cent, or something like that, for the individual owner. The large banks have millions of shares. If a bank is worth $6 billion and a man owns 25 per cent of the shares, he has the actual control of that bank. If you get 25 per cent control of a large company you can actually direct it and control it.

Mr. POPE: That is right, sir.

Mr. MCLEAN (*Charlotte*): I think the 10 per cent is a good thing. We do not want anybody controlling $6, $8, $10 or $15 billion. We want that in the hands of the management. Management is responsible to the stockholders and when they present a good balance sheet the stockholders are quite happy with their continuing on and paying normal dividends, and so on.

I do not see that taking it out of the hands of management would help things. I think it would hurt things.

Many large American companies are controlled by an individual who has 25 per cent of the ownership.

Mr. POPE: Quite.

Mr. MCLEAN (*Charlotte*): Then a man, or a group of people, who has 25 per cent of the shares in one bank would control $6 or $7 billion. I do not think that is a good thing. I do not see how you can think it is a good thing.

Mr. POPE: You do not think it is a good thing for one man to control so much?

Mr. MCLEAN (*Charlotte*): No; I do not think any group should control that much.

Mr. POPE: Actually, the management group does control it all.

Mr. MCLEAN (*Charlotte*): If they had control of the three banks they would practically control the country. I think it is better in the hands of management.

The CHAIRMAN: In order words, you are suggesting to us that it would not be in the public interest if it were possible for one individual, of for a group of associated individuals, to share ownership, and to own, possibly, at the same time, two, or three, or even one, of our major chartered banks?

Mr. POPE: You would have to be very rich to acquire such a holding of shares.

Mr. MCLEAN (*Charlotte*): It is possible.

Mr. POPE: It is a possibility, yes, sir.

You are arguing, gentlemen, if I might make the suggestion, the possibility of evils if this happened in the three largest banks and, therefore, that it is right to restrict ownership to 10 per cent in those banks. But look at the inconvenience and hardship you put on the proprietors of shares of small banks. The Bank of Western Canada is I think, 60 per cent controlled by the British International Finance Company. They are being forced, under this legislation, to divest themselves of 40 per cent of those shares over the next 10 years. For what purpose? They are a tiny little bank.

(*Translation*)

Mr. CLERMONT: A supplementary question. When the provisional directors presented their application to the Board they were informed of this restriction and they accepted.

Mr. POPE: I agree, but I think nevertheless it makes things unnecessarily difficult for them. They are small banks.

(*English*)

The CHAIRMAN: Are there any further questions on this proposal? Mr. Clermont?

(*Translation*)

Mr. CLERMONT: The present Act has no limitations on percentage I believe, and if I understand you think that it is the management or directors that are running things now?

Mr. POPE: No, not in the large banks. Not the administrators, nor the directors, but the employees. The General Manager the assistant General Manager and all the people that come under him, not the directors. In most cases the directors are the children of the general managers.

Mr. CLERMONT: But what change would Bill C-222 make in regard to the 10 per cent?

Mr. POPE: Nothing would change at all, nothing would be changed. I am against it on principle only.

Mr. CLERMONT: Yesterday I was looking over the list of the directors of the Bank of Montreal. I only know two or three of them, but your reflection that they are children...

Mr. POPE: They do not direct the Bank of Montreal. They are given facts and they say yes or no. It is the general manager and the president who controls the Bank of Montreal.

Mr. CLERMONT: What difference would the limitation bring?

Mr. POPE: They do not exert their control in the bank as ownership I assure you.

Mr. CLERMONT: I see the difference between the limitation of 10 per cent and no limitations as the Act really says right now. You object to the 10 per cent limitation.

Mr. POPE: I object on principle. I think it is a restriction on the individual's liberty.

Mr. CLERMONT: Do you not fear to a great extent the abuse that would come from an associated group that would hold 25 to 40 percent? Or 50 per cent Or 100?

Mr. POPE: Actually, I am not afraid of that. I do not see that this would happen. We can have nightmares about all sorts of possibilities about things that never happen.

Mr. CLERMONT: But as the present Act now stands, we have the case of banks which obtained a charter from Parliament. It was controlled by Netherlands interest. Now it is American-controlled to the extent of 100 percent. That is a case in point.

Mr. POPE: Is it as bad as all that?

Mr. CLERMONT: Some people consider that this is not in the interest of Canada.

Mr. POPE: They have deposits of 225 million dollars, that is not a very great amount.

The CHAIRMAN: Have we any other questions on the suggestions of Mr. Pope? Then we can go over to his next point in regard to the rate of interest. Do we have any questions on his ideas with regard to the rate of interest?

Mr. POPE: You mean the suggested system?

Mr. CLERMONT: Mr. Pope, if Bill C-222 were adopted as it is presently, would you have any comments to make with regard to the rate of interest?

Mr. POPE: Ninety-one do you say? I think it is clause 91(3) establishing a possibility—

I think this would be an improvement on the present system. I am for complete freedom. My personal opinion is that Clause 91, as it is now drawn up is just a compromise.

Mr. CLERMONT: You would prefer that the ceiling be removed at once that there would be no ceiling?

Mr. POPE: Yes.

Mr. CLERMONT: But would this be practical in the present situation when there is a lack of shortage of money, not only in Canada but throughout the world?

Mr. POPE: Nevertheless one must not forget that the great chartered banks know their duties to the public.

Mr. CLERMONT: I admit this, Mr. Pope, but they told us they were in business to make a profit. Here there are no limitations. They are good citizens but profit is very interesting.

Mr. POPE: That is my opinion, sir, I am not afraid of any injustice in this respect.

Mr. CLERMONT: But do you think, sir, that Clause 91 in your opinion is an improvement.

Mr. POPE: Certainly.

(*English*)

The CHAIRMAN: Mr. Gilbert, have you a question?

Mr. GILBERT: Do you think we should define the word "interest"?

Mr. POPE: I do not understand the question. To me, the meaning of the word "interest" is so evident that I do not understand your question, sir.

Mr. GILBERT: A great deal of our discussion has been on this question of interest and the definition of what constitutes interest.

Mr. POPE: Really? I was not aware of this, sir.

The CHAIRMAN: Without taking too much time, in other words, Mr. Gilbert is referring to the fact that borrowers face various charges in addition to what is commonly referred to as interest.

Mr. POPE: I see. In other words, you are suggesting that because a law could be passed regarding interest, then a clever lender can say, "fine; I am charging you a bonus."

I would merely make the comment that it would take a very ingenious legislator to get around all the possibilities.

I have no real comment to make, sir. I still do not quite understand your question.

Mr. GILBERT: In the present Act we have the 6 per cent ceiling.

Mr. POPE: In the Bank Act, yes.

Mr. GILBERT: Consumer loans are at 11 per cent, which includes—

Mr. POPE: In the banking system?

Mr. GILBERT: In the banking system; if you go to the bank and you ask for a personal loan...

Mr. POPE: A personal loan is at 11 per cent, in spite of the 6 per cent ceiling; that is right; because of a different interpretation.

Mr. GILBERT: That is right.

Mr. POPE: Because of legal advice that the banks have received.

Mr. GILBERT: I am asking you: Should we have a clear definition on that?

Mr. POPE: I think you are referring to the section of the Bank Act which refers to 6 per cent interest and 6 per cent discount, and I suggest it is not

merely a definition of "interest", but a definition of how to apply the discount. I think that the whole loophole that counsel for the banks found was in the word "discount". In other words, to take the simple example of borrowing $100 for one year, repayable at the end of 12 months: Under simple interest you pay back $100 at the end of the year, plus $6 interest, or $106. Under discount, one interpretation is that you sign a note for $100 and if it is discounted at 6 per cent you would receive $94. Then you pay back $100 at the end of the year, and effectively, for the sake of argument, you have paid 6½ per cent.

The loophole is under a loan repayable in instalments where a $100 note of 12 instalments of $8.34 is signed, and instead of deducting simple interest of $3.25 and giving the customer $96.75, they take off $6 from a loan repayable in instalments and he still pays back 12 times $8.34, if it is for $100; but instead of that being 6 per cent interest, or 6 per cent discount, it is actually 11 percent simple interest.

Personally I feel that this is a faulty interpretation of the Act. I think the Act is properly written, and I personally feel, although I am not a lawyer, that the way the banks are counselled is faulty, and that the Treasury Board should have said that under the act they were breaking the law. This is my opinion.

I do not think it requires a good definition. You have it. It is all profit. The thing trips up on the distinction between a note payable in full at the end of the year and one paid in 12 monthly instalments. This is where the 6 per cent jumps up to 11 per cent.

The CHAIRMAN: We appear to have no further questions of Mr. Pope, and that being the case, unless members have any further detailed questions which have not been—

Mr. CLERMONT: Mr. Chairman, to support the remarks I made earlier regarding foreign banks operating branches in the United States, I refer the Committee to an article in the *National Banking Review* of September 1966 at the bottom of page 2:

> Between 1961 and 1965, 15 foreign banks opened 23 branches in New York.

The CHAIRMAN: Thank you very much, Mr. Clermont.

I think we should thank Mr. Pope for giving us the opportunity of hearing some of his very stimulating views on the matters before us, particularly with respect to the operation or non-operation of foreign exchange in the international field, as it pertains to our own banking system.

I declare this meeting recessed until 3.45 p.m. at which time we will hear from Lafferty, Harwood & Company.

AFTERNOON SITTING

The CHAIRMAN: I think we are in a position to resume our meeting.

Our witness this afternoon is Mr. R. G. D. Lafferty of the firm of Lafferty, Harwood & Company. The firm is a member of the Montreal Stock Exchange and the Philadelphia Stock Exchange. I think this introduction will indentify our witness with respect to the area in which he deals and I would invite him to submit his brief.

I did not have a chance to tell him this before we began but, of course, rather than present the brief verbatim, if it is lengthy I would ask him to attempt to summarize his major points for us, following which we will have a period of questioning and discussion, first on the points he has presented to us through his brief and finally, if time permits, any other points the members wish to raise. Mr. Lafferty, please.

Mr. R. D. G. LAFFERTY (*Lafferty, Harwood & Co.*): Thank you very much, Mr. Chairman.

Mr. Chairman and gentlemen of the Committee, we have prepared our brief in the belief that the wealth of this nation is being progressively dissipated by a banking system that exploits rather than creates. This condition results from a highly concentrated monolithic structure with interlocking interests which employs restrictive practices and prevents new initiative and enterprise from challenging the dominant position. These restrictive influences extend into industry, to interlocking interests, to cartelized trusts similar to George Weston, Argus Corporation, Power Corporation and certain large influential pension plans. The dominant position of Canadian banks in the financial community restricts the healthy growth and development of Canadian capital markets.

It is our understanding that in the United States the banks were forbidden from engaging in corporate underwritings many years ago because of the undue influence it gave the banks to those needing money and those financial institutions which are necessarily dependent on a flow of new investments. The major part of this underwriting operation in Canada takes place without competition or syndicate bidding participation. It was only open to those members of what might be termed "the financial ring". This atmosphere, in turn, breeds in the stock exchanges an environment which is more like Tammany Hall than that of a well administered free enterprise exchange market.

At the same time, the provincial governments cannot exercise their jurisdiction to properly legislate security regulations when the banks play such a major role in the community and are protected by federal legislation. As a result of this combined power, the financial press and those acting as investment research analysts cannot express an independent view, if this reflects on the system, without fear of economic reprisal. As a result, the consumer and investor is deprived of an alternate viewpoint, and through this deprivation is exploited. The management of the chartered banks in Canada have continuously failed to respect the rights of the shareholder in their financial reporting and have in many instances deliberately misrepresented the position under the guise that they were acting in the best interests of the public. The banks have assiduously maintained a protective barrier of hidden reserves in which adjustments can be made only on an annual basis and as a means to prevent the shareholders and the market place from judging the comparative competence of their management and operations. They have conducted themselves in total disregard of their fiduciary responsibilities that are inherent to their occupation. They are a law unto themselves in the marketplace, immune from the normal principles of anti-trust and anti-combine legislation.

As taxpayers we are now spending millions of dollars to educate young Canadians in a business environment where initiative, energy, enterprise and intellectual honesty are penalized because they challenge the dominant struc-

tures. It is no wonder that Canadian business "management" is so sterilized that U.S. corporations, disciplined by legislation which requires them to serve the consumer, can walk into the Canadian market and run circles around most Canadian enterprises operating on their own home ground. It is not superior technology as such; it is planning based on initiative and enterprise, qualities that have been driven out of the Canadian corporate life by the dominant interests who seek conformity and competition by the agreed division of markets.

The submission of our brief and our appearance before this Committee is based solely on a desire to contribute to a way of life that is intellectually honest and not permeated by the pervasive influence of collusion to exploit and intimidation.

Would you like us to go through the proposals we make, Mr. Chairman, or are they proof in themselves?

The CHAIRMAN: Well, they are in the brief and, as you know, the brief has been—

Mr. LAMBERT: Mr. Chairman, may I put a question? Which one of the representations are we to study, the brief that was appended to the memorandum or this completely unrelated document, it appears to me, which is now being presented by the witness?

The point is this. Usually these summaries that are presented beforehand are a summary of what is in the brief. Mr. Lafferty has made other observations which are not related and, to say the least, they are challenging and I would like to be able to go back and refer to the wording thereof, but we have not got them.

The CHAIRMAN: I think in fairness to Mr. Lafferty, it appears to me at least that what he was putting forward was a summary of the general discussion that takes up the major part of his original brief, which has been resubmitted, together with his further addendum, and I gather it led up to the specific proposals beginning on page 27 of the original brief, and also the further specific proposals in his subsequent document. Now, it is true that this method of presentation creates for me, as Chairman, some problem of suggesting to the Committee the most orderly way of considering the matter. As I say, perhaps I placed a different interpretation on Mr. Lafferty's words than you did, Mr. Lambert, but I thought he was attempting to summarize his rather detailed and closely argued discussion which took up, as I say, the first 26 pages or so of his original brief.

Mr. CLERMONT: Mr. Chairman, I read this document dated September 6, 1966 at noontime and I did not notice the same thing as that which the witness was bringing up. I noticed there was some relation but it seemed to me there was a vast difference.

Mr. LAFFERTY: Perhaps I should explain the briefs, Mr. Chairman. The original brief was presented on the first submission of the bill, which I think was Bill No. 102, and there was a date by which the submission had to be presented. We submitted our brief as of that date. Subsequently a new bill was introduced. The option was then up to us whether we wished to pull our original brief and submit a second brief, or whether we would submit a supplement to the first

brief, and the document dated September, 1966, was the supplement to the first brief. The basic theme is discussed in the original brief.

Mr. LAMBERT: That is fine. I am sorry, Mr. Chairman, but your powers of correlation must be much greater than mine, because I find a great deal of difficulty in correlating the summary that we have now heard with the closely argued purposes of the original briefs. I would like to direct the discussion, if we could, to what is before us.

The CHAIRMAN: In the brief.

Mr. LAMBERT: Yes, rather than the summary.

The CHAIRMAN: I quite agree.

Mr. LAMBERT: We have not got the summary before us.

The CHAIRMAN: I quite agree, and this has been our practice until now. I think it could be taken that the documents which we are going to discuss and on which we are going to question Mr. Lafferty are those which have been filed with us pursuant to our rules. I think, therefore, what we have to decide now is the best way to proceed, and it seems to me—and I throw this out for consideration—that we might first deal with each of the specific recommendations at the tail end of the original brief, move on from those to the specific recommendations in the addendum that has been submitted, and we can bring in any questions we may have on the general discussion as they appear to relate to each specific proposal. If that does not seem to fit, then we can keep any further questions we have as to the general discussion in the original brief, and so on, for the time that remains after we deal with the recommendations. I say this because I presume that what Mr. Lafferty is interested in doing in appearing before us as an interested and involved citizen is making specific recommendations with respect to possible legislative changes.

Now, mind you, this is a rather complex matter to attempt to divide up in some orderly fashion. If there are some other suggestions as to how to tackle this, I certainly would be happy to hear about them. Do I have any other suggestions how we might go about this?

Mr. CLERMONT: Are these two briefs the same?

The CHAIRMAN: Not completely, no.

Mr. CLERMONT: I thought when we started out that the briefs were supposed to be the same, the one that was—

The CHAIRMAN: In fairness to Mr. Lafferty, he prepared a brief with recommendations based on the original bill. I presume—although I have not asked him about this—that after considering the new bill he felt that the proposals in his original brief still applied and he resubmitted it together with some additional views which seem to apply more directly to the new bill. This has happened on several occasions in the past. I think that some of the academic witnesses who appeared before us before Christmas did the same thing.

There is a difference in numbering which we will have to deal with, but I think the best thing we can do to get right down to the discussion and questioning of Mr. Lafferty on the views he wants to put forward is to decide, perhaps arbitrarily, on some method of approach. My own suggestion to the Committee,

unless the Committee wants to do it differently, is to deal with the specific recommendations in turn, beginning with the ones that he submitted last year and moving on from there to his additional ones.

Mr. CLERMONT: Mr. Chairman, will the addition that Mr. Lafferty has supplied to his 1965 brief be a résumé?

The CHAIRMAN: I did not get that impression, Mr. Clermont. Again, in fairness to Mr. Lafferty, I think it can be said that his additional brief is related to the general philosophy put forward in his first brief. The points of specific recommendations in the addendum are with respect to points not dealt with specifically in the original brief. Have I grasped the concept correctly?

Mr. LAFFERTY: This is outlined in the first page of the second brief, explaining that this was a supplement to the first.

The CHAIRMAN: If any of the points seem to overlap in the opinion of any of the members, I would like the members to draw that to my attention. If not, as I say, in the absence of some further suggestion from the Committee, I suggest that we proceed along the lines I have outlined and invite questions firstly to the proposal on page 27, wherein it refers to section 19, which is now section 18. I think that is an orderly way to proceed. Mr. Lafferty sets out the proposal and then gives the purpose, as he sees it, behind this proposal, and I invite the members to place any questions they have on this specific proposal.

Mr. LAMBERT: Why do you make your first proposal?

Mr. LAFFERTY: There is a philosophic treatise behind this whole presentational brief. The banks have contributed to a suppression of the growth or development of free enterprise economy in Canada, and as we do have interlocking interests in Canada—you may not believe this, Mr. Lambert.

Mr. LAMBERT: I certainly disagree with you entirely there.

Mr. LAFFERTY: This is your privilege. It is equally my privilege to state otherwise.

Mr. LAMBERT: Quite right.

Mr. LAFFERTY: This is the purpose. Where you have an interlocking directorship, you have a transgression of a fiduciary capacity.

Mr. LAMBERT: Even between, say, an insurance company and a bank?

Mr. LAFFERTY: Sure you do.

Mr. LAMBERT: Or an investment dealer?

Mr. LAFFERTY: And a bank? Sure you do. Or a banker acting as a director of another corporation. He is using information available to him from his position in the bank which is derived from other customers, service and other corporate structures.

Mr. LAMBERT: Well, it is your view. That is all I can say for it.

The CHAIRMAN: Do we have further questions on this specific proposal? Mr. Laflamme?

Mr. LAFLAMME: I suggest that when you refer to the proposed Bill No. C-222 you see some proposed articles which deal with your first suggestion that there should be a restriction?

Mr. LAFFERTY: That is correct, yes.

Mr. LAFLAMME: Do you really think that the proposed legislation gives some relief?

Mr. LAFFERTY: It gives some relief but not complete relief.

Mr. LAFLAMME: What would complete relief be?

Mr. LAFFERTY: No banker nor any officer of a bank would be authorized or could accept an appointment as a director of any outside corporation, whether resident or non-resident.

The CHAIRMAN: At the moment we are dealing with financial institutions. You have another heading with regard to the other types of corporations. For the moment, let us get your views on whether or not you feel what is in the present proposed act receives your approval with respect to the eligibility of bank directors to serve on boards of other financial institutions.

Mr. LAFFERTY: I believe there should be complete separation. There is a confliction between institutions and interests from a competitive viewpoint.

Mr. LAFLAMME: You state that the proposed law does not go far enough.

Mr. LAFFERTY: It is not complete. It recognizes part of the principle. To recognize part of the principle is compromise, rather than the real principle.

Mr. LAFLAMME: In itself, what is wrong with being, let us say, a director of a bank and also being a director of a trust company, which does not in any sense control the bank?

Mr. LAFFERTY: You are accepting deposits at both banks; you are serving different customers; you are using your knowledge of one either for the advantage or disadvantage of the other. The whole theme of our submission was that we lacked competitive enterprise in Canada because we have an interlocking relationship of accommodation on the cartelization of markets, and it we were going to compete on a free enterprise basis with the United States economy and world economies we must similarly go into the same type of structures.

Mr. LAFLAMME: May I refer to page 2 of the supplement to the brief you have given us. In the last paragraph you say:

> Nearly every investment dealer is dependent on a bank for financial accommodation in order to carry his bond inventory.

Is there anything wrong with this?

Mr. LAFFERTY: Not at all, as long as this is not used as a point of coercion over the investment dealer. But you can carry this a little further. Once you come to this question of the whole underwriting business and the fact that the dealer is dependent on the bank for accommodation, if he does not acquiesce or conform to the convenience of the bank, then he is subject to what I should term economic reprisals, and he has no alternative choice as long as there is an association amongst the banks and the banks are not functioning on a competitive basis.

The CHAIRMAN: Have you finished, Mr. Laflamme?

Mr. LAMBERT: As a supplementary question, is it not a fair proposition, though, that if you borrow money from a bank the bank should perhaps have the

right to supervise your operations with other people's money which they have lent to you, of if an investment dealer gets a half million dollar line of credit does he then get carte blanche to do as he sees fit? Is this the general principle of operating business?

Mr. LAFFERTY: No. If it were then, conversely, the depositor in a bank would have the right to supervise the management of those assets. A bank has a right to make a line of credit but not to supervise its use. It has a right to ask the purpose and to ensure that the agreement which was undertaken is fully worked out.

Mr. LAMBERT: But the depositor has the right to do that. If he is not satisfied with the operations of the bank he withdraws his money, the same way that a bank, if it is not satisfied with the operations of an investment dealer, it withdraws its line of credit.

Mr. LAFFERTY: Fine, as long as the bank gives a reasonably sound reason for doing so, but if it does it just for vexatious purposes—

Mr. LAMBERT: You used the term "vexatious". Those are pretty wide-sweeping terms, I think, Mr. Lafferty. I think we must have proof that this is done. You have used some rather wide-sweeping terms this afternoon, obviously in sincerity, based upon your judgment and your knowledge of financial affairs in Montreal, but we would like to see a little proof of that.

Mr. LAFFERTY: The position is this. I do not have the right to either subpoena the records of any bank, nor do I have the right to subpoena any witnesses. Mine is merely an individual's expression of viewpoint. I have been exposed to circumstances under which this takes place. A recent example took place on the west coast, where a line of credit had been granted to extend until July of next year. It was called in August when money was extremely tight. There was no reason for it being called, it was a legitimate loan, it was a natural wood industry, lumber, properly secured and the people had been in business 16 years. This was called. Now, the motives of the bank were never disclosed. This is the way this occurs. This had the effect of throwing 200 people out of employment. Now, whether there was a competitor behind the scenes who was friendly with the bank and who sought to force him out of business, I do not know, but they could not go to any other bank and get alternative accommodation. This takes place.

Mr. LAMBERT: Yes, but we have seen the restriction of credit operate time and time again when there is a general operation. There is a general operation in other sources, too. Surely to goodness an improper motive cannot be attributed to every credit restriction.

Mr. LAFFERTY: No, I do not suggest there is, but I suggest you look into the U.S. banking system. There has been a great deal of criticism of the Mercantile Bank, but they have done a great deal more up here to contribute to free entreprise and proper banking than we have ever had before. You have the Mercantile Bank and they give a line of credit and you get it in writing. Most Canadian banks will not give it in writing nor by word of mouth. They may want to change their position, and they either change the manager or they change their tune and they produce nothing in writing; whereas the Mercantile Bank will produce something in writing; a year's term loan, five years, basis of

repayment, terms, how it should be handled, their right to see the books, their right to see the operation of the company to whom the loan is being made. Then you have a document, you have an agreement between the borrower and the lender, but this is not so in most of the Canadian system.

Mr. LAMBERT: Well, Mr. Lafferty, from personal experience I can cite you an example where the bank you cite right now as a paragon of virtue in this regard pulled the rug right out from under an operation and put it into bankruptcy, entailing bankruptcies all along the line.

Mr. LAFFERTY: I am not talking about one bank or another. All I am suggesting is that the legislators should provide principles whereby I, as a citizen or consumer, has a right to an alternate choice or I am protected against this.

Mr. LAMBERT: If you read the American financial press you will see that they have a great deal of tight money down there. I have not seen any difference between the United States and Canada when it comes to that. You are saying that the independent banking system in the United States is preferable to the Canadian branch banking system because apparently it is more competitive. I think at the present time its only distinction is that it is more competitive in being tight. I disagree with Mr. Lafferty there.

The CHAIRMAN: The next name I have is Mr. Cameron, followed by Mr. McLean, Mr. Flemming and Mr. Clermont.

Right now, as I said, we are trying to keep our questioning to Mr. Lafferty's proposal that no one should be a director of a bank if he is already a director of another financial institution. Perhaps we might deal with the point as to in what areas the proposals of the present law do not meet his suggestions. Someone may want to do this at some point.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: Mr. Lafferty, I think the purpose of your recommendation is to prevent or, perhaps, undo what you feel is an undue concentration of financial power at the present time. The question in my mind is would your suggestion or, as a matter of fact, the proposals in the bill before us really have this effect? Will we not be doing something legislatively and imagining that we are setting up the safequards you speak of and really not be accomplishing something?

Mr. LAFFERTY: I think you would be contributing. I do not think you would achieve the ultimate purpose, no. This present legislation has evolved over many years. It is an adaptation of a system from the other side, but wide preventatives that might help contribute to a gradual competitive environment—

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: Do you really think that the existence of bank directors on boards of other banking institutions is a necessary tool for exercising this monopolistic power? Would it not be done without that?

Mr. LAFFERTY: It would be more difficult.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: You think it would be more difficult?

Mr. LAFFERTY: There is no question about it. You would not have somebody else's statement of financial figures available to you which you could bargain

off to somebody else who had a *quid pro quo* in a mutual area and the advantage you wanted was somebody else's, who was a competitor of yours. It gives you bargaining power.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: Then in what way do you consider the proposed amendment to the Bank Act falls short of this?

Mr. LAFFERTY: It does it completely all the way. It recognizes the principle but it does not go all the way.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: It eliminates interlocking directorates in banks and trust companies and loan companies.

Mr. LAFFERTY: It reduces, I think, to a proportion of one being on the other.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: Yes.

Mr. MORE: I wonder, Mr. Chairman, if Mr. Lafferty could use the microphone? We cannot hear him when he speaks in that direction.

Mr. LAFFERTY: I am sorry. It is my fault.

The CHAIRMAN: If you would just pull the microphone a little closer.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: I think your objective is possibly quite desirable but I am just wondering whether it is practical.

Mr. LAFFERTY: There is nothing impractical about it. It is a simple stroke of the pen.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: Yes, I know, but we might be deceiving ourselves in thinking that we have a safeguard, that we have done something, and actually find that we have not.

Mr. LAFFERTY: There is no advantage to the present relationship other than it provides a channel of communication. Each should stand on their own feet and develop their own institutions and their own operations based on internal principles rather than imitating, copying or borrowing from each other or exchanging with each other. Then you have a competitive environment of initiative and ideas. You then have a creative process.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: Yet in other fields we find collusion, shall we say, taking place, do we not, without the existence of interlocking directorates?

Mr. LAFFERTY: This is because we do not have strong enough anti-trust and anti-combine legislation in Canada.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: We have the Combines Investigation Act, which is rather—

Mr. LAFFERTY: It is not strong enough. It did not prevent Canadian Breweries from putting all the breweries together.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: No. I do not know whether it can do so. It is very dubious, mind you, whether we are really accomplishing much by doing this.

Mr. LAFFERTY: I think it has been the principle of the United States' system that one has achieved a freedom to the consumer of avoiding this collusion and this cartelization, and therefore you provide a range of choice to the consumer.

I think if you related this to the U.S. economy you would find it has more vitality than ours. It provides a foundation for new initiative, stimulation and free enterprise, which are principles of competition by new ideas.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Those are all the questions I have now. I was just making a point, Mr. Lafferty. I am more interested in your second proposal with regard to directors of other corporations.

The CHAIRMAN: I now want to recognize Mr. McLean, followed by Mr. Flemming, Mr. Clermont and Mr. Lind.

Mr. MCLEAN (*Charlotte*): You do not believe that a director of a bank should be a director of an insurance company?

Mr. LAFFERTY: No, I do not. In the brief, I think, there is one example cited where there are four bank directors sitting on an insurance board which controls a trust company, or a large position in the trust company.

Mr. MCLEAN (*Charlotte*): I believe you gave us to understand that you think the banking system in the United States in preferable to ours.

Mr. LAFFERTY: Yes, I think it is.

Mr. MCLEAN (*Charlotte*): Do you remember something which took place a little over 30 years ago when every bank in the United States was closed? Do you remember that?

Mr. LAFFERTY: I do not remember it but I am aware of it.

Mr. MCLEAN (*Charlotte*): It is a fact, is it not?

Mr. LAFFERTY: Certainly, I am aware of it.

Mr. MCLEAN (*Charlotte*): Now, they have interlocking directors in the United States in the banks?

Mr. LAFFERTY: There is legislation in this area.

Mr. MCLEAN (*Charlotte*): Do they not have interlocking directors? I have read the list of directors and they say they are directors of this and directors of that.

Mr. LAFFERTY: They are directors but not of two financial institutions.

Mr. MCLEAN (*Charlotte*): Well, I do not know about financial institutions. Maybe they are not directors of two banks but they certainly have interlocking directors in the United States.

Mr. LAFFERTY: Yes. You will find the president of General Motors on the board of some bank.

Mr. MCLEAN (*Charlotte*): Yes. Now, you favour the Mercantile Bank coming in here?

Mr. LAFFERTY: No, I do not favour. This was not the word I used.

Mr. MCLEAN (*Charlotte*): I took from the brief that you favoured something like that, foreign banks coming in here.

Mr. LAFFERTY: This comes later in the brief. I see your point there.

Mr. MCLEAN (*Charlotte*): Yes, If they have interlocking directors there and the bank comes in here, it is owned in the United States.

Mr. LAFFERTY: Yes, but there are 14,000 individual banks in the United States and to interlock 14,000 is a lot more difficult than to interlock what we have here.

Mr. MCLEAN (*Charlotte*): The biggest bank in the United States is interlocked as are its branches. Does it not have $15 or $16 billion in the Bank of America?

Mr. LAFFERTY: Yes. This is a state law of California.

Mr. MCLEAN (*Charlotte*): Yes.

Mr. LAFFERTY: I do not approve of it.

Mr. MCLEAN (*Charlotte*): Yes. It is the biggest bank in the United States.

Mr. LAFFERTY: I do not approve of it.

Mr. MCLEAN (*Charlotte*): You do not approve of it but they have it just the same.

Mr. LAFFERTY: Yes, surely.

Mr. FLEMMING: Is your objection to one man being a director of more than one financial institution based on your opinion that this would lessen the competition as between the financial institutions themselves?

Mr. LAFFERTY: Correct.

Mr. FLEMMING: Take the case of a Mr. Jones who is a director of XYZ banking corporation. Here is his competitor and the shareholders of the competing institution. They meet and decide that they want to elect this gentleman as a director of their bank. Having done so, are they not conscious of this possibility which you express, and in their opinion would it not be an advantage to them to have him on their board in spite of your misgivings? I would like to have your comment on that.

Mr. LAFFERTY: If they are a weaker institution they would probably strengthen their position by tying the two together. If they could not compete on their own feet, then they would seek to collude, but they would be serving the consumer.

Mr. FLEMMING: I gather that your main objection is that it lessens competition?

Mr. LAFFERTY: Yes, this is correct, because if he joined the other bank or the other institution and the first institution had plans for a branch in a certain area, and then he conveyed this information to the board of the other one who wanted to maintain their position, they say, "well fine if you do that we will put another branch in the other area". Then they both decide, "well, we will compromise on this; you put one here and we will put one there". You are not moving on the correct economic principle of supply and demand and of the market place.

Mr. FLEMMING: I take it that you are afraid there would be a degree almost of collusion and it would be to the disadvantage of the general public to do otherwise?

Mr. LAFFERTY: Of the consumer. You are standardizing the services.

Mr. FLEMMING: Speaking about the American system, for instance, which is a multiplicity of small banks rather than our system of larger banks, is it not true that in many instances they own their trust companies holus-holus?

Mr. LAFFERTY: No, I do not think so. I think that in the majority of the states the banks can undertake trust activities which we cannot do up here.

Mr. FLEMMING: Do they have federal regulations governing their activities in this respect or is it entirely state, or is it both?

Mr. LAFFERTY: No, banks can function in the capacity of trust accounts.

The CHAIRMAN: It was my understanding, Mr. Flemming, that there are no regulations in the United States specifically banning the interlocking directorates of financial institutions even to the extent that the government is proposing in this bill. What is your comment on that, Mr. Lafferty?

Mr. LAFFERTY: I understand there is, Mr. Chairman. It may vary from one state to another. I looked it up when we prepared the original brief and found a reference on how it was established, but surely someone from the Department of Finance could check that.

Mr. FLEMMING: I can see an objection to a man being a director of a bank and being a director of other business activities. I think I could follow that all right, but I fail to see—certainly to the same extent that you do, Mr. Lafferty,—the great objection to the same man being a director of two banks.

Mr. LAFFERTY: Because then they decide to work in one direction together to achieve certain results.

The CHAIRMAN: Of course, we should remember that the proposed legislation which we are really considering would prevent interlocking directorates of banks and trust companies, and also with respect to banks and other companies beyond a certain proportion. I gather, Mr. Lafferty, that you propose this be extended to any financial institution, as you define it in your brief?

Mr. LAFFERTY: I defined the financial institutions, yes.

(Translation)

Mr. CLERMONT: Mr. Chairman, I refer to page 27 of the brief, and I quote:

(English)

> "In banking and finance two masters cannot be reliably served at the same time. There are conflicting interests involved. The shareholder has the right of undivided interest from the directors of his bank".

(Translation)

Although I read in reference to Bill C-222, Section 19, that the directors are elected by the shareholders at the annual general meeting. Would you make comments in that regard? If shareholders have the right to choose their directors—

(English)

Is the translation not coming through, Mr. Chairman?

Mr. LAFFERTY: I had the wrong plug on, pardon me.

Mr. CLERMONT: Mr. Lafferty, according to page 27 of your brief the shareholders should have the right to choose their directors.

Mr. LAFFERTY: In principle.

Mr. CLERMONT: Do they have that right?

Mr. LAFFERTY: Yes.

Mr. CLERMONT: And they know if they nominate and appoint so and so that he might be president of Alcan or the CPR or another finance company?

Mr. LAFFERTY: Yes, they have the right; but, in practice, they do not have the means of judgment, firstly, because the reports which are presented to them are not complete and do not state accurately what the bank's affairs have been during the past year; therefore, they cannot make any judgment about the management itself. Secondly, they are not usually given any prior background on the new director, on the man you are now proposing as a nominee for the board for the next year. In principle, they have the right to dissent, but in practice they have very little power.

Mr. CLERMONT: Yesterday, or the day before, I referred to the annual report of the Bank of Montreal. I looked at the list of directors. I doubt very much if many of the shareholders will not know the gentlemen who were nominated.

Mr. LAFFERTY: They will know them by name and they will see their pictures in the papers I guess, yes. They do not know about their business interests, or what their background is.

Mr. CLERMONT: They might not know all their connections, but they will know some of them because these are people known in financial circles and in industry.

Mr. LAFFERTY: They are known figures in financial circles, but the financial circles are not all the shareholders.

Mr. CLERMONT: Mr. Chairman, at page 1 of his brief, Mr. Lafferty, or whoever prepared it, says:

> For many years the view has been publicly expressed by Canadian bankers and other prominent persons that Canada has the finest banking system in the world. We suggest that, before the Committee accepts this view, they obtain the opinion of authoritative people in the Federal Reserve System of the United States and other prominent bankers—

and so on. According to this brief the American banking system is the best in the western world, although this morning another witness claimed that the English banking system was the best in the world.

Mr. LAFFERTY: Then you have a division of viewpoints.

Mr. CLERMONT: Have you any information to give to this Committee concerning these remarks?

Mr. LAFFERTY: The thought here, Mr. Clermont, was that, before the Committee, or the legislators, made any judgment, perhaps the whole, over-all legislation would come into better perspective if they familiarized themselves with the U.S. system. The contention was supported that the U.S. system tended to have a more efficient operation, because if you look at the productivity of the

United States in relation to its gross national product and other matters you find it is a more efficient economy than the Canadian economy. Now, there must be some basic reasoning on why that is.

Mr. CLERMONT: But do you not think that our Canadian banking system has some merit, too? One of our Canadian banks, I understand, is the fourth largest in North America, and one or two more are within the twenty-five biggest in North America.

Mr. LAFFERTY: It is a misconception that size is necessarily efficiency. The largest size of government is not necessarily the most efficient government.

Mr. CLERMONT: That is your opinion.

Mr. LAFFERTY: This is my opinion.

The CHAIRMAN: Do you not think, Mr. Lafferty, that asking the opinion of United States bankers and members of the federal reserve system is what is known in legal circles as self-serving evidence?

Mr. LAFFERTY: It may well be called that, if you ask me, but I do not know. I think that you would be broadening the understanding of what the differences between the two systems were, and what the merits of the various aspects were.

(*Translation*)

The CHAIRMAN: Any other questions, Mr. Clermont, in this regard?

(*English*)

Mr. CLERMONT: No, Mr. Chairman.

The CHAIRMAN: Mr. Lind?

Mr. LIND: What I would like to say regarding the interlocking directorates has reference to the statement at the bottom of page 2 which says:

> The one exception is that the service accorded to a customer is graduated, depending on his importance to the bank in the over-all scheme of things. Friends of the bank, that is to say friends of the hierarchy, receive special accommodation, special rates and special favours.

What proof have you that this practice exists? I would assume that you are referring here to directors receiving special accommodation from banks, and special rates.

Mr. LAFFERTY: I have no proof. As I said before, I have no right to subpoena either witnesses or evidence. I think those who live in the financial community are reasonably aware that this is so.

The CHAIRMAN: On what do you base your comment? Did you just dream it one night?

Mr. LAFFERTY: No; as I say, those who live in the financial community are aware of these things.

The CHAIRMAN: Could you tell us a little more about this? It would be very useful to us to have more information on the basis.

Mr. LAFFERTY: Well, I mentioned in my original, opening notes these large, cartelized trusts, such as Argus Corporation, and other companies. These do not

come out of the normal scheme of things. This is through the assistance of various banking institutions. I do not know whether you gentlemen have ever looked at the balance sheet or annual statement of Argus Corporation, at the extent to which it dominates Canadian corporate life and industry, and the extent of the equity capital and how small it is, and how much of Canadian savings are in the debt, and the basis of capitalization for the benefit of those who operate the corporation. I do not know how far you have gone in this legislation; but this has been a major factor in the corporate and financial life of this country.

The CHAIRMAN: But, Mr. Lafferty, you are leaving inferences of malfeasance, or evil intent, or evil conduct, in your brief. Perhaps I have drawn that inference and it may be that others have, as well. I think that it would be very useful for the Committee to have some indication of the basis on which you make this type of comment.

Mr. LAFFERTY: All I can relate it to, Mr. Chairman, is that these are views that I hold after some exposure to the financial community. I am not in a position that I can undertake to prosecute my views. I have not the staff to do it, nor have I the right, or the access, or the authority to get the information I would need to do so. I would not express the views without some conviction or belief that it took place. You may not believe my views; that is your choice.

The CHAIRMAN: Well, I am not saying whether I believe them or not at this point.

Mr. LAFFERTY: It is your function to investigate whether they have validity, or not, using the powers and the authority that you have to do so.

The CHAIRMAN: But, look here, it is a basic principle of Canadian justice that he who asserts must prove; that is how you start off—

Mr. LAFFERTY: I have expressed a viewpoint; I cannot prove it without, as I say, having access to the books and calling witnesses.

The CHAIRMAN: But what concerns me is that I gather from your brief that you are doing more than expressing views. You are stating things as facts and I got the impression, from a study of your brief, that when you did appear here you would be able to back them up with facts and figures. I was looking forward to the opportunity of getting the facts behind these assertions which I took to be more than expressions of opinion, but as statements which could be supported.

Mr. LAFFERTY: No; they are based, I think, on a reasonable knowledge of what takes place.

The CHAIRMAN: Well, give us the benefit of this knowledge.

Mr. LAFFERTY: I cannot do this without implicating people. I do not have the right to implicate them. The whole theme of the brief is that the system creates these conditions—that is, the nature of the legislation.

The CHAIRMAN: Well, of course, this brief is presented to us as part of our proceedings, and it is available to be read by all sorts of people. I think those who are interested in the subject should have the benefit of knowing on what you base these statements.

Mr. LAFFERTY: I have just explained it to the extent that I can.

Mr. LIND: Mr. Chairman, may I continue with my questioning?

The CHAIRMAN: Yes.

Mr. LIND: In your statement you say that customers are graded, depending on their importance to the bank in the over-all scheme of things. Are you saying that there are different levels of loans, or loans made to certain people at various beneficial interest rates?

Mr. LAFFERTY: Sure.

Mr. LIND: From perhaps, 4½, as we heard about this morning—which was quite an eye-opener—up to 6 per cent?

Mr. LAFFERTY: The more important a customer is, or the more influence he may have with the bank, the more favoured treatment he is likely to receive.

Mr. LIND: I understand that you are in the bond business; is that right?

Mr. LAFFERTY: No, I am not; I am a financial analyst.

Mr. LIND: Without giving names, can you point out to us any of these—various rates of interest and where they would apply? Is there an over-all position where, say, taking it in the broad sense, the government of Canada would borrow at the cheapest rate, the province of Ontario may be the second, or the province of Quebec, or *vice-versa,* then a municipality, and then an institution like Argus Corporation—which you mentioned has a very preferential rate—and could you give us the various rates.

Is this due to interlocking directorates? This is what I am going to try to tie down.

Mr. LAFFERTY: I do not know whether this would perhaps explain it any more clearly. I, in my original notes, introduced this question of underwriting. Underwriting, as you know, is the financing of capital for a corporation.

Take one of the major corporations, such as Bell Telephone. Its underwriting is not on a competitive bases. One of the major banks, with one of the major dealers, agrees with the company what price the company will pay for the money. This is not on a competitive syndicate or competitive-bidding basis. In this particular issue the original price paid to the chartered bank, or the banking member, was $98; it went to the banking group member at a price of $98.25; then it went from that group to the selling group members at $98.65; it went to the casual dealers and sub-agents at $99.15. it went to retail and exempt institutions at $99.40. The total cost to the corporation was $1.40.

A similar underwriting of A.T. & T. in the United States on August 1; 5⅝; $250 million; the underwriting discount was 78 cents.

Mr. LIND: How much?

Mr. LAFFERTY: It was 78 cents.

Mr. LIND: Seventy-eight cents, and this was $1.40.

Mr. LAFFERTY: In this particular thing there was no syndicate bidding; there was no competition; it was an agreed division. All I am suggesting is that life would be much healthier in the financial market if these were, in principle, on a competitive basis. This is dealing with principles rather than dealing in other people's affairs and things of this nature, which certainly is not in my area.

Mr. MORE (*Regina City*): You say this is because there are interlocking directors between Bell Telephone and the bank?

Mr. LAFFERTY: Well, obviously; why does the Bell Telephone go to any one group? Why do they not say, "fine; we will accept syndicates from every group. Come in, form a syndicate and make a bid. We want $30 million cash. Come in and bid in the marketplace, and what you can find, invest in it, or find where you can place those bonds."

The CHAIRMAN: Are the interlocking directorates in this case between Bell Telephone, their banking connection and the underwriter?

Mr. LAFFERTY: Yes; but not to the underwriter. The underwriter is an affiliate underwriting the bank concerned.

The CHAIRMAN: What did you say? The underwriter is what?

Mr. LAFFERTY: Is the affiliate underwriter of the bank concerned.

The CHAIRMAN: What do you mean by "affiliate"?

Mr. LAFFERTY: If you leaf through the brief you will find that the three Canadian banks which control 70 per cent of the assets dovetail into the three major trust companies. There are also three major underwriters who interrelate to the trust companies and the branch.

The CHAIRMAN: The branch interrelates? You mean they have interrelated directors.

Mr. LAFFERTY: No; they have business relationships.

The CHAIRMAN: Business relationships?

Mr. LAFFERTY: They normally are centred in the same buildings, and they normally work as partners in their financial activities.

Mr. MORE (*Regina City*): What is the extent of the interlocking directorship between Bell and the bank concerned? You must have studied it to make the assertion.

Mr. LAFFERTY: To a sufficient extent, sir.

The CHAIRMAN: Actually this is a separate proposal, and to permit orderly consideration of this matter I think we should, at the moment, stick to the proposal to ban interlocking directorates of financial institutions, in which I think we can include underwriters to some extent. However, if we are going to talk about banks and other types of business enterprises I think we should go on to the specific proposal in that connection.

Do you have a further question, Mr. More? I am sorry, Mr. Lind. Perhaps you were not finished.

Mr. LIND: This is perhaps a further question that Mr. Lafferty has brought up, dealing with the three banks which control 70 per cent of the assets of our banking system. He makes this statement on page 3.

Is this due to interlocking directorates, too?

Mr. LAFFERTY: I would say it has, over the years, resulted from this, yes. The accumulations have resulted from this type of interlocking relationship, yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Interlocking directorates with what type of enterprise other than banks?

Mr. LAFFERTY: Corporate enterprises.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes; I mean manufacturing; not necessarily other financial institutions.

Mr. LAFFERTY: Oh, no; manufacturing, transportation.

Mr. LIND: Then how much do you consider that our monetary system is controlled by the whole banking system, the chartered banks—the eight chartered banks, now the ten chartered banks?

Mr. LAFFERTY: The monetary system is controlled by the central banking system.

Mr. LIND: Yes, I realize that.

An hon. MEMBER: You mean the total deposits?

Mr. LIND: The total deposits in the ten chartered banks.

Mr. LAFFERTY: I am sorry; I do not follow the reasoning behind that.

Mr. LIND: To control our monetary system, or the total, you would have to control deposits.

Mr. LAFFERTY: Deposits would be in one bank or the other, would they not?

Mr. LIND: Not necessarily; they could be in trust companies, loan companies, caisse populaires or credit unions.

Mr. LAFFERTY: Yes; but in most cases that would flow back into the banking system.

Mr. LIND: Is it your opinion that, due to these interlocking directorates, they control more than 70 per cent of the monetary system.

Mr. LAFFERTY: This is a contribution that has occurred over a period of many years. Their contribution as directors of various corporations has enabled these particular three banks to establish the strong position they have.

Mr. LIND: You are just referring to the three banks versus the other five banks; they control the 70 per cent of the deposits within the banking system. I am referring here to the third paragraph on page three of your brief where you say that three Canadian chartered banks control 70 per cent of the assets of the Canadian chartered banking system.

Mr. LAFFERTY: That is a factual statement.

The CHAIRMAN: We have had this information before.

Mr. LIND: How much do these three chartered banks control of the total assets of our banking system, including the near-banks and loan companies. Have you any idea on that?

Mr. LAFFERTY: Of the combined assets of the entire banking system—that is, the chartered banking system—they control 70 per cent.

The CHAIRMAN: I think that earlier it was suggested that if you take the other financial institutions, the trust and loan companies, the caisse populaires and so on, it comes down to 50 per cent; if you include general pension funds,

life insurance companies, general insurance companies and so on, the banks have alleged that they get down to 23 per cent. We may want to look into that again further.

Do you have further questions, Mr. Lind? Are there any further questions on proposal number one?

Mr. GILBERT: Mr. Lafferty, your restriction is with regard to directors of other financial institutions. If you look at the composition of directors of banks today, you would find that they are mostly representatives of business. It has been suggested to the Committee that there be government-appointment of directors from other groups, such as the trade unions, co-operatives and consumer associations, to make it more representative. What do you think of that idea.

Mr. LAFFERTY: I think it is accepted in principle that the bank, or whatever the enterprise is, is owned by the shareholders. In principle, they have the right to elect whomever they wish as directors. The Government has no right to intervene in the operation of the enterprise. I suppose what you mean is legislation so that the others can make representations to the shareholders by suggesting what could be done for those banks, or what could be done for those shareholders; but it is beyond the prerogative of the government to intervene directly and place or appoint its own directors on these institutions.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Has the government ever done this since we have had the Bank Act?

Mr. LAFFERTY: Not to my knowledge.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): They have intervened in the operations of the banking business.

Mr. LAFFERTY: They have intervened in the regulation of the banks, but this is governed by the legislation which you people pass.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Is there not also a certain amount of intervention, or possible intervention by the Inspector General with regard to the categories of loans.

Mr. LAFFERTY: Sure; I think this is just within the—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): There is government intervention in the operation.

Mr. LAFFERTY: There is government influence, yes. There is government influence right through our lives.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, but intervention, I said.

Mr. LAFFERTY: All right, government intervention. I do not think the Inspector General could actually stipulate whether or not a bank should increase its position in one industry or decrease its position in another, unless he has legislation to back him up. Whether he has any authority, I do not know. I do not think he has, within the Bank Act. He might make no misuse, or his persuasion might be sufficient, but would the banks comply?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): We have had evidence that he does something more than just make his position known. He calls the bank's attention to any imbalance.

Mr. LAFFERTY: But I do not think he has the authority to do that under the Bank Act, has he?

The CHAIRMAN: I think that probably arises out of his responsibility to prevent the banks from going into a position of insolvency.

Mr. ADDISON: The point of this is that if the large trade unions take positions as large shareholders of Canadian banks then certainly they will be entitled to representation on the board, if they can hold enough shares.

Mr. LAFFERTY: Would you not say that the other shareholders should vote them into that position?

Mr. ADDISON: That is right. But they have a legitimate avenue to have people on the board.

Mr. GILBERT: Is the composition of the present boards of directors of banks representative of the shareholders?

Mr. LAFFERTY: No, not in terms of majority.

The CHAIRMAN: Perhaps we could move on to Mr. Lafferty's second proposal, a very interesting one, also on page 27.

Do you have any questions or comments on that one?

> No shareholder shall serve as a director if he is also a member of the House of Commons or the Senate in Ottawa, or an elected member of a Provincial legislature.

Mr. Lafferty goes on, under the heading "Purpose," to explain why he makes this proposal.

Mr. CLERMONT: This does not concern Mr. Lafferty at all, but I will take the occasion to mention that I understand that a Mr. Gaston Clermont was, or is, a director of the National Bank. If that is the case, it is not Mr. Gaston Clermont, member for Labelle.

The CHAIRMAN: Because of your knowledgeable questions it would not have seemed—

Mr. CLERMONT: I think this is the proper place in this brief to mention it, because I have been asked: "Are you a director of a bank?" I would have been very surprised to find out that I was a director!

The CHAIRMAN: So you want to place this on the record.

Mr. CLERMONT: Yes; then the record is straight.

The CHAIRMAN: Any further questions on this second proposal.

Mr. LAMBERT: Why would you disable, or disqualify, a member of a provincial legislature, since provincial governments have no control over a federal bank? Why disqualify a member of a legislature, who is not a cabinet minister—on even if he is—who has no control over them? I can see it, if you are a member of the cabinet of the government of Canada, but why should a member of parliament be a second class citizen in his investments.

Mr. LAFFERTY: It is not a question of being a second class citizen in his investments. It is just a question of whether you should have a politically influenced leader in that institution—whether it is desirable or not for the remainder of the shareholders.

Mr. LAMBERT: Would this disentitle him to be a director of a major commercial organization that has, shall we say, a very wide influence in the country?

Mr. LAFFERTY: Yes: in one case you are, as an elected representative, serving a constituency and the people you are elected to represent. When you are acting as a director of a bank you are no longer serving those specific interests, and I would say that there would probably be a conflict is what your interests were.

Mr. LAMBERT: But would there be any greater conflict than if a member of parliament were a director of Imperial Oil?

Mr. LAFFERTY: I think it would be undesirable. I do not think a member of parliament should be connected with any Canadian corporation

Mr. LAMBERT: Even his own business?

Mr. LAFFERTY: A private corporation is fine.

Mr. LAMBERT: He may be the controlling officer of a public corporation that he organized himself. Do you think this is wrong?

Mr. LAFFERTY: Yes, I do.

Mr. LAMBERT: Oh, Mr. Lafferty; no matter what the times?

Mr. LAFFERTY: I am known as a purist in this business, and I think it is better to keep things in their areas.

Mr. LAMBERT: You mean that you would accept the concept that a person could be a director of a private corporation with assets of a billion dollars, but could not be a director of a public corporation with assets of fifty thousand dollars.

Mr. LAFFERTY: I do not think that is a realistic question because other than General Motors I do not think that we have private corporations in Canada with assets of a billion dollars.

Mr. LAMBERT: I know; but you have already told us that you are dealing with this in principle.

Mr. LAFFERTY: Yes, in principle. Now the question arises whether a private corporation when it reaches a certain size where it has an influence on the economy, should be a public corporation and exposed to public examination and public scrutiny.

Mr. LAMBERT: I think that is another very valid point.

Mr. LAFFERTY: But if it is a small private corporation, within the constituency of an elected member, and he happenes to move from his business position and decide to run on a political platform, and is elected, I do not think we have reached the stage yet where he should have to divest himself completely of all his financial interests.

The CHAIRMAN: Of course, it is one of our rules now that where legislation applies specifically to something a member is interested in, other than of general application to the community at large, he must declare his interest and not vote.

Mr. LAFFERTY: I think that is sound.

The CHAIRMAN: Are there any further questions on this proposal?

I am wondering to what extent—this was also suggested by Mr. Lambert —you think a private member—and I stress "private"—of the House of Commons is really in a position to misuse his position if he happened to be a member of the board of directors of a chartered bank.

Mr. LAFFERTY: He is in a position to obtain information, either directly or indirectly, which I think is an abuse of his position.

The CHAIRMAN: What type of information are you referring to?

Mr. LAFFERTY: Either intended government policy, intended legislation, or from various government departments, through his position of influence within the legislature itself.

The CHAIRMAN: You seem to place the position of a private member of parliament above that—

Mr. LAMBERT: You are suggesting a lot more than a government back-bencher—

Mr. LAFLAMME: You are over-stating the power of the back-bencher.

The CHAIRMAN: If there are no further questions on this interesting proposal, let us go on to the next one at the top of page 28.

I will read it:

> No officer of a Canadian Chartered Bank shall serve as a director of any corporation, whether resident or non-resident in Canada, so long as he is an officer of the bank.

Any questions on this proposal?

Mr. LAMBERT: Do you mean that an officer of a Canadian chartered bank could not be a director of a corporation such as RoyNat, as it now exists?

Mr. LAFFERTY: Perhaps you would turn to page 6 of the brief where we outline the directorates that an officer of one bank holds. It is my contention that if he is serving the bank and is paid a salary by the shareholders his function should be to look after their interests. It is my contention that he cannot apply himself to the interests to these shareholders if he is involved in so many other affairs.

The CHAIRMAN: Mr. Lafferty, on pages 6 and 7 you list business firms such as The Ogilvie Flour Mills Co. Ltd., Canadian Pacific Railway Co., but then you go on and you refer to such institutions as the Montreal Boys' Association; the Seigniory Club Community Association Ltd.; the Canadian Council, International Chamber of Commerce; the Canada Council; the National Industrial Conference Board; The Royal Empire Society; Canadian General Council, The Boy Scouts of Canada; Member of Metropolitan Board of Directors Y.M.C.A. (Montreal); Canadian Cancer Society; Rehabilitation Institute of Montreal; The Red Cross Society; Health League of Canada; and so on.

Are you suggesting that an officer of a chartered bank should not be able to undertake service in charitable or community organizations?

Mr. LAFFERTY: No, I am not; I am suggesting that it should be related to Boards of Directors.

The CHAIRMAN: But you have listed all these.

Mr. LAFFERTY: Merely to show the range of activities.

The CHAIRMAN: You are not suggesting that there is anything wrong with an officer of a chartered bank serving on the board of the boy scouts, are you?

Mr. LAFFERTY: No, I am not, Mr. Gray; but I suggest that he cannot really do a reasonable job on all these activities. In the context of this particular area I think it talks in terms of the pursuit of power rather than the—

The CHAIRMAN: Are you suggesting that to be a member of the board of the boy scouts is to help create a power structure in Canada?

Mr. LAFFERTY: No; I will put it this way, that my complaint is that if the president of this particular bank had attended to the affairs of the bank itself and had divorced himself from his other interests, then they would not have had to call in a U.S. managment consulting firm to tell them how to run their bank. They have had one of the largest U.S. managing firms in that bank for 2 years telling them how to reorganize it.

Mr. LAMBERT: Well, Mr. Chairman, if you are the chief executive officer of one company, and that is all, you can still call in a management consultant firm to get an outside view, so that you get away from, shall we say, inbreeding, or inward thinking. I fail to see the relationship of your thinking here, Mr. Lafferty. Thank God we have got people who are prepared to serve the community and their church.

Mr. MORE (*Regina City*): Do the people who take advantage of your services to look after their companies also engage in community work. Is that why you exist?

Mr. LAFFERTY: I do not understand.

An hon. MEMBER: Could you say that again a little slower.

Mr. MORE (*Regina City*): Do people that take advantage of your services in your firm—

Mr. LAFFERTY: They take advantage of our service for a purpose, and if not, they do not take advantage of it.

Mr. MORE (*Regina City*): Would not the same hold true of the bank having a consulting service come in?

Mr. LAFFERTY: This is true; but my own view is that if you are running your own internal operation correctly, it is not necessary to have them in to reorganize your structures. Presumably this is the function of management for the shareholders.

The CHAIRMAN: With respect to community organizations, including those organized in corporate form, which is quite common—I gather all those that I have just referred to are organized in corporate form—is not the matter of decision of the board of the directors and the shareholders whether it is appropriate for an officer or an official of a bank to be on these boards?

Mr. LAFFERTY: I doubt that it goes to the decision of the board or of the shareholders.

Mr. McLEAN (*Charlotte*): Mr. Chairman, I think, in this respect, they get a high officer of the bank because they are looking for contributions for the boy scouts.

An hon. MEMBER: Yes.

Mr. LAMBERT: I do not agree at all. It so happens that some men who occupy senior positions—I would say a good proportion—have not a lively and intelligent interest in the particular movements; in the same way that many leading members in the business community of the city are the most active men on boards of benevolent and charitable organizations because they like to do that kind of work. It is not because somebody thinks they have an easy, open wallet.

The CHAIRMAN: In other words, Mr. Lafferty, you are not suggesting that an official of a bank has any less responsibility to the community than an official of, say, a retail store?

Mr. LAFFERTY: Oh, no.

Mr. MORE (*Regina City*): Mr. Chairman, I think his whole case has been weakened. I think the reason that he put all these in was to make a full page, which would rather astound us. The purpose of it is obvious. He wanted to sell a point. I think it is ridiculous to list some of these and to argue the point of view that he is putting forward.

The CHAIRMAN: The next proposal is with regard to proxies. Are there any questions on that one?

An hon. MEMBER: Mr. Chairman, we have not finished with this.

The CHAIRMAN: Oh, I am sorry; I thought—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): First of all, I happen to agree with your suggestion that we should not have bank directors, or bank officers, on the boards of other corporations. What I am interested in finding out, Mr. Lafferty, is if your objection to it is the one you have just stated, that they cannot do two jobs, and that they are, in fact, moonlighting on the bank shareholders if they do this other job. Is that your objection, or is it that their joint position would enable them to secure preferred treatment for the other corporations of which they are directors?

Mr. LAFFERTY: I think it is a combination of the two. I think that the two are both equally applicable.

The CHAIRMAN: I think, in fairness to Mr. Lafferty, we should separate the concept you have just put forward, Mr. Cameron, with reference to commercial and business organizations, from—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Oh, yes; although on the point that Mr. More raised just now, I would point out there has been a growing criticism of the influence of important members of the business community on the curricula of universities, for instance; that they have an undue influence on our educational system due to their position on the boards of governors and senates of universities. I think, for that reason—and the boy scouts may come into this—that this type of non commercial appointment may be equally objectionable.

Mr. LAFFERTY: It is brought up in this brief that it restricts certain philosophies.

Mr. LAMBERT: You are not suggesting that they are intellectually senile—

Mr. LAFFERTY: No; indeed, they are not; but they divert these institutions to their own point of view.

The CHAIRMAN: Would you suggest, Mr. Cameron, that representatives of other interest groups be forbidden to sit on university boards?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I am not suggesting that they should be forbidden to sit on them, but I am suggesting that Mr. Lafferty has a point which brings in some of these other non-commercial types of appointments such as bank directors—because we are dealing with banks now—and because of the banks' key position in the economy. I think there may be some validity in that point of view.

Mr. ADDISON: Would you say that a trade union official would fall into the same category?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I would frankly view with a certain amount of doubt a trade union official's being on the board of governors of a university. I think it would give a certain limited point of view to an institution that should not have a limited, special-interest point of view.

Mr. ADDISON: Thank you.

The CHAIRMAN: I think we are on the verge of straying a bit far afield. I think we should stick to the specific point. It can be seen why Mr. Lafferty puts forward this argument that an officer of a Canadian chartered bank should not serve as a director of any corporation.

Mr. CLERMONT: Mr. Chairman, I do not think we are out of our field when someone—Mr. Lafferty, or the people who prepared the brief—says, at the bottom of page 10:

> As a result, it means that the learning institutions of Canada are required to teach at a level of mediocrity in business administration, finance and economic affairs.

I do not think we are out of this field.

The CHAIRMAN: No; I am just referring to allusions to representatives of other interest groups. We could get into a very useful discussion in that area, but—

Mr. CLERMONT: This is a very strong statement, Mr. Chairman.

The CHAIRMAN: Yes; that is right. I am not saying that is out of order. I am referring to the point, on which we seemed to be about to enter into discussion, of the usefulness of having representatives of all sorts of economic interest groups on university boards.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I would suggest, Mr. Chairman, that you should not have allowed Mr. Addison to ask a question of another member of the Committee.

The CHAIRMAN: I know; but these exchanges are always very stimulating. I take the blame.

If Mr. Cameron has finished his questions I would be willing to recognize you, Mr. Clermont.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I just wanted to make it clear that there are the two aspects that you have in mind?

Mr. LAFFERTY: Correct.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Would you extend your prohibition to bank directors, or are you confining it entirely to executive officers?

Mr. LAFFERTY: Executive officers.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Just executive officers; you do not have the same objection to an ordinary director of the bank?

Mr. LAFFERTY: No.

The CHAIRMAN: Mr. Clermont, you were referring to page 10.

Mr. CLERMONT: Yes; page 10 or page 8. According to what you say at the bottom of page 8, small companies are swallowed up by the action of the banks, and our learning institutions are not teaching the proper business administration because they are afraid of losing their endowments. Is this only your personal impression, or have you proof of—

Mr. LAFFERTY: Perhaps I should read those two paragraphs:

> It means that a system is created that is wide open to abuse and exploitation by a few strong individuals. By forming small cliques serving on different bank boards, those at the apex of the pyramids are in a position to acquire and exchange information that would not otherwise be available. This is the nucleus of men who dominate the Canadian capital markets, and who by the creation of investment trusts are further able to exercise their power throughout Canadian corporate life. There are many historical examples of good medium and small companies that had real growth prospects which have been swallowed up. They had no alternative because they had no protection from price cartelization. Good and growing management must then surrender to the dictates of larger interests or be lost. Industry becomes concentrated, immobile and resistant to technological and marketing changes. The consumer ultimately suffers and more efficient U.S. industry invades the Canadian market place, and a serious imbalance in our trade figures result.

Mr. CLERMONT: I have read your brief, Mr. Lafferty, but—

Mr. LAFFERTY: In this particular case there is public evidence to refute it. If you want me to take you over the history of the Argus corporation, you will find it. It is all there. The brewing industry in that particular—

Mr. CLERMONT: I hope it is better than the 3 letters you have attached to your second brief one signed "Treasurer, A National Canadian Corporation", and the other two, without a name, just signed "A Lawyer". I hope it is better proof than those three letters.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, I notice that Mr. Lafferty has mentioned the Canadian brewery several times, and I do not think they are very successful.

Mr. LAFFERTY: No; but ultimately it leads to a bad and delinquent industry; there is no question; all concentration of industry does, because it lacks a competitive market. Cartelization leads to inefficiencies. That is why we are major consumers—

Mr. MCLEAN (*Charlotte*): You would say that could be applied to the fishing industry, too, I suppose?

Mr. LAFFERTY: Even sardines swim in schools.

The CHAIRMAN: Mr. Clermont, do you have further questions or comments on the reference to educational institutions?

Mr. CLERMONT: No, Mr. Chairman.

The CHAIRMAN: Mr. More?

Mr. MORE (*Regina City*): Not at the moment.

The CHAIRMAN: Perhaps I can quickly ask a question about this. I am referring, Mr. Lafferty, to page 10—and I thank Mr. Clermont for again bringing it to our attention—referring to this concentration:

> As a result, it means that the learning institutions of Canada are required to teach at a level of mediocrity in business administration, finance and economic affairs.

Could you give us some specific examples in these disciplines of somebody requiring an educational institution to teach at a lower level than some other institution, let us say, in another country?

Mr. LAFFERTY: I would suggest that if you had a faculty in one of the university which taught the principles of free enterprise he would ultimately find life very difficult there.

The CHAIRMAN: No. You have made a suggestion now, but in your brief you have made a flat statement.

Mr. LAFFERTY:

> As a result, it means that the learning institutions of Canada are required to teach at a level of mediocrity in business administration, finance and economic affairs.

A very large number of Canadians who require an economic understanding and background go to either Harvard, or a school in Chicago, or one of the other schools in Boston. The only present business administration school I think we have, which has achieved any standing in the market place, is Western in London.

The CHAIRMAN: Now, is this not part of the ordinary ebb and flow of learning for people who go to other institutions, and countries to study?

Mr. LAFFERTY: No.

The CHAIRMAN: If somebody goes from Harvard to the London School of Economics does that mean that Harvard is mediocre?

Mr. LAFFERTY: It would suggest, if there was a trend in that direction, that one was accepted as having a teaching staff inferior to the other. We are exposed to students who come out of local universities in Montreal, and their knowledge of the market place when they come out is a pretty low denominator.

The CHAIRMAN: Let me return now. You have made a flat statement:

> —it means that the learning institutions of Canada are required to teach at a level—

Required by whom, first of all?

Mr. LAFFERTY: If you had members of a faculty who taught—

The CHAIRMAN: No, no; excuse me, sir. You have made a flat statement:

> —it means that the learning institutions of Canada are required to teach at a level of mediocrity—

Required by whom?

Mr. LAFFERTY: By the whole context of the overall structure of the dominant interest.

The CHAIRMAN: Give some names.

Mr. LAFFERTY: Which end?

The CHAIRMAN: Who is giving the orders?

Mr. LAFFERTY: We have the bank as the dominant interest in the scheme, which you may accept or may not accept. You may have the major banks represented on these boards of governors of these universities. If I happened to be a faculty member and I taught that the banking system was a dominant system in the faculty, I do not think that I would hold my employment very long.

The CHAIRMAN: Can you give me some evidence of this? Do you have anything that has been written—a written directive? Can you show us a written directive?

Mr. LAFFERTY: No.

The CHAIRMAN: You cannot. Can you direct us to a professor who will be willing; or able, to come to us and testify, that he is required to teach such-and-such in these fields?

Mr. LAFFERTY: I think if you went and looked you would find one.

The CHAIRMAN: No. Can you help us?

Mr. LAFFERTY: I do not have the powers to do this.

The CHAIRMAN: Then, on what do you base this statement?

Mr. LAFFERTY: This is a viewpoint, expressed, within the context of the whole thing.

The CHAIRMAN: This is only a viewpoint. I see.

How do you explain the fact that a number of the academics who have testified before us have been quite critical of the banking system?

Mr. LAFFERTY: I did not see their evidence.

The CHAIRMAN: You did not see their evidence. As far as I am aware they are still working.

Mr. LAFFERTY: May I say that up to the present time all we have received by mail are the transcripts up to number 28.

The CHAIRMAN: Well, I would take that up with the Printing Bureau.

Mr. LAFFERTY: This is why we have not seen the academic field. But as you know, in the world of economics there are two schools. There is the classical orthodox school in the marketplace and there is the school of the new economics.

The CHAIRMAN: Yes.

Mr. LAFFERTY: The new economics rebel very strongly in the academic field, both in the United States and here, and those who are orthodox in the marketplace are not in entire harmony with them.

The CHAIRMAN: You think that is part of a plot?

Mr. LAFFERTY: No.

Mr. LIND: Mr. Chairman, is Mr. Lafferty suggesting, when he mentioned the School of Business Administration at the University of Western Ontario, that they do not teach anything about the inner workings of the banking systems because they are biased or afraid to do so?

Mr. LAFFERTY: I did not suggest that Western University did not teach this; I suggested that in Canada the only one that had become recognized for its competence in the marketplace so far is the one of Western University.

Mr. LIND: Well is this not one of the evolutions of education, that it progresses?

Mr. LAFFERTY: It has been a lot slower here than it has been south of the line.

Mr. LIND: It has more case histories and it knows more about the financial institutions of our country. I do not think they refuse to teach it.

Mr. LAFFERTY: I have not suggested that they refuse to teach it.

The CHAIRMAN: Are you suggesting, for example, that Queen's is not a competent faculty is this field?

Mr. LAFFERTY: No, I am not suggesting they are not competent.

The CHAIRMAN: Mediocre?

Mr. LAFFERTY: No, I do not think one could make a judgment in those terms without making a comparison with all those that are available.

The CHAIRMAN: Have you not done this in your statement?

Mr. LAFFERTY: We have suggested that the conditions exist that have created this kind of set of conditions.

The CHAIRMAN: Then you must be including Queen's.

Mr. LAFFERTY: I am including all universities. I suggest that you take students from these various faculties. Your function is to investigate; it is not mine. My function is to express a dissenting viewpoint. As I expressed before, I do not have the powers, the staff or the financial means to do the kind of examination and produce the evidence you seek. It is your function.

The CHAIRMAN: We carry out our investigations by listening to witnesses who make statements.

Mr. LAFFERTY: If I may suggest, this is not the way to do it.

The CHAIRMAN: You are a witness and you are making a statement.

Mr. LAFFERTY: Sir, if I was in research and I was to accept anything that was told to me, I would certainly want to investigate to see if there was any validity in that which was expressed to me.

The CHAIRMAN: After listening to you, I can agree with that.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have a supplementary question for Mr. Lafferty. You refer to yourself as a financial analyst. I wonder if you could give an ignorant person like myself an idea of the sort of work you undertake. It might then give us some idea of your connection with the financial world and your ability or insight into the operations of the financial world of banking. I do not quite know what functions your firm performs.

Mr. LAFFERTY: We are basically in what we term the investment research field. Our function is to be able to interrelate. We accept as a basic premise that all economic conditions are created by political decisions, whether it be the monetary field, fiscal field, taxation, or whether it be import-export. Therefore, we relate the influence of political decisions in the economic field. To go further, we interrelate the consequences of these decisions in the economic field to the individual companies, which are represented by stocks and shares listed on the various exchanges because they are public companies. It is our function to advise people whether an investment is a favourable position or an unfavourable position in relation to these over-all set of conditions. We are therefore, very extensively absorbed, shall I say, in the international monetary field, the local domestic field, corporate life and financial aspects of the community. In our particular instance we sell professional appeal. The work which we do is considered very professional, very sophisticated and, in part, past and beyond the reach of most of the public. We do not seem to sell to laymen. Because we service somewhere in the area of 100 financial institutions, we have a reasonable exposure to growth and understanding. We have survived in this marketplace on what we have been able to do so I assume that we serve a useful purpose.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I was not suggesting that you were not. I hope you realize that it was from ignorance that I asked the question. Would it be right to say that you are in some regard an investment consultant?

Mr. LAFFERTY: We act in the field of investment consultants as well. We have a firm in the investment counsel field. What you gentlemen perhaps do not realize is that if you have collusion and conformity in the marketplace, the person who is primarily exploited is the investor. He cannot judge this. If your function is to protect the investor, then you cannot conform to the rest of the marketplace if it is not moving correctly on some principle. If it is moving in the direction of collusion or seeking to achieve certain things, price levels or stipulations, then you have to make up your mind whether your function is to serve the consumer or join that group of conformity who are seeking to either preserve, protect or pursue their own ends and objectives. Our function is to serve the consumer, who is the investor.

Mr. LAFLAMME: Mr. Lafferty, would I be right in saying that the main purpose of your brief is to put forth the thought that you would like to see more competition among financial institutions?

Mr. LAFFERTY: I do not know to what extent you gentlemen are aware of the capital markets in Canada, but the capital markets in Canada are sick. We have had a series of situations Windfall, Atlantic Acceptance, Prudential Finance, Alliance Credit, Laurentide Finance. These are symptoms of a set of conditions; these are not accidents of occurrence. They are symptoms of a condition whereby the Canadian capital markets will be dependent now on borrowing from others.

Mr. LAFLAMME: At page 10 you state:

> It is a system of graces and favours where the consumer is given what he can get, and in many instances must prostitute himself for that which he receives.

What is behind that? Do you having anything to say regarding anything that is wrong. Graces and favours mean the banana republic and if you have anything to tell us regarding this system, please do so.

Mr. LAFFERTY: Once you have a cartelized structure, the consumer does not have a freedom of selection and, therefore, he must make a deal in which he seeks to participate, to restrict his freedom of choice.

Mr. LAFLAMME: What do you suggest to avoid this system of graces and favours?

Mr. LAFFERTY: This comes back to the underwriting matter that I discussed previously. As long as you have non-competitive underwriting in this country, a necessity for that which is underwritten, and others are dependent on that product and they have no freedom or range of choice, then you have this problem, the same as you have in any cartelization.

The CHAIRMAN: Then you are also calling for changes in the security laws? For example, you would propose a change to require competitive bidding on underwriting?

Mr. LAFFERTY: As I have pointed out, in the United States a bank is not permitted to underwrite corporate areas. This was broken up many years ago, resulting in the same set of conditions that is felt now in Canada. The influence of banks is such in the financial community that they dominate it and they no longer have free capital markets.

Mr. McLEAN *(Charlotte)*: Mr. Chairman, I have a few questions. You seem to think that our capital markets are sick in Canada. If they are not sick in the United States, why are United States companies going over to Europe to borrow $500 to $800 million.

Mr. LAFFERTY: Because are more borrowers than funds available.

Mr. McLEAN *(Charlotte)*: Why is Douglas running around trying to get finances at the present time?

Mr. LAFFERTY: If he did not have credit problems, I am sure he would not have any difficulty.

Mr. McLEAN *(Charlotte)*: I know, but if they have these markets in the United States and are so superior down there, why does Douglas have to run all over the place looking for someone to bail him out?

Mr. LAFFERTY: Because there is a higher rate of risk than those lenders in the States are prepared to undertake.

Mr. McLEAN (*Charlotte*): You suggested that you are in the international field.

Mr. LAFFERTY: I said we were exposed to it.

Mr. McLEAN (*Charlotte*): If you are in international finance, can you tell me why $35 American in 1945, when the international monetary fund was established—I am sure you are familiar with it—was equal to an ounce of gold?

The CHAIRMAN: Well Dr. McLean—

Mr. McLEAN (*Charlotte*): Just a moment; he said he was in the international field.

The CHAIRMAN: I realize that, and I am not saying this is not a useful area.

Mr. McLEAN (*Charlotte*): I would like to get this answer.

The CHAIRMAN: I will permit the witness to answer, but I thought that we were in the general area of discussing Mr. Lafferty's proposal that an officer of a Canadian chartered bank should not serve as a director of the corporation. We strayed a bit from the specific point because it related to some comment that he made in the general discussion prior to this brief.

Mr. McLEAN (*Charlotte*): He told Mr. Cameron that he was in the international monetary field.

Mr. LAFFERTY: No, I did not say that sir; I said that we were exposed to the international monetary field.

The CHAIRMAN: If you care to make a brief comment on this, Mr. Lafferty, you may do so; if not, I think we should consider whether we have any further questions on the very useful proposal to ban officers of banks from being directors of corporations, and then move on to the next group of proposals about proxies and so on.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Lafferty, you spoke of the precedant set by the Bell Telephone Company, its financing by the vehicle among the banks and an affiliated or an associated concern. How do you think that the prohibition of joint directorships would prevent a similar arrangement being made which presumably would be to the advantage of those who made the arrangement?

Mr. LAFFERTY: I think perhaps we did not have an interrelating board on the Bell Telephone. The Bell Telephone board fulfilled an obligation that they should go into the marketplace and take competitive business.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But if they could find a bank which would be prepared to do this for them, I have no doubt that they would be able to do it without too much difficulty. If they have already found one, they would find another would they not?

Mr. LAFFERTY: But they would find it at a more competitive rate.

The CHAIRMAN: Perhaps we could group the next three proposals together: the two proposals about formal proxy and the one about increasing the number of times banks should be required to report to shareholders. We have seen these proposals. Are there any questions relating to one or all of the three? This is

consistent with a number of proposals along these lines by some of our other witnesses, including some of the academic ones. Do we have any questions on these?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have one question. Do you think, Mr. Lafferty, that the disclosure of all outside directorates held by nominees would affect the election of a candidate as a bank director?

Mr. LAFFERTY: All I suggest, Mr. Chairman, is that the shareholder would be more informed.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Would it not be more likely to pump for the fellow who has a whole lot of directorates?

Mr. LAFFERTY: It might be his choice, but this is up to the shareholder. Some shareholders might think that the more directorates he had the better; others might suggest that the more he had the less value it would be to them or to a greater extent, he might compare one with another.

Mr. ADDISON: Mr. Chairman, could I ask one question. Do you feel that an employee of a government agency or a director of a crown corporation should be a director of a Canadian chartered bank?

Mr. LAFFERTY: No, I do not.

The CHAIRMAN: Do we have any questions on the proposal with reference to section 76, about banks owning shares of corporate stocks or other entities. In other words, would you forbid a bank even owning 10 per cent of an entity such as Roy Nat?

Mr. LAFFERTY: Yes.

Mr. LAMBERT: Why?

Mr. LAFFERTY: Because the function of a bank is to carry on the banking business, and I think they should stick to their business.

Mr. LAMBERT: Is Roy Nat not part of the banking business, to come down to a specific example?

Mr. LAFFERTY: It is part of the banking business, to be incorporated in the bank; it is not part of the banking business—

Mr. LAMBERT: I notice in your brief you object to the sale of debentures by banks and you object to the proposal here that they shall enter into what you would call the medium length field of financing.

Mr. LAFFERTY: I do not think there is any restriction in the Bank Act against medium length financing by banks.

Mr. LAMBERT: Well this is where the access of funds arises. There is the question of liquidity and what have you, and ordinary prudent practice.

Mr. LAFFERTY: I think if you look at some of the major banks in the States you will find that 70 per cent of their loans are term loans—term loans exceeding five years and probably seven in some cases.

Mr. LAMBERT: That may be but I am not overly concerned about the banking practices in the United States.

Mr. LAFFERTY: The use of this is an exception.

Mr. LAMBERT: In Canada it had not been the practice. In fact, it just was not possible, and this is one of the things where you get yourselves in terrible trouble. A lot of the present near-banks have got themselves in trouble. They have loaned on long-term money that they had to get on short-term. Is it not a prudent practice that if you are going to go in for demand deposits then you will be lending on short-term and if you are going to lend at longer term then you get money that is available to you under three, five or maybe a longer term than that.

Mr. LAFFERTY: Generally you arrange a loan in relation to what your term and deposits were. You can take deposits of funds for one year, two years or three years of 30 days.

Mr. LAMBERT: It is conceivable that a bank in the present context could actually still carry on its activities in a corporation like RoyNat, if it sees fit?

Mr. LAFFERTY: Is this not a judgment of the legislature? It is question of whether if is desirable or undesirable.

Mr. LAMBERT: No. If it is within its powers contributing to the economic development by furnishing financing to legitimate business interests, what is wrong with that?

Mr. LAFFERTY: If it could do it within the provision of its Bank Act legislation there is nothing wrong with it. If it does go outside that legislation to do it then what is the purpose of the legislation.

Mr. LAMBERT: Well whether it does it directly or through a subsidiary, what is the difference?

Mr. LAFFERTY: Well, it is only if there is some reason for doing it through a subsidiary.

Mr. LAMBERT: It serves the end of the consumer to have this facility, which is a point which you emphasized time and time again.

Mr. LAFFERTY: It does not conform with the Bank Act. Is it not a translation of the spirit of the legislation, the intended purpose of the legislation?

Mr. LAMBERT: No, it is a question of the interest rate and the term of the lending and that is all.

Mr. LAFFERTY: Well there is no reason the banks should not pay 7 per cent on deposits if they wished to do so.

Mr. LAMBERT: Except that it cannot lend any higher than that. Why would you eliminate equity stocks from a bank's investment portfolio?

Mr. LAFFERTY: Not from an investment portfolio; from an operating position, yes, because I think they should stick to banking.

Mr. LAMBERT: We know that banks have investment portfolios, this is so.

Mr. LAFFERTY: True.

Mr. LAMBERT: But I think that your absolute prohibition here would eliminate an investment portfolio of equity stocks.

Mr. LAFFERTY: You mean equity stocks in the portfolio itself?

Mr. LAMBERT: Yes.

Mr. LAFFERTY: Yes, I am personally opposed to them.

Mr. LAMBERT: Why?

Mr. LAFFERTY: I think if you look at the German banking system you will see a large cartelization of most of German industry is controlled by the banks. If you go back to the early history of national socialism you will probably find this is from a concentration of these equities and interest of ownership in the three major banks in Germany. The vacuum that is created therefrom and the lack of distribution amongst the population as a whole of the ownership of industry.

Mr. LAMBERT: All right, you have cited a German example, but the banks have been entitled for years now to own equity stocks in Canada. You propose a ban; in other words, a change. Now what evidence have you that this has operated to the detriment of either the Canadian economy or the Canadian banking field.

Mr. LAFFERTY: In banks in Germany—

Mr. LAMBERT: I am speaking of Canada.

Mr. LAFFERTY: All right; let me explain. Banking in Germany has had the effect that a bank can influence price structures in the market. The same principle could apply here. So friends of a bank with a large holding position of equity of common stocks could make an influence on price structure of the market without any disclosure.

Mr. LAMBERT: But, has it happened?

Mr. LAFFERTY: I do not have access to records of the banks.

Mr. LAMBERT: What are we getting at?

Mr. LAFFERTY: I explained the principle, Mr. Lambert. I am not expanding the incident.

Mr. LAMBERT: Are you giving us series of Aunt Sallys here or men of straw—

Mr. LAFFERTY: It is the principle of the golden wire.

Mr. LAMBERT: —bogeymen that you may want to raise without eny evidence? I mean you are proposing certain changes and I put it to you, Mr. Lafferty, that if you want changes, then the burden of proof for those changes is upon you.

Mr. LAFFERTY: If you read the brief maybe you—

Mr. LAMBERT: I read the brief but wide statements made by you is not evidence as to the validity of the position you take.

Mr. LAFFERTY: No; the validity of the position I take is only on the reasoning which is submitted. You may reject it.

Mr. LAMBERT: All right.

The CHAIRMAN: I think Mr. Lambert is referring to the fact that you are a financial analyst and you do work for a hundred institutions.

Mr. LAFFERTY: We do not work for a hundred institutions; we serve a hundred institutions.

The CHAIRMAN: What is the difference?

Mr. LAFFERTY: One would suggest that we were an employee.

The CHAIRMAN: I see. I gather you have access to a very wide range of factual material; I would have thought you would have been in a position to materially assist the committee by bringing this factual material before us.

Mr. LAFFERTY: Mr. Chairman, I do not know what your exposure is to financial markets or the financial community but a great deal of what takes place in the financial community is by word of mouth. Most contracts and transactions are by word of mouth, by telephone conversations or by personal discussions with two or three people. These are normally considered of a personal and confidential nature. If I happen to be aware that something took place I have no right to implicate somebody else. I am also acting in a fiduciary capacity. I know what the consequence of what we decide to do will be and I also probably know the motives. The purpose behind this brief is to try and prevent some of the shenanigans that take place from taking place. But I cannot go and indict those people, bring them on the witness stand and relate this to a conversation which took place a year ago.

The CHAIRMAN: You have parliamentary immunity by being before this committee.

Mr. LAFFERTY: Thank you.

The CHAIRMAN: What I am driving at, sir, is that you have facts which you feel if you give them out of context might be used against you. If they really are facts, this might be a wonderful opportunity to strike a blow for improvement of the situation.

Mr. LAFFERTY: It is not practical.

The CHAIRMAN: Do you have any further facts to give us?

Mr. LAFFERTY: On what?

The CHAIRMAN: To support some or all of these statements.

Mr. LAFFERTY: These are made by reasoning of the whole theme of the philosophy behind the brief. Now if you take the actual proposal out of this context, then they are out of relationship of what the whole intent of the brief was. But this is your choice. It is not my function to impose my views on you but to try and explain to the extent I can.

Mr. CHAIRMAN: No, you are performing a useful function.

Mr. LAFFERTY: More than this I cannot do.

The CHAIRMAN: This may be a matter of semantics. Perhaps I interpret words differently than you do, but a lot of things in your brief are not in the form of suggestions, probabilities or possibilities but flat statements, and I would have thought that you would have been in a position to back these things up.

Mr. LAFFERTY: Let us start off first with this. You have an interlocking set of factors which were filed as a list in one of the hearings you had. My view is that for a hearing of this nature and for the problem with which you are faced a proper relationship should be made of the various institutions, not just a list of directors and which are which, but how they come, how they relate and what it

means in the colony as a whole. But there seems to be no evidence that this kind of preparatory work has been prepared for the committee. This is the function of those who are responsible for preparing the basic pattern of the committee.

The CHAIRMAN: I think you should be aware that our committee structure has not evolved as yet to the stage of the American system and we must operate to the best of our ability within the context of—

Mr. LAFFERTY: But you cannot ask me to accept the deficiency.

The CHAIRMAN: But why not sir?

Mr. LAFFERTY: Because it introduces implications in which I am not going to become involved. I am a private citizen; I cannot start indicting, accusing people or introducing evidence which does not belong to me.

The CHAIRMAN: In other words, you can indict the system—

Mr. LAFFERTY: All I am involved with is the system.

The CHAIRMAN: But you are not prepared to give evidence to support your indictment.

Mr. LAFFERTY: No. I am prepared to give the reasoning behind the principles, yes, and they are in here. But I am not prepared to provide individual incidents, the personalities involved and what took place, and relate them.

The CHAIRMAN: Do you have knowledge of such incidents?

Mr. LAFFERTY: If you are exposed to a financial community for ten or fifteen years you have a pretty extensive knowledge.

The CHAIRMAN: Personal knowledge?

Mr. LAFFERTY: Oh sure I do; I am bound to.

The CHAIRMAN: And you are not going to tell us about them?

Mr. LAFFERTY: It is not mine to tell, and I could not prove it anyway.

The CHAIRMAN: You could not prove it?

Mr. LAFFERTY: No. All I could relate was what took place. I tell you most financial transactions in the financial community are done by word of mouth. They are not written into agreements or contracts.

The CHAIRMAN: Do we have any further questions on the proposal regarding clause 76, which is with respect to the limitations on a bank owning shares of other corporations. If not, I would like the committee to pose any questions they have on Mr. Lafferty's proposal regarding interest rate ceiling.

Mr. CLERMONT: According to your brief, Mr. Lafferty, you are against a rate ceiling?

Mr. LAFFERTY: Yes.

Mr. CLERMONT: Even in the situation we are in these days with a tight money situation, you are still against a ceiling?

Mr. LAFFERTY: Sure. With proper competition then those which have merit for borrowing will buy or borrow at certain rates and those that have less than that will pay a higher rate.

Mr. CLERMONT: What do you mean by proper competition, an eight, nine or ten per cent rate?

Mr. LAFFERTY: Is your question, what rate would result if you had proper competition?

Mr. CLERMONT: Yes.

Mr. LAFFERTY: I would say you have reasonable competition in the United States at the present time and in a large number of European countries. The rates will adjust or level to what the market demands or what the market is willing to pay for.

Mr. CLERMONT: Are you aware of any bank commercial borrowing rates in the United States?

Mr. LAFFERTY: They vary all the way through the States. I do not think you can arrive at a specific figure along those lines, Mr. Clermont.

Mr. CLERMONT: Have you any figures, say, regarding New York State?

Mr. LAFFERTY: What the borrowing rate is?

Mr. CLERMONT: Yes.

Mr. LAFFERTY: It varies from one bank to another but, as you know, there is a prime rate published.

Mr. CLERMONT: If different banks have different rates where is the competition?

Mr. LAFFERTY: It does not exist here at the present time.

Mr. CLERMONT: I mean in the United States?

Mr. LAFFERTY: Oh yes, I think there is a range of different rates.

Mr. LIND: Mr. Chairman, at the bottom of page 29 in the opening statement you ask that the interest rates to be freed. Then you say:

> It is the responsibility of Government and legislation to see that those markets are properly regulated, free from fear and intimidation, and equally accessible to all participants without regard to the creed or class to participate if they should so wish.

Is not our present banking system, where we have a controlled interest rate, accomplishing what you ask for in that paragraph?

Mr. LAFFERTY: I do not think so.

Mr. LIND: Well how is it not? Where are the difficulties? Can you give us an example? This is what I am concerned about.

Mr. LAFFERTY: It reads:

> It is the responsibility of Government and legislation to see that those markets are properly regulated, free from fear and intimidation, and equally accessible to all participants without regard to the creed or class to participate if they should so wish.

It seems clear to me. Is it not clear to you?

Mr. LIND: Well, no; I have never known banks to create any fear or intimidation in people.

Mr. LAFFERTY: I have suggested and my own experience is that they do exercise an influence both favourable and unfavourable in the financial community, depending on what their interest, pursuits and motives are.

Mr. LIND: Do you mean they are going around scaring people, intimidating them or what?

Mr. LAFFERTY: I would suggest that this is an indirect result of a set of conditions, yes.

The CHAIRMAN: Some customers may feel that way once in a while, perhaps wrongly, sometimes rightly.

Mr. LAFFERTY: If you would like me to pursue that a little further I will bring you some evidence.

Mr. LIND: I would like to hear the evidence.

Mr. LAFFERTY: All right. In my original notes and summary I presented to you an idea or the thought that the conditions that led into the stock exchanges were a result of this over-all dominant position of interest. We published two years ago a brief on The Correct Role of the Stock Exchange in a Free Enterprise Economy in which we outlined the principles under which the stock exchanges in Canada should be operating. Because this challenged the dominant interests we were charged by the stock exchanges for having published such a pamphlet. We were tried by a Kangaroo Court; prosecuted by the leading counsel, a director of one of the leading major banks, and we were found unanimously guilty for acting in a manner unbecoming to a member of the stock exchange because we publicly disclosed that the stock exchange was operating badly. If that is not intimidation and fear then I do not know what is.

The CHAIRMAN: What penalty was imposed?

Mr. LAFFERTY: I would be glad to make copies available of this particular pamphlet. It is called "The Correct Role of the Stock Exchange in a Free Enterprise Economy."

The CHAIRMAN: Perhaps you could distribute copies separately to the members.

Mr. LAFFERTY: If you want the evidence there it is.

Mr. LIND: What about the general public; do they indimidate them?

Mr. LAFFERTY: It goes down to those who act for the general public.

The CHAIRMAN: Mr. Lind, do you have any further questions?

Mr. LIND: It is the government's responsibility to see that the consumer is not exploited by cartels and agreements of collusion. If you free the interest rate which acts as a control, then you expect the government to add other controls. Now, what controls do you suggest.

Mr. LAFFERTY: You take away the interest rates but you also prevent collusion and intimidation.

If you allow free enterprise, proper anti-combines and anti-trust legislation takes place, then the natural demand and supply will adjust in its own field without any intervention by the government. You do not require a government

regulation then. But if you do not have those in play then you have some exploited at the expense of others.

The CHAIRMAN: You are also suggesting that there is room for strengthening our anti-combines legislation.

Mr. LAFFERTY: Yes. I think we have already suggested and discussed this.

An hon. MEMBER: In what respect would you strengthen this?

Mr. LAFFERTY: I understand at the present time it is completely ineffective. We already have the evidence of the combine of George Weston, the Argus Corporation and Canadian Breweries who were taken to trial by the government. It was defeated in the court and therefore it did not stand up. The anti-trust and anti-combine legislation in the United States opens the framework of the economy, which allow for new ideas, growth of the small corporations and the vitality which affects a lot of the United States economy, which we do not have.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Do you think the anti-trust action against the Standard Oil company really has had the effect of separating that octopus into separate tentacles?

Mr. LAFFERTY: Oh, yes, I think so to a large extent. I would say Standard Oil of Indiana was a very effective, self-contained unit operating on its own merits and its own abilities. I would say Standard Oil of New Jersey and of California had similar individual identities.

The CHAIRMAN: Now, finally to conclude this reference to page 30 of Mr. Lafferty's brief, there are three points. Are there any questions on these three points? There is the suggestion that the Act should clearly define interest, which is something that we have raised ourselves here on numerous occasions; there is also a suggestion made that the Bank of Canada should take over the clearing operation, and finally that membership of any officer or director in any association providing the facilities for collusion should be prohibited. Are there any questions on any of these three points?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I think, perhaps the last one sets forth a very admirable objective. Are you going to prohibit membership in clubs of various sorts to officers and directors of banks. Are you going to place them into "monkish" cells.

Mr. LAFFERTY: No; I think clubs are in the area of each individual's right to socially habitate.

The CHAIRMAN: You say "facilities". What do you mean by "facilities"?

Mr. LAFFERTY: I think the Bankers' Association is a facility created by parliament. I do not think that should be so.

If I may, I would like to bring up this particular point. There are some figures submitted by the Bankers' Association on the invested index of bank shares and it shows an annual growth of two per cent. They take the figures from 1959 to 1964, and I think they are misrepresentative. If you take the figures from 1954 to 1964, the average growth rate was nine per cent and not two per cent as depicted. They also reflect in their brief the benefits invested and not derived in those bank shares in that particular period. I think that should be more correctly

stated for the ten year period involved rather than a selected period of a few years, suiting the evidence being presented.

The CHAIRMAN: You refer to facilities for collusion. Are you referring to dining facilities?

Mr. LAFFERTY: No; the Canadian Bankers' Association which is a facility created by legislation.

The CHAIRMAN: You refer to a membership in an association providing the facilities for collusion.

Mr. LAFFERTY: It does provide facilities. It provides the framework and the roof under which it can take place.

The CHAIRMAN: I think that someone could read that suggestion of yours and think of a club with dining facilities.

Mr. CLERMONT: Mr. Chairman, number 2 states that the Bank of Canada should take over the operation of clearing cheques for all of the banks. When the Governor of the Bank of Canada was questioned on this, if I recall correctly, it seems to me that he did not have the facilities and he did not see his way clear to operate such a clearing house because to do this he would have to open offices throughout Canada.

Mr. LAFFERTY: Mr. Clermont, is this an impossibility.

Mr. CLERMONT: No, it is not an impossibility but there is always the question of cost. By No. 2 do you mean that it is not possible for any institution to have the facility of a clearing house.

Mr. LAFFERTY: In my own view it gives these hands too much power. This should be in the hands of a neutral source or a neutral forum.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: Would you include in this all institutions which grant checking privileges whether they are officially banks or not?

Mr. LAFFERTY: Yes. I think it provides a convenience and an entrance to them which protects their own business without transgressing into the affairs of their own development.

The CHAIRMAN: Are there any further questions on these three final suggestions in Mr. Lafferty's original brief? If not, we should turn to his subsequent brief because he makes a number of very interesting suggestions and points.

May I make a suggestion to the Committee? We have a meeting scheduled for this evening and our third witness today, Mr. Howes, has a brief which is more limited in size or length than Mr. Lafferty's. Perhaps it would be the most fair way to deal with Mr. Lafferty's further submission if we took a little time this evening since we are going to sit anyway. At that time we can consider them and not try to rush over them in a few minutes. If that is agreeable to the Committee perhaps we might recess now and resume this evening so that we could have more time for further consideration of the addendum.

I declare this meeting recessed until 8.00 p.m.

EVENING SITTING

The CHAIRMAN: Gentlemen, I think we are in a position to resume our meeting. When we recessed for supper we were about to see if the Committee had any questions on the proposals made by Mr. Lafferty in his further memorandum of September 6, 1966. There are a number of specific proposals or views which begin on page 3 of the memorandum. In the first one Mr. Lafferty criticizes the proposal in the new bill that banks be permitted to form executive committees at the board level to act for directors, and he gives his reasons. Are there any questions or comments on this point? If not, we shall pass on to paragraph 2 on page 4. Mr. Lafferty makes a number of proposals to the effect that the bank reporting, with regard to the items mentioned, be consistent with the new Canada Corporations Act. I think I have summarized that appropriately. Those are the first two, and the third one is also a suggestion that insider transactions be disclosed in a manner consistent with the new Canada Corporations Act and the new Ontario securities legislation. I think I have also summarized that appropriately. Are there any questions or comments?

Mr. LAMBERT: I have one brief question. With regard to the salaries of officers, how far down the line would you go, Mr. Lafferty, in your recommendation? The executives extend rather far down the line, to regional assistant managers, and so forth.

Mr. LAFFERTY: Are they officers of the bank under the new structural organizations? I do not think so.

Mr. LAMBERT: Well, do you mean to say—

Mr. LAFFERTY: The officers of the bank would be the corporate officers, or the bank officers, officially designated.

Mr. LAMBERT: Just within the directorship?

Mr. LAFFERTY: Who are officers of the bank.

Mr. LAMBERT: I see. That is a clarification.

Mr. LAFFERTY: Yes, I think this is normal corporate practice.

Mr. LAMBERT: All right.

The CHAIRMAN: Are there any further questions on this section 2?

In the third paragraph on page 5 Mr. Lafferty criticizes the proposal that the chartered banks be allowed to issue debentures. Are there any questions on this suggestion?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, I should like to have further elaboration from Mr. Lafferty on that point.

Mr. LAFFERTY: Certainly. If one goes back a little further to the earlier evidence one can see the tremendous dominance banks have in the financial community. This means that they could place those securities, whether or not they were merited on the basis of valuation of the assets, because of their dominant or influential position in the distribution of securities. The second question is whether it is desirable. Canadian banks already have a major part of Canadian savings. Should they be further expanded at the disadvantage of others who would like to compete in this market on a basis of merit rather than on a basis of power to influence and distribute the securities?

Mr. MORE (*Regina City*): Is it not a fact that the Canadian savings which the banks hold are diminishing year by year with the competition they have from near banks?

Mr. LAFFERTY: This is contended in the brief and I think their assets have decreased as the others have expanded. They maintain this is because they have certain disadvantages. Others would maintain it is because the near banks provide a service which the consumer accepts more readily than that service which they provide and therefore one is serving the consumer to a greater extent than the other and he expands accordingly.

Mr. CLERMONT: Are the American banks allowed to sell debentures?

Mr. LAFFERTY: Yes, they are. I am not sure that it prevails in all states. It certainly prevails in the state of New York and in the state of California.

Mr. CLERMONT: You are not sure if it is all states. Is there a national banking act in the United States?

Mr. LAFFERTY: There is both federal legislation and state legislation. It would depend under which you are.

Mr. CLERMONT: Yes, but is there a national banking act?

Mr. LAFFERTY: Yes, federal legislation.

The CHAIRMAN: There is no single statute. I think that is what you mean.

Mr. CLERMONT: What I mean is, is there any bank in the state which holds a national charter?

Mr. LAFFERTY: Yes; some hold a national charter and some hold a state charter, Mr. Clermont. It varies. It has advantages and disadvantages.

The CHAIRMAN: Are there any further questions?

Mr. GILBERT: Are you in favour of the banks going into mortgages, because this is a method of the banks—

Mr. LAFFERTY: Yes. I see no objections, if they want to employ their funds in this direction.

Mr. GILBERT: But is this not a method of getting funds for mortgages?

Mr. LAFFERTY: It is a method of getting funds for mortgages. Again, you come into the position that they, because of their influence in the market, are able to sell debentures and they can then consolidate the funds; whereas if the depositor is unsatisfied he may move out. In this case, the debenture buyer can only try and dispose of the debentures he has acquired in the market-place. I see no objection why there should be a restriction on the manner in which a bank uses its deposits.

The CHAIRMAN: What was your point, Mr. More?

Mr. MORE: Nobody forces anybody to buy bank debentures. They do it willingly.

Mr. LAFFERTY: Yes, but if you have this pervasive influence I think you do get an influence where people are persuaded to buy securities they would not otherwise be persuaded to buy in their own judgment.

The CHAIRMAN: Well, is this comment of yours consistent with your support of the concept of the action of the market-place instead of government regulation?

Mr. LAFFERTY: Yes. I would like to pursue that a little further because you asked for evidence. This is a statement of a thing called the "Jockey Club". I do not know whether you are aware of it. We should also look at its capitalization. These securities were sold to the public. There was no justification at all. We can look at Argus in the same light. These were sold not on the basis of the merit of security. These were sold on the influence of the distributors who persuaded people to buy them.

The CHAIRMAN: You mean that the public was not using their own judgment?

Mr. LAFFERTY: You have a position here where the securities are distributed before the full disclosures are made or available and it is an emotional process of distribution. They are made hard to get with the intent of trying to excite the buyer into buying without a real knowledge of that which he is buying, because there is no prospectus.

The CHAIRMAN: What has this got to do with debentures?

Mr. LAFFERTY: Well, it was a question, which one of the gentlemen here raised, whether the buyer could exercise a free choice or not. I was merely explaining that this was not so.

Mr. MORE: He has a free choice when he buys them, has he not?

Mr. LAFFERTY: Does he have reasonable information from which to make a reasonable judgment? From my viewpoint of the distribution of securities in Canada, he does not because the prospectus is often available after he has to make a decision whether or not he should purchase them.

The CHAIRMAN: Would this be the case with bank debentures?

Mr. LAFFERTY: It would depend I guess whether they would be subject to the provincial securities commissions or not. I assume they would, whether the securities commissions insisted that the prospectus be properly prepared with full disclosure before anybody was approached on the sale of these securities. This would depend on that very much. In the United States you cannot do it until the prospectus has been prepared and has been delivered to the buyer or prospective buyer.

Mr. LIND: In the case of this "Jockey Club", is this not one of the stocks in which a fictitious, order to buy came on to the market from a bank in Nassau to the New York Stock Exchange on a Friday afternoon before Atlantic Acceptance crashed?

Mr. LAFFERTY: I do not know if the "Jockey Club" was in that group or not, I forget.

Mr. LIND: I think it was.

Mr. LAFFERTY: It may have been.

The CHAIRMAN: Are you finished, Mr. Lind.

Mr. LIND: I thought Mr. Lafferty could give us some information.

Mr. LAFFERTY: No, but if one wants to go under the pervasive influence of the dominant interests in the market you need to look at the board of directors of this and relate it to the Investment Dealers' Association and you will find there is quite a conflict of interest in this.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, I would like to ask Mr. Lafferty are these not good investments?

The CHAIRMAN: Which investments are you referring to?

Mr. MCLEAN (*Charlotte*): The securities Mr. Lafferty referred to.

Mr. LAFFERTY: No, there are certain ratios and principles which one should apply to—

Mr. MCLEAN (*Charlotte*): Are they good investments or are they not?

Mr. LAFFERTY: I do not think you can really reduce investing to that simplicity of terms. You could, in your terms place a value that may be—

Mr. MCLEAN (*Charlotte*): The ordinary investor does not know one side of the balance sheet from another.

Mr. LAFFERTY: He has to learn.

Mr. MCLEAN (*Charlotte*): Well, I know but he does not know.

Mr. LAFFERTY: Because the opportunity to learn is not there very often.

Mr. MCLEAN (*Charlotte*): But he has got to depend on somebody else. He has got to depend on the character of the concern and the people behind it. The ordinary investor does not know what he is buying.

The CHAIRMAN: Can you answer, Mr. Lafferty?

Mr. LAFFERTY: He will be exploited.

Mr. MCLEAN (*Charlotte*): Well, the first two investments I made I lost them. I made up my mind after that I would have to look into them.

The CHAIRMAN: You learned your lesson well, I understand.

Mr. MCLEAN (*Charlotte*): Yes, well. The ordinary investor does not know what he is buying and there is no use to say all this because he does not know and he does not learn.

Mr. LAFFERTY: He will learn, Mr. McLean.

Mr. MCLEAN (*Charlotte*): After he has lost it all and then he does not need any lesson after that.

Mr. LAFFERTY: If the facilities were there for him to learn, he would learn. I contend that the financial pages and the coverage we have in the financial press is not sufficient to properly inform him.

The CHAIRMAN: Mr. Lafferty, if the banks were forced by law to meet reasonable standards, standards satisfactory to yourself with respect to prospectuses and length of debentures, would you withdraw your opposition to banks issuing debentures?

Mr. LAFFERTY: No, I think you still contravene the original point. They already have a major proportion of the savings and they would use a dominant position to distribute, if they were allowed to distribute debentures without any difficulty, whether they had learned or not.

The CHAIRMAN: But you still do not think this is inconsistent with your point about free play in the market-place, with the purchaser if he wants to buy a debenture from a bank having the opportunity to do so.

Mr. LAFFERTY: He is probably building an image of the structure of the bank and its influence and its prestige, and you have a large number of what might be termed captive accounts and the trust companies are aware that they have sufficient influence that these things could be distributed.

The CHAIRMAN: I was going to suggest to the Committee that it was not fair to ask Mr. Lafferty to give his opinion on whether the two firms he referred to were good investments. After all, he makes his living selling this advice and I do not know if we should use our position to get this type of guidance.

Mr. MCLEAN (*Charlotte*): He brought these firms up. I did not.

Mr. LAFFERTY: I brought them up as an example of financing, not as an example of investments made.

Mr. MCLEAN (*Charlotte*): You brought the firms up. I think they are fair investments.

The CHAIRMAN: Well, we have your advice free, Mr. McLean.

Mr. LAFFERTY: I note what you say, sir, about free advice.

The CHAIRMAN: Sometimes it is very good. It depends a lot on the source. If it was Dr. McLean's advice there may be some who would take very serious cognizance of it, even though free.

Mr. GILBERT: Mr. Lafferty, it the trend were to have the near banks and other institutions come under the umbrella of the Bank Act you would then find that the near banks would have the power to issue debentures. They now have it; that is the way they obtain money for financing and investing. You would find that the banks would not have it and yet the trust companies would.

Mr. LAFFERTY: This is correct.

Mr. GILBERT: Would that be fair?

Mr. LAFFERTY: No, I am inclined to agree with you. It would not be equitable.

The CHAIRMAN: Are there any further questions?

Mr. MCLEAN (*Charlotte*): Yes, I would like to ask Mr. Lafferty why are the banks issuing debentures? Is it not because we have a shortage of money? Is it not because the central bank is hauling in the credit of the country? Is that not it? Is that not the reason we have a shortage of money?

Mr. LAFFERTY: No. There is no question as to why the banks are issuing debentures because in their viewpoint they could acquire a larger position in their assets.

Mr. MCLEAN (*Charlotte*): They cannot expand credit at the present time so they are going after any money that is available.

Mr. LAFFERTY: That is right. But it has to be at the expense of something else.

Mr. MCLEAN (*Charlotte*): If they could expand credit they would not be going after this money, would they?

Mr. LAFFERTY: No. You cannot just continue to expand credit to satisfy the demand in the marketplace for credit without running into a lot of problems.

Mr. MCLEAN (*Charlotte*): It is not the fact of the marketplace. We have the same conditions all over the world, not only in Canada. In Great Britain, in Germany, and in the United States, they have the same condition.

Mr. LAFFERTY: Yes, but Mr. McLean—

Mr. MCLEAN (*Charlotte*): The Federal Reserve Bank is restricting credit in the United States and they cannot find the chairman at the present time. They tell me he is down on some southern island and they cannot find it.

Mr. LAFFERTY: But you appreciate that we have lost our freedom to make our own decisions in terms of monetary policy in Canada because we are dependent on the capital market in he United States.

Mr. MCLEAN (*Charlotte*): We have lost freedom here in Canada because United States have lost their freedom, too.

Mr. LAFFERTY: No. We did not have to lose it at the same time.

Mr. MCLEAN (*Charlotte*): They have lost their freedom.

Mr. LAFFERTY: No, we did not have to lose it at the same time.

Mr. MCLEAN (*Charlotte*): They have lost it and they are trying to impose that loss of freedom on Canada.

Mr. LAFFERTY: No, they are not imposing it. We have put ourselves under obligation where we have to borrow or finance from them because our home capital markets are not sufficiently organized.

Mr. MCLEAN (*Charlotte*): The United States owes $30 billion in Europe which they cannot hide. That is the reason they have a balance of payments problem.

Mr. LAFFERTY: It is not entirely in Europe. It is largely in the Middle East and in Latin America.

Mr. MCLEAN (*Charlotte*): It is in Europe. They have $30 billion out in Europe.

Mr. LAFFERTY: Well,—

Mr. MCLEAN (*Charlotte*): They have put $70 billion out.

Mr. LAFFERTY: I do not think so.

The CHAIRMAN: Well, getting back to debentures—

Mr. MCLEAN (*Charlotte*): I know it.

The CHAIRMAN: Are there any further questions or comments related more directly to Mr. Lafferty's views on banks issuing debentures? If not, I suggest we move on to paragraph 4 where he makes some interesting comments on the method under Bill No. C-222 for the incorporation or formation of new banks in Canada.

Mr. CLERMONT: What do you mean on page 6? This is a judgment that should be reserved to the market-place regarding new groups for banking.

Mr. LAFFERTY: It seems to me, this is to enable those who are sponsoring the creation of the new banks to have the respect and the support and the confidence

of the market-place. They will be waiting to find the funds or buy the shares and make deposits in that, and if they do not have the confidence it is just too bad.

Mr. CLERMONT: Under what guidance will they operate?

Mr. LAFFERTY: Under what?

Mr. CLERMONT: Under which guide will they operate?

Mr. LAFFERTY: They will operate under the Bank Act.

Mr. CLERMONT: According to you, they should not come to parliament for a charter.

Mr. LAFFERTY: This is correct.

Mr. CLERMONT: But as you know the banks are not the only financial institutions which have to come before parliament for charters.

Mr. LAFFERTY: I am aware of that. I do not think it should be necessary.

Mr. CLERMONT: Why? Is it because you think they have to use political influence?

Mr. LAFFERTY: I think they do.

Mr. CLERMONT: That is your own judgment.

Mr. LAFFERTY: That is my judgment.

Mr. CLERMONT: What have you to back it up? Is it the same argument that you had on other questions?

Mr. LAFFERTY: I have read the transcripts of the evidence of those who have applied for charters in the Senate.

Mr. CLERMONT: Parliament approved two new charters last year and I do not think any members were approached to sell their support.

Mr. LAFFERTY: The manner in which they had to achieve this would not encourage anybody else to try it.

The CHAIRMAN: What do you mean by that?

Mr. LAFFERTY: The long extended process, red tape and expense and cost to those who were sponsoring it.

Mr. LAFLAMME: I have a supplementary question. Do you know that only one member of the House of Commons can block the passing of a bank charter?

Mr. LAFFERTY: I was not aware of that.

The CHAIRMAN: Are you aware of the limited time available for any kind of private business in the House of Commons?

Mr. LAFFERTY: I have seen it. On Wednesdays, or something, is it not?

The CHAIRMAN: It is a little more frequent than that. Mr. Clermont, have you any further questions?

Mr. CLERMONT: No, that is enough.

Mr. LAFFERTY: Perhaps I may just qualify it by saying how it is done in the United States. A man does not have to go to congress in order to form or create a bank.

Mr. LIND: Nor to the state legislature?

Mr. LAFFERTY: I think not.

Mr. CLERMONT: I am moving to the next paragraph because according to it American banking is an ideal system and I would like to have a few explanations from you.

The CHAIRMAN: I do not know if we are finished—

Mr. CLERMONT: No, no, I am going to wait.

The CHAIRMAN: Yes. You refer to the market-place and suggest that the acceptance of a financial institution should be judgment reserved to the market-place. I should point out to you, sir, that the judgment of the market-place accepted Prudential Finance, Atlantic Acceptance and British Mortgage and Trust.

Mr. LAFFERTY: If there had been adequate information for the market-place to judge from these conditions would not have occured. The proper legislation would have prevented it.

The CHAIRMAN: I might also point out that these three firms were incorporated by administrative letters patent procedure rather than by a legislative assembly.

Mr. LAFFERTY: Yes, I do not think that is the governing factor. I think the governing factor is that the information and the proper disclosure were not available.

The CHAIRMAN: I just wanted to point out to you that the system of administrative assent to issuing of letters patent by an administrative body is not necessarily a panacea.

Mr. LAFFERTY: Oh, no it is not. I agree, but I think in the earlier proposed legislation this qualification was not in. It was put in as an adjustment.

The CHAIRMAN: What qualification?

Mr. LAFFERTY: Of going to the legislature. It went to the Treasury Board, did it not?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): In the former bill it was incorporated by act of the Treasury Board, I think.

Mr. LAFFERTY: Yes.

The CHAIRMAN: I just wanted to point out that—

Mr. LAFFERTY: It was a fairly simple and straight regulation. If they met the regulations then they could go into business. Whether they survived, that was their problem.

The CHAIRMAN: Would it not also be a problem for the depositors and the—

Mr. LAFFERTY: Certainly, the public at large. This is the essence of the market. They make their judgments, not some legislator.

The CHAIRMAN: You do not feel that the state should protect the small depositors, and so on.

Mr. LAFFERTY: Frankly, Mr. Chairman, I do not think the state is qualified.

The CHAIRMAN: In other words, you feel that we are not spending our time properly in attempting to set up a system which would protect the deposits of people who—

Mr. LAFFERTY: Mr. Chairman, you have no basic research data here. You have no evidence put together—

The CHAIRMAN: I am not talking about this Committee.

Mr. LAFFERTY: You asked me whether I think you are qualified or whether the state is qualified and I do not.

The CHAIRMAN: I am not talking about this Committee as such. I am talking about the state.

Mr. LAFFERTY: Yes, the state as a legislative function and this is part of its legislative function.

The CHAIRMAN: In other words, you are saying to us that we should not have new legislation providing for people like the Inspector General of Banking and—

Mr. LAFFERTY: Certainly, you should.

The CHAIRMAN: Well, you just said we should not be doing this.

Mr. LAFFERTY: No, I did not.

The CHAIRMAN: It sounded that way to me.

Mr. CAMERON (*Nanairmo-Cowichan-The Islands*): May I ask you this question, Mr. Lafferty. You have some very strong views on the ways in which banks should be organized.

Mr. LAFFERTY: Not organized but governed; on the manner in which they should be governed by legislation.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Governed by legislation, yes.

Mr. LAFFERTY: The organization is an internal matter of management.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, that is what I meant by legislative organization. Now you are suggesting—I gather that you seized the opportunity to come before this Committee because you felt your views on it were valuable, and I think they have been. You would have had no such opportunity had the Treasury Board had the power to issue a licence; it would have just been done.

Mr. LAFFERTY: I did not presuppose or presume that my views would be as much as valuable to the Committee that I was a dissenting opinion and therefore I felt the dessenter should express his views, otherwise he couud not justify his own position when he criticized the activities of the marketplace.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The point I want to make is this. I think you are too modest; I think your views have been very valuable and very useful to us, but you would have had no opportunity whatever to express your views had the provision in the previous bill before the house been passed as legislation.

Mr. LAFFERTY: As to making a judgment whether the banks should—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Of presenting your views to anybody at all.

Mr. LAFFERTY: I would have, surely under previous legislation.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I beg your pardon?

Mr. LAFFERTY: Under the original act before the—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Not if the bank charters were going to be issued by letters patent from the Treasury Board.

Mr. LAFFERTY: Oh, not with regard to the Bank Act.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This was the proposal.

Mr. LAFFERTY: Not that the Treasury Board would govern the Bank Act; it was only the incorporation of new banks, surely.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, the incorporation of new banks.

Mr. LAFFERTY: I have no views on or judgment to make on whether or not banks are qualified to go into business. It is not my business. If I did have I doubt whether I could come to this Committee. I guess I could, but I do not think it would be my business.

The CHAIRMAN: This is a public hearing. Anyone can come forward and state his views on the public necessity or utility of incorporating—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, but it is only because we have this sort of set-up that we are able to do it.

Mr. LAFFERTY: Mr. Chairman, my views have to do with the prevailing legislation governing the banks and not the men, or judgment whether or not one individual group is qualified to go into that business governed by that legislation. My views are on whether or not governing legislations forms a correct framework within which banks can operate in the interests of the majority of Canadians.

The CHAIRMAN: And you do not think it is in the interests of the majority of Canadians for the government to set up a framework to protect depositors against loss because of possible failure of banking and financial institutions?

Mr. LAFFERTY: This is going into another area which I do not think we have yet covered.

The CHAIRMAN: Well, you made a comment from which an inference could be taken—

Mr. LAFFERTY: Whether or not deposit insurance is a good idea?

The CHAIRMAN: I am not talking about deposit insurance specifically, but the concept of the state.

Mr. LAFFERTY: The state should govern the legislation. There is no question about that. The state should provide the legislation and include the legislation.

The CHAIRMAN: Are you now saying, contrary to what you appeared to have said before, that the state should also pass legislation to protect the depositor against loss of his deposits?

Mr. LAFFERTY: I never said that. You come into an area here where the state is subsidizing inefficiencies or delinquencies, which are inefficiencies, and it should not be put in the position of doing that.

The CHAIRMAN: You throw that on the individual depositor who—

Mr. LAFFERTY: Who should evaluate the bank's balance sheet and the bank's report sufficiently so that he can make a reasonable judgment.

The CHAIRMAN: You are saying that this should be done by a farm labourer or a factory worker?

Mr. LAFFERTY: He is probably going to be advised. He may go to his lawyer, or he may go to his accountant, but his accountant or his lawyer cannot advise him unless they have the recent background.

The CHAIRMAN: Do most farm labourers have lawyers and accountants?

Mr. LAFFERTY: I assume they are guided in their financial matters by someone, or else they depend on themselves.

The CHAIRMAN: I would think that it is a rather expensive lesson to face the risk of complete ruin.

Mr. LAFFERTY: Well, I think it would become knowledge within the community when a bank had published its financial position whether the position of that bank was good or not. The leaders in the community would identify it. At the present the leaders of the communities cannot because there is insufficient information available to do so.

Mr. LAFLAMME: Mr. Chairman, do you not really think that if someone in the Treasury Board had the right to give a charter to a new bank there would be a greater danger of favours, graces, political and financial influence among a small group than having banks organized by means of a private bill passed by parliament ?

Mr. LAFFERTY: This could be, but I should hope not.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, on this—

Mr. LAFFERTY: Surely, when we go to the Secretary of State we want to incorporate a company. We do not have any problems at all as long as we meet the basic requirements. When you go to Treasury Board and you meet the basic requirements you should be authorized.

Mr. LAFLAMME: Any new bank will receive deposits and carry on business?

Mr. LAFFERTY: So long as it has the basic subscription of capital.

Mr. LAFLAMME: Do you not think it is safer for the public to have it organized as we do here?

Mr. LAFFERTY: I do not think it is any safer, no. I do not know exactly, but I do not think so.

Mr. MCLEAN (*Charlotte*): The United States has this deposit insurance and there must be some reason for it.

Mr. LAFFERTY: Certainly there is.

Mr. MCLEAN (*Charlotte*): I read in the papers where the daughter of the president, or something, goes off with a couple of million and the bank fails. How are the depositors going to know about that? I have read about at least three instances during the last year. Now, how is the depositor going to know about this? How are they going to know; do they have to take this risk?

Mr. LAFFERTY: No, I think there is a perfectly legitimate case, as you suggest, but my own view is that these are risks one takes in the marketplace oneself. When a man—

An hon. MEMBER: Are you putting these views forth seriously?

Mr. McLEAN (*Charlotte*): Sometimes a man who cannot even speak the English language—a foreigner—comes in and puts his deposit there and he loses it, and you say that he is responsible?

Mr. LAFFERTY: Well, he made a business judgment, did he not?

Mr. McLEAN (*Charlotte*): He does not know.

Mr. LAFFERTY: I do not know how you can ever state—I beg your pardon?

Mr. McLEAN (*Charlotte*): He cannot read a balance sheet.

Mr. LAFFERTY: Has he ignorance of the law?

Mr. McLEAN (*Charlotte*): He cannot read nor write.

Mr. LAFFERTY: Well then our education process is a bit backward.

An hon. MEMBER: You should start on that first.

Mr. LAFFERTY: In the United States they have 14,000 individual banks and many of these are in small communities where there is comparatively little knowledge; there is a protection that holds the structure together and prevents any scare-running or scare-run taking place on a bank, there is a knowledge that they are governed by an insurance depository system.

Mr. McLEAN (*Charlotte*): Sure, and they get that guarantee because they do not have a guarantee when they go into a small bank to make deposits. I think they are guaranteed up to $10,000, are they not? If they are not guaranteed they go in and they have confidence and that is what we have got in our Canadian banks—we have confidence.

The CHAIRMAN: Are there any further questions on paragraph 4? If not, we will move on to paragraph 5; Mr. Clermont has already indicated he has some questions.

Mr. CLERMONT: Yes, Mr. Chairman. Mr. Lafferty says in paragraph 5 on page 6, that:

> To our knowledge most of the Western nations permit the operation of foreign banks,—

Do you include in that the United States?

Mr. LAFFERTY: Yes.

Mr. CLERMONT: You are aware, for instance, that in the state of New York—if the information I have before me is correct—to open a branch, you must have a certain percentage of U.S. citizens as directors.

Mr. LAFFERTY: I do not know, Mr. Clermont, if that is a qualification you said it is; it probably is. I am not in a position to say whether or not it is a qualification.

Mr. CLERMONT: On what are you basing the statement that most of the western world permits the operation of foreign banks?

Mr. LAFFERTY: Well, you can go to Paris, you can go to Switzerland, you can go to the U.K., you can go to the United States, the state of New York, and these foreign branches and agencies are permitted.

Mr. CLERMONT: Yes, but if you open an agency in New York state you are not allowed to receive deposits from any resident of the state of New York.

Mr. LAFFERTY: It is my understanding that you may also have a branch in the state of New York.

Mr. CLERMONT: Yes, but with certain qualifications.

Mr. LAFFERTY: Yes, but you may have to have U.S. directors.

Mr. CLERMONT: And for the capital—

Mr. LAFFERTY: There is no reason why you should not make the same qualifications here if it is so thought desirable. I do not know what the merit of it is but I think it was more a nationalistic basis of—

Mr. CLERMONT: But again, according to the information I have before me, I think there is only one group that has obtained a national charter in the United States and they are not operating it. They may obtain a charter or a licence from individual states—not many; I think at the most eight or ten. I think over 40 states in the United States do not recognize or allow non-resident people to open a bank.

Mr. LAFFERTY: I think there are non-resident banks or branches of banks in the United States. I think we have stated that before.

Mr. CLERMONT: Yes, I agree, but not in every state.

Mr. LAFFERTY: No.

Mr. CLERMONT: Some of the states do not even recognize non-resident banking. In your brief you seem to be against the new bill.

Mr. LAFFERTY: I am against the exclusion of non-resident banks in the country.

The CHAIRMAN: Have you a question, Mr. Laflamme?

Mr. CLERMONT: That is all right, yes.

The CHAIRMAN: Mr. Laflamme.

Mr. LAFLAMME: Do you not think there is a great difference between foreign banks owned by U.S. people and foreign banks owned by other people, say, from Switzerland and other places?

Mr. LAFFERTY: No. I think if the French wish to come into Montreal and Toronto and run an efficient bank and serve the consumer they should be able to do so. If the U.S. came in and could equally, or more competitively, serve the consumer they should be afforded the opportunity to do so.

Mr. LAFLAMME: Yes, but there is a great difference between those two countries. We are very close to the United States and they are so rich that they could swallow us.

Mr. LAFFERTY: It is not a question of swallowing, it is a question of being able to compete on the ground.

Mr. LAFLAMME: How can we compete when we are the poorest?

Mr. LAFFERTY: I beg your pardon?

Mr. LAFLAMME: How can we compete with the Americans?

Mr. LAFFERTY: You compete not in terms of wealth but in terms of serving the consumer. If you can serve the consumer more efficiently you will obtain more business whether—

Mr. LAFLAMME: Do you really think that foreign capital will come into Canada to serve Canadian consumers?

Mr. LAFFERTY: Do not forget all the enterprises that were built with foreign capital—surely it does. This is the only basis on which they earn a profit.

Mr. LAFLAMME: Now, banking—

Mr. LAFFERTY: If a foreign bank wants to come into the country and serve the community it is up to them, and if they can make a profit at it, then this is effective.

Mr. LAFLAMME: And their main purpose will be to serve the consumer?

Mr. LAFFERTY: This is the only basis on which they can make reasonable earnings out of it, is it not? How else can they? They cannot tantalize the consumer. If they provide a service and he is willing to pay for it, either because it is a lesser cost than elsewhere or it is a service that was not available to him before and it is convenient and it is his choice to use it then why not? Why restrict the freedom of the consumer to make this choice?

Mr. LAFLAMME: Let us say, for example, that there are three foreign banks in Canada owned by Americans, and the American subsidiaries doing business in Canada decide to do business with their own banks. Do you not think this is going to affect our economy?

Mr. LAFFERTY: I do not think so.

Mr. LAFLAMME: Such decisions would be made in Washington?

Mr. LAFFERTY: I think they are already, because we are dependent on borrowing in the U.S. capital markets and our home market deposit is governed by this condition.

Mr. LAFLAMME: If they are already do you not think it is time to throw a curve?

Mr. LAFFERTY: But is this the way to do it?I think the way to dot it is to make our banks self-sufficient so they can compete more effectively here so that foreigners coming in here cannot compete on our own home ground.

Mr. LAFLAMME: You said earlier in the afternoon that the banks are very influential in that field. Do you not think the Canadian government should have control of the banks?

Mr. LAFFERTY: No.

Mr. LAFLAMME: No.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Lafferty, the main burden of much of your brief has been your complaint, which I am—

Mr. LAFFERTY: Contention, if I may.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I beg your pardon?

Mr. LAFFERTY: Contention.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Very well, then. With regard to the contention you made which I rather regretted you were not able to document, that the banks practise a discrimination in favour of certain customers, do you not think that in a situation such as we have in Canada where a very

large proportion of our resource and manufacturing industry is in the hands of American capital that American banks here would attract to them in various ways much of the business of those allegedly Canadian companies which are actually subsidiaries of American companies?

Mr. LAFFERTY: Yes, they would, Mr. Cameron, but they are also able to do this without setting up banks here because all the major banks in New York have correspondents who come up here and visit with their companies and both solicit in periods of time when funds are available and solicit other conveniences and services they can provide. This takes place anyway, unless you are going to put a barrier against foreigners and decide that you are not going to allow any foreigners in here, but you are providing a banking facility for them to do it. I do not see where you have very much difference other than perhaps you are providing an additional convenience again to the consumer. You have some U.S. owned companies here who might find that the Canadian service was at a lower cost, more efficient and more convenient to them. I do not think the U.S. company is going to be swayed by nationalism. The U.S. company here is going to be swayed by what is its convenience.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It might be swayed by the Rockefeller interests of New York, though.

Mr. LAFFERTY: Who will exercise pressure, there is no question about that.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, a very great influence.

Mr. LAFFERTY: They exercise large pressure. I do not know that this is specific to the Rockefeller interests, but certain U.S. interests do. There is no question about that. And so do the Canadians.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The Rockefeller interests—

Mr. LAFFERTY: And so do Canadians.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): —are concerned with a particular bank.

Mr. LAFFERTY: And the Canadians do when they are in New York or elsewhere.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, but not to the same degree. This is one mouse; one elephant.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, I should like to ask a question here. You say the American banks can do business now just the same as they did before, but they cannot on account of the interest charges. At the present time if we borrow in New York we have to account for the interest we pay to the banks in New York.

Mr. LAFFERTY: I am sorry, I do not follow it, Dr. McLean.

Mr. MCLEAN (*Charlotte*): Well, I do not follow it either, but I could not borrow any longer in New York.

Mr. LAFFERTY: Let us say, Dr. McLean, I feel it is coming. My qualification is, if the funds were available.

Mr. McLEAN (*Charlotte*): The funds are available but it is a different proposition now because of the recent guidelines and all that sort of stuff they have brought in. You have to account to the income tax people in Canada for the interest you pay to the banks in New York, and this was not the situation before, so they are not on the same basis as they were 15 years ago.

The CHAIRMAN: Mr. Lafferty, as Mr. Clermont pointed out, when you say that to our knowledge most of the western banks permit the operation of foreign banks—

Mr. LAFFERTY: Most of the western nations, I think.

The CHAIRMAN: Yes, yes. You are surely not suggesting to us that most of the western nations permit unrestricted operations of foreign banks within their boundaries?

Mr. LAFFERTY: I do not know of any. There are local restrictions, I suppose. I do not know what the United Kingdom restrictions are on a non-resident bank. I do not know what the Swiss are, I think they are fairly free. I think in France they are governed by certain regulations because it is a pretty regulated banking and money market area.

The CHAIRMAN: Mr. Clermont, I think, pointed out to you that in approximately 45 of the 50 American states non-resident banking is completely banned.

Mr. LAFFERTY: Yes, but in the main—

Mr. CLERMONT: Let me correct that. I perhaps should not say banned, but they are ignored because they have a list and there are only eight states in the United States who have either agency branches, representation offices, state charteded subsidiaries and branches of state chartered subsidaries.

Mr. LAFFERTY: There is very little point in putting a bank in Omaha, or something, and trying to develop business in the area.

Mr. CLERMONT: The "how" is not in that at all.

Mr. LAFFERTY: No. I say there would be very little point or incentive for a foreign bank to go and establish itself in Omaha.

The CHAIRMAN: The people in Omaha might feel that they were sufficiently established in the United States to—

Mr. CLERMONT: I do not see Las Vegas here.

The CHAIRMAN: As far as the United States is concerned it would hardly seem like a few limited local regulations.

Mr. LAFFERTY: I think this is an area where the committee should either, through the Department of Finance or the Bank of Canada, try and obtain this documentation of what the restrictions are so members can assess it. I do not say it is up to amateur witnesses like ourselves, but this is an area in which we do not have either need or call for complete documentation.

The CHAIRMAN: Once again you have made quite a specific statement, "to our knowledge most of the western—". Oh, I see, it is in so far as your knowledge extends?

Mr. LAFFERTY: Correct.

The CHAIRMAN: Is that what you mean?

Mr. LAFFERTY: To our knowledge. I think that is reasonable, is it not, as a qualification?

Mr. LIND: Mr. Chairman, Mr. Lafferty keeps speaking of the discrimination of the banks. What do you mean by discrimination? Are they discriminating between customers or are they discriminating between—

Mr. LAFFERTY: It is discussed fairly extensively in the basic text of the original brief.

Mr. LIND: I know.

Mr. LAFFERTY: The various bases of reasoning are given there. You can have discrimination in all sorts of different ways; business discrimination, discrimination in accommodation, discrimination in conveniences and discrimination in rates.

Mr. LIND: Do you not think it is a good part of the judgment of bankers to judge credit risks and allow different amounts of credit?

Mr. LAFFERTY: Let me put it this way. You ask for evidence of discrimination. Perhaps you would like to subpoena—I know you have the authority—the president of one of the major banks. We were cut off business from that bank by his direct instructions, and you can bring the branch manager who conveyed the instructions, because we published an article in 1964 which suggested that credit conditions in Canada were becoming loose. Now, Mr. Gibson, who is a knowledgeable banker and has already given you a transcript of evidence, has confirmed that credit conditions in 1964 were becoming loose. But because we stated this in a public report which was going to people who were professional in the field, we were identifying these conditions to them so they could avoid situations like Atlantic Acceptance, and everything of that nature, the big stick was waved over us and economic intimidation was imposed on us because we had reflected on this condition. Now, if you do not call that prejudice I do not know what you call it. I call it intimidation. I would like to subpoena the president of that bank and the branch manager concerned and take the oath of the witness and examine this with evidence. I have no qualms about it at all.

Mr. LIND: But you have an axe to grind, have you not?

Mr. LAFFERTY: I have no axe to grind.

Mr. LIND: But you are bringing up an examination—

Mr. LAFFERTY: You asked me for evidence.

Mr. LIND: I am asking you for evidence of discrimination other than your own.

Mr. LAFFERTY: What type of discrimination?

Mr. LIND: Well, I do not know. You speak of discrimination.

Mr. LAFFERTY: There is the whole context and the whole discussion of discrimination. You have discrimination going for that underwriting issue of Bell Telephone. It is all these selected dealers who are provided for in the distribution of those securities. This is not a competitive bid.

Mr. LIND: Well, is the Bell Telephone—

The CHAIRMAN: If we called the president and branch manager of this particular bank before us, as you suggest, would you also be willing to give us complete disclosure of your own financial condition at that time?

Mr. LAFFERTY: Or, sure. Any accommodation we have with a bank is fully secured. They have the security.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): In this instance you speak of with Bell Telephone, was this—

Mr. LIND: Mr. Chairman, can we have the president and manager of that bank summonsed?

The CHAIRMAN: Up until now most of the bankers have been quite willing to come here. In fact, some of them have been attending even when they did not have to be here. I think the best thing to do, if Mr. Lafferty perhaps would provide me with the names of the individuals in question would be to refer this to the steering committee and decide whether we want to pursue it further.

Mr. LIND: This discrimination which Mr. Lafferty mentions, Mr. Chairman, has rather given us a picture of bankers as being an iniquitous lot of people who dominate and plague and terrorize the average citizen. Do you seriously suggest, Mr. Lafferty, and I take this from what you said previously, that a bank combine or monopoly, or whatever you call it, was responsible for your prosecution by the Montreal Stock Exchange just because a lawyer who acts for a bank happened to act for the stock exchange?

Mr. LAFFERTY: I have no evidence.

Mr. LIND: That is what you said this afternoon.

Mr. LAFFERTY: No, I merely stated what took place. I have no evidence as to whether it was sponsored or not. All I said was that he was a senior director of one of the major banks.

The views that I hold are not held by me alone. If you were to extend yourselves into the financial community at my age group you would find many who have the same views, but they are not in a position to express them without having economic retaliation taken against them. I say that without equivocation and I am fairly well exposed, as I have already said before, to the financial community.

Mr. LIND: Mr. Lafferty, you also mentioned in your brief that you do not seriously suggest that it is the influence of the banking committee that has prohibited membership of a certain race on the stock exchanges in Toronto and Montreal?

The CHAIRMAN: Perhaps we should deal with that issue separately. Right now we are—

Mr. LIND: We were talking about discrimination and influence.

The CHAIRMAN: Well, perhaps it is an area that, as Chairman, I thought would be related in some way to the question of foreign banks. Perhaps we can get to that part of the brief separately. We are almost finished with the addendum.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I ask Mr. Lafferty a question? Again on this question of Bell Telephone of which he spoke and which

he described as a case of discrimination, was that discrimination on the part of the bank or on the part of the Bell Telephone Company?

Mr. LAFFERTY: A combination of the two. Discrimination on the part of the Bell Telephone Company in that they only selected one with whom to make the arrangements without checking competitive rates, and on the group who received the issue they only selected some dealers to participate with them in the distribution and not others. This goes into provincial Ontario Hydro issues and all sorts of things.

Mr. MCLEAN (*Charlotte*): Mr. Lafferty, what should they have done? What should the Bell Telephone Company have done?

Mr. LAFFERTY: Normally they would need money in the capital market; say the amount is $30 million or $40 million, whatever it may be, it becomes known in the financial community. They invite syndicates to bid and syndicates form themselves together as to what they will bid. The Bell Telephone then takes the lowest bid and the syndicate is permitted to buy in that issue, and then there is the matter of distributing it.

Mr. MCLEAN (*Charlotte*): It was a pretty big syndicate, was it not, that took over the Bell issue?

Mr. LAFFERTY: It does not need to be for the size of that issue.

Mr. MCLEAN (*Charlotte*): Maybe there was no room for two syndicates.

Mr. LAFFERTY: This competitive bidding, if you take—

Mr. MCLEAN (*Charlotte*): If you have not got two syndicates how can you have competitive bidding?

Mr. LAFFERTY: Oh, you have three or four.

Mr. MORE (*Regina City*): Is it not a fact, Mr. Lafferty, that some business people find that dealing with a corporation of their choice serves them better than dealing on a bid basis, and do not some municipal governments and others practice this because they have found that the service they get and the resulting relationship makes it worth while to do this?

Mr. LAFFERTY: It is the same principle where you let a construction contract on a bid basis or where you give it to your particular favourite contractor. The same principle is involved whether the public interest is protected or not.

The CHAIRMAN: Are there any further questions on foreign banks? If not, I suggest we move on to paragraph 6. Any questions or comments on the proposal in paragraph 6 on page 7?

Mr. CLERMONT: Mr. Chairman, according to this brief, Mr. Lafferty would like the Canadian government or some agency to give an explanation to the public for the merger of the Canadian Bank of Commerce with the Imperial Bank of Canada. This is at the bottom of page 7.

The CHAIRMAN: Perhaps Mr. Fulton, or someone, might enlighten me, at least. Were there questions asked in the House about this when it was announced?

Mr. LAMBERT: A statement was made by the Minister of Finance of the day.

Mr. CLERMONT: The reason for my question is that Mr. Lafferty earlier in this brief claims that a group should not go to parliament to obtain a charter. Is this right?

Mr. LAFFERTY: I expressed the view that to my way of thinking it was not a desirable approach.

Mr. CLERMONT: Do you not think, Mr. Lafferty, if the law had been such that to effect a merger they would have been obliged to go to parliament that the public would have been better informed?

Mr. LAFFERTY: No, I think there should be anti-trust and anti-combines legislation which would have established it was detrimental to the public interest to merge the two banks. If such legislation had existed that would have been adequate.

Mr. LAMBERT: But on the other hand, Mr. Chairman, is it not a fact that the legislation as it now stands, and as it stood at the time, requires that any merger of this kind can only take place with the approval of the Minister of Finance?

Mr. FULTON: This is Treasury Board, approved by the cabinet.

The CHAIRMAN: You would say in advance that the judgment of the court, if we had laws dealing with this type of merger in our complex of anti-trust legislation, would automatically have been against it?

Mr. LAFFERTY: If it deprived or impaired the competitive development of the market place the judgment would have been against it.

Mr. FULTON: You know that we took two merger cases to court, do you not, Mr. Lafferty, and lost both of them. These were the first two merger cases that have been taken to court in Canada.

Mr. LAFFERTY: Mr. Fulton, my whole context this afternoon and this evening has been that our anti-trust and anti-combines legislation is insufficient to permit the public assistance.

Mr. FULTON: Well, the courts held that there was not sufficient interference with competition in those two cases. There was still effective competition.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Lafferty, you speak about strengthening this section 138. Would you consider it a prima facie case of collusion if it appeared that two or more banks were giving the same rate of interest on deposits and charging the same interest rates on loans?

Mr. LAFFERTY: Not at one particular period. It could be a normal adjustment in the market place. The market place would normally adjust. If they changed their prices together at the same time or if they acted together to achieve a certain condition, yes, but not if they happened to have the same rates at the same time, because this is a natural phenomenon and it is bound to take place at some stage.

Mr. CAMERON(*Nanaimo-Cowichan-The Islands*): Is it inconceivable that each bank might reach the same conclusion as to the logical rate of interest, say, even on deposits or to charge on loans? Is it a practical thing to suggest? Personally I think clause 138 is a piece of nonsence. I do not think it will have any effect. I said so at the time it came up and I do not see how you can make it

effective unless you are going to put all banks into proper monastics cells and not allow them to communicate with each other, which means that you are bound to find that the same kinds of institutions operating in the same field at any particular time are going to come up with the same answer.

Mr. LAFFERTY: This is not always true, Mr. Cameron, because if you take the near-bank field of the trust companies you will find for periods of weeks trust companies are offering different rates on deposit; some 4 per cent some 4¼ per cent and some 4½ per cent, and also offering different conveniences with those deposits.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I am not a lawyer but I would certainly hate to try and prosecute the banks. Fortunately, I am sure they would get off!

Mr. LAFFERTY: One bank which sought more funds might go out and invest in the marketplace, as they do in the short term money market. They bid against each other at very different rates and take funds on term deposit for 30, 45 or 60 days and the highest bidder normally takes the funds.

Mr. LAFLAMME: Do you think it is a bad thing for the banks to have an association?

Mr. LAFFERTY: Yes, I think it is a bad thing to have an association to provide the framework on which they will conduct their businesses. I see that the Inspector General has referred to the Canadian Bankers Association as an educational organization. I have no evidence to the contrary but I think from a general consensus of the financial community that it is not. It is a much more organized unit.

Mr. LAFLAMME: Let us say, for instance, in Montreal that one bank decides to pay, let us say, 6 per cent interest on deposits and the other banks say no, we will not, then they must attract deposits?

Mr. LAFFERTY: I think it is highly undesirable. They have general managers in the Canadian Bankers Association, they are not an educational institution, they have better things to do than run an educational institution.

Mr. MORE (*Regina City*): Would you recommend that it be abolished?

Mr. LAFFERTY: I would.

The CHAIRMAN: It is true that when the Inspector General of Banks said it was an educational institution—and while the record may not show this—he seemed to have a fixed smile on his face but, at the same time, it is my understanding, and I could be wrong, that they do, in fact, offer courses to banks' staffs and have people who—

Mr. LAFFERTY: That is fine. Their personnel managers get together and run the institution with this sort of staff, but then it certainly does not require a general managers' policy to operate it.

The CHAIRMAN: If there are no further questions on Mr. Lafferty's proposals regarding clause 138, before we deal—

Mr. MORE (*Regina City*): Mr. Chairman, just before you move on, Mr. Lafferty makes this statement in his brief:

The banks have literally acted as an avenue through which certain private interests have exploited millions of dollars of the Canadian public's money.

The CHAIRMAN: Where is that Mr. More?

Mr. MORE (*Regina City*): Page 7, the second paragraph. It is an assertion.

Mr. LAFFERTY: Would you like to study this document, the history of this company, the Argus Corporation, the interlocking relationship they had on financial institutions when they put it together? The equity capital of the shareholders appears at the bottom. Let me just read this equity capital for you, it is very interesting.

Mr. FULTON: Would you first relate it to the banks?

An hon. MEMBER: Yes, that is what I would like.

Mr. LAFFERTY: Their major directors were on different banks and the means by which the original financial distribution of securities was made was through compromise.

Mr. FULTON: Can you prove that?

Mr. LAFFERTY: No, I certainly cannot.

Mr. FULTON: Well then, go ahead.

Mr. MCLEAN (*Charlotte*): I thought it was the breweries.

Mr. LAFFERTY: It was found that—

Mr. MCLEAN (*Charlotte*): That was E. P. Taylor, was it not?

Mr. LAFFERTY: The common capitalization was $5,411,000. The total assets, if you take the marketable scale, were $202 million plus another $10 million. He would put up a comparatively small investment, which was probably loaned by the banks against the equity, and leave it up for the capitalization of several different preferred stock capitalizations, several secured notes, and in this way you have a pyramid structure.

Mr. MCLEAN (*Charlotte*): Does the Argus Corporation actually have control of any company?

Mr. LAFFERTY: Yes. They have effective control of Dominion Stores.

Mr. MCLEAN (*Charlotte*): No, they actually have control?

Mr. LAFFERTY: Dominion Stores.

Mr. MCLEAN (*Charlotte*): Did they ever have 51 per cent of the shares of any company?

Mr. LAFFERTY: They do not need it. They have effective control, which is sufficient. Canadian Breweries, Dominion Stores, Domtar, Hollinger, Massey-Ferguson, Standard Radio and B.C. Forest Products.

Mr. MCLEAN (*Charlotte*): They do not have actual control?

Mr. LAFFERTY: They have effective control. They own effective control.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): E. P. Taylor's man always arrives when B.C. Forest Products is in trouble.

The CHAIRMAN: Mr. Lafferty, in your supplementary brief you have several appendices which, I think it is quite fair for me to say, are testimonials with respect to the views advanced in your brief. Two of them are signed by lawyers, one in western Canada and one in Montreal.

Mr. MORE (*Regina City*): That lets you out.

The CHAIRMAN: Yes, that is right, but I am always happy to receive publications. Mr. Lafferty has increased my general knowledte. I mention that these testimonials are signed by lawyers because I found it rather interesting that this was the case in view of the fact, Mr. Lafferty, on page 4 of your brief you say:

> It is a well known fact that a practicing lawyer has neither the time, nor in most cases the knowledge or experience, to effectively judge and direct a nation-wide branch banking system that must necessarily relate to the international monetary and banking affairs of the world.

I am wondering, in view of this comment in your brief, whether you have called on people whom you do not regard as particularly knowledgeable in this field?

Mr. LAFFERTY: No, I do not think so, Mr. Chairman. I think that the preparation of this type of brief by a small group of our nature is an uncommon thing to do in the Canadian financial community and you obviously antagonize all sorts of these larger interests. There are many others who are perhaps on the same level of operations who considered it was rather a critical approach to take.

The CHAIRMAN: Perhaps I did not express myself as clearly as I had intended.

Mr. LAFFERTY: One of the suggestions was that lawyers are not qualified to operate banks. The other was the suggestion that lawyers recognize the collusion and intimidation which takes place in the overall structure as a whole.

The CHAIRMAN: I got the impression that you were suggesting that practicing lawyers do not have the necessary knowledge or experience so that they could—

Mr. LAFFERTY: Not in the banking business.

The CHAIRMAN: Then how could they properly assess your views?

Mr. LAFFERTY: I am not expressing my views on the operation of the individual banks. I am expressing my views on the effect of the dominant interests and the collusion in the over-all market economy as a whole which comes into this.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): A lawyer might have additional expertise, Mr. Chairman.

The CHAIRMAN: That is right.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, we have gone into the monetary affairs of the world once or twice. Every time I go to ask something about the monetary affairs of the world you shut me off.

The CHAIRMAN: No, I just wanted you to hold that aspect off until we had a few moments for a general discussion, because I think our practice has been to deal with the specific topics raised by the witness in order to be courteous

enough to give our major attention to the views he wants to discuss with us. I think at this point Mr. More, indicated he wanted to ask something about a particular paragraph.

Mr. MORE (*Regina City*): I would like to ask Mr. Lafferty if he was serious in suggesting that the bank cartel, as he calls it, has the power and has used this power so that people of certain racial background have been denied membership in the Montreal and Toronto stock exchanges, which is a point he seems to make.

The CHAIRMAN: On what page is that?

Mr. LAFFERTY: I do not think it relates to the stock exchanges.

Mr. MORE (*Regina City*): But you mention the membership. There is one in Toronto and one in Montreal, and that some applicant was blackballed in Montreal. What does this have to do with the banks? It seems to me that you relate it here as evidence of discrimination in the power of the banks.

An hon. MEMBER: What page is that?

The CHAIRMAN: It is the last paragraph on page 24.

Mr. MORE (*Regina City*): Yes, page 24.

Mr. LAFFERTY: It reads:

> It is for this same reasoning that the Jews in Canada have been largely excluded by direct restrictive practices from entering the financial community.

The CHAIRMAN: What is your question again, Mr. More?

Mr. MORE (*Regina City*): My question is why is this put in a brief having to do with banking? He talked about the cartel the power and the control. Does he seriously suggest that they exercise this control over the Montreal and Toronto stock exchanges to this effect?

Mr. LAFFERTY: You do not have a racial discrimination, perhaps, as a competitive restriction within the financial community environment as a whole. Again I cannot, without a subpoena or by the evidence of witnesses, trace this through and establish where it originates. It is a set of conditions in Canada in our financial markets that we do not have the Jewish participation that we have in the New York market, the London market, the French market or the Swiss market.

Mr. MORE (*Regina City*): You blame this on the influence of the Canadian chartered banks?

Mr. LAFFERTY: I have related it as a surmise to the over-all cohesiveness or collusion of the dominant interests. If my information is correct, there is—

Mr. MCLEAN (*Charlotte*): Is not the head of our whole banking system of the Jewish persuasion?

Mr. LAFFERTY: That, I think, is a Crown Corporation.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I wonder if Mr. Lafferty does know. The fact that people of the ethnic origin of Dr. McLean and myself got there first in Canada is a matter which has interested me for a long time,

and we appear to have usurped the position in Canada that has been occupied by Jewish people in other countries. It is a very notable fact. I do not know myself; I have looked at various lists of bank directors and I have not come across a recognizable Jewish name.

Mr. LAFLAMME: What about Mr. Bronfman, a director of the Bank of Montreal?

An hon. MEMBER: Yes, Mr. Bronfman and Mr. Phillips.

Mr. FULTON: Lazarus Phillips of Montreal.

Mr. LAFFERTY: They are comparatively new. I think Mr. Lazarus Phillips appeared in 1956 and Mr. Bronfman shortly afterwards.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But they certainly do not play the role in the financial institutions of Canada that they do, for instance, in the United States. I do not know what causes this except, as I say, the people whom I described to Mr. Paton of the Toronto-Dominion who have an ethnic proclivity for getting there first were there before the Jewish people were in Canada. It is quite significant that they do not play an important role. I think you are to be commended for—

Mr. LAFFERTY: They are a highly competitive people and when you have a restricted atmosphere and they cannot operate, then I think you can come to a logical conclusion.

The CHAIRMAN: Mr. Lafferty, is there not presently at least one Jewish member on the Montreal Stock Exchange?

Mr. LAFFERTY: Yes, subsequently to this brief.

Mr. FULTON: Are Lazarus Freres members of the Montreal Stock Exchange?

An hon. MEMBER: It was Lazar Freres.

Mr. LAFFERTY: No, an international banking house.

The CHAIRMAN: Mr. Lafferty, I recall reading that in Montreal two individuals of the Jewish faith applied for positions with a certain firm—

Mr. LAFFERTY: It was our firm.

The CHAIRMAN: It was your firm? They brought charges against your firm under the Quebec Fair Employment Practices Act?

Mr. LAFFERTY: That is correct.

The CHAIRMAN: On the grounds that they were not hired because of discrimination?

Mr. LAFFERTY: That is right.

The CHAIRMAN: That is your firm?

Mr. LAFFERTY: That is correct.

The CHAIRMAN: This case is still before the courts?

Mr. LAFFERTY: Yes. May I amplify this for a minute. The matter is still before the courts. These procedures become quite complex. I was not directly involved in the incident at the time, one of the partners in our firm was and he

related to the two applicants that to his knowledge they would not be eligible as traders on the Montreal Stock Exchange since there had been no Jewish traders. To our knowledge there has never been a Jewish trader on the Montreal Stock Exchange.

The CHAIRMAN: You just said there is a member firm.

Mr. LAFFERTY: As a member firm; it is different. A trader appears on the floor who trades for the ownership of the member firm. In this case one of the principals of this new firm is a Jewish partner, Mr. Shapiro, but he does not trade on the floor, just as I do not trade on the floor for our firm. But you need a trader on the floor who will execute the transactions on the floor of the exchange itself. We were seeking a trader.

The CHAIRMAN: This matter is still before the courts and they have not given their decision?

Mr. LAFFERTY: That is correct.

The CHAIRMAN: Is it also correct that one reason why a decision may not have been given up to now is that one of the defences which was raised was that the Quebec law was ultra vires of the Province of Quebec.

Mr. LAFFERTY: This is correct.

The CHAIRMAN: This is one of the defences raised on your behalf?

Mr. LAFFERTY: Yes, it was not at our suggestion. The matter was taken out of our hands by our lawyers and referred to another firm, which happened to be a Jewish firm. This firm had handled a previous case and they felt that in the previous case they had adopted this position, therefore they had to be consistent and adopt it with ours.

The CHAIRMAN: You do not give instructions to your lawyers?

Mr. LAFFERTY: We are not knowledgeable enough on the legal aspect of this matter. They asked us if we were in agreement with following it—I was not in town at the time—and it seemed a sensible course. They asked me by telephone and I said I would check with our lawyers in the other firm and see if they agree with this. They agreed with it, so I said, "Fine, go right ahead".

They were in a difficult position. They either had to take our case and put it on the basis of the other one which they had sought, or base the defence on this previous case, on this other supposition.

The CHAIRMAN: There is no question at the moment that charge are pending against you that you did not hire these people because of their ethnic origin?

Mr. LAFFERTY: Frankly, I am not quite sure what the position is. There are various arguments which have to be presented by counsel for both parties. These have been deferred at different times by the prosecution. The last date I had was December 16, yet as far as I can ascertain, and I meant to write before I left, our lawyers have not found out.

The CHAIRMAN: Let me get this straight. The charges were laid against your firm, the matter was brought into court and a final decision has not yet been rendered.

Mr. LAFFERTY: It has been brought into court in the sense that it has been filed in court.

Mr. LAMBERT: Why is this subject being—

The CHAIRMAN: That is why, as you may know, I am deliberately not asking—

Mr. LAMBERT: Why pursue it?

The CHAIRMAN: I thought in the light of this paragraph and the questions that have been asked that it might be a useful addition to the record.

Mr. LAFFERTY: Mr. Chairman, I might say—

The CHAIRMAN: My questions only related to what is a matter of public record.

Mr. LAFFERTY: At the particular time this occurred we had two Jewish members on the staff.

The CHAIRMAN: Are there any further questions of our witness at this time?

I would like to thank you, Mr. Lafferty, for—

Mr. CLERMONT: I think Dr. McLean would like to ask a question on—

Mr. MCLEAN (*Charlotte*): Well, if we want to go into international affairs. Of course, we do not want to hear it because it is at the bottom of everything.

An hon. MEMBER: Gold reserves?

Mr. MCLEAN (*Charlotte*): Certainly it is.

The CHAIRMAN: Mr. Lafferty, we want to thank you for giving us a point of view which has been most stimulating and I think it will assist us in assessing the views put forward by the banking community.

Mr. Howes, would you like to step forward?

Gentlemen, our next witness is Mr. Terry Howes, who has submitted a brief to us and asked for an opportunity to appear. He tells me that he could best be described as a salesman or as an entrepreneur generale. These are his words. I think to save time, as we have had his brief for some days, perhaps we might move directly into questioning. It will be noted that he has made specific recommendations through paragraphs numbered 1 to 17 and has been kind enough to append a number of very interesting articles. I think, therefore, we should proceed with our questioning roughly along the same order that he has made his recommendations to us.

I would ask those who wish to question Mr. Howes to so signify.

Mr. FULTON: Mr. Chairman, are you going to ask Mr. Howes to identify himself?

The CHAIRMAN: It is my practice, Mr. Fulton, before the beginning of the committee meeting to ask the witness for some general information, which I present to the Committee, to assist us in situating the views of the witness in the general complex of our considerations. Mr. Howes said that he is best described as a salesman, and then he added the phrase "entrepreneur general". I must say that that is the limit of the information I have to present to you, which is as a result of a very brief conversation with him between the time we excused our

previous witness and the time I presented him. If other members of the Committee wish to have more information, I am afraid I will have to invite them to question the witness directly.

Mr. FULTON: I wonder if Mr. Howes would care to identify himself further as to his business associations so that I would know his background.

Mr. Terry HOWES: Mr. Fulton, may I say that I make a living, as well as I can, as an entrepreneur. Surely it would not have any bearing on my presentation to this Committee. Let me put it this way: I am not associated in a financial community, as these other gentlemen were who preceded me I do not claim to be as knowledgeable as they are of money markets and all these complicated things.

Mr. FULTON: Are you a member or an officer or a shareholder in an organization called the O.S.C.A., the Ontario Sporting Clubs Alliance?

Mr. HOWES: Yes, Mr. Fulton. Go ahead.

Mr. FULTON: Are you?

Mr. HOWES: Mr. Fulton, this is just said to smear me. You know that, do you not?

Mr. FULTON: Mr. Howes, I am asking you a question.

Mr. HOWES: Carry on. The answer is yes. Gentlemen, it is going to be very interesting to hear this. This was just said to smear me and it has no bearing whatsoever on my suggestions about the banking community. You know that, Mr. Fulton. Carry on.

Mr. FULTON: Are you associated in any way with Sovereign Publishing Company?

Mr. HOWES: Yes, that is correct.

Mr. FULTON: Did you publish something under the heading of "Air Force Diet?"

Mr. HOWES: Yes, we did indeed.

Mr. FULTON: Have those organization been the subject of a United States Federal Post Office Department fraud order?

Mr. HOWES: Right.

Mr. FULTON: Denying you the use of the mails?

Mr. HOWES: Right.

Mr. FULTON: This was as recently as 1965 and 1966?

Mr. HOWES: That is correct.

Mr. FULTON: Were you the advertiser, or associated with the advertiser, of an advertisement headed: "640 Acres of Wildlife—$20."

Mr. HOWES: The same.

Mr. FULTON: It reads:

> For $20 a year plus $6 taxes you can lease a 640 acre wildlife domain near the Canadian border. Untamed paradises.

Mr. HOWES: To save a lot of talk I will just give the whole thing to you. carry on; Mr. Fulton.

Mr. FULTON: Well, give us the whole thing, then.

Mr. HOWES: Mr. Fulton, some years ago I decided that the field of shareholders' rights was the one field which was keeping this country from doing as well as it should. Now, I made a considerable study of it and I determined that the banks were the worst offenders respecting shareholders' rights. Now, two years ago the Porter Report came out and it said that as far as these learned gentlemen were concerned no body of shareholders which they could determine was really interested in knowing or cared about the financial affairs of the banks of this country. So, I felt for myself and by myself that I did not think this was the case. I decided that I would try, in a very democratic way, to solicit votes in one of our banks. If I said that they took less than kindly to this, that would be one of the understatements of the century. I have had no peace from that day to this, including from your own good self. But anyway, here I am.

Mr. FULTON: Have you and I had any correspondence?

Mr. HOWES: No, we have not sir. Why should how I make a living be germane to this meeting? Why do you ask that? May I say further that this so-called fraud order that the U.S. Post office has against us would put the Court of the Star Chamber to shame. First of all, we were accused by unnamed accusers, a hearing was held in camera when we could not defend ourselves and we have subsequently been denied the right of appeal. Now, this happened in the United States, not in Canada. I am a Canadian citizen and I am proud to say it. If anyone has anything against me and feels that I have done something wrong, bring it before the Canadian courts, not where I cannot defend myself. Maybe we can continue with what we are here for tonight, now that this matter has been brought up. Is there anything else you would like to know?

I am Canadian born and raised and proud to say it and the father of seven children. I feel there is a real injustice in our banking system. Go ahead.

Mr. FULTON: Were you the subject of an article in *Maclean's* magazine of March 20, 1965?

Mr. HOWES: Indeed I was.

Mr. FULTON: Did you sue them for libel?

Mr. HOWES: Did I sue them for libel? Did they say something libelous?

Mr. FULTON: I am asking whether you sued them for libel?

Mr. HOWES: The answer is no. Carry on.

Mr. FULTON: I think the article speaks for itself. There is just one other question. Are you associated with a group known as the Great Northern Pulp and Paper Group?

Mr. HOWES: Yes, I am.

Mr. FULTON: That is all, Mr. Chairman.

Mr. HOWES: Does this have to go on, Mr. Gray? Really, does it?

The CHAIRMAN: I think at least to some reasonable extent it is useful to know the background of the witness so that we can assess his views in the light of his experience in the business community—

Mr. HOWES: The story is that I used to live a nice, peaceful life until I felt that I should try and see if perhaps the fiction was in fact the fact. I decided that I would solicit a few votes, in a very democratic way, from the shareholders of this bank. Since then, as I say, I have had no peace at all. However let us carry on. We are finished with this now, I hope gentlemen. You have heard about all the dirty linen they can find and this the worst they can find out about me. Go ahead.

Mr. MCLEAN (*Charlotte*): I do not understand about soliciting proxies.

Mr. HOWES: This is the way the fiction works. Let us go away back in history. Years and years ago when limited companies were first formed they were collections of partners who were truly democratic people. They would be sitting like we are sitting here tonight and they would truly have to report to their partners. Then they came to be shareholders and they still would have to report, but gradually shares became more and more widely held until where today, most assuredly in the banks, as Mr. Lafferty said,—I do not agree with everything Mr. Lafferty said but I certainly do here—it is just a complete and absolute mockery. If you dare say one single word you will have no peace at all. They do have terrible powers.

Mr. MCLEAN (*Charlotte*): It does not come from the shareholders. Who does this "no peace" come from?

Mr. HOWES: It comes from the management of this particular bank. Or, in this case, from their public relations outfit, whom I am sure are represented here tonight.

The CHAIRMAN: Why would they be against you?

Mr. HOWES: Mr. Gray, I have asked myself this many, many times because I did this in what I thought was a very democratic fashion, I really did, and with no axes to grind against these people. The only answer I can find for you, sir, is that I feel that—and this is what all of us here should be concerned about—they have such fantastic power and there are virtually no checks on balances over them, virtually none. It is like a government running itself without holding an election. That is just how they work.

The CHAIRMAN: What did you try to do that they did not like?

Mr. HOWES: I simply came down here to room so-and-so in the Parliament Buildings, or sent my girl down to do it, and got a list of the shareholders and I wrote them a letter and said, "We feel, in line with the recommendations of the Porter Commission, that considerable changes should be made in the Bank Act". Now, further to that we said that the management of this bank has made some God-awful goofs and we feel that they should be at least chastised for it.

The CHAIRMAN: When did you send this letter out?

Mr. HOWES: About a year ago. The meeting was the second Tuesday in December, so it was a year ago December.

The CHAIRMAN: I see. When were these fraud orders made?

Mr. HOWES: Slightly prior to that.

The CHAIRMAN: But prior?

Mr. HOWES: Put it this way: It was between when I sent out the letter and when the meeting was held.

Mr. MCLEAN (*Charlotte*): What did they do to you?

Mr. HOWES: Who is "they", sir?

Mr. MCLEAN (*Charlotte*): The people whom you have this against? I do not understand this—

Mr. HOWES: Mr. McLean, I do not have anything against anybody.

Mr. MCLEAN (*Charlotte*): You gathered up some proxies, and you say that since then you have had no peace.

Mr. HOWES: What is that again, sir?

Mr. MCLEAN (*Charlotte*): You said that since you have gathered up some proxies you have had no peace.

Mr. HOWES: Yes, that is right.

Mr. MCLEAN (*Charlotte*): Who is disturbing your peace?

The CHAIRMAN: Are you suggesting that some banking interest is trying to do something against you because you hold these proxies?

Mr. HOWES: Yes. This bank retains a firm called Public Relations Services, Limited. They have done their best to tell the press, including these gentlemen here, you can rest assured, and including our good friend and colleague, Mr. Fulton—

Mr. FULTON: Do they retain *MacLean's* Magazine, too?

Mr. HOWES: Did *Maclean's* say something bad about me?

Mr. FULTON: It is up to you to judge. Did you not sue them for libel?

Mr. HOWES: It is up to you to produce it.

Mr. FULTON: You have asked me to:

> Terrance Howes and John Heaven, two Toronto men in their mid-thirties, don't much resemble the conventional images of buccaneers, except for a certain raffish derision in their eyes when confronting government officials or solid businessmen. Yet in their four-year partnership, they have separated the public from more money than many men ever see, most of it by the sale or rent of Canadian land which they neither own nor want to own.

These are not my statements, and I ask if you sued *Maclean's* Magazine for libel when those statements appeared.

This relates to O.F.D.A.

Mr. HOWES: Gentlemen, all right; I am a thief; a crook; a no-goodnik from the word "go". Now, if we have finished with that, can we discuss my proposals?

Mr. FULTON: I suggest that we do, Mr. Chairman.

Mr. HOWES: Thanks very much.

The CHAIRMAN: I think we are in a position to do that, but it is always useful to find the basis which leads a person to make certain proposals; although in

fairness to the witness I think we should be prepared to consider his proposals on their own merit.

Mr. McLEAN (*Charlotte*): Yes; but I would like to know why the proposals are made.

The CHAIRMAN: Yes, that is right.

Mr. HOWES: Because they need to be made, Mr. McLean. Is that a good reason? I think I can convince anybody with an open mind, which I am quite sure you gentlemen have, that they need very much to be made, indeed, and we have once every ten years to do it.

The CHAIRMAN: All right. Let us look at paragraph 1. Are there any questions or comments on the views put forward there?

Mr. LAMBERT: To get down to paragraph 1 on page 5, in what precise respect would you indicate that the annual statements made by the banks should be changed so that, in your own words, they would become more meaningful?

Mr. HOWES: Certainly I am not knowledgeable on bank statements. Very few people in the world are. What I did was to write to this gentleman in New York, who is acknowledged—and I think he probably is—to be one of the experts in the world, and he very kindly sent me along what he thought were the ideal bank statements. I certainly am not knowledgeable on them. I am quite frank here. How many of us are? He is.

Mr. LAMBERT: I notice you have included Mr. Keat's article in the Bankers' Monthly. Presumably you have attended an annual meeting of a bank, I take it?

Mr. HOWES: Yes.

Mr. LAMBERT: And you have put forward some of these proposals, or asked questions with regard to them.

As a shareholder in a bank, if you are asking the management to make their annual statements more meaningful—and here I have some sympathy; I think, generally, in this modern day some of the statements could be amplified and I do not think the banks would object greatly to that—surely you had some idea of what you wanted, without merely cribbing something that someone else has written and advancing it as your own proposal.

Mr. HOWES: If you borrow money at wholesale and loan it at retail it need not be all that complicated in the books.

Mr. LAMBERT: But you made the statement initially, if I may paraphrase your words, that the banks had—"mistreated" is the wrong word—but had not properly treated their shareholders in withholding information from them, and so forth.

Mr. HOWES: Yes, definitely.

Mr. LAMBERT: Essentially those are your words, or the meaning of them.

Mr. HOWES: More or less; but they are fine words.

Mr. LAMBERT: That is generally your meaning. Now, surely you must have a reason, because you say if you make a study you come to this conclusion. You have made this study yourself, presumably, and have made the conclusion. Now, will you enlighten us on what—

Mr. HOWES: Would you feel that a bank's shareholders should know, for example, of a $2 million loss which, although compared to the bank's capital is not all that money, is in fact a substantial amount of funds? Should they know of this loss? Should it not be brought to their attention at their shareholders' meeting? Suppose you had put up the funds for me to go into business—God forbid that we should see the day! Years go by and things have gone well. In the meantime, there has been a very substantial loss one year. Do you not think that I should tell you about it, as my boss? Would you not think so? Well, this particular bank had a $2 million loss one year and it was the most stupid thing you ever heard of.

Mr. MCLEAN (*Charlotte*): Which year was that?

Mr. HOWES: It was two years ago. They put a $2 million mortgage on a herd of cows, but they did not ever bother to go and look to see if the cows were there, and they were not. How about that, Mr. Fulton? How would you feel if I—

Mr. LAMBERT: Was that not a case in southern Alberta in which there had been a prosecution, where there were attempts at recovery? I do not know whether it was ever established that there was a loss in the end order?

Mr. HOWES: If they recovered anything at all it would be one of the wonders of the world.

Mr. LAMBERT: Were you able to obtain the information when you went to the shareholders' meeting?

Mr. HOWES: Yes, I was. I have it all here. I brought this up at the shareholders' meeting in a very democratic way and asked the—

Mr. LAMBERT: And you got the answer?

Mr. HOWES: I am trying to think, because I was at three of those meetings. We have a representative here from the Bank of Commerce, who could tell you—this gentleman here.

Mr. LAMBERT: I am interested in knowing if you got the answer.

Mr. HOWES: Now it comes to my mind. I did not.

Mr. LAMBERT: You did not get the answer.

Mr. HOWES: The chairman of the bank did not give me an answer. How about your getting up, and I will—

Mr. LAMBERT: I am not in your position. You are making the assertions, not I.

Mr. HOWES: In the meantime, are you going to answer those questions? Do you think that should be in the financial statement? Do you think it should be in there? I think it should have been, and that is what I said.

Mr. LAMBERT: I am not too sure.

Mr. HOWES: Mr. Scott, the successor to Mr. Elderkin, who might be in the room today, said, according to the *Financial Post* last week, that among the most important checks and balances we have on bank management is the internal audit which I think is a mockery and a farce. We would like to think, as citizens, that they had a very good internal audit. I have always thought they had, too,

really. But if a bank has a $2 million fidelity loss—the largest ever in this country—do you not think that perhaps it should be brought to the shareholders' attention? I do, and I said so.

Mr. LAMBERT: That is your privilege, as a shareholder. Are you still a shareholder?

Mr. HOWES: Yes, I am.

Mr. LAMBERT: Were there any other points on which you felt that there should be further disclosure?

Mr. HOWES: They are all in this brief here.

Mr. LAMBERT: Yes; but—

Mr. HOWES: And they are all pretty well in the Porter report. I say that I feel we should do this and we should do that, and, what is more, there is a substantial body of the same opinion. I have $3 million worth of proxies, and they are in this briefcase here. Thirty-thousand odd shares agree with me that these changes should be made.

What I was trying to do, in a very democratic way, was to establish that, in fact, there is a substantial body of shareholders who would like to see the banks' affairs properly set out. I do not agree with all that Mr. Lafferty said—and he did not have to be quite so verbose in saying it—but banks have phenomenal power, and this, gentlemen is the basis of my presentation to you: Should there be this concentration of power in our democracy?

Think about this, gentlemen, because you have seen an example of it tonight in what I am going through. It is something to be frightened about. Yes, have a good laugh.

Mr. LAMBERT: But, surely to goodness, if you were in—

Mr. HOWES: May I finish, sir?

Mr. LAMBERT: If you were a shareholder in another corporation—

Mr. HOWES: We should all be very concerned indeed that in our democracy we have power blocs like this, without democratic checks and balances. And, gentlemen, when you are writing this law, please do not forget it. It is a frightening thing.

Mr. MCLEAN (*Charlotte*): I have always been of the opinion that the proof of the pudding was in the eating.

Mr. HOWES: I have done it myself; I did not read about it. I had the guts to do it—and do not think that it did not take a lot of guts.

Mr. MCLEAN (*Charlotte*): But what became of the $2 million? What was it charged to?

Mr. HOWES: How do I know? How can you tell?

Mr. MCLEAN (*Charlotte*): Well, why should you not know? You are the man who—

Mr. HOWES: Indeed, why should I not know?

Mr. MCLEAN (*Charlotte*): If you can read a balance sheet—

Mr. HOWES: Balance sheet, "shmalance" sheet—nobody can make any sense at all out of them.

Mr. MCLEAN (*Charlotte*): They can not?

Mr. HOWES: This gentleman here, Mr. Smythe, is a very knowledgeable and thoughtful scholar. He is a professor at a university in Toronto. His colleague is at Carleton College. They can speak much more knowledgeably than I—and at least I am frank about that. It does not make any sense to me. As a matter of fact, I can not keep my own cheque book straight. And I bank, incidentally, in Buffalo. How do you like that one?

Mr. MCLEAN (*Charlotte*): Well, I speak from 50 years of experience—

Mr. HOWES: That is fine, Mr. McLean; grand; that is good. You should know. You tell me where they hid the $2 million.

Mr. MCLEAN (*Charlotte*): I am asking you.

Mr. HOWES: It is your—

Mr. MCLEAN (*Charlotte*): I imagine they charged it to inner reserve. I do not know.

The CHAIRMAN: Order, please. Our customary procedure up until now has been to have the members ask the witness questions.

Mr. HOWES: Mr. Chairman, it did not start out very well, you know. I am no saint, either, and I admit it.

Mr. CLERMONT: Mr. Howes has an example of the disclosure of loss. Does it compare, for example, with the action of the management of the First National City Bank which found itself in the embarrassing situation of discovering a huge loss? What do you mean, Mr. Howes, by "huge"?

Mr. HOWES: It was eleven odd million dollars.

Mr. CLERMONT: How much?

Mr. HOWES: Eleven odd million dollars.

Mr. CLERMONT: I thought we were told by a previous witness that it was about $4 million. This is the First National City—

Mr. HOWES: According to this it was $11 million. I do not know, Mr. Clermont. It was a very substantial loss.

Mr. CLERMONT: I will accept "substantial loss", but—

Mr. HOWES: What has First National City got to do with it, anyway? We are on paragraph number 1 here.

Mr. CLERMONT: Yes, we are on number 1; but it is about loss disclosure.

Mr. HOWES: I see. Well, from my recollection it was $11 million. I am just going by press reports.

Mr. CLERMONT: That is what I wanted to find out.

Mr. HOWES: I am sorry, Mr. Clermont. I did not mean to be rude to you, sir.

Mr. CLERMONT: That is all right. I can take it and give it back.

The CHAIRMAN: Are there any further questions on paragraph 1?

Mr. HOWES: Gentlemen, there is just one thing further that I have to say. Since this was sent here, on November 30, our good friends, the Bank of Commerce—fine folks that they are—they are 49 per cent owners of a firm called United Dominions Corporation of Canada Limited, and subsidiary companies, a very substantial firm. Now, a big point made by the Bankers' Association is that it would be bad for public confidence to disclose all these things which we feel need to be disclosed. They make a really big deal of this. Let us say that it may be that they speak with forked tongues.

On December 13, which was, just nicely, two weeks after everybody had to have their briefs in, United Dominions Corporation of Canada Limited and subsidiary companies, due to the realities of the financial marketplace, as Mr. Lafferty says, could not sell their debentures unless they came up with the goods. They just could not do it. The goods they came up with—and here it is; the whole works—and if this is the case the fact is the exact opposite—

The CHAIRMAN: You are referring to the statement entered by the United Dominions Corporation?

Mr. HOWES: That is right. I would like you gentlemen to have a look at this. I am sure that our good banking friends would give them all they wanted. It is the whole "works".

The CHAIRMAN: You are suggesting that there is more information in this statement of a subsidiary—

Mr. HOWES: Have a look at it.

The CHAIRMAN: —which issues debentures, than in the statements of the parent bank.

Mr. HOWES: Yes, if you would like to know from the liquidity statements of September 30 exactly how much funds they have got out, how much is in trucks and how much is in different markets, the whole "works" is here.

Now, here is the thing: the fact of the matter is that instead of its being bad for public confidence that people should know, just ask yourselves this: What is it that, if the public knew about it, would ruin their confidence in the banks? These good gentlemen from the Bankers' Association are coming here again; am I correct? Ask them this question: What is it that, if disclosed, would cause the public to lose confidence in our banks? The answer would be a very fascinating thing to hear.

The CHAIRMAN: I think we have asked them that already.

Mr. HOWES: Well, maybe you should ask them again in the light of what you see here, because when the market actually does go "lousy" for funds, which is, as Mr. what's-his-name said, absolutely "grim"—those Hartford insurance companies will not loan Canadian companies 10 cents. And who can blame them? Would you gentlemen lend them any money? I certainly would not even if I had any money to lend.

The CHAIRMAN: But you have it in Buffalo.

Mr. HOWES: Yes, I do; what little funds I have are in Buffalo. Do you know why? Because they do not charge for clearing cheques in Buffalo.

Anyway, there is the whole "works" from our good friends and colleagues, the Bank of Commerce.

What is that, Mr. Fulton, I did not hear you?

Mr. CLERMONT: How can the banks be our colleagues?

Mr. HOWES: Well, we will say our "countrymen". Okay?

Mr. LAMBERT: All right; but since you are showing expertise in interpreting the financial statements of this particular corporation—

Mr. HOWES: Can I speak to this learned gentleman, here? It is better to work in a man's language. Even a "nut" like me can understand it.

Mr. LAMBERT: Yes; but, on the other hand, you told us at the beginning that you could not understand, or make heads or tails of, any financial statements. I asked you, Mr. Howes, in all sincerity, a shareholder of a chartered bank, and having attended meetings, how you felt that the statements were not very meaningful, and you said, "How do I know? How can I understand them?"

Mr. HOWES: They are gibberish.

Mr. LAMBERT: Then you come along with something else, a series of financial statements, and say, "Look at how well they are prepared".

Mr. HOWES: If you are finished talking, sir, I would like—

Mr. LAMBERT: You have suddenly acquired knowledge if you were able to qualify these as meaningful to you, and as being properly prepared; yet a few moments ago you told me that you could not tell me how and why statements should be meaningful. I am trying to get you to help us.

Mr. HOWES: You forgot the key word, sir—"bank" statements; and I should say, further, "Canadian bank statements."

Mr. LAMBERT: I asked you how they were not meaningful, and how you wanted to make them meaningful, and you said that you did not know anything about financial statements.

Mr. HOWES: I think it is a little out of sequence, but at any rate—

The CHAIRMAN: Well, I think, perhaps, Mr. Howes made the suggestion that they should give greater information on their losses.

Mr. LAMBERT: This will appear in his brief.

The CHAIRMAN: Yes; and, secondly, he has made some specific proposals in general terms—whatever their source—which I would gather he supports, and he is putting them before us for our consideration. That is basically it.

Mr. HOWES: What I have done, Mr. Chairman, is to dig up what are acknowledged, at least in the American banking community—and I hesitate to say it, because I am pariah in the Canadian banking community—to be the experts. They were kind enough to send along, without any charge, what they thought was the ideal statement. When I say, quite frankly, that I am not knowledgeable I am just admitting my ignorance.

The CHAIRMAN: But you are submitting—

Mr. HOWES: Well, I am saying that these are the experts.

The CHAIRMAN: Yes; you are submitting to us, with your commendation, actually, the articles and so on, written by individuals, which are appended to your brief.

Mr. HOWES: Yes; for your consideration.

The CHAIRMAN: Yes. I think that in fairness to Mr. Howes we should take what he is putting forward in the spirit in which he is doing it.

Mr. LAMBERT: Well, I hope so.

The CHAIRMAN: Yes.

Mr. HOWES: Thank you, sir. May I, by the way, gentlemen, bring another matter to your kind attention? It is very—

The CHAIRMAN: Well, it is true that—

Mr. HOWES: This is not what we were discussing, sir.

The CHAIRMAN: Order, please. Although I did permit certain questions to illustrate the background and circumstances which led to your making these presentations to us, as we have done with other witnesses, our general procedure is to deal in as orderly a fashion as possible with the specific points raised by the witness. You have been good enough to make your points in quite an orderly fashion, numbered 1 to 17, and have even given us a bit of poetry to cheer us on our way, as a conclusion.

Mr. HOWES: Well, humour does not do any harm, does it?

The CHAIRMAN: No; not even around the Finance Committee. We have to try—although it is not always easy—to proceed in this order.

Your first point is to urge that annual returns should be complete in every respect. You have submitted, in support of this, an article by Vincent Egan, who, I gather, is of the Toronto *Star*, and so on.

Now, are there further questions on paragraph 1?

Mr. HOWES: Could I add a little something?

The CHAIRMAN: Well, our time is limited, and there may be questions on the other paragraphs.

Mr. HOWES: It will just take one second; really it would. These gentlemen here would like to hear it.

The CHAIRMAN: You have checked with them, have you?

Mr. HOWES: Well, they are my friends; I am sure they would like to hear it. Standard and Poor, who do the rating of people all over the world—or in North America, at any rate—do not rate our banks. Do you know why? They say it is because they cannot get any informaton and they do not know what is going on. The largest brokerage firm in the world says: The reported net income of the individual bank does not reflect full earnings power, since it is stated only after reserve, after transfers of undisclosed amounts to or from inner reserves. Inner reserves represent funds set aside as additional security against possible future liabilities; these reserves are partially tax-free. Although internal reserves then are not available for individual banks, transfers to inner reserves are reported for the system as a whole—and it goes on.

In other words, you cannot tell "beans" about them—not a thing.

The CHAIRMAN: Although you did not want to give the name, I think, perhaps, unless this is marked as confidential, that we should know who this is.

Mr. HOWES: It is Merrill, Lynch, Pierce, Fenner, and—

The CHAIRMAN: Yes; copyright 1964, Merrill, Lynch, Pierce, Fenner, & Smith, headed "Canadian Chartered Banks". That is what you quoted from?

Mr. HOWES: Yes, sir.

Mr. MCLEAN (*Charlotte*): Well, you can tell what they bring out of inner reserves by the income tax they pay, can you not?

Mr. HOWES: There are reserves before and after taxes. There is something called a rest account. You know, that account never gets a rest. If they lose too many bucks on a herd of cows they move it out of the rest account. It is the biggest farce.

Mr. MCLEAN (*Charlotte*): There was a fellow who looked at them coming around and he eventually made good and became a millionaire; so it works both ways.

Mr. HOWES: What I have to ask myself, and what I think all present should ask themselves, is: How did we get this thing hoisted on us? It is an absolute farce and mockery—this so-called financial statement.

The CHAIRMAN: Are there any further questions or comments specifically related to paragraph 1? Mr. Laflamme?

Mr. LAFLAMME: It is stated in the brief—the pages are not numbered—that the Bank of Montreal, for instance, has more than 24,000 shareholders 22,544 having under 500 shares; 845 having between 500 and 1,000 shares; and 710 having over 1,000 each. Do you mean to say out of all those people none of them knows what is going on in the Bank of Montreal?

Mr. HOWES: Well, we all get these financial statements, for what they are worth, Mr. Laflamme. But suppose you were a shareholder in the Bank of Montreal and you felt that for one reason or another the present management was not attending to its duties properly. You might want to get in touch with your fellow shareholders to acquaint them with a certain situation and to ask—and surely there is nothing wrong, in this fair land of ours, with asking—to be given their vote. You say, "Will you give me your vote!". You do it every couple of years, do you not?

Mr. LAFLAMME: I am not talking about elections.

Mr. HOWES: Well, it is the same. At any rate, to answer your question: Yes, they would know what is going on because they are mailed the annual reports, for what they are worth. But let us suppose that the shareholders would like to get in touch with each other. In your constituency people just go and knock on each other's doors, but you cannot do that as a bank shareholder. You can only communicate with people with 500 or more shares, and that means $30,000 odd invested, which is a considerable amount of money. The great bulk of the shareholders are not known and you cannot get in touch with them.

Mr. LAFLAMME: Well, let us talk about the Bank of Montreal again.

Mr. HOWES: Very well, sir.

Mr. LAFLAMME: Who knows what is going on, in your opinion among all those shareholders? Who knows what is going on at the Bank of Montreal.

Mr. HOWES: Mr. Laflamme, I—

Mr. LAFLAMME: If the shareholders do not know, who knows? Nobody knows?

Mr. HOWES: Well, the management knows.

Mr. LAFLAMME: Nobody knows.

Mr. HOWES: If the shareholders have to go by the financial statement they get once a year, then they most assuredly do not know what is going on. Does that answer your question?

Mr. LAFLAMME: I understood it.

The CHAIRMAN: Do you have any questions on paragraph 2?

Mr. LAMBERT: What do you think the effect of that accumulative voting would be?

Mr. HOWES: Well, if you gentlemen, in your wisdom, see your way clear to recommending that our shareholders be able to communicate with each other—and I surely hope I can convince you that that badly needs doing—it means that they may be able to elect their own directors. The way it is now, the sale of 10 million shares—it is really something to behold, gentlemen, this great heap of proxies on the table. I am sure you know how accumulative voting works. There are 70 directors, say; well, instead of voting once 70 times, your one vote has the weight of 70 votes; so that the minority shareholders can get themselves representation on the board of directors. That is what it would do.

Mr. MCLEAN (*Charlotte*): One director?

Mr. HOWES: Yes, sir. Is that not better than it is now?

Mr. MCLEAN (*Charlotte*): Well, who would this director represent?

Mr. HOWES: Well, he would represent the small shareholders, presumably, if they are ever got together.

Mr. MCLEAN (*Charlotte*): The small shareholders, yes; but what small shareholders?

Mr. HOWES: Which ones?

Mr. MCLEAN (*Charlotte*): Are the small shareholders all going to get together and elect a director?

Mr. HOWES: Well, if you let me go along further with my humble recommendations I think that will answer itself.

Mr. MCLEAN (*Charlotte*): Who is going to get them together? Would it be you?

Mr. HOWES: Supposing something is going wrong in the bank—

An hon. MEMBER: And they did get together.

Mr. HOWES: Well, when this night is over—please God!—I am out of the banking business; so let it be some body else. But suppose it is going so "lousy" and they pull off some more of these huge "goofs"—and they have been pulling some "dandies"—and this is not ancient history, like the Billie Sol Estes deal, you know, which does not make them smell any too good—but at any rate—

The CHAIRMAN: Are you suggesting that Canadian banks are involved with Billie Sol Estes?

Mr. HOWES: Yes.

The CHAIRMAN: Canadian banks?

Mr. HOWES: Sure; unfortunately, this is a photocopy of a photocopy, but I have the first photocopy here.

The CHAIRMAN: How does that fit in with the best evidence rule?

Mr. HOWES: It is like a bump on a log. Anyhow, it is in here, Mr. Gray. I will get it for you.

I am sorry; I am getting a little mixed up. Shall we carry on, gentlemen? Who asked that question?

The CHAIRMAN: I did.

Mr. HOWES: Oh, I am sorry, sir. Was it about Sol Estes and the Canadian banks?

The CHAIRMAN: I asked if you were suggesting that Canadian banks were involved with Billie Sol Estes, which is rather intriguing, if not fascinating.

Mr. HOWES: I was fascinated myself; that is why I brought it up.

We have one of our good representatives from the Bank of Montreal here, and they were the biggest losers, so he should be able to tell you about it.

Mr. FULTON: It is on page 11—

Mr. HOWES: Page 6.

Mr. FULTON: Page VI.

Mr. HOWES: Unfortunately, it is not readable, gentlemen, but I did not mean it that way. Oh, here we are. It has to do with Pioneer Finance in Detroit the underlined part.

The CHAIRMAN: This very quickly gives you the link between Pioneer Finance and Billie Sol Estes.

Mr. HOWES: Our Canadian banks were amongst the biggest lenders to a firm called Pioneer Finance in Detroit. For example, the Bank of Montreal, King Street, $3,500,000; our good and true friends, the Bank of Commerce, 3 million; the Bank of Nova Scotia, 2 million. Just what they are doing lending money to these American firms when we are supposedly short of funds is beyond me. At any rate, ask them that one, too.

Mr. CLERMONT: Is it because of that that you went to Buffalo?

Mr. HOWES: No.

Mr. MCLEAN *(Charlotte)*: Was it Canadian money or American money that they lent these firms?

Mr. HOWES: Well, I should imagine it was American money; it was a Detroit outfit.

Mr. MCLEAN *(Charlotte)*: Was it money, I mean, that they got in the United States, or was it Canadian money, got up here and transferred to the United States?

Mr. HOWES: I am sure I cannot answer that, Mr. McLean; I do not know. Wherever they got it, they threw it away. At any rate, this Pioneer Finance

loaned its money to Billie Sol Estes and his colleagues, then he stole it. What more can you say than that? I do not know if they will get anything back from it or not; I hope they do.

The CHAIRMAN: Oh, yes; I see. In your opinion. The link is there because the Canadian banks loaned money to Pioneer Finance which, in turn, went broke.

Mr. McLEAN *(Charlotte)*: They have written this money off in their statements?

Mr. HOWES: How would I know that, Mr. McLean?

The CHAIRMAN: Are there any further questions on paragraph 3?

Mr. HOWES: There have not been any questions at all.

The CHAIRMAN: It is the privilege of the members to decide whether or not they are going to ask any questions. It is one of the elementary rules that we have here.

Mr. HOWES: I hope that means they are for it.

The CHAIRMAN: Well, it is up to them to make up their minds at the appropriate time.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: I cannot understand this section 3, Mr. Howes. Is this a practice that exists in Canada or is this a practice that exists in the United States?

Mr. HOWES: Oh, very definitely in Canada; It is the custom here. First of all, Canadian shareholders are unfortunately—there is nothing that I say to you sir that I cannot document with what I have got in here. Unlike my former colleague, but at any rate—

The CHAIRMAN: Your former colleague?

Mr. HOWES: Well, my predecessor here.

An hon. MEMBER: Are you associated with him?

Mr. HOWES: Shall I say colleague or predecessor?

Mr. LAMBERT: Is it the practice in Canada for brokers to vote stock check which they hold in street form?

Mr. HOWES: Not only that but they make a practice of soliciting the proxies from the brokers; and these are not the beneficial owners of this stock, and it should not be the case.

Mr. LAMBERT: The banks solicit the proxies from the brokers?

Mr. HOWES: I cannot necessarily say, in all fairness and truth, the banks, because I do not know. I know what is done by other corporations; and at any rate it should not be able to be done, in my opinion. They should pass along those proxies to the beneficial owners, for them to decide whether or not they should vote them. Whether the banks do, or do not, I do not know.

Mr. LAMBERT: In Canada do the brokers actually hold back the proxies, do they act on the proxies themselves, or do they pass them on to the beneficial owners?

Mr. HOWES: No, they do not pass them on.

Mr. LAMBERT: This is known for a fact?

Mr. HOWES: Yes, sir.

Mr. LAMBERT: That is your testimony.

The CHAIRMAN: If there are no further questions on paragraph 3, we will move on to paragraph 4.

If there are no questions or comments about paragraph 4, we will move on to paragraph 5. If there are no questions on paragraph 5 we will move on to paragraph 6.

Mr. FULTON: I think that paragraph 6 is an interesting enough paragraph. I am not quite sure that the conclusions in it are warranted.

Have you had any opportunity really to inspect the share register of the Bank of Commerce?

Mr. HOWES: No, I did not, Mr. Fulton, because they will not let you. One cannot do it. The only place to do it is here next door. I sent my secretary down to do that very thing.

Mr. FULTON: You say at the top of a page of your brief:

> Holders of 500 or more shares are less than 10 per cent of all shareholders.

Do you mean that they hold less than 10 per cent of the shares that remain? Is that what you mean? I think your own figures rather contradict the statement as you have it there.

Mr. HOWES: I did not mean it that way, Mr. Fulton. I mean that if there are a thousand shareholders over 10 per cent of them have less than five hundred shares. In other words, what this does—and this is the only explanation I can possibly find for it—is that it perpetuates management in these banks. Ask yourself this: What possible explanation could there be for this setup? Have you any comments Mr. Fulton?

The CHAIRMAN: Well, I think it is up to Mr. Fulton to decide whether or not he wishes to ask questions, or make comments.

Mr. FULTON: I asked a question, and I have reread it in my question and answer.

Mr. LAMBERT: What would be the purpose, Mr. Howes, of being able to obtain the names of all the shareholders?

Mr. HOWES: Well, suppose one wants to oust management. How does one go about it?

Mr. LAMBERT: Attend the meeting.

Mr. HOWES: What is the purpose of attending a meeting when there are great heaps of proxies this high on the table? You have no chance at all.

The CHAIRMAN: What you are suggesting is—

Mr. LAMBERT: Why would you want to oust management if this is on the basis of some sort of small shareholers' league that is organized?

Mr. HOWES: I mean, why would anybody want to be elected? Perhaps they just want to be.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Even political managements are sometimes ousted, Mr. Lambert.

Mr. LAMBERT: Well, I would like you to elaborate a little more on that.

Mr. HOWES: Well, why did your opponent want to be elected last election? Maybe he—

Mr. LAMBERT: He thought it out at a meeting on election day.

Mr. HOWES: Well, for whatever reason.

The CHAIRMAN: But at the same time he was able to get the names of all the voters beforehand from the voters list.

Mr. HOWES: Thank you, sir. I appreciate that.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): We all of us try to get those names.

Mr. HOWES: Yes; well, try here. And gentlemen, we have spent a half an hour, and it seems fascinating, you will blow a heap of dust off and here are these names—at least those with 500 or more shares—and these will be a year old. For what reason? We live in an age of automation. I mean when they mail out your proxy forms for you to sign in favour of management, it is done on a beautiful mailing machine, and the whole 24 thousand, I am sure, just go out like mad; but if you want to find out the shareholder—oh, oh.

The CHAIRMAN: What you are saying is that the existing management has access to each individual name, but the shareholder does not?

Mr. HOWES: Sure.

The CHAIRMAN: Can you tell us how that compares with, say, the Canada Corporations Act, or the Ontario—

Mr. HOWES: I tell you, Mr. Gray; these acts—and thank God for it too—are in the process of being changed. I will put it this way: The only companies which make full disclosure—and this is in my brief, too—are ones that are listed on the New York stock exchange. These recommendations are nothing revolutionary gentlemen; I mean these are presently available to the shareholders of companies listed on the big board in New York. Suppose they wish to circularise the shareholders—providing of course, it has to do with the company's affairs—they must put your mailing piece in with their proxy solicitations. You have to pay for the mailing and handling, which is fair enough. Remember, they use company funds; you use your own funds; but at least you can do it.

Mr. MCLEAN (*Charlotte*): Ordinarily you can get the share list in an ordinary corporation from a trust company, can you not, by paying so much?

Mr. HOWES: You can go and copy it down. You cannot do it for the banks.

What they have is a list of daily transfers, and what good that is to anybody, I do not know. They have this list of daily transfers and they keep it at their different transfer offices across the world. But if you wish to find out the actual shareholders of the bank you must come here to the Parliament Buildings and dig in these great, big, old tomes and copy them out. Then you get only less than 10 per cent of all shareholders—we will get to this in paragraph number 7 here—and tens of thousands of them are registered in the bank's nonimee names. I am ahead of myself, but that is another interesting point.

Mr. McLEAN (*Charlotte*): Do you mean to tell me that the bank owns its own shares?

Mr. HOWES: Yes sir. The banks have nominees called Roycan, Montor, Bankmont, Gee & Company, and many others. These are owned by the banks.

Mr. McLEAN (*Charlotte*): How do you know that?

Mr. HOWES: Well, the banks admit it, for one thing. All the brokers know it. Whenever the Bank of Commerce buys a share it is made out to Gee & Company.

Mr. McLEAN (*Charlotte*): Yes, they own company shares, I know; but do they own their own shares.

Mr. HOWES: Yes, sir.

Mr. McLEAN (*Charlotte*): What?

Mr. HOWES: Yes, sir.

Mr. McLEAN (*Charlotte*): They own their own shares.

Mr. FULTON: Who is "they"—the directors of the bank?

Mr. HOWES: The banks themselves, sir. The fact is that I happen to be a little more knowledgeable on the Bank of Commerce than on others—not, by the way, out of respect for them; it does not mean that they are any better or any worse than any other bank; but they happen to be the closest one to me. There is no other reason.

Mr. McLEAN (*Charlotte*): Well, if they own their own shares they can vote themselves in, or vote themselves out.

Mr. HOWES: Yes; but they do not own all that number of their own shares. When we get to paragraph number 7—I do not think we are up to it yet—

An hon. MEMBER: I think we are.

Mr. HOWES: Are we? Well, they are forbidden by law to own their own shares. That is what the present act says. However, there are tens of thousands, and probably hundreds of thousands—I do not know, because I got bored looking—but they are right there for anybody to look at—shares in the names of these banks' nominees. Now, who owns them? The bank themselves?

Mr. FULTON: Did you ask the Inspector General?

Mr. McLEAN (*Charlotte*): But you have said that the banks own them.

Mr. HOWES: Put it this way: Suppose you had a private company called McLean & Company or Mac Incorporated. If you were known to be the owner of that company would it not pretty well follow that you would own the shares? If you have shareholders—

Mr. McLEAN (*Charlotte*): I do not know; but if it was against the law I would be careful.

Mr. HOWES: Well, it is against the law. However, there is nobody who is empowered to go behind this facade and find out who, in fact, are the beneficial owners. This is my point. Why have something in the law if there is no way to check on it? I hope you gentlemen will look—

Mr. LAMBERT: Mr. Chairman, I think that perhaps the witness is not aware of this provision in the bank bill, clause 75, subsclause (2):

> Except as authorized by or under this Act, the bank shall not, directly or indirectly, (c) acquire, deal in or lend money or make advances upon the security of shares of the capital stock of the bank or any other bank;

Mr. HOWES: All right, sir.

Mr. LAMBERT: It says "acquire the shares of the capital stock, directly or indirectly." Now, this is not a new section.

Mr. HOWES: I know; which is why I said that there must be somebody empowered to go behind this facade and see who are the beneficial owners.

The CHAIRMAN: Are you suggesting that the Inspector General of Banks at the present time does not have power to ask for this information?

Mr. HOWES: Oh, no; but from reading the Act can anybody tell me that he has?

Mr. LAMBERT: Now, wait a minute. You are making a flat assertion there.

Mr. MORE (*Regina City*): Mr. Chairman, the witness has named Bankmont & Company and Gee & Company. Are these actual companies that exist?

Mr. HOWES: I suppose I should have gone so far as to go and search in the registry office and see who is the registered owner of Gee & Company. In fact, I did not do it. However, we do not have to look any further than this room. We have a gentleman here from the Bank of Commerce, and he can answer that for you.

Mr. CLERMONT: But he is not on the witness stand. You are the witness.

Mr. HOWES: I will state definitely, for sure and certain—as certain as anyone can be in this world—that shares in the name of Gee & Company belong to the Bank of Commerce.

The CHAIRMAN: Are you talking about Bank of Commerce shares?

Mr. HOWES: Bank of Commerce shares; any shares, but Bank of Commerce shares, as well as others.

The CHAIRMAN: Well those are the ones we would be particularly interested in the light of the prohibition in the Bank Act.

Mr. HOWES: I mean to say, perhaps they are owned on behalf of clients. I do not doubt—as a matter of fact I would be almost sure—that these gentlemen would not contravene a law, but the fact is that, from my reading of the Bank Act, there is nobody empowered to find out whether they are, or are not.

If Mr. Elderkin is here, or Mr. Scott, or anybody from his department, they can answer it, and if I am wrong, well, it would not be for the first time.

Mr. MORE (*Regina City*): Do I understand correctly that you say the Bank of Commerce owns Gee & Co.?

Mr. HOWES: That is right.

Mr. MORE (*Regina City*): That they hold Bank of Commerce shares and you have reason to believe that they themselves are the beneficial owner of those shares.

Mr. HOWES: I do not know that, sir; I have no way of knowing it, but we should be able to find out. It is the only point I am trying to make.

The CHAIRMAN: Are there further questions on paragraph 8?

Mr. GILBERT: To your knowledge, do you know who owns Roycan or Montor.

Mr. HOWES: I do not know.

Mr. GILBERT: Just Gee & Co. Is that it?

Mr. HOWES: Bankmont is obviously the Bank of Montreal.

Mr. MCLEAN (*Charlotte*): I think when one of the banks was before us they said Torbay was the Bank of Toronto, the Toronto-Dominion Bank. Did they not say that?

The CHAIRMAN: If I can use the phrase of the witness, we will have our colleague or our friend from the banking industry back with us, and also the Inspector General. It has all been recorded, and we can pursue this.

Mr. FULTON: A lot of directors could go to jail and be subject to very heavy fines, Mr. Chairman, if these allegations are true.

The CHAIRMAN: Yes, that is right.

Mr. HOWES: Really, I do not think it is human affairs. I am sure they would not be so indiscreet; I am quite sure they would not. But the fact is that there is no one in power to find out. Such things have happened in the past; consequently they can happen in the future. Why have a law if there is no way to check on it. I am making a bigger deal here than what this thing amounts to.

Mr. LAMBERT: What makes you think that the Inspector General cannot go behind.

Mr. HOWES: From my reading of that poem you have there.

Mr. FULTON: Clause 139 reads as follows:

> Every person who refuses to give evidence under oath or to produce any book or document material thereto when required to do so by the Inspector or his representative when acting under subsection (4) of section 65—

and you have to look at that.

The CHAIRMAN: I think in general the Inspector General has very wide powers to acquire information from banks.

Mr. FULTON: Clause 65 reads in part:

> The Inspector, from time to time, but not less frequently than once in each calendar year, shall make or cause to be made, such examination and inquiry into the affairs or business of each bank as he may deem to be necessary or expedient, and for such purposes take charge on the premises of the assets of the bank or any portion thereof, if the need should arise, for the purposes of statisfying himself that the provisons of this Act having reference to the safety of the creditors and shareholders of each such bank are being duly observed and that the bank is in a sound

financial condition, and at the conclusion of each such examination and inquiry shall report thereon to the Minister.

Clause 139 reads:

> Every person who refuses to give evidence under oath or to produce any book or document material thereto when required to do so by the Inspector or his representative when acting under subsection (4) of section 65 is guilty of an offence against this Act.

So it is quite clear that the powers of the Inspector to compel complete disclosure are as wide as you would want and some people might say, wider than they should be. Mr. Howes, I think I should record my condemnation of your attitude when you say pointblank, without asking the Inspector, that you are satisfied that all these shares are owned by the banks, when you could have aksed the Inspector and conceivably got that information from him, or you could have found out whether he ever had made an inspection to satisfy himself whether or not they were in fact owned by the banks.

Mr. HOWES: Did I say that they were owned by the banks?

Mr. FULTON: It seems to me your brief said so.

Mr. HOWES: If we have to go into it all that deeply, I did not say that. What I said was that I felt that someone should be empowered to make sure.

Mr. FULTON: The Inspector of Banks is empowered to make sure.

Mr. HOWES: That is fine then, Mr. Fulton. I have many mistakes in my life. However, I made them in good faith.

The CHAIRMAN: At least one point in your brief has already found acceptance in the legislative sphere. Are there any further questions on paragraph (8).

Mr. LAMBERT: It could be that the interest on a loan of a certain size is not charged for six months on a demand loan. There is no indication that the interest shall be charged up monthly, quarterly or anything less than annually. Therefore, why should that loan on which for instance no interest is received for six months, be termed a dilinquent loan.

Mr. HOWES: I am sure that the people who write the law would write it in a proper legal fashion. What I meant to say was, six months after the due date of the loan; it could well be a one year loan on which no interest or principal was to be paid until one year from that date.

Mr. FULTON: Or the due date.

Mr. HOWES: If there have been no funds six months after the due date.

Mr. LAMBERT: That does not say so with regard to demand loans.

Mr. HOWES: I beg your pardon.

Mr. LAMBERT: And I think today, except for consumer loans, you will find that most Canadian bank loans are demand loans rather than term loans.

The CHAIRMAN: Paragraph 9.

Mr. CLERMONT: Paragraph 9 states:

> The Inspector of Banks should be required to supervise closely loans made by banks to finance companies.

Then further on it states:

> Apparently the situation was so bad shortly after the collapse, that unless the Bank of Canada had stepped in and arranged that huge amounts of cash be shovelled into many finance companies—

How can the Bank of Canada do that?

Mr. HOWES: Through their re-discount privileges. As Mr. Lafferty was saying—and I think we all have to agree with him here—these things are done by word of mouth. I did not make this up, sir; I have the press clipping here.

Mr. CLERMONT: You say you did not make it up, but you are taking the responsibility for that brief.

The CHAIRMAN: I would wonder, sir, whether the Bank of Canada has the authority to put cash directly from its coffers into—

Mr. HOWES: Arranged. I am not saying it did it. The president of Traders Finance was one who discussed this at great length. Gentlemen, this is not the time to discuss that Atlantic matter but Mr. Lafferty was not kidding; apparently it was really grim.

Mr. CLERMONT: You said that in some ways Mr. Lafferty talked too much.

Mr. HOWES: I did not say that.

The CHAIRMAN: What was said about comparisons?

Mr. HOWES: But anyway, whether or not the Bank of Canada recommended that the banks make funds available—if I must word it in such long legal words—it is my contention that because of Atlantic, British Mortgage and this Prudential thing,—I was incidentally, asked at a creditor's meeting about Prudential Finance—you gentlemen would need no more reason for the Bank Act to be changed than to see those old folks who had been stripped of their funds. It can happen with banks too, you know.

Mr. MORE (*Regina City*): Yes but the Inspector General of Banks, by a regulating and having power over bank loans to Prudential, would not have helped the person who bought their debentures and got stuck. How would that save them?

The CHAIRMAN: I think probably your point there is that it might help the banks, not the—

An hon. MEMBER: It collapsed though earlier.

Mr. HOWES: Maybe that would have been a good thing. But anyway, may I say that I made the recommendation after due consideration, sir. Mr. Saxon in the United States feels the same way, and with good reason. And remember, our American neighbours had much, much tighter banking laws than we have. Maybe we need them.

Mr. CLERMONT: According to your report they had seven bankruptcies in 1966.

Mr. HOWES: Yes sir. Canadian banks are like a cornerstore, you know; they are not all that.

Mr. LIND: Mr. Chairman, mention was made of cash being shovelled into many finance companies.

The CHAIRMAN: Perhaps we should take a moment and help Mr. Howes find his clipping. If you cannot, perhaps you can mail it to us later.

Are there any questions on paragraphs 10 to 15 inclusive.

Mr. MORE (*Regina City*): How would you expect proxies to be recorded if an owner was able to change his proxy up to the time of the actual vote, and with thousands of proxies, how on earth could this possibly work?

Mr. HOWES: The number of shareholders that turn up at a meeting is a small fraction of the total shareholders.

Mr. MORE (*Regina City*): Yes, but how can an owner formally change his proxy up to the time of the vote? If he is not at the meeting he would not have a proxy.

Mr. HOWES: If you have a true election going, there are people of different opinions who solicit one vote. The way it is now—at least in the one bank that I know of—you have to have your proxy in five days prior to the meeting. Things can happen and people change their opinion in that time.

The CHAIRMAN: How do you claim the proxy should be drafted now, sir, with respect to—

Mr. HOWES: The March case, you mean?

The CHAIRMAN: Yes.

Mr. HOWES: Well, you are given the name of the President and two or three of his colleagues, for instance the general manager. You could say: I agree that Mr. so and so, or barring him Mr. such and such, or barring him somebody else can represent me at this meeting. It is such a simple thing. Or you could fill in some other name.

An hon. MEMBER: Do you know his right name?

Mr. FULTON: A little blank space is so easy. It has to be registered surely some time in advance of the meeting, and it takes some time to register.

The CHAIRMAN: Your point is that this blank space is not usually found in the bank proxy forms.

Mr. HOWES: Yes.

The CHAIRMAN: Now on paragraph 16, is it not the custom now that annual reports of the chartered banks be in both French and English.

Mr. HOWES: Well, if it is, I have not seen them. It could well be.

Mr. CLERMONT: Mr. Chairman, I have received an annual report in French from seven banks for 1963, 1964 and 1965. I did not request the eighth one.

The CHAIRMAN: Are there any questions on paragraph 17.

Mr. LAMBERT: Of course, as you should know now, the merger of the Commerce and Imperial was after approval by the cabinet on recommendation of the Treasury Board. Therefore it goes even higher than the Governor of the Bank of Canada. This is a statutory requirement. It has always been.

The CHAIRMAN: We will not ask Mr. Howes to answer questions on his taste in poetry because that is a very personal matter.

If there are no other questions or comments which the members consider urgent at this time with respect to Mr. Howes' submission, I suggest that we

adjourn the meeting until next Thursday. We may want to look at Mr. Howes' brief not only in the light of Mr. Howes himself presenting it, but also in the light of the addenda he has attached and the people who have signed their names to it with respect to the articles and so on.

Thank you, Mr. Howes, for giving us an opportunity to hear your views.

I declare this meeting adjourned until next Thursday at 11.00 a.m.

APPENDIX "CC"

POPE & COMPANY, TORONTO 1

Memorandum addressed to the
Standing Committee on Finance, Trade and Economic Affairs
in the matter of Bill C-222.

A section of the Bank Act that has received little or no public discussion and yet is far reaching in its effect is section 157. This section was first introduced in the revision that took place in the 1930s. On the face of it, the section would appear to have been inserted merely to forbid an improper use of the word "bank" by unsound institutions wishing to take advantage of the gullibility of the public. In practice, it has brought about greater evils in that by forbidding the use of the words "bank", "banker", or "banking" by those who are not incorporated under the terms of the Bank Act, it has effectively made it impossible for even those foreign banks of the highest repute to offer their services to the Canadian public.

The point that this memorandum wishes to emphasize is that it is not generally realized that the results of this section 157 have been, unwittingly, quite disastrous.

Firstly: By using the word "bank" in this manner, Parliament has in effect changed the normal meaning of the word as commonly used in the English language; as an unfortunate legal implication is that any institution carrying on business in Canada and performing banking functions, but not chartered under the Bank Act, is beyond the control of the federal Parliament. This, of course, is quite contrary to the thought of those who drafted the British North America Act.

Secondly: As the international banks are, as a consequence of this section, forbidden to open branches in either Montreal or Toronto, our public suffers from a considerable limitation in the banking facilities that are offered to it. This is not necessarily a criticism of the facilities offered by our own chartered banks. As we all know, these rank amongst the soundest in the world. The point is, though, that while they are excellent in their chosen fields, they are somewhat provincial in their approach to international banking. Parliament should not put itself in the position of depriving the public of the more sophisticated banking services that are available in foreign financial centres.

Thirdly: This section actually reduces Canada, in matters of international finance, to the status of a third-rate power. It is no exaggeration to say that, financially speaking, the influence of the Canadian dollar abroad is practically nil.

Fourthly: The Canadian dollar, because of this section 157, is merely a local currency rather than an international currency.

Fifthly: Properly speaking, there is no foreign exchange market in Montreal or Toronto worthy of the name. One grants that the foreign exchange trading departments of the various chartered banks are quite adept at making quotations in American dollars, yet the fact remains that any quotation in Canadian dollars

for any other foreign currency is merely a reflection of the New York market.

Sixthly: It is again no exaggeration to say that this section has been responsible over the years for the loss by our exporters of a great deal of business. Manufacturers can well have excellent products for sale, but lacking complete financial advice regarding foreign exchange and foreign credit, they are unable to compete with those who have more financial expertise at their disposal.

It is sheer emotional chauvinism to believe that foreign banks are anxious to come into this country to prey on the savings of our widows and orphans. The finest financial centre in the world is London. In that city there are nearly two hundred branches of foreign banks. The requirements for the starting of a branch of a foreign bank in London are simple. It is merely required that it be licensed by the London Board of Trade, and on its letterhead state the country and year of its incorporation. Contrary to the fears of our chartered banks, a branch of a foreign bank does not deprive local banks of business, but rather brings new business to the financial community.

By the same token sub-section "G" of section 75 of Bill C-222 must be considered iniquitous. It is perfectly proper for Parliament to pass legislation seeing to it that foreign guests behave as good citizens. It is another matter entirely though to propose legislation aimed at causing needless harm to a particular well-behaved foreign guest.

The restrictions imposed on ownership of bank shares by the new section 53 are to be deplored. Sub-section 2 of section 53, which limits the shares of a chartered bank that may be held by one group to 10%, merely serves to perpetuate control by management rather than control by the owners, which is the more proper thing.

Much of the newspaper discussion regarding the revision of the Bank Act has been on the matter of whether or not a limit should exist on the rate of interest that chartered banks may ask for in granting loans. Most of the arguments in favour of retention of the rate ceiling tend to be emotional rather than rational. There are no sound grounds for believing that the chartered banks would take advantage of this new freedom, were it granted to them, by charging rates that could be considered improper. At the present time, the limit is quite unrealistic and produces unhealthy results.

All of which is respectfully submitted,

Joseph Pope.

October 7th, 1966.

APPENDIX "DD"

LAFFERTY, HARWOOD & CO., MONTREAL, CANADA

6 September, 1966.

Memorandum to the

COMMITTEE ON FINANCE, TRADE & ECONOMIC AFFAIRS

House of Commons

Ottawa, Ontario.

In August of last year we submitted to your Committee a brief regarding the proposed decennial revision of the Bank Act. After we had submitted the brief to your Committee we released copies to interested parties with the following letter:

> "The Standing Committee of the House of Commons on Finance, Trade and Economic Affairs resolved at their meeting on June 29th, 1965 that the cut-off date for the receipt of briefs relating to Bill C-102 (Decennial Revision of the Bank Act), would be August 31st, 1965. Our brief was filed and acknowledged by this date. It is now, in our opinion, a public document.
>
> "Our submission of a brief to the Committee was prompted by straight forward reasoning.
>
> "We believe the banking, financial and capital markets of a nation must be based on principles that creatively serve the population in all walks of life.
>
> "We believe that in the last 15 years there has been a broad deterioration in Canada in this regard, and that the trend has been towards exploitation rather than creativeness. As a result, we believe our status as a people of self-reliance and integrity as a whole has been weakened.
>
> "We believe it is within our role in the financial community to do what we can to correct this. These are the only motives that lie behind the submission of our brief.
>
> Lafferty, Harwood & Co."

Subsequently, Parliament was dissolved and our brief was never distributed to Committee Members.

A new bill has now been prepared (C-222) and has been referred to your Committee by the House for more thorough examination.

The background thoughts in our original brief are as valid today as they were a year ago. We are therefore resubmitting it to the newly formed Committee of the House of Commons on Finance, Trade and Economic Affairs. We are including in this memorandum some additional observations regarding Bill C-222.

Before discussing certain features of this bill the Committee might be interested in learning of the reaction that we received from different groups in the financial community who had seen our brief.

Most felt that the brief was an open discussion that fairly reflected the views widely held in the sub-surface among financial institutions in Canada.

What is perhaps not broadly recognized is the extent to which the banks dominate the financial community and use this influence to condition the thinking and actions of participants in the community.

Nearly every investment dealer is dependent on a bank for financial accommodation in order to carry his bond inventory. If the banking accommodation is not forthcoming at various critical times in the money and financial markets, then he can be squeezed out of business or severely penalized, and thus the dealers and the major part of the financial community are beholden to the chartered banks. Most of the financial institutions in turn are beholden to the financial community for the services that they provide, and thus there are very few who are in an economic position to isolate themselves from this influence and freely stand on their own feet and express a critical view of the banking system. The general pattern to be found in the financial community is one of fawning response to those to whom the community is beholden. Naturally there is a tendency for the banks to exploit the articulation available to them in furthering their own public image and interests.

Our brief was made available to different members of the financial press, but it received very little news coverage. Excerpts were printed in the Toronto Star, but the most extensive articles were published in the Winnipeg Free Press, and these were subsequently republished in the Vancouver Sun.

It has been intimated to us by the financial press that most financial editors would find it contrary to their interests to publish views reflecting unfavourably on the Canadian banking system.

We have received a number of individual letters commenting on our brief. We have included excerpts from these letters in an appendix to this memorandum.

With respect to Bill C-222 we wish to express the following views. These should be taken in context to the background thinking already discussed in our original brief, which is being submitted to you with this memorandum.

1. Section 25 of the new bill permits the formation of Executive Committees at the board level to act for the directors.

We think this is self-defeating when the intent is to broaden the competitive environment. An executive committee would enable the banks to maintain large boards of directors, the majority of whom are really rubber stamps and whose real service is to strengthen the banks' influence in the social, business and political community. These directors are not for management purposes.

If the formation of an executive committee is permitted there is no incentive on the part of the banks to dismember their present sprawling director structure, which really has octopus connotations. In fact, instead of discouraging its expansion it would permit an encouragement of it.

If a competitive environment were to be achieved amongst the Canadian banks, the present large boards of directors would become too unwieldy to respond to the rapidly changing decisions that have to be made at the policy level of a competitive enterprise. As a result, there would be a natural tendency to shrink the boards to more sensible management proportions in order to

achieve the operating flexibility that would be required. Although the new bill helps to discourage interlocking relationships, there are numerous methods that an ingenious group can devise to circumvent this requirement and at the same time achieve their purpose of exercising a conditioning influence in those areas sought. The banks should of course be seeking to acquire and hold their business on the basis of serving the consumer rather than exercising a pressure through social and business interests, to which the consumer must respond.

2. There are a number of minor technical points which we think should be included in Bill C-222. There are three obvious ones that come to our attention, but we also think that a careful examination should be made to see that the Bank Act conforms to the same principles governing the Canada Corporations Act.

(i) There is nothing in Bill C-222 that requires the banks to disclose to the shareholder the annual compensation paid to the officers and directors of the bank. This is normal and proper practice and is information to which a shareholder is entitled, and we see no reason why the banks should have themselves exempted from this public scrutiny.

(ii) There is nothing in the proposed legislation that would require the banks to report to their shareholders more than once a year. Full and adequate disclosure is now broadly recognized as being an important requirement and contribution to the proper development of orderly capital markets. From the shareholders' viewpoint it is a management responsibility that the owners be kept informed of the progress and operation of their bank. Interim reporting is required under the Canada Corporations Act and there is no good reason why the chartered banks should be exempt from this reporting practice. Most of the major banks in the United States follow this practice. The Canadian banks have made no effort in this regard in the past 10 years, and the reports they have submitted to the shareholders have been a mockery of honest reporting. We think it is time that the banks were required to play a more responsible role in Canadian corporate citizenship. In this historical regard we also think the public auditors have failed to act in the shareholders' interests by the manner in which they have condoned the way the banks have reported their financial affairs to the shareholders in the last 10 years.

(iii) The new Canada Corporations Act and the new securities legislation in the Province of Ontario require that directors and/or officers of the bank report to the Secretary of State or the authorities concerned any insider transaction in shares. There is nothing in the proposed bank legislation covering this, and again we see no reason why the banks should be exempt from this principle of proper disclosure.

3. We are opposed to the concept that the chartered banks should be allowed to issue debentures. The Canadian banks already monopolize a major portion of the savings of the Canadian public. To further extend this monopoly increases the concentration of economic power and denudes other developers' access to the savings that would otherwise be available to them. For the reasons that we outlined earlier, the banks are able to dominate the financial community and thus they would not really be competing in terms of merit in the sale of these debentures with other entrepreneurs.

We think the banks should be encouraged to competitively retain their deposits by effectively serving the consumer and suffer the penalty of loss where they fail to do so.

4. We think Bill C-222 is a step backwards as regards the formation of new banks in Canada. Bill C-102 sought to provide a statutory means by which others in the economy could start a new bank. We believe it should be a statutory right for any group in the Canadian economy to form and create a new bank so long as they meet the financial and regulatory requirements, and that they should not have to politically ingratiate themselves in order to achieve such legislative consent.

We do not think it is the responsibility of the legislator to exercise a judgment as to whether or not one group or another are more or less competent to operate a new bank. This is a judgment that should be reserved to the market place without overtones of what might otherwise require political influence.

5. We think the restriction against the ownership of non-resident banks operating in Canada is unwise and in the long term detracts from developing business maturity in the Canadian economy. It is reasonable to expect that Canadians within their own environment would have all the advantages of providing a service to their own countrymen. Instead of being afraid of having foreign banking operations in Canada, we should welcome them as a contributory element to broadening and expanding our foreign contacts, markets and communications. Canada is essentially an export nation. At the present time we have a major deficit in our international trade accounts and we are seeking to isolate ourselves from the very communcations and facilities that would naturally expand this trade. To our knowledge most of the Western nations permit the operation of foreign banks, and for the Government to support a restrictive attitude towards the operation of foreign banks in Canada is a complete contradiction of the Government's purported policy of seeking to create a competitive environment in the banking system. Neither the Canadian banks nor the Canadian Government should have any fear from a foreign bank in our own domain if our system was capable of serving the consumer efficiently and competitively. If our present system is not capable of doing this, then we should rapidly correct the situation by allowing the progressive infiltration of a competitive system that would act as a preventative to our progressive atrophy towards becoming a backward nation.

6. We think Section 138 of Bill C-222 is completely out of perspective to the nature of this provision in the legislation. As we have pointed out in our original brief, and as is recognized by both the Government and the banks, the Canadian banks have during the past decade acted as one of the most highly organized cartels in our country.

This section of the new legislation proposes that if they continue in this manner they shall be fined $5,000. With all due respect to those who drafted the legislation, this is ludicrous. The banks have literally acted as an avenue through which certain private interests have exploited millions of dollars of the Canadian public's money, and they are now being told that if this continues they will be fined $5,000.

In the first case it is legislation that is very difficult and expensive to police. In the second case, if it is the Government's intention to dissolve this cartel arrangement, then it requires preventative legislation with a strong deterrent. The action is so contrary to the public interest that the minimum deterrent should be a very large fine plus prison penalites ranging up to five years for

those officers and directors of the bank who directly condoned or contributed with prior knowledge to the transgression of the law.

Lastly, we think the Canadian public have a reasonable right to understand the decisions made by the Government in the banking area. A large number of Canadians recognize that historically the concentration of banking assets is directly detrimental to the development of a competitive and free enterprise economy, and in the final analysis results in primarily serving a few private interests.

In view of this recognized principle, we think it is proper that the public should be advised and given an explanation as to the reasoning under which approval was given for the merger of the Canadian Bank of Commerce with the Imperial Bank of Canada. This action directly affected the lives and interests of literally hundreds of thousands of Canadians, and it becomes a matter of educational and public interest that Canadians should understand on what basis this merger was approved as being in the public interest.

Only through disclosures of this nature can the Canadian public be assured that the chartered banks and minority private interests do not exercise an undue influence on the Government of Canada for the pursuit of their own interests at the expense of the majority of Canadians whom the Canadian Government and chartered banks are committed to serve.

Appendix I

Sirs:

Having just read your brief to the Standing Committee on Finance, which certainly turns a spot light on the "combine" in the Canadian financial field, I cannot help but admire your courage.

Do you suppose if the brief is not noted and reviewed by the news media, it would be because of the tentacles of the combine?

Treasurer,
A National Canadian
Corporation.

Dear Sirs:

Thank you very much for your letter of October 8th, under which you sent me a copy of your brief.

I have only just scanned the brief but it does strike me as being what you refer to as a constructive approach to correcting the deficiencies of the Canadian banking system.

It had often occurred to me that the policy of accommodation rather than of competition was a weakness in our Canadian economy generally, and it is most heartening to find this thesis so cogently argued as you have done in your brief. I can only hope that the Parliamentary Committee will pay due attention to what you have had to say.

A Lawyer,
Western Canada.

Sirs:

Your submission to the House of Commons is a masterpiece, and you are to be commended not only for its content, but also for your courage in making it.

A Lawyer,
Montreal.

LAFFERTY, HARWOOD & CO., MONTREAL

BRIEF TO THE STANDING COMMITTEE
OF THE HOUSE OF COMMONS
IN OTTAWA
ON FINANCE, TRADE AND ECONOMIC AFFAIRS

August, 1965

Subject: Bill C-120, An Act respecting Banks and Banking—more commonly referred to as the Decennial Revision of the Bank Act.

We submit this brief in the belief that those who do not agree with the present system should so express their views.

We propose to discuss the Canadian banking system in this brief in very broad principles. Many of the thoughts themselves will be based on circumstantial evidence. We have not undertaken a documentary study, as a great deal has already been achieved in this field by the 1964 Royal Commission Report on Banking and Finance. Neither do we have access to various witnesses and documents that would be necessary if we were to present our views in the form of documented evidence. Our views, therefore, reflect only our own observations and exposure to the system over a collective period of some 15 years as participants in the financial community.

We are not critical of the conduct of those who manage and are employed in the system. They are, in our opinion, victims of the circumstances related to the defects of the system itself, and if they did not carry out their responsibilities as dictated by the present forces in play in the system, they would be replaced by those who would. The majority of those employed in the system are governed by economic circumstances. They have families and children, and although they may have convictions different from the actions that they are required to take, they are dominated by a system that requires their loyalty to the bank first.

For many years the view has been publicly expressed by Canadian bankers and other prominent persons that Canada has the finest banking system in the world. We suggest that, before the Committee accepts this view, they obtain the opinion of authoritative people in the Federal Reserve System of the United States and other prominent bankers in the United States, whether they agree with this viewpoint, and if so, why the U.S. has not adopted the same system in an economy that is broadly recognized as being the most efficient and productive in the Western World.

One of the secrets of the efficiency in the U.S. economic system is its highly competitive nature, whereby the producer of goods and services must cater to the demands and requirements of the consumer. This requires a greater vitality and output than the alternative system under which the producer decides the services and products that will be available to the consumer.

The vitality and entrepreneurship of U.S. industry and business can be directly related to the vigorous anti-combine and anti-trust legislation that is continuously being enforced in all areas of the economy. It is this action that provides the consumer with the widest range of choice and prevents those seeking to provide the goods and services of colluding in order to save themselves the efforts of initiative and innovation, and moving with the changing desires and needs of the consumer.

The Canadian banking system has developed into a nationwide, monolithic structure with the participants being governed by manuals and regulations designed to hold the system into a cohesive form that responds to a narrow management structure surrounded by interlocking directorates.

It is, in effect, a banking machine designed to respond to the policies of the hierarchy and not to the desires and choice of the consumer. Eventually, if these desires are registered strong enough, modifications permeate through the system, but it is a long reflective process.

Such a banking approach as this must seek uniformity in its policies, otherwise authority cannot be effectively exercised over such a vast network. The system thereby imposes conformity on the customer, irrespective of differences in regional areas and the different ideas that constantly motivate the millions of Canadians who use the banking system because there is no practicable alternative. The one exception is that the service accorded to a customer is graduated, depending on his importance to the bank in the overall scheme of things. Friends of the bank, that is to say friends of the hierarchy, receive special accommodation, special rates and special favours.

There are eight Canadian banks for a population of 19,500,000 people. In the United States there are 14,000 independent banks, catering to a population of approximately 190,000,000 people. In Canada, if we had the same proportion of independent banks in relation to the population, there would be 1,400 independent banks under independent management serving the country.

We will not propound the various arguments for and against the independent banking system and the branch banking system. They are numerous and it would lead to confusion in the theme that we have to present. In principle, however, the independent banking system has more incentive to develop regional growth and industry. More important, it protects the banking system of the nation from the influential control of small coalescing cliques.

As is well known, three of the Canadian Chartered Banks control 70 per cent of the assets of the Canadian chartered banking system. These three banks in turn directly or indirectly have, through their Board of Directors, effective influence and access to policies of the three largest Trust Companies in Canada. We made some calculations earlier this year that suggest these three Trust Companies either as custodians or managers, have in their orbit of influence something close to 50 per cent of the market value of all Canadian owned industrial stocks listed on the combined Toronto and Montreal Stock Exchanges.

Associated with each of the three largest banks, who in turn are associated with the three largest trust companies, are the three largest security underwriters in Canada. Underwriting in Canada is not on a competitive basis of bidding and price, as it is in the United States. Generally in Canada, it is on a basis of agreement and accommodation related to the influence each respective group can

exercise through its bank and trust company affiliation. It is in principle based on an agreed division of markets.

The entire banking structure itself, to be well understood, requires charting to show the interrelationship of banking directors to financial institutions, and from the financial institutions to the public and large private corporations, and then back to the chartered banks.

With all due respect, we suggest the Committee cannot judge the most suitable legislation for the chartered banks based on the broadest interest and welfare of the Canadian people and future generations to come, until these interwoven relationships have been documented and their significance is fully understood. Without such data, the observer may discern the skeletal formation of the system but he will never comprehend its motivating forces.

It is possible that the information could be compiled by an independent citizen or a firm such as ourselves. However, as some of it is not available to the public, we suggest that the responsibility rests with the Inspector General of Banks or the Department of Finance.

The last published statements of the three largest Canadian banks showed a total of 148 directors. Whether the number is adequate or not to direct the affairs of each bank to the maximum efficiency and interest of the majority of shareholders is a management responsibility.

However, when it is seen that 20 per cent of the directors of one of these banks are practicing lawyers, it starts to become evident that membership of a bank board is regarded not so much as a responsibility to the public as a potential opportunity for the levering of influence.

It is a well known fact that a practicing lawyer has neither the time, nor in most cases the knowledge or experience, to effectively judge and direct a nation-wide branch banking system that must necessarily relate to the international monetary and banking affairs of the world. It has connotations of the cement cartel dominated by lawyers, that until recently crisscrossed Canada.

Another Board showed that more than 70 per cent of the Directors were also Directors of Life Insurance companies. Again, this was not one Life company but several.

On one of the other Boards 50 per cent of the Directors were also Directors of Trust companies. Although this bank itself effectively controls one Trust company, many of these Directors were on the board of other Trust companies. This shows the range of cross pollination.

Many of the Trust companies themselves have regional advisory boards. For instance, one Trust company which has 37 directors has advisory boards across the country comprising 124 individuals, excluding directors also serving on the advisory board.

In this particular instance the Chairman of one of the advisory boards of this Trust company serves as a director of the bank that controls its major competitor. As such, he is in the role of listener and interpreter to both sides. It is quite obvious that in a truly competitive spirit of enterprise he could not serve both organizations loyally or to the full measure of his ability.

Perhaps the outstanding example of this inbreeding is one of the leading life companies. It is now mutualized and has thereby lost its own initiative and vitality.

In this particular case the Chairman of the Board is among the most experienced and prominent directors of the largest Canadian bank.

Sitting on the board under his jurisdiction is the Chairman and Chief Executive Officer of the second largest bank. With him on the same board is a prominent director of the third largest bank, and also the Chairman and Chief Executive Officer of the fifth largest Canadian bank. The Life company in question holds in its portfolio 20% of one of the three largest Trust companies, which is an important minority position in the 'chess game' of power that is played in this field.

In terms of evolution and human relations these patterns are understandable because there is no legislation which says it shall not be so; but in terms of the public welfare and interests of the Canadian people, it represents the domination and exercise of power for the interests of a few.

None of these directors can be loyal to their own customers and shareholders and loyal to their competitors at the same time. We do not question the motivation of many of them. Many of them believe they are protecting the shareholders' interest from less desirable influences and in this capacity they are therefore serving their respective companies. In truth of course they are not. It is a false protection. The real such protection should stem from operating management whose efficiencies are such that their position would be impaired if less desirable elements sought to exploit the assets. Then the directors could and should appeal to the shareholders for support, showing that otherwise the value and earning power of their assets would be damaged. It is then up to the shareholders to exercise their own independent judgment.

As it is, under the present system the operating management has so many masters with policies of accommodation, all it can do is bend with the wind and hope to ingratiate itself. It has no motivation of its own and cannot have under this system. If it did it would challenge the fabric of the structure and such motivations would be suppressed or the originating force would be chastised as a troublemaker and deprived of authority. If an individual did not mend his ways he would probably find himself transferred to some isolated spot to complete the rest of his banking career.

Thus are Canadian corporations deprived of good operating management in depth. Those with talent either remain frustrated on the sidelines awaiting new opportunities, or migrate to the United States, where entrepreneur qualities and ability commands a premium price because of its economic value in the affairs of finance and trade. The end consequences of these characteristics to the customer and the economy as a whole are self-evident. It results in a banking system without integrity of principle or initiative of its own.

As a matter of interest, the following are the published directorates of the President and Chief Executive Officer of one of the three largest banks. There are some other directorates known to be held that are not included in this published list. It is quite obvious that under these circumstances this officer cannot be devoting his full energies to his bank, which on the basis of his compensation the shareholders have a right to expect.

President and Chief Executive Officer of:
one of Canada's three largest banks.

Deputy Chairman—Bank of London & Montreal Ltd.

Directors of:

The Ogilvie Flour Mills Co. Ltd
Canadian Pacific Railway Co.
The Consolidated Mining & Smelting Company of Canada Ltd.

Director of:

Consolidated Paper Corp. Ltd.
The Steel Co. of Canada Ltd.
Canadian Canners Ltd.
Sun Life Assurance Company of Canada
Canadian Investment Fund Ltd.
Canadian Fund Inc.
The International Nickel Co. of Canada Ltd.
United States Rubber Co.
Western/British American Assurance Companies
The Montreal Boy's Association
The Seigniory Club Community Association Ltd.
Canadian Council, International Chamber of Commerce.

Member of Investment Committee:

The Canada Council
National Industrial Conference Board
The Royal Empire Society (Montreal Branch)
Canadian General Council The Boy Scouts of Canada

Member of Metropolitan Board of Directors

Y.M.C.A. (Montreal)

Member National Board of Directors—Canadian Cancer Society

Member Advisory Board:

Royal London & Lancashire
Rehabilitation Institute of Montreal
Dollar Sterling Trade Council

Member Board of Governors:

United Red Feather Services
Canadian Export Association

Member Board of Trustees:

The Newcomen Society in North America (Chairman)
The Red Cross Society (Quebec Prov. Div)
Health League of Canada (Member Board of Honorary Advisory Directors)

Governor of:

Royal Victoria Hospital (Member of Finance and Executive Committees)
Sir George Williams University

Miscellaneous:

Boy Scouts of Canada (Honorary Vice-President—Montreal Region)
St. John Ambulance (Honorary Director—Quebec Council)

This is not creative banking. This is the use of the machinery for the exercise of power. To the individual there may be benefits, but it is the bank and shareholders who consequently suffer. The principle of the legislation now being considered is to formulate a banking system that will truly satisfy the requirements of our country.

What does the present system mean in terms of economic efficiencies, and does it really serve the shareholders' interests? It means different things in different areas. In the grass roots level of the banking system it means that the Branch Manager in a certain geographical area is governed by the policies of a Board of Directors who are looking at matters in terms of accommodating each other. If the interests of the regional area should happen not to coincide with these policies of accommodation, then it is the regional area that suffers.

What does it mean in terms of personnel? It means that in a banking system that has 5,650 branches, the operating personnel must conform. The system thereby suppresses initiative, change and new ideas because these challenge the authority of the system. The customer must also conform, even though his needs may be different, because a deviation from the manuals and regulations would again challenge the authority of the system.

It means that a system is created that is wide open to abuse and exploitation by a few strong individuals. By forming small cliques serving on different bank boards, those at the apex of the pyramids are in a position to acquire and exchange information that would not otherwise be available. This is the nucleus of men who dominate the Canadian capital markets, and who by the creation of investment trusts are further able to exercise their power throughout Canadian corporate life.

There are many historical examples of good medium and small companies that had real growth prospects which have been swallowed up. They had no alternative because they had no protection from price cartelization. Good and growing management must then surrender to the dictates of larger interests or be lost. Industry becomes concentrated, immobile and resistant to technological and marketing changes. The consumer ultimately suffers and more efficient U.S. industry invades the Canadian market place, and a serious imbalance in our trade figures result. Under these conditions secondary industry, which is so important to the future industrial development of Canada, cannot thrive. It is the exercise of power by a few that is motivated not by efficiency, but by personal benefits.

It is false to argue that abuses are the exception rather than the rule. A documentation of records would show that much of the major personal wealth in Canada has been acquired in this manner.

It is a system that provides greater opportunities for the less scrupulous than those of integrity, because he who seeks to preserve and protect the interests of the customer challenges the authority of the system.

In industry it leads to a system which restricts and prevents the formation and development of new competitive elements. An examination of the three largest banks will show that in most instances each has a dominant orbit of influence in the major industries of Canada. If, for example, a group in Winnipeg decided for one reason or another they would like to finance and develop a steel mill, they would very soon find that their plans were no longer confidential, that they could not get support in the capital markets, and that many of their potential customers were coming under threats of economic intimidation.

What does it mean in the Canadian capital markets? It means that those institutions which by the nature of their business have a continuous flow of savings, are subject to the collusion of the investment underwriters who, on their own terms, distribute new and previously outstanding securities.

It means that all others in the financial capital markets must ingratiate themselves, and in many instances compromise the position of their investor clients, in order to be allowed to make a living in a system where they cannot compete by energy, talent, initiative or greater efficiency.

It is a system of graces and favours where the consumer is given what he can get, and in many instances must prostitute himself for that which he receives. It means that honest men must perjure themselves to sell securities in which they do not believe because they too have economic problems of subsistence. It means financial analysts must write slanted reports on certain situations if they are to retain their jobs. It results in manipulated price markets, and extensive abuses throughout the stock exchanges in Canada at the expense of the Canadian investor.

These Exchanges are under provincial jurisdiction, but the provincial authorities cannot organize to correct the wide-spread malfeasance that pervades these markets when the dominant influence that has created these conditions is under Federal jurisdiction. The provincial governments themselves are not free agents in raising their capital requirements, because the capital markets are dominated by a single structure, and if the governments of the provinces require funds, they are beholden to this group for accommodation. In effect, therefore, this group is in a position to exercise an undue influence on the provincial government authorities at the expense of other Canadians.

What does it mean in Corporate management structure? It means that the large Canadian corporations have a Board that is dominated by these influences, and the Chief Executive Officer is in the position of having to conform in his corporate policies. He may find that his markets are defined for him, and also his source of raw materials, and whom he may or may not employ. This in turn means that the majority of Canadian public corporations, unless they are controlled by U.S. parent companies, are instead of being orientated to serving the consumer to the best of their ability, are required to respond to influences that may have nothing to do with their direct business. As a result, younger Canadian

management talent finds that its own initiative and energy is suppressed because it would otherwise antagonize this orientation. Operating policies become based on expediency; not on principles and corporate objectives designed to serve the consumer by initiative and new ideas.

As a result, it means that the learning institutions of Canada are required to teach at a level of mediocrity in business administration, finance and economic affairs. Many of their endowments and those sitting on their Governing Boards interrelate to the directorates of the Canadian Chartered Banks, and were they to aspire to teach differently, they too would be challenging the influence of authority on the hierarchy structure.

The financial press in Canada, which is highly concentrated, is equally required to play its part and reflect the views of the dominant interests. Controversial or unfavourable news is published only when extreme pressures require, except or unless it does not directly affect the dominant interests. Then it is expanded out of all proportion to its importance. The press is conditioned by pressures that exercise an influence on its advertising revenue. As a result, the Canadian investor is often denied proper and vital information. The Chartered Banks and the financial underwriters are particularly influential in slanting news copy.

It is an insidious system that creates a class structure and milks the majority for the benefit of a few. The results, besides the sociological and political aspects, are that as the Canadian corporations are denuded of talent and ability, they can no longer vigorously meet the conpetition of U.S. corporations which are conditioned by the disciplines of having to serve the consumer. Most Canadian corporations lack vitality and talent in depth. As a result, it is frequently seen that when the leading personality of a Canadian corporation retires or dies, the assets have to be sold to a non-resident, otherwise substantial losses would result because the structure itself lacks the management depth to continue to compete effectively.

It means in broad principle that inside information is available to some in capital markets that is not available to others. The price structure of these markets therefore becomes distorted by this pervasive influence, and these markets are no longer free, responding to the influences and conditions in the economy. It also means that the average Canadian investor cannot move in those markets freely without fear of exploitation, and under such conditions he does not participate. As a result, the Canadian public ownership in the shares of Canadian industry and production is probably less than one-third on a prorata basis than that of the United States.

When the capital markets are not properly regulated and are subject to continuous exploitation and abuse, the natural and correct flow of savings does not materialize. The New York markets, by contrast, are the most highly regulated in the world. It is this regulation that allows the tributaries to flow freely in without fear of abuse. The net result in Canada is that much of our savings are stagnant, or sterilized into positions and areas that are neither creative nor productive. As a consequence, to develop our growth and expansion we have to continuously borrow in the markets of New York and elsewhere, and progressively in the last 20 years we have been selling our assets in order to maintain and support a monolithic structure that is influenced and dominated by a small group of interests.

In effect, it is a banking system which has developed into the creation of feudal commercial empires. The permeation extends down to the legal and audit firms who feed off the central system.

These empires, in medieval fashion, have their own castles and compete to see who can exercise the most power and build the biggest head office.

In the long term the sociological impact is on the character of the country as a whole. We are no longer a people of self-reliance and independence. We are a kept people, dominated by the policies of the U.S. because we are now financially indebted to them, despite our tremendous resources and natural wealth.

Perhaps the fickleness of the Canadian banking system is best reflected in the services that are offered potential U.S. customers and those offered Canadians. This shows quite clearly in Canadian bank advertising.

The following pages contain some recent Canadian bank advertisements cut from the New York Times, the Wall Street Journal and the American Banker.*

The first page shows Canadian banks boasting that they can blaze business trails anywhere in Canada and help prospective U.S. customers find the "big ones".

Another advertisement offers to open executive doors across Canada to any prospective U.S. customer. In neither of these two instances are the same offers made to Canadian prospective customers. These advertisements are not run in Canada.

It will be seen in the U.S. advertising that great emphasis is placed on the information available to the prospective U.S. customer from the national branch system in Canada.

This same offer is not made to Canadians, although it is their information that the banks are gratuitously using as bait to attract prospective competitors from the U.S.

We do not think the majority of Canadians would approve of these policies and conduct on the part of the Canadian banks if they were aware of them. It is, in our opinion, a direct betrayal of trust and confidence.

The last page shows the type of advertising the Canadian banks offer in Canada. It is bland, institutional advertising, talking in vague terms of convenience, but with nothing specific. This type of advertising combined with a few flashing neon signs and some billboard 'sloganeering' is the treatment designed for the Canadian.

The Canadian advertising of one bank proclaims that its staff is, in some undefined way, superior.

This is hypocritical. It is a fact that the Canadian banks have a compact under which (with some rare exceptions), they will not hire from another bank. This is contrary to the practice in either the U.S. or Europe, and essentially means that if a bank employee is dissatisfied he cannot normally expect to receive employment consideration from another Canadian bank.

This is one of the policies used to regiment the system. However, the point to be made is that if a bank is not willing to hire better talent away from another bank, then it is self-evident that its claim to superior staff is without foundation.

*The advertisements referred to are not included in these Minutes of Proceedings and Evidence.

It is interesting to pause and speculate what motives prompt this divergence of advertising policy.

The prospective U.S. customer is offered all sorts of services—particularly ones giving access to information.

The banks are, in effect, selling the knowledge acquired by them through having conducted business for their Canadian customers. The three largest Canadian banks do not have investment or economic research departments of any consequence. They have never fostered this development because such a growth within the bank structure itself would challenge the authority and power of the interests of the interlocking director structure. Most of the financial and business knowledge is gained by their contacts through their numerous private channels of communication among the group interests. Also, cheques passing through the system are another source of information.

It is a known policy that the Canadian banks will not give investment advice to the Canadian. They will instead send the enquirer along or put him in touch with one of the brokers or investment dealers within their sphere of influence.

The Canadian banks know very well that they could not run the advertisements that they run in the U.S. press in newspapers in Canada, because immediately they started to receive enquiries for services that they were offering, they would be suppressed by the dominant interests who, to maintain their structure, seek a status quo rather than a competitive environment.

It is for this same reasoning that the Jews in Canada have been largely excluded by direct restrictive practices from entering the financial community. There are no Jewish member houses of the Montreal Stock Exchange, and the last such applicant was blackballed by the Members of the Exchange. There is now one Jewish member firm in Toronto. This compares with the large and broad participation of the Jewish community in New York, London and Paris, and all the developed financial centres of the Western World. It is not a question that the Jewish community have neither the ability nor the desire to enter the business. It is a restrictive measure based on fear of competition that would disturb the structure and status quo of the dominant interests.

Before closing this Brief with our recommendations, there are two thoughts we would like to leave with the Committee. The first of these thoughts is best expressed in the quotations of two men, both with different political backgrounds.

The first of these is a quotation from Senator Estes Kefauver, who in his book titled "In a Few Hands: Monopoly Power in America", stated the following:

> "High prices are a direct, immediate, and easily recognizable consequence of monopoly. There are other consequences, equally costly but less obvious in their impact. They arise from the kind of competitive practices which come into being when price competition is ruled out of the industry. Whenever there is more than one firm in a business, some form of rivalry is inevitable; if price competition is barred, this competitive behavior will take other forms.
>
> "But so long as it is competitive activity, what's the harm? The fact is that non-price forms of competition yield very different results from those flowing out of price competition. These results involve great economic waste and are often positively harmful to the economy."

The second quotation comes from the Memoirs of Herbert Hoover, who gave nine reasons for the causes of the Great Depression in the United States in the period of 1929 and onwards. (The U.S. banking system was reformed subsequent to this debacle, and included very strong preventatives against interlocking interests and directorates.)

> "Nor was our financial weakness solely in the banks. Throughout the whole business of providing capital for our economic life there ran a pollution—the habit of making money by manipulation and promotion of securities. And that promotion too often disregarded the merits of the goods it sold. In addition, the financial world, instead of providing merely the lubricants of commerce and industry, had often set itself up to milk the system. Worse still, instead of being financial advisers to commerce and industry, the financiers had, in many cases, set themselves up to dictate the management of it."

The second thought we should like to leave with the Committee is very straight forward. The Federal Parliament has the full responsibility and authority for banking in Canada. Those who have been elected to carry out this responsibility represent the Canadian people as a whole, and not the minority interests of power and influence. If the Federal Parliament fails to provide legislation that will eliminate the abuses and dominant monopolies that have crept into the system, the people of Canada will place their trust in those governments at a lower level that will respond by administering and protecting their interests.

The entire challenge to future confederation is based on the support that the Canadian people will give to those in elective office. If these in turn will not respond where they have the power and authority to do so, the electorate will transfer their power to others who will respond. If the Federal Government fails in this area, the Provincial authorities will be under strong pressure from the electorate to provide them with proper and equitable protection from the abuses, pressures and influences of small private pressure groups seeking to expand their interests at the expense of the majority of the population.

On the following pages we have briefly outlined in principle those changes that we think should be incorporated in the proposed legislation. We have not attempted to draft these or designate the section of the Act in which the various principles should be incorporated in the proposed legislation. They are sufficient in their form to reflect our views.

The Act as submitted to the Committee reflects the Government's proposals. In our opinion it pays only lip service to the conditions that exist. That which we have broadly outlined in this brief can be easily substantiated and much of it is available in documented form in the Porter Commission Report.

We believe we have expressed our views in a fairly comprehensible and straight forward manner in this brief. We do not therefore think it is necessary for us to appear in person before the Committee. We would, however, be glad to do so in confrontation with a spokesman of any of the Canadian Chartered Banks if they should seriously wish to challenge any of the viewpoints we have expressed.

RECOMMENDATIONS

The intent of these Recommendations is that all Directors serving on the Boards of Chartered Banks would be in a position whereby their decisions were of an arms length nature without conflicting interests so that their services were primarily in the interests of the majority of the shareholders and not for private interests.

SECTION 19

Proposal

A director shall not be eligible to serve as a director of a bank if he is already a director of another financial institution. A financial institution to be defined as a trust company, life insurance company, caisse populaire, an open or closed-end investment company or other repository of public savings.

Purpose

In banking and finance two masters cannot be reliably served at the same time. There are conflicting interests involved. The shareholder has the right of undivided interest from the directors of his bank.

Against the argument that other institutional relations give the directors more breadth and experience, the counter argument is that management should develop its own research and economic departments and develop operating self-reliance from within the bank organization.

Proposal

No shareholder shall serve as a director if he is also a member of the House of Commons or the Senate in Ottawa, or an elected member of a Provincial legislature.

Purpose

Dual positions of this nature lead to conflicts of interest and the peddling of influence and power by those who have been elected to serve the people.

With respect to members of the Senate, they are all adequately paid and to use a public position to further private interests is an abuse of public confidence and position.

Proposal

No Officer of a Canadian Chartered Bank shall serve as a director of any corporation, whether resident or non-resident in Canada, so long as he is an officer of the bank.

Purpose

The officers of the banks are adequately compensated. Their time should be devoted exclusively to the interests of their bank customers and shareholders. Some Chief Executive Officers of banks hold as many as 20 to 30 outside directorates. They are thereby using the confidential information that accrues to them to further their own interests. It is an abuse of trust and confidence and also introduces a conflict of interest. To argue that it maintains customers for the bank by having representation on the Board is not valid. Customers should be attracted and maintained by the efficiency of the service and price benefits, and not by underhand inducements.

Proposal

That the annual proxy to shareholders shall list those directors that it is proposed to nominate in the ensuing year. This proxy will disclose all outside directorates already held by the nominee and also the number of shares of the bank held by each.

Purpose

This is normal and reasonable information that a shareholder should have before making a judgment as to how he should execute his proxy.

Proposal

That all directors and officers of the Chartered Banks should report in the annual proxy all transactions they have made individually in buying and selling the shares of the bank, showing amounts and the date transacted.

Purpose

This is in accordance with the new Canada Corporations Act 1965, which does not govern the banks. It is proper and correct procedure to prevent inside trading abuses.

Proposal

That the Chartered Banks should be required to report to their shareholders quarterly, with an income statement as per Schedule "Q". The Government legislation proposes once a year.

Purposes

1. It imposes an operating discipline on management and makes them more responsible to the shareholders.
2. Through the public ventilation of figures, promotional activities on the Exchanges are reduced.
3. It is now accepted universally as a proper and responsible practice to report quarterly to shareholders. All the major banks in the United States do.

SECTION 76

Proposal

A Bank shall not hold the shares of any corporate stock except a corporation owning premises used by the bank.

Purpose

The Government legislation allows for a 10% holding. We think the banks are in the banking business and this is where they should stay. Any outside activity is in potential conflict with their customers. A bank holding 10% of a corporation either with friends, or in association with another financial institution is in a position in the Canadian market to exercise an undue influence on that corporation.

For portfolio purposes we do not think corporate stocks should be held. The business of banking is lending, not speculating in common stocks.

Proposal

There should be no interest rate ceiling that the banks may charge.

Purpose

It is not the function of Government legislation to dictate the terms under which the entrepreneur in a free economy will conduct his business unless that business has a monopoly position, in which case the consumer should be protected.

We are opposed in principle to the arbitrary fixing of an interest rate ceiling by a process of legislation. Rates and prices are matters that should be governed by open market conditions. It is the responsibility of Government and legislation to see that those markets are properly regulated, free from fear and intimidation, and equally accessible to all participants without regard to creed or class to participate if they should so wish. It is Government's function to see that the consumer is not exploited by cartels and agreements of collusion. The proper dissemination of information is essentail in this process so that prices and rates quickly respond to the demands and wishes of the consumer. If legislation achieves these conditions effectively, no other intervention is necessary. The consumer will migrate to the efficient at the expense of the inefficient. It is not Government's role to dictate or organize the consumer. If left with freedom of action, he is perfectly capable of looking after himself.

The Act should embody the following:

1. The Act should clearly define "interest". This would rectify the present situation in which part of the cost of borrowing money is sometimes described as a service charge.
2. The Bank of Canada should take over the operations of clearing cheques for all banks, so that ready access to the Canadian banking system is available to eligible participants.
3. Membership of any officer or director in any association providing the facilities for collusion should be prohibited.

APPENDIX "EE"

Gentlemen:

Canadians per capita have only about ½ as much of their savings in common stocks as Americans have, yet we squirrel away much more than they in savings accounts and insurance. It is no wonder that our industries are over 50 per cent foreign owned; some, (autos) 90 per cent. I feel, as do others more knowledgeable than I, that the main reason is that we simply do not trust our stocks or stock markets.

Dr. Morton Shulman, Toronto's genial chief coroner who is said to be equally at home cutting coupons or cadavers, recommends the following in his recently published book: "The fact is that one is better advised to buy U. S. securities"..."One reason that stocks in Canada remain at bargain prices is the erosion of public confidence"..."With the greatest regret I must say that 'Buy Canadian' is a great formula everywhere except in the stock market. There are exceptions where stocks are vastly underpriced, but except for these uncommon securities, it is better to avoid Canadian stocks. It is with difficulty that I as a Canadian must recommend, other factors being esqual, 'Buy American'."

Professor C. A. Ashley, of the Department of Political Economy, University of Toronto, put it this way in his scholarly brief before the committee studying company law at Queen's Park, "It is somewhat humiliating that the only companies operating in Canada that make adequate disclosure are those whose shares are listed on the New York Stock Exchange".

Our financial editors have been writing about the problems of corporate disclosure and shareholders rights for years; the thoughtful articles and editorials reproduced at the back of this brief are representative of their feelings.

It is heartening to note that there are signs that things are changing for the better, brought on in no small measure by the Atlantic Acceptance-British Mortgage farce. Here in Ontario the select Committee on Company Law and the Attorney General's Committee on Securities Legislation are both recommending wide-ranging changes in securities laws, giving more information and protection to the investors; likewise the revised Canada Corporations Act.

Even the Toronto Stock Exchange which our American friends regard as little better than a gambling den with the dice well loaded in the house's favour, is tightening things a little after the Windfall Mines debacle.

You gentlemen on the Bank Act Committee have the opportunity to strike a real blow for shareholders democracy, for the banks have by far been the worst offenders in the field of corporate disclosure. This is ironic, because as anyone knows who has ever applied for a bank loan (and who hasn't) they quite rightly insist that the borrower bare his financial soul. Should our bankers do less to their shareholders and employers? After all, what have they to hide?

A further thought I would like to put before you gentlemen is this: Think of the power which rests in the hands of banking's top management, with very few democratic checks and balances. It is largely conceded that our banks' boards of directors, distinguished and knowledgeable business statesmen though they doubtless are, are largely decorative. Most are either large depositors or borrowers, and too busy at their own affairs to pay much attention to the bank. Many are directors of so many firms that they couldn't possibly have the time to do an

adequate job of guiding the banks' affairs. Which leaves this awesome economic power in the hands of the very few in top management. Doubtless these gentlemen, most of whom have worked their way up through the ranks over many years, use this power for the good of the country and of their shareholders. Why then should they be so reticent?

Professor J. E. Smyth of the University of Toronto expressed his quiet concern before the Select Committee on Company Law in Ontario as follows: "This brief is not intented simply as a plea for the recognition of shareholder rights from the point of view of the shareholders themselves, for all such a position might be justified. I submit that one of the ways in which we can avoid an oppresisve concentration of power in modern society is to maintain the kind of groups that act as a check on one another".

"A system that requires management to be accountable in some reasonable degree to shareholders also keeps management accountable to society as a whole; shareholders, in fact, act on behalf of society".

As things are now, bank profits are managed by moving money around in the various reserve and rest accounts, so as to give a pleasant and complacent picture to the shareholders and depositors. All bank stocks move within the same price-to-yield range, so there is no way to gauge the efficiency of the various managements. It would appear that our bankers are nowhere near as efficient as their U. S. Counterparts. For example, U. S. banks manage to get a 10-12% return on average on invested capital; the best we can do is 8% or less. It is generally thought that bank employees are not overly well paid; as a matter of fact several of our banks went cap-in-hand to the Department of Labour a couple of years ago, asking to be excused from paying the minimum wage, presumably because they couldn't afford it. It would therefore appear that either top management are paying themselves too well, or more likely that personnel are not deployed in the most efficient way, because in Canada salary over-head is as high as 1.50% of total assets while in the U.S. comparable banks are in the .74 to 1.05% range. There is also strong evidence that our branches are over-expanded; one report says that nearly ½ of the Toronto branches of one bank are losing money.

Certainly one wonders if we really need a bank on every second corner, as it often appears. We have one bank for each 3,500 people, as compared to the U. S. figure of one for each 5,500.

In the U. S., under the Securities Acts Amendments of 1964, banks, it has been decided, have essentially the same responsibility to their shareholders as other corporations, and the new act ends their blanket exemption from the coverage of the securities acts of 1933 and 1934. Many U. S. Bankers fought the amendment tooth and nail; however they now accept it, see the speech of the President of the American Bankers Association and what's more seem to be thriving on it. Compare for example the actions of the Management of the First National City Bank which found itself in an embarrassing spot of discovering a huge loss during a stock offering, and disclosing it even though it might have

jeopardized the sale—with that of our Canadian Banks which were caught to the tune of millions in the Atlantic Acceptance fiasco, yet made no mention of it in their financial reports.

Very seldom does on find a Canadian Bank's president, when reading his speech at the annual meeting, discuss anything but the state of the economy in general terms. Pick up any of our banks annual reports at random. Do you find it as informative as that of the Moscow Narodny Bank in London? This institution is wholly owned by the Russian Government.

This report being too long to photo-copy, I have sent one to the Secretary of the Committee.

To aggravate matters further, secrecy seems to spread over companies with which the banks have close dealings. An example of this is Gunnar Mines-McNamara Construction, companies which have recently fallen upon evil days. A consortium of banks are said to be now running these firms to get their money out (the figure was reported to be $45,000,000.00). Shareholders of the Gunnar group naturally wanted to know what was going on, but management couldn't tell them because "Their bankers disapproved".

I respectfully submit the following recommendations for your consideration:

1. Annual returns should be in every respect complete. Even the most knowledgeable of analysts at present find them virtually meaningless. Loss experience, specific reserves, contingency reserves, and tax-free inner reserves should be disclosed as well as those after tax. The sum total of reserves put away over the years should also be disclosed, as this is lendable capital. What is more, the statement should be set up in such a way that an average investor can understand it. (See the article by Vince Egan, showing the absurd lengths one must go to in order to make any kind of a meaningful comparison.)

2. Cumulative voting should be made mandatory in order that small shareholders can have a voice on the board of directors. (This was recently recommended by Ontario's Select Committee on Company Law, and is the law in the U.S., under the National Bank Act.)

3. Brokers should be forbidden from voting stock which belongs to clients but which they hold in street name, but should be obliged to pass along proxies to the beneficial owners.

4. Proposals which are to be put before the annual meeting by management, should be included with the proxy solicitation material, so that an owner who cannot attend the meeting can express his approval or otherwise. (This will soon be the corporation law in Ontario.)

5. Management should be obliged to send resolutions which are to be presented by independent owners at the annual meeting, along with their own proxy solicitation material.

6. The names, addresses and holdings of every shareholder should be available to any other shareholder at the bank's head office or at any of its transfer offices.

(Under the present system, one has to go to Ottawa in order to look at a shareholders list. Even then only holders of 500 or more shares are listed, and this list is generally a year or so old at the time of the annual meeting, or at least

this was my experience. Holders of 500 or more shares are less then 10 per cent of all shareholders. The latest figures from the Finance Department are:

October, 1965	Total Shareholders	Under 500	500-1000	Over 1000
Montreal	24,099	22,544	845	710
Nova Scotia	14,063	13,112	498	453
Toronto-Dominion	14,428	13,505	468	455
Provincial Bank of Canada	5,433	5,095	201	137
Canadian Imp. Bank of Commerce	28,117	26,269	1028	820
Royal Bank of Canada..	26,724	25,038	907	784
Canadienne Nationale ..	5,528	5,069	251	208

This patently unfair arrangement effectively frustrates small owners from communicating with each other.

7. The Inspector of Banks should be empowered to find out who are the beneficial owners of bank shares in banks' nominee names, and the information should be made available to the public. (There are tens of thousands of shares registered in names like "Bankmont & Co.", "Gee & Co.", "Roycan", "Montor", "Lake & Co.", etc., which are known in the trade to be nominees for our banks. Banks are prohibited from owning their own shares, yet in the present Act there is no public official empowered to enforce this provision.)

8. Included in the annual return should be the amount of loans on which no payment on principal or interest has been received for six months. (If there has been a substantial loss, the owners should know about it. The argument that disclosure of large losses would be bad for public confidence is nonsense. As it is, owners have almost no way of judging their management's performance.)

9. The Inspector of Banks should be required to supervise closely loans made by banks to finance companies. (So much has been written of late about Atlantic Acceptance—British Mortgage, that I could hardly add anything to it. Apparently the situation was so bad shortly after the collapse, that unless the Bank of Canada had stepped in and arranged that huge amounts of cash be shovelled into many finance companies, the whole house of cards would have fallen in. The Controller of the currency in the U.S. feels the situation is serious enough there to warrant tighter supervision following the failure of Pioneer Finance in Detroit. This firm it would appear is in trouble largely due to the enterprises of the well-known Texas bon-vivant, Billy Sol Estes, now a resident of Leavenworth, Kansas.

10. Shareholders should receive reports quarterly.

11. Salaries should be disclosed of officers of the rank of Regional General Managers and up. Also information as to stock options and pensions.

12. Any inside trading of stocks by officers or directors should be disclosed to the Minister within 30 days of the transaction; to be published in the *Canada*

Gazette. (This is now mandatory for any company whose shares are listed on the London Stock Exchange, an institution particularly forward-looking.)

13. Directors should be limited to the number of boards on which they can serve—5 at the most. (Many are now on 10 or 15 and couldn't possibly pay enough attention to the complicated affairs of the Bank.)

14. An owner should be able to change his proxy up to the time of the actual vote.

15. Proxies should have a blank space on them so that an owner can fill in the name of a person to represent him at the annual meeting other than management.

16. Annual reports should be in both French and English.

17. The Governor of the Bank of Canada should be consulted prior to any proposed merger or amalgamation, to determine if it is the public interest. (When the Commerce and Imperial Banks merged, the 16th largest bank in the world was created, with assets of $6,208,405,418.00. The merger, no doubt, made good business sense for the shareholders concerned, but competition in the Banking Industry in Canada was substantially lessened. And as Graham Towers is quoted as saying a few years ago when our bankers were opposing the entrance of the Mercantile into the business on the grounds that we already had too many banks, "It isn't exactly like the ladies ready-to-wear business yet".)

The American Bankers Association asked a group of U.S. bank stock analysts what information they thought should be included in an ideal bank financial report. Thanks to Harry V. Keefe, Jr. of Keefe, Broyette & Woods Inc., this information is appended. See also his article "The Case for Disclosure" as it appeared in "Bankers Monthly".

Good Luck To You All

Terry Howes

Erindale, Ontario.

Editor's note: Articles and newspaper clippings appended to Mr. Howes' original brief are not reproduced in this Appendix.

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16. Annual reports should be in both French and English.

17. The Governor of the Bank of Canada should be consulted prior to any proposed merger or amalgamation, to determine if it is the public interest. (When the Commerce and Imperial Banks merged, the 18th largest bank in the world was created, with assets of $6,208,405,418.00. The merger, no doubt, made good business sense for the shareholders concerned, but competition in the Banking industry in Canada was substantially lessened. And as Graham Towers is quoted as saying a few years ago when our bankers were opposing the entrance of the Mercantile into the business on the grounds that we already had too many banks, "It isn't exactly like the ladies ready-to-wear business yet".)

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HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

OF

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

THURSDAY, JANUARY 12, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.

Bill C-222, An Act respecting Banks and Banking.

Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

Messrs. Frank O'Hearn; Melvin A. Nowaty and Harry H. Hallatt.

EDMOND CLOUTIER, C.M.G., B.A., L.Ph.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 35

THURSDAY, JANUARY 12, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.

Bill C-222, An Act respecting Banks and Banking.

Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

Messrs. Frank O'Hearn; Melvin A. Rowat; and Harry H. Hallatt.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25470—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs

Addison,	Comtois,	Leboe,
Basford,	Flemming,	Lind,
Cameron (*Nanaimo-Cowichan-The Islands*),	Fulton,	McLean (*Charlotte*),
Cashin,	Gilbert,	Monteith,
Chrétien,	Irvine,	More (*Regina City*),
Clermont,	Lambert,	Munro,
Coates,	Lamontagne,	Valade,
	Latulippe,	Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, January 12, 1967.
(71)

The Standing Committee on Finance, Trade and Economic Affairs, met at 11:05 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Flemming, Gilbert, Gray, Irvine, Laflamme, Lambert, Leboe, Lind, McLean (*Charlotte*), More (*Regina City*), Wahn—(13)

Also present: Messrs. Laprise and Thompson.

In attendance: Mr. Frank O'Hearn, Scarborough, Ont.; Mr. Melvin A. Rowat, Elmvale, Ont.; Miss M. R. Prentis, research assistant.

The Committee resumed consideration of the banking legislation.

The Chairman introduced the first witness, Mr. O'Hearn, who summarized his brief. In accordance with the resolution passed at the meeting of October 13, 1966, Mr. O'Hearn's brief is attached as *Appendix FF*.

Mr. O'Hearn also filed with the Committee the additional exhibits referring to his brief.

Ordered:—That copies of Mr. O'Hearn's additional exhibits be distributed to members of the Committee.

On behalf of the Committee, the Chairman thanked the witness, who was then permitted to withdraw.

Mr. Rowat was called, summarized his brief and was questioned. In accordance with the resolution passed at the meeting of October 13, 1966, Mr. Rowat's brief is attached as *Appendix GG*.

The questioning continuing, at 12:55 p.m. the Committee adjourned until 3:45 p.m. this day.

AFTERNOON SITTING
(72)

The Committee resumed at 3:55 p.m., the Vice-Chairman, Mr. Laflamme, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Gilbert, Irvine, Laflamme, Lambert, Leboe, Lind, McLean (*Charlotte*), More (*Regina City*)—(10)

Also present: Messrs. Laprise and Thompson.

25470—1½

In attendance: Mr. Rowat and Miss Prentis; and also Messrs. Harry H. Hallatt, Scarborough, Ont. and Denis Baribeau, research assistant.

Questioning of Mr. Rowat was concluded, whereupon he was thanked by the Vice-Chairman, and withdrew.

Mr. Hallatt was called, summarized his brief and was questioned. In accordance with the resolution passed at the meeting of October 13, 1966, Mr. Hallatt's brief is attached as *Appendix HH.*

The questioning having been concluded, the Vice-Chairman thanked the witness, who then withdrew.

At 5:05 p.m. the Committee adjourned until 11:00 a.m., Tuesday, January 17, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY January 12, 1967.

The CHAIRMAN: Gentlemen, I see a quorum. The first witness is Mr. Frank O'Hearn of Scarborough, Ontario. I understand that Mr. O'Hearn has a background in auditing and stock-broking. In recent years he has been the head of his own private research bureau. I am going to ask Mr. O'Hearn to present his brief. I remind him of our procedure that we do not ask witnesses to read their briefs in their entirety; instead we ask them to summarize their briefs in approximately 10 or 15 minutes so that we can have some time for questioning. Bearing that in mind, Mr. O'Hearn, I would ask you to present your brief, which, as you know, already has been distributed to the members for their consideration.

Mr. Frank O'HEARN (*Scarborough, Ontario*): Mr. Chairman, and members of the Committee, I first of all wish to thank you for granting me this permission to appear before you in support of my brief. I had prepared a brief back in 1954 for presentation to the old Banking and Commerce Committee, but they never gave me a hearing.

My purpose in appearing before you today is to support the brief that I have submitted for your consideration. I propose also to submit a definition of "banking", which would be suitable for inclusion in the proposed new Bank Act. I will submit a suitable definition of "money" too. I will tell you just how I propose to have the deficit in the government's balance sheet switched over to the banking sector of our economy, from which it originally came. I would like to elaborate a little on this proposal. It seems obvious to me that if a deficit is good enough for the government of Canada to operate from, that same deficit should be good enough for its own banks, the Bank of Canada, to operate from. Hence I propose that the government's deficit be forthwith switched over to the shoulders of the Bank of Canada. This seems particularly desirable in view of the fact that by making this switch we can enrich ourselves to a total of over $18 billion, which is equivalent to nearly $1,000 for each man, woman, and child in Canada. This is why I state in my brief summary that the government right now could properly debit its bankers with this amount which is wrongly over-paid them, and get credit notes for this total from them accordingly.

Furthermore, this government deficit could be switched over immediately, and its benefits to the entire nation could be felt immediately too. For instance, right at this point this Committee could conclude its study of the Bank Act revisions. To do this, all that is needed is for some members, right now, to propose that the government's banking legislation be passed by the House of Commons with but one major amendment. That amendment would be for parliament to order the government's Department of Finance to switch the governmental deficit over to the Bank of Canada. If some other members of this

Committee would then second such a motion, the Committee would, I feel, endorse it unanimously. The Committee could then report its recommendation to the House right today, and suggest that the bills be given third reading, say, tomorrow. I feel sure that every member of parliament would vote for the amendment suggested by the Committee; and would unanimously endorse the switching of the government's deficit over to the Bank of Canada, or even over to the chartered banks if such alternatives seem more desirable. Either switch would suffice.

In doing this, the government could on the following day, that is, say on the day after tomorrow, start spending its new found money in the public interest. Just to impress the committee with how serious I am in making this proposal I would submit that I am entitled to at least a 5 per cent cut in the money salvaged or generated through my formula. Now let me see: 5 per cent on $18 billion would be $900 million. You had better make it a billion dollars flat. It would be cheap at a billion dollars. Some people have offered me 50 per cent if I could get this money for them. And when the government starts spending its $17 billion on say, the day after tomorrow, everybody in this room could then join with me in spending my billion dollars. That would be something. Maybe we could charter a luxury liner and a few jet planes and take a few months holidays travelling around the world in luxury telling every nation just how they could enrich themselves by merely switching their government deficits over to the central banks or to the commercial banks, if preferred.

When we bail the governments out they will be able to do lots of things for their people that they cannot do now while they are in the hole. Now although loading the government deficits onto the bank will admittedly double their liabilities there is nothing to fear about that because I propose that we immediately bail the banks out too. My formula provides a means for the banks to double their assets too so as to offset the increased liabilities to be loaded onto them. My formula, in other words, calls for the banks to generate cash capital and cash profits as well as debts. Hence, my aim is to have this committee take the necessary steps to bail out our government and our banks too.

If a sudden emergency were to break out today this committee and Parliament could act very quickly indeed. They have done it on occasion before this. In order to demonstrate therefore that our democratic institutions can act just as quickly in times of peace as they do in times of war it would be fitting for this committee to act right now, pronto, in promoting welfare and enriching our people. This committee could take an unprecedented action which would spread right across the entire world; it could initiate a world-wide movement that would put the entire human race on a sound, solvent and prosperous position and provide benefits that could be had in no other way. It would be better to do this right now of your own free will than to plod along until April 1st and then maybe have to do it anyway to justify your study of the banking legislation. You have fate right in your hands and I sincerely hope you will grasp it while you have a chance to do so. I suggest the first duty of this committee is to bail our government out of the deficit hole it has been put in by the finance department and banking officials.

I would like everybody in this room to forthwith declare himself in favour of this proposal. Is there any committee member, for instance, willing to propose such a motion? We have to declare ourselves on it. Now, if no committee member is prepared to sponsor such a motion, or if Mr. Chairman does not see fit to call for such a motion, then perhaps one of the chartered banks may see fit to take the initiative. Is there a chartered bank official executive present who would care to take a stand here in this regard and tell the committee that he will have his bank credit the Receiver General right away with the sum of, say, $1 billion to bail the government out, and then offset the credit with a debit against the Bank of Canada, all for the purpose of initiating a proper accounting of the amount due the government by his bank and the amount due his bank by the Bank of Canada? This is a wonderful opportunity for the chartered banks. Would any chartered bank official declare himself on this?

If not even one chartered bank is willing to declare itself then perhaps the Bank of Canada officials would do so. There is an official of the Bank of Canada present. I was wondering if he is willing to tell the committee that he will have to central bank credit the Receiver General with, say, $1 billion as payment on account of its liability to the government and then offset its increased liability by switching a billion dollars from its new currency stockpile over to its cash cages to be reported as a cash asset? I wonder if the official of the Bank of Canada would do that?

The CHAIRMAN: Mr. O'Hearn, I think we should make clear, at least for the record, that at this stage we are here to hear from you and to give an opportunity for others to present their views either along the lines you suggest or otherwise. Will you proceed?

Mr. O'HEARN: Well, the only comment I make at this time on that is that if the committee will not act, the chartered banks and the central bank will not act then I feel that this committee is liable, like the 1954 inquiry, to end up by permitting the bank charters to be railroaded once again through Parliament, leaving us without a proper and suitable Bank Act to regulate our money and banking transactions. I saw that in 1954; I spent three months down here listening to that. If that is the case and the Bank Act is railroaded through again, I would have no recourse other than to charge that they are all intent on keeping the government and the people of Canada in their present insolvent deficit condition. I would have to charge too that they are all mutually acting against the public interest and are taking sides against the people of Canada. To me the issue is clearly marked between the officials and the people, and the battle must proceed. I here caution everybody that there are evil forces operating throughout the world that would rather start dropping atomic bombs before they let go their grasp on us. That is why we should take the initiative now before they can stop us and present them with a fait accompli, as it were; let them know that their jig is up and in consequence they cannot do anything about it as we have already taken action.

I will proceed now to tell you just how I propose to have our banks put in a sound and solvent condition. I will also tell you how I propose to have the currency now being mutilated and destroyed day by day by the bank converted into an earning asset. I will tell you of my proposal to get a better kind of money

for our business requirements and settlements and a better kind of banking too. Finally, I propose to tell you further just how my formula will enrich the government, the banks and the Canadian people to an equivalent of $1,000 each, which is $18 billion in all. I will read you my summary.

This is addressed to the Chairman and members of the committee. I feel it is unnecessary for me in this summary of my brief to demonstrate further the dire need of reforming our monetary banking and public financing methods and practices. I feel that this committee already have in mind that some basic reforms in our banking practices must be initiated. Hence I will summarize the purpose of my brief, which is many sided, as follows.

One purpose, for instance, is to get our public economy switched over from its present deficit basis to a capital basis. Another purpose is to provide ourselves with the capital which everybody readily admits we need so badly. Another purpose is to enrich our people and give them a stake in our economy which they now lack but which they are entitled to and which they need so badly to give each of them a personal interest in making certain that our economy will work to the benefit of everybody. Still another purpose is to salvage and share with everybody alike all the money which I claim has been illegally extorted from us and destroyed at our expense. A further purpose is to effect a substantial reduction in taxation so as to bring about a reduction in living costs, production costs, prices and so on. This will make it possible to end our prevailing wage and price spirals, our labour and management controversies, in the hope we may avert further economic and financial panics and wars along with their terrible consequences in human suffering, expense and frustration.

In brief, my purpose is to bail out government and banks for they are deep in the hole right now. I feel all these objectives will appeal to Parliament and to the people of Canada as being worthy and feasible. My hope and expectation is that Parliament will feel compelled to make use of my copyrighted formula and to pay me a fair price in exchange. This committee and Parliament may be assured that I would not even think of making the charges I have made were I not in a position to submit a formula and technique by means of which the flaws in policies may be ended and for once and all removed from our public and private economy. Hence my formula is found to be beneficial to one and all. Everybody has something to gain by implementing it and nothing to lose.

Here is a summary of how I propose that the new Bank Act legislation be enacted so as to put our government, our banks and our people in a sound and solvent capital position.

1. I propose that the new Bank Act provide us with a better kind of central bank. I propose the new act should change the name of our central bank to the Reserve Bank of Canada and that it should require the improved government bank to accumulate, hold and safeguard our national cash savings and reserves.

2. I propose that the new act should require the reserve bank to henceforth carry its own notes as cash reserves or deposit assets when such notes have been previously issued and properly collected back by it.

3. I propose that the new act should order that all new capital gained from currency transactions be reported and paid to the Receiver General of Canada as intended by our national charter.

4. I propose that the act should order that the new reserve bank should provide us with a dollar good enough for the reserve bank itself to hold and report amongst its other assets.

5. I propose a better kind of public financing, one by means of which the national government gets the profits accruing from the issue of new Canadian money, whether issued direct or through the remodelled reserve Bank of Canada.

6. I call for a better kind of capitalist economy, one that is based on a capital equity basis instead of on a cash deficit basis as now prevails.

7. I propose that Parliament insists on getting us a better kind of money for our international trade transactions and so on, an international dollar suitable for the entire world, one which is badly needed to free international trade and settlements from the shackles now plaguing us, or a suitable alternative for international exchange—one which is so badly needed to free us from existing threats to ourselves and all other nations.

8. The government, for instance, could right now debit its bankers with the amounts it wrongly overpaid them. It could get credit notes from them accordingly.

9. We could, for instance, profitably convert our discarded currency to an earnings asset. Instead of mutilating, burning up or otherwise destroying our costly Canadian currency as we now do, we could, with the necessary co-operation, readily arrange to exchange it for foreign currencies, accepting in exchange their currencies which they too have hitherto mutilated and destroyed in a similar way at the public expense. The banks could then tender credit balances for free checking to their governments against their added holdings of foreign currencies.

This formula would be particularly beneficial inasmuch as the funds they get in exchange would be treasured by the different nations, giving them a clear 100 per cent capital profit for such exchanges and increasing their foreign exchange holdings accordingly. In this way holdings of foreign exchange currencies by ourselves and foreign nations would be enlarged for a common benefit, providing suitable funds for settlements and expansion of international trade. This new technique also would avert the cash loss each nation now suffers when they destroy the currency they now discard instead of cashing in 100 per cent thereon as my formula proposes.

This formula for international exchange of currencies now unused and unclaimed could be carried out until each country had used up its costless currency and placed itself for the first time in a sound and solvent condition. Inasmuch as we in Canada mutilate, burn up and destroy some $4 million daily, it is clear that by following my formula we could turn this loss into a cash profit either in Canadian or foreign currencies. Moreover doing this would give a similar profit to the country we effect the proposed currency exchange with. I roughly estimate, lacking any definite figures, that the nations of the world presently lose over $100 million daily from their foolish destruction of their own currencies and that accordingly we could, with the necessary co-operation, turn this loss into a $200 million daily profit by implementing my copyrighted

formula. In this way billions of dollars could in the next year be beneficially made available for financing world trade to the benefit of everybody.

I fail to see how anybody can turn down such an attractive proposition. This committee and Parliament have a moral and legal obligation to end the phony dollar scheme which has long been imposed on us. By implementing my formula Parliament would be making an historical switch-over from deficit to capital financing, a change-over which is absolutely essential to our economic and political survival. We cannot go on indefinitely over-taxing and over-indebting ourselves with impunity, in lieu of restoring and using the cash we have been cheated out of. The many benefits which would accrue to the government and people of Canada, and to the governments and people of the entire world from the use of my formula, are quite obvious. The use of our new-found cash reserves as a permanent money base would place us all in a sound and solvent condition, and would ensure permanent prosperity and free us from our present uncertainties. The costless recovery of our secret, unclaimed bank balances, our missing cash savings, our uncashed money profits, obviously, would put an end to involuntary poverty, unemployment, and so on, and would provide ourselves with markets freed of restrictions and undue competitions. The costless tax reductions it would make possible, would reduce our production on living costs, and prices, and would stabilize our economy accordingly. Billions in new capital would be unleashed for investment purposes through my proposed costless repayment of the public debt. Or alternately, the new capital could be beneficially used to buy back a substantial portion of the Canadian resources now held by foreign interests. In this latter way each Canadian would get a share in business profits and our new-found equities would provide a basis for solving the age-long conflict between employers and employees.

My formula would enable us all to live in harmony with each other and with our neighbours in peace, prosperity, and security, despite the threats of atomic bombs and the other destructive elements now menacing our very existence. I therefore hope thata this Committee will advise parliament to order amended financial statements from the officials of the Bank of Canada, the Department of Finance, and the chartered banks, so as to show their true financial conditions. I hope thata parliament will order them to restore and turn over to the Receiver General, as needed, our hidden cash savings which we are now being deprived of. I further hope that parliament will take this action before renewing the expiring bank charters; otherwise, parliament and the banks, the government and banking officials will downgrade themselves accordingly, and leave themselves open to the wrath of the Canadian people. Finally, I hope that this Committee and parliament will act accordingly while the time and opportunity permits.

This completes the summary of my brief, but I would like to add a further word. Since I wrote the Chairman last November 16 and sent him a copy of this summary, which I have just read, I have had an opportunity to examine some of the testimony to the Committee already made by officials of the Department of Finance and the Bank of Canada, as well as the chartered banks. I advised the Chairman that I have come to Ottawa to give this Committee the first chance to enquire into the beneficial formula I have developed to enrich the Canadian people, the government, the bank and parliament, for the purpose of using this

formula as a basis to amend the government's proposed Bank Act and getting suitable compensation in return. I also advised the Chairman that I have not come to Ottawa to publicly discredit any person or persons in particular although I have already charged in my brief that they have been handling our banking and money affairs improperly and illegally. However, after examining the testimony already made to the Committee by the officials of the Department of Finance and the banks, I feel compelled, in the public interest, to further expose the falsity of that evidence in many respects, and to expose the efforts of those officials to deceive, misinform and confuse this Committee, and through it, the parliament and people of Canada. I could not, conscientiously, remain quiet under such intolerable circumstances. Accordingly, I have prepared a critical appraisal of the testimony of the witnesses already heard by this Committee, insofar as it has come to my attention. Here is a summary of this critical appraisal.

The CHAIRMAN: I wonder, Mr. O'Hearn—and I am in the hands of the Committee in this regard—whether it would not perhaps be more suitable, or equally suitable if you let us have a copy of this critique, which could be circulated amongst the members for their more detailed study, and if we devoted our time this morning to any questions the members may have on your own formula. What are the views of the members in this regard?

Mr. O'HEARN: In that respect I would like to file a schedule of these additional exhibits. Would that be all right?

The CHAIRMAN: All right.

Mr. O'HEARN: I will just read the titles over so that you will know what the contents are; they are only short exhibits. No. 1 is my definition of banking; No. 2 is my definition of money; No. 3's title is "bailing out the banks"; No. 4 is a bulletin exposing the shortage in banking assets; No. 5 is my money circulation chart and it was suggested that some might want to have a chalk talk on that chart on the blackboard, which I will do that too, if you wish; No. 6 is titled "which comes first", and that is a question that has been bothering everybody; No. 7 is resettling bank debts and the present method; No. 8 is a bulletin on inflation and deflation; No. 9 is a bulletin explaining the real effects of Bank of Canada operation on chartered banks; No. 10 is some of the sordid details of my critical appraisal of the testimony already given to the committee. Shall I file those with you?

The CHAIRMAN: Yes.

Mr. O'HEARN: You do not want me to read the appraisal?

The CHAIRMAN: Well, I am in the hands of the Committee in this regard. Is it the wish of the Committee that this be circulated for further detailed study, and that we limit ourselves this morning to any consideration we may want to give at this time to the specific proposals of Mr. O'Hearn.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Do we agree on that approach?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Now, Mr. O'Hearn, you have presented a very interesting summary of your views and proposals, and have filed an additional memoran-

dum with us for our consideration. Therefore, at this time it would be appropriate for me to call upon the members for any questions or comments they may have with respect to the views you have put forward in your summary and, of course, in the larger brief you were kind enough to file with us some time ago which, as I said, has already been distributed for the consideration of the Committee.

Mr. O'HEARN: I have a one page, five minute summary of my critical appraisal of the testimony already given that I feel I should put in; it would only take five minutes.

The CHAIRMAN: Well, first, I think we should see whether the members have any questions or comments at this time on the summary and on the wider brief.

There appear to be no questions or comments at this time, and perhaps the Committee therefore, as this further critique will only take some five minutes, may want to afford Mr. O'Hearn the opportunity of presenting it. Do you have that available at this time, Mr. O'Hearn?

Mr. O'HEARN: Yes. This is just a summary of what you have in there.

The CHAIRMAN: I see.

Mr. O'HEARN: First, I would like particularly to draw the attention of the Committee to the similarity of the testimony already heard from the banking and Department of Finance officials. They all take the same stand on the various questions raised by the Committee members, and they all give the same unsatisfactory answers. This is because they have all been tarnished by the same brush. They have all been brainwashed by the same propaganda, the government, the politicians, the London School of Economics, the teachers of banking, economic, and political economy classes in the universities, the misguided press, and the prevailing financial policies. Hence, they have all misinformed the Committee and confused the members. They do this, obviously, for their own subversive purposes, to keep themselves in their jobs and in command of our financial and economic affairs. This applies, particularly, to the Minister of Finance and his Deputy, to the Governor of the Bank of Canada and his deputies, to the Inspector General of Banks, the Auditor General, the Comptroller of the Treasury, to the executives of the chartered banks and their lieutenants, to the shareholders' auditors and the Canadian Bankers' Association and their officials. From the foregoing, it is clear that those officials either do not really understand the nature of their own operations and transactions, or they are deliberately subverting our financial system. It is clear too that this is one of the main reasons that they have not been able to operate our financial system in the proper manner for the benefit of the government and people of Canada. But this is obviously clear because of the fact that these officials who are supposed to be experts in their field, and supposed to operate our financial system for our benefit, are nevertheless quite unable or refuse to properly define banking and the banking business they are conducting; neither can they properly define money or calculate the supply of money generated from their operation. Nor have they been able to distinguish between deposits as assets and deposits as liabilities. They have, consequently, been unable to translate their operations and transactions into sound bookkeeping and accounting reports and statements.

They pervert our accounting system so that they make it appear that our national government has an accumulated deficit of over $15 billion instead of a capital surplus of over $3 billion. They make it appear that our public economy is in a deficit position instead of reporting an $18 billion deficit in the banking accounts. Hence, the balance sheets put out by the Minister of Finance, as prepared by his deputy, are absolutely false and incorrect, and they fail to show the true financial condition of our national government. Likewise, the balance sheets put out by the banks and passed by the Deputy Minister of Finance are similarly false and incorrect; and they too, fail to show the true financial condition that is called for by the existing Bank Act and other statutes governing their operations. By the same token, the balance sheet and financial statements put out by the Governor of the Bank of Canada are likewise false and incorrect and fail to show the bank's true financial condition.

Now, I have filed what I call the sordid details as an exhibit to the central office.

The CHAIRMAN: Thank you, Mr. O'Hearn. Are there any further questions or comments at this time? If not, Mr. O'Hearn, we thank you for appearing before us and giving us the opportunity to hear your views. I am sure the members of the Committee will want to give them every appropriate and serious consideration.

Mr. O'HEARN: How about any enquiries they may have in the future? Do you want me to come back?

The CHAIRMAN: Well, that will be up to the Committee to decide whether or not they wish to recall you. In addition to that, of course, it is open to any member of the Committee to communicate with you privately.

Mr. O'HEARN: Yes.

The CHAIRMAN: I thank you very much, Mr. O'Hearn.

Mr. O'HEARN: Thank you for your hearing.

The CHAIRMAN: Now I will call upon Mr. Melvin Rowat.

Mr. O'HEARN: Could I speak about Mr. Melvin Rowat, in anticipation?

The CHAIRMAN: No, I am afraid not, sir. You have had your opportunity to present your views and this is the basic reason that you are here today.

Mr. O'HEARN: If he, in his statement, uses any of my stuff, I want him to give me credit for it.

The CHAIRMAN: Thank you very much, Mr. O'Hearn. Now, Mr. Rowat, would you step forward please, and proceed to present your brief?

Our next witness is Mr. Melvin Rowat. He tells me that he is in a managerial position in the business field. He has come before us to present his own views on our financial and banking situation and these are the result, he tells me, of a great deal of private study on his part. As we know, his brief was circulated to us for our consideration some days ago. I have asked him to present his brief to us at this time, bearing in mind our Committee rule that the presentation should be in the form of a summary of approximately 10 to 15 minutes, following which the members may put any questions or comments they may have. Mr. Rowat, would you proceed?

(*Translation*)

Mr. LAPRISE: Mr. Chairman, about the report or brief, could we have it translated? Could Mr. Rowat's brief be handed over so that we could have it completely translated?

The CHAIRMAN: Which report?

Mr. LAPRISE: Could Mr. Rowat's brief be handed over so that we could have it completely translated?

The CHAIRMAN: I am quite disappointed to see this. We received Mr. Rowat's brief long before his appearance here today, and it is my opinion that we should have a complete translation of these presentations to the Committee. As Chairman, I want to make a rather serious criticism to the Secretary of State Department for not having been provided a translation of these briefs in time. You know that any statement will appear in the minutes of this Committee in both official languages of the country, and as we have very complicated work on our hands, perhaps I might suggest to Mr. Laprise that we could perhaps continue with another discussion with Mr. Rowat now to allow the Committee to carry on its work. As you know, we have simultaneous interpretation here, and I think this will give all of us an opportunity to follow Mr. Rowat's ideas now.

Mr. LAPRISE: Will Mr. Rowat's brief not be tabled to appear in the proceedings of this Committee?

The CHAIRMAN: Yes, this is what will take place. Mr. Rowat.

(*English*)

Mr. Rowat would you proceed?

Mr. MELVIN A. ROWAT (*Elmvale, Ontario*): Mr. Chairman and honourable members of the Finance, Trade and Economic Affairs Committee, I consider it a privilege to have the opportunity of appearing before you to bring to you my findings on the present banking system and my proposals for bringing about what I call a scientific solution to Canada's economic problems.

The brief is in two parts: one part deals with the present system and the other with the proposed changes. As you will note, having read it, the latter part of this brief is a copy of the brief that I presented to the Royal Commission on Banking and Finance in 1962. Thus some of the particular figures in there are relative to 1962 and could be updated by using the Bank of Canada statistical summary as of today. In my summary of the brief—and I only realized yesterday I had to summarise it—I have made notes so that members can follow the different paragraphs and sections of my presentation.

I would suggest, first of all, that we turn to page 8 of the brief that I submitted to the Royal Commission because there is one statement I would like to read. I would like to mention at the outset that although some of my remarks may give you the opinion that it is the chartered banks that are at fault, it is not the chartered banks that are at fault. Their creation of money and/or bank credit is legal in Canada. It is the banking system adopted by the federal government which is wrong. Our present banking system can and should be changed.

I suggest to honourable members that I now start and add from the front of the section that is presented to the Royal Commission. As I say, I will

only touch upon some of the highlights in here. I should state before I commence that I am ready and willing to answer any particular questions that may arise. Members can either bring them up while I am speaking, Mr. Chairman, or they can wait until after I have made my summary. I am prepared to substantiate all my remarks, using the Bank of Canada's statistical summary, the Canadian Bank Act and other legal documents for this purpose.

With this as a sort of preamble I will now go to page 1 entitled "Canadian Banking—Present Imperfections Exposed and Workable Corrections Presented" go down to paragraph 5, in which I point out that the question that plagued my mind when I returned from the armed services was: "Where does our money come from and who or what determines its supply?" Now my interest in this was stimulated in 1954 when it was drawn to my attention that the banks cannot and do not lend their customers deposits. The verification for this can be found in the 1939 Banking and Commerce Report, and it was stated by Mr. Graham Towers on page 455 as follows:

> The banks cannot, of course, loan the money of their depositors. Now what the depositors do with these savings is something quite beyond the control of the banks.

This particular statement takes me to paragraph 9 on page 2. Then the question comes to mind: "How can the banks afford to pay us interest on our deposits which they do not lend?" This appeared to be paradoxical and raised another question: "What do the banks lend"?

It was out of *Quick Canadian Facts* that I got some of my information which is stated in paragraph 10. This particular statement can be verified in section 71(1) of the Canadian Bank Act as revised in 1954. This provision in the Bank Act enables the chartered banks to legally create our medium of exchange called "money", pay us interest on our deposits which they do not lend and operate at a consistent profit.

In reading these particular articles it came to mind that there is such a thing as a cash reserve. Then the situation was to define "cash reserve". Cash reserves are increased every time we deposit Bank of Canada notes, Canadian currency, with the chartered banks. I may say here, Mr. Chairman, that I am speaking of the chartered banking system and I do not refer to any individual bank in the system. I should also state that when I use the terminology "money supply" I use it in the over-all understanding as it has been laid down by the Bank of Canada. Cash reserves are also increased every time the Bank of Canada purchases securities on the open market—that is, add securities to their present portfolio.

Now the other part of that particular section which appeared in *Quick Canadian Facts* and was verified by the Bank Act is the deposit liabilities of the chartered banks—reading from paragraph 15—and these consist of our personal savings plus bank loans and/or purchase of securities by the chartered banks which appear as deposits in someone's account.

In paragraph 16 I state the following:

> To elaborate on the statement concerning cash reserves, let us consider the deposit of $100 in Canadian currency with the chartered banking system. It increases the bank's supply of Bank of Canada notes by $100

which constitutes a part of its cash reserves. Thus we learn that every deposit of Canadian currency in the chartered banking system increases their cash reserve by an equal amount.

Paragraph 17 deals with the manner in which the cash reserves for the chartered banks are increased when the Bank of Canada purchases an additional security on the open market. I do not believe, Mr. Chairman, that I need to go into detail on that section but I might read into the record the portion that is underlined in paragraph 17, which is as follows:

> The Bank of Canada is empowered to create money for the purchase of securities and there is no gold needed to back Canadian money.

We move over to paragraph 19, and again I will only read the portion which is underlined:

> The strange thing is the granting of a loan or the purchase of a security, by the banks,—

and I am referring more particularly here to the chartered banks.

> —which creates a deposit, never lowers any other deposits. Since our total money supply is made up of currency plus bank deposits; it necessarily follows that every bank loan, which creates a deposit, increases our total money supply. (More of this again will be mentioned later.)

I would like to read the quote that I have under paragraph 20:

> The deposit of $100 in Canadian currency, as a savings in the chartered banking system, increases their cash reserves by $100. This increase in cash reserves enables the chartered banks to create and loan an additional $1,150 which appears as a deposit in the borrower's account.

And further, I will read the underlined portion of paragraph 21:

> The $100 deposited is the 8 per cent cash reserve, required by law, of the $1,250 deposit liability incurred by the banks in this transaction.

And I would like to read the quote that is entered in paragraph 22:

> Supposing you deposited $100 in Canadian currency in the bank. This appears as a deposit in your account and is part of your assets. It is an asset of yours and a liability of the banks. Of course we all know banks cannot lend liabilities.

This is verification and proof that the banks do not lend their customers deposits which are liabilities.

In paragraph 23 I speak of a detailed study that I made of the Bank of Canada's statistical summary. Again, Mr. Chairman, these figures are based on 1960-61. I would draw to your attention that in view of the fact the chartered banks do not lend their customers deposits we all should be able to walk into the banks at one time and demand our personal savings in Canadian dollars, as is shown in their ledgers. However, in verifying the Bank of Canada's statistical summary I found that at that time we had in excess of $7 billion of personal savings. But in looking over the Bank of Canada's statistical summary at the same time I found that the total assets of the Bank of Canada including all the currency is approximately $3 billion. This caused me to wonder what would

happen if we all decided to withdraw all our savings at one time. This appears to be another paradox. However, in view of the fact that bankers cannot lend our deposits we should be able to withdraw all our savings at one time.

I believe that paragraphs 24 to 29 are important enough, Mr. Chairman, that I should read them to the committee.

> While discussing Canadian banking with an economic adviser of the Federal Government, I asked the following question:
>
> > "How could the Canadian people hope to be able to get their savings of $7 billion from the chartered banks,—that is their personal savings in chartered banks—providing they all decided to withdraw them at one time, when there is less than $3 billion of Canadian currency in existence?"
>
> He suggested that my answer to this question should come from the Bank of Canada and arranged a conference for me with its research department.
>
> The research department assured me that my reasoning was correct: "Most of our personal savings are nothnig more than bank credit, created by chartered banks and loaned to the people individually and collectively at interest. The loans appeared orginally as deposits in the borrowers' accounts, but because of business activities, have been transferred from the borrowers' accounts to our savings accounts." They suggested that further questions on money and banking could be put in letter form and sent to the Bank of Canada.

I followed through with this recommendation, Mr. Chairman and members.

> The Bank of Canada has affirmed by letter, that bank loans appear as deposits in the borrowers' accounts, without lowering any other deposits. This confirms the statement made earlier, that every bank loan increases our total money supply. Our total money supply, of approximately $15 billion is made up of currency plus bank deposits.
>
> Let us consider the manner in which Graham Towers, when he was governor of the Bank of Canada, explained the creation of money and/or bank credit, by the chartered banks. On page 285 of the 1939 Banking and Commerce Report it is recorded that Mr. Towers agreed to the statement; that the chartered banks do not lend money, but bank credit, a substitute for money. One of the questions asked was: "Then we authorize the banks to issue a substitute for money?" Mr. Towers answered: "Yes, I think that is a fair statement of banking."
>
> On page 79 in the Book "Understanding the Canadian Economy", which is used as an authorized text in many Canadian schools, under the heading "The creation of money by banks," the following appears:
>
> > "We have already learned that the most important kind of money is credit. The most important kind of credit is the credit created out of thin air by the banking system. Eighty percent of the volume of business in Canada uses money that isn't there. Banks lend it out of nowhere to people, and when it is paid back it returns to nowhere. It can't be seen, yet it can make the difference between full employment

and mass unemployment. Most of the revenue of banks is interest on money that does not exist."

Paragraph 30 deals with the section, "Let us consider three different methods of the expansion of cash reserves and the effect that they have on our system."

> As previously illustrated, the deposit of $100.00 in Canadian currency with the chartered banking system is sufficient cash reserve for the chartered banks to create $1,150.00 of bank credit and lend it to the Canadian people at interest. This means that $100.00 of Canadian currency on deposit with the chartered banking system enables the chartered banks to collect interest on $1,150.00 of bank loans.

May I say that this is considered at a 6 per cent ceiling which is now in existence, and it is proposed that it will go higher, and it does not take into consideration the other methods of loans that the banks now engage in—that is, where you pay back on a monthly basis and so on. But considering it at a 6 per cent rate and considering that the interest paid to the depositor on the savings is approximately 3 per cent, it is obvious to see that

> The chartered banks can make a gross yearly profit of $66.00 on $100.00 of Canadian currency deposited with them for safe keeping—which they never owned in the first place.

Paragraph 32 deals with the case in which senior citizens deposit their old age pension cheques in a bank as personal savings.

The $55.00 appears as a deposit in the elderly person's bank account and increases the cash reserves of the chartered banks by $55.00, for all of these pension cheques are cleared through the Bank of Canada. The transfer which takes place, at the Bank of Canada, is from the Government of Canada's account to the chartered banks' account. This transfer increases the deposits of the chartered banks with the Bank of Canada, without lowering their supply of Bank of Canada notes. Since the cash reserves of the chartered banks are made up of deposits with, and notes, of, the Bank of Canada, the deposit of a $55.00 pension cheque with the chartered banking system increases their cash reserves by an equal amount. This increase of $55.00 in the cash reserves of the chartered banks enables them to create an additional $632.50 of bank credit and lend it to the Canadian people at interest.

Now section 33 deals with what happened in Canada in 1958 at the time of the conversion change-over, when Mr. Diefenbaker had his conversion of bonds and so on.

> Our total money supply was increased by approximately $1.6 billion in the twelve month period ending October 1958. This increase was in the form of extra money needed to purchase the additional direct and guaranteed funded securities of the Federal Government. The majority of these securities were Government of Canada bonds. The investing public outside the banks were reluctant to purchase these securities. Thus the Bank of Canada commenced to purchase a percentage of the Government of Canada bonds. Since the purchase of securities by the Bank of Canada increases the cash reserves of the chartered banks; the action taken by the Bank of Canada, in this instance, increased the cash reserves of the

chartered banks sufficiently for them to increase their bank credit by $1.3 billion and purchase the remainder of the Federal Government direct and guaranteed funded securities, by merely increasing the figures in their own ledgers. Canadians are being taxed in excess of $40 million per year to pay the interest on these securities purchased by the chartered banks, with credit created out of thin air.

In paragraph 34:

> We are being taxed in excess of $800 million per year to pay the interest on our national debt, which has been incurred over the years because of our imperfect money and banking system. Approximately fourteen cents out of every tax dollar we pay to the Federal Government, whether it be direct or indirect taxation, is used to pay the interest on this debt.

At the top of paragraph 35 it states:

> Our total money supply comes into existence in the manner which has been put forth. We Canadians, individually and collectively, are paying interest to the chartered banks on approximately 80 per cent of our total money supply, which they, the chartered banks created out of thin air by writing figures in their own books.

The other section of paragraph 35 I read to you earlier and I re-emphasize that I do not find a quarrel with the chartered banking system; I find the quarrel with the federal government and their Bank Act.

Reading on in paragraph 36:

> According to section No. 91 of the British North America Act the federal government has the right, and it is their responsibility, to create our money and regulate our banking system. It is quite evident that the present banking system has failed to serve the best interests of the Canadian people.

Paragraph 37:

> The imperfections in our present money and banking system, and the corrections which could and should, be made in the same, are better understood when we consider the following facts pertaining to economics:
>
> "A money system is good and without it we could not have reached the standard of living that we now enjoy."

I might say, Mr. Chairman, that I discussed this many years ago with one of the honourable members who plays a very prominent part with the opposition party, in the House of Commons, and he agreed with these statements. In my wind-up he said that I made it sound so easy. If it sounds so easy I wonder why we cannot have some of these things put into being.

> "Money has but one function, to assist in the distribution of materials from the producer to the consumer, either now or at some time in the future."
>
> "The only reason for production is consumption."

"The consumer is equally as important as the producer, for without consumption there is no need for production."

"Money is but a medium of exchange and in itself has no real value."

"It is the production of our country which gives our money its real value."

"To have a balanced economy the amount of money in circulation (money times velocity) must be equal to the production of our country."

"Money, the life blood of our nation, has to be in circulation to perform the function for which it was created."

I have to give credit for the last portion of this to a 19 year old boy—he allowed me to use this last section. I think it can be well taken and well digested.

"The purpose of society is to gather collectively, for consumption individually, the product of our intellectual, inherited and natural resources."

This, gentlemen, more or less points out the imperfections in our present system. In a report I have here of James Coyne, which is dated November 14, 1960 and was delivered in Toronto to the Canadian Club, I believe, he says:

To criticize is no good; you must have an alternative.

Mr. Chairman, it is now that I would like to turn to the alternative, which is the former part of my brief. I will read only a portion of the section that is numbered 1:

The proposed changes, which will alter the present and the suggested banking system, are of a two-fold nature. The one pertaining to creation, the other to the regulation, of our total money supply.

The creation of our total money supply should eventually become the duty and the function of the Bank of Canada. The regulating of our money supply should be done scientifically and based upon the amount of purchasable production available in Canada

Number 3 would be superfluous at this time.

Moving to number 4:

Before we can properly analyze the proposed changes, and the effects they will have on Canada and Canadians, it is necessary to evaluate our present economy. To do this let us fix in our minds a map of this great country, with all its raw materials and natural resources.

Without raw materials and natural resources a country is handicapped. However, in Canada we are blessed in this respect, for we have plenty of both.

The raw materials and natural resources are of little value until they are transported to our factories and processed. Thus we must consider our transportation and manufacturing facilities.

We have adequate transportation facility. The highways, waterways, railways, not to mention our air transportation, do a good job, and can be expanded if necessary.

In considering our manufacturing facilities, we find that our factories are operating below capacity, some closed down completely.

The rate of production of our factories is directly affected by two factors, other than raw materials and natural resources. The one being manpower, and the other being the ability to sell the finished product.

There is no shortage of manpower in Canada. We have that undesirable condition where thousands of men and women are unemployed. Thus the slow down of our manufacturing facilities is caused by the inability to sell the finished products.

The produce presently filling our stores and warehouses is made up of Canadian materials, and imports received in exchange for the same. Thus for all practical purposes, this purchasable production, presently filling our stores and warehouses, can be considered as Canadian materials. These materials came out of Canada, reaching from British Columbia on the west to Newfoundland on the east, from our farms, our forests, our factories, fisheries and mines, and were produced by Canadians individually and collectively.

The economy of our country depends upon three factors, production, consumption, and the population; individual Canadians, who collectively make up the population, being the most important aspect.

A high level of unemployment at a time when the factories are operating below capacity, such as we have in Canada at the present time, is a true indication of an undesirable economy.

The vast majority of Canadians are looking for guidance from the various governmental bodies to establish a desirable economy. A desirable economy is one which would utilize all modern methods of production, at the same time offering employment to all.

It is the purpose of this document to point out, and substantiate, that: "There is a national inventory level of purchasable production, which, when maintained by effective demand, will bring about a desirable economy."

Mr. Chairman, I think that that particular sentence, which is the hub of my whole presentation, warrants repeating.

The CHAIRMAN: Mr. Rowat, I hesitate to interrupt you during your presentation, but we have not generally permitted other witnesses to go through their briefs in their entirety. In fairness to others, I think I should ask you to deal with your specific proposals or recommendations for a change, if you have not done so already so that we could move on, without too much further delay, and have any questions or comments that the members might have. I say this without prejudice to your views, it is merely an attempt to proceed in an orderly manner and in a way which is consistent with our treatment of other witnesses.

Mr. ROWAT: I will respect your request, Mr. Chairman. However, I would like to point out that my brief is not lengthy. I will respect your request and move on to other sections but I will have to read them out of their context, Mr. Chairman, if that is satisfactory to you.

The CHAIRMAN: Of course, your brief was distributed some days before your appearance and the members have had an opportunity to consider it. That is the

reason, of course, why we do not generally call upon people to read their briefs in their entirety unless they consist of only a few short paragraphs.

Mr. ROWAT: Very well, I will take and touch what would be considered as the more important aspects of it, Mr. Chairman.

The CHAIRMAN: Because the important thing, perhaps, at this time, except for your own personal appearance, is to give members who have questions or comments arising out of their prior study to have an opportunity to bring them forward if they wish to do so.

Mr. ROWAT: I will accept your recommendation, Mr. Chairman.

On the top of number 19 I say:

> Hereafter in this brief, the proposed changes in the banking system will be referred to as the solution. The application of which will require:
>
> (a) That the money supply of our country be regulated, and determined by a given national inventory level of purchasable production, which will be calculated scientifically and at regular intervals as required.
>
> (b) That the Bank of Canada become the sole creator of all additional money supply needed in Canada.
>
> (c) That all additional money supply, created by the Bank of Canada, be channelled through a National Credit Account.
>
> (d) That all moneys in the National Credit Account be allocated to the needs of the Canadian people, according to the will of the people, as expressed through their elected federal representatives.

I have a couple of points here which I have ducked through. I would not know what exactly is there but I hit one that is important.

> Since the Bank of Canada will become the sole creator of all additional money supply in Canada, the amount of chartered bank credit now in existence, (which is part of our money supply), must not be increased, regardless of any further action taken by the Bank of Canada.

At the bottom of the page in paragraph 31, I have also marked it as important.

> When the solution is applied it will make increased production, be it caused by automation, cybernation, or otherwise, a real blessing to Canada and Canadians. It will overcome, once and for all, the stumbling block of distribution, which is presently handicapping the economy of the western world, of which we are a part.

I will now read only my concluding paragraph, Mr. Chairman.

> Mr. Chairman and members of this standing committee of Finance, Trade and Economic Affairs, the establishment of a desirable economy in Canada will be one of the greatest contributions that can, and must be made, to solidify our nation. It is the answer to the Honourable Prime Minister's war on poverty, and will assure that Canadians, one and all, can have the best health and educational system, which is physically possible to produce.

Respectfully submitted, by myself, Mr. Chairman.

The CHAIRMAN: Thank you, Mr. Rowat. You, of course, understand that the other paragraphs you have not read make up the total scheme of your presentation and we will not overlook that.

Are there any questions or comments from members of the Committee or other members of the House in attendance at this time?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Are you being correct, Mr. Rowat, when you suggest the Bank of Canada is to become the sole creator of all our money supply? You have already pointed out that the vast bulk of our money is comprised in bank credit. Could you tell us how you propose the Bank of Canada is to perform this function of credit expansion? Are you suggesting—I am not suggesting that it might not be a good idea—that the Bank of Canada should take over the functions of the present private commercial banks, establish branches throughout the country and perform the functions of the present private banking system? If not, then how do you propose that the Bank of Canada shall create the credit which now constitutes the major part of our money supply?

Mr. ROWAT: In answer to your question, Mr. Cameron, no, I do not propose that the Bank of Canada should take over the functions of the chartered banking system. In answer to the second portion of your question, I would almost be required, Mr. Chairman, to read into the record the portions that I missed. I think these would have clarified the points Mr. Cameron has brought forth. However, without—

The CHAIRMAN: Use your own words and just give us verbally a conversational exchange.

Mr. ROWAT: This would be fine; as a matter of fact, I operate better that way, Mr. Chairman.

The point in question is, Mr. Cameron, that I see the chartered banks performing a very essential service in our country and I would defend with my life, as I have said in the past, the idea of nationalizing the same. However, to answer the second portion of your question in which you wanted to know by what method the Bank of Canada would determine the amount of added, and I will use the term, money supply, because this is part now of what we consider bank credit as well as cash, the proposal put forth is that if you were to visualize myself in my place of business and you have seen the inventory that presently fills my place—that is purchasable production which I offer for sale—and you come in and commence to purchase it by cash and try to force my inventory down—we will use a figure only for illustration purposes—by one third, I would pick up the phone and telephone my supplier; he, in turn, would set off a chain reaction which would go back to the manufacturer. I would then possibly be one of the most lucrative businesses in Canada if you commenced to try to purchase by cash one third of the inventory I had in stock.

When you take this on my particular business alone and then expand it to the whole of the Dominion of Canada, you come to realization that there is an inventory level of purchasable production which when maintained by effective demand, and I will define that for you, Mr. Cameron, will bring about the desirable economy which I do not think needs to be defined.

The point in question is what is the difference between demand and effective demand. This must be understood. You can take 100 persons standing in front of a foodmarket and they have a demand for food but if they do not have 20 cents

to buy a loaf of bread, or more as it may be today, which is available their demand does not become effective. Thus, I suggest to you and to the Committee and to all assembled, that since there is a level of inventory of purchasable production which when maintained by effective demand will bring about this condition, it should be the determining factor regulating our total money supply and any time the inventory is above this level, Mr. Cameron, would be justification, which it is at the present time, for the federal parliament, that is, you gentlemen and your associates, to instruct the Bank of Canada to issue that amount of bank credit, money supply, or any term you like.

This newly created money by the Bank of Canada would not belong to the Bank of Canada; it would not belong to you people of the federal parliament but would belong to the Canadian people and you people, that is, the federal government, would just be the administrators of this portion of our affairs. The particular money that they created against the production of our country would be allocated to a national credit account and it would be the duty of the House of Commons to re-channel this money to the needs of the Canadian people according to the will of the Canadian people as expressed through you, our federal elected representatives. Does that answer your question, Mr. Cameron?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No, it does not, Mr. Rowat. It does not answer it at all.

A little earlier you said that you recognized that the chartered banks performed a useful function in our economy. Would you agree that the major part of that useful function is the necessary credit expansions from time to time, and I am holding no brief for the private banks? My own private view is that they should not be in private hands, but, on the other hand, this is a function that is performed and you still have not explained to me how the central bank will take over this function.

Mr. ROWAT: I did make it plain in my brief; I assumed that when this particular change takes place, the chartered banks would not be able to expand further the bank credit as they have done in the past. Have I made that clear?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes.

Mr. ROWAT: All right.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But you have not told me how it is going to be expanded.

Mr. ROWAT: Just a minute. Now, if they do not expand the money supply as they have in the past—you understand this portion of it—and if the Bank of Canada is called upon to perform this function in the future for all needed added money supply, then this would be where the added money supply would come from. Is this clear?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It is clear if by this you mean the central bank is going to take over the functions of the commercial banks.

Mr. ROWAT: Not take over the functions of the commercial banks but take over the function of the creation—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Suppose in the conduct of your business, Mr. Rowat, you decided it was necessary for your to expand your

business and you are required to get some credit for expansion, do I assume from what you say that you would apply to the Bank of Canada for this credit?

Mr. ROWAT: By no means would I apply to the Bank of Canada. I would look for this money to expand my business from the financial houses in the country, the same as we do at the present time. The only thing I would not be able to do would be that I would not be able to go to my chartered banker friends and I use the word "friends", and ask them for a loan of what they do at the present time, a new creation. Possibly some members of this particular Committee and possibly some of the bankers who are listening to my presentation are not aware of exactly what does happen. I know many of the managers in our banks are not aware of what happens. In order to more or less answer your question, Mr. Cameron, that this would not be what I would do in the future, I at one given moment in time went into a bank with an associate of mine because I required, let us say, a loan of $1,000. The banker brought out the necessary papers and we signed the necessary papers. A short time later he brought me out a bank book in which he had credited to my account, $1,000. At this moment of time I asked the banker out of whose account had he taken this $1,000. He replied that he had not taken it out of anybody's account. I said that if he had not taken it out of anybody's account, where did it come from? I told him that I had been watching the front door ever since I had come and nobody had come in the front door with $1,000 for you to show it in my bank book. I suggested to him that because of this transaction, and this one transaction alone, there is $1,000 more money on deposit in Canada than there had been five minutes ago and, thus, I said to my friend the banker, that you have just created by the stroke of a pen $1,000 of added money supply in Canada.

This would not be the method by which I would borrow my money under the proposed system. However, what I would like to express to you and to the other members is that the money that would be created by the Bank of Canada, once it came into my possession, would be similar to the dollar bills that I now have in my pocket. I consider these dollar bills I have in my pocket my own private capital. Thus there would be sufficient private capital in the country to greatly develop the natural resources and carry on the commerce, as I see it, Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well, Mr. Rowat, then do I understand that when you speak about the central bank creating all the new necessary money you are speaking of the creation of actual dollar bills? Is that right?

Mr. ROWAT: It does not necessarily have to be dollar bills, Mr. Cameron, because with our particular banking system, as you are aware, when the Bank of Canada today, for instance, purchases an additional government of Canada bond, they do not necessarily go to the Mint to create the money to put into existence. However, I listened to and looked over some of the reports which were presented here. Mr. Rasminsky, when he was in the chair which I now occupy, referred to these as being high pressure dollars. I believe that was the terminology he used. These can be high pressure dollars without being dollar bills because when the Bank of Canada purchases an additional government of Canada bond, what in effect happens is that they credit the government of Canada's account at the Bank of Canada with the amount of the bond and this keeps their ledgers always

balanced, because the bonds increase their portfolio on the asset side and the deposit and liability increase the other side of the ledger and it always balances, Mr. Cameron. Therefore I suggest to you that it would not have to be added dollar bills but it would have to be the high pressure dollars, our money supply essentially.

Now, remember I used the word "essentially" because to bring this into being at a snap decison could be disastrous. Now, let us not fool ourselves. This could be disastrous to try to make too quick a change. But, what I am suggesting is that eventually our money supply would be made up of all high pressure dollars which would not have the effect of allowing the chartered banks to expand. I think possibly, Mr. Chairman, I could read again from this particular article of Mr. Coyne when he was Governor of the Bank of Canada. It was given, as I said, on November 14, to the Canadian Club in Toronto.

The CHAIRMAN: What year?

Mr. ROWAT: In 1960. It stated as follows:

> An increase in the volume of bank deposits and in the resources of the banking system may at times be necessary in order to provide adequately for the normal credit requirements of business. When these are adquately provided for, a further increase in monetary resources—

And I quote mixed with emphasis.

> —created out of nothing by the central bank and the banking system—

I want to get this on the record here, Mr. Cameron. And then I want to turn back and refer to what happens when he creates these high pressure dollars as was stated by Mr. Coyne in those days:

> One of the difficulties from a practical point of view in carrying out any such program is that there can be no assurance that the central bank could in fact effectively hold down interest rates under such conditions for more than a short period of time. The attempt to do so would require a considerable amount of purchasing of securities in the market by the central bank—

The next is very important.

> —which would increase the cash reserves of the chartered banks and give rise to a large further amount of purchases of securities or credit expansion by the chartered banks. The total increase—

And this is rather interesting.

> —in the money supply would be about twelve times as great as the amount of purchasing done by the central bank.

Now, this is under the present system and he says this would not work. However, I submit again that putting into being the proposals that I have put forth: that is, making the Bank of Canada the sole creator of all additional money supplies from this moment of time on will eliminate the problem and that it will take a progressive step to get to the ultimate end, Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): One final question, Mr. Rowat; what function would the present chartered banks perform in our economy in those circumstances?

Mr. ROWAT: Are you asking what function they would perform?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes?

Mr. ROWAT: Or what function they do perform?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): What function they would perform. I know the function they do perform but what function would they perform under your scheme?

Mr. ROWAT: Mr. Cameron, in answering that particular question I first of all will have to preface it with a certain remark. It has been said, but it has never been proven to my satisfaction, that the credit unions actually create and expand our money supply. This has never been proven to my satisfaction because I hold the view that the credit unions, as I understand it under the provision of the Ontario jurisdiction, do not expand their money supply. I want to make this as a preface. Now, this is my opinion; I have never been shown otherwise. To this I would add that the chartered banking system would perform the same function in the future that the credit unions are performing at this present time and the credit unions are a lucrative business. I do not see why the chartered banks could not still be a lucrative business and perform a very satisfactory service to our country, Mr. Cameron.

Mr. CAMERON (*Nanimo-Cowichan-The Islands*): As some savings banks?

Mr. ROWAT: It all depends on your definition of savings banks. If you have used that in light of the Quebec savings banks I would have to say no. This is another subject; it would take us possibly as long to get into it as the one in which we are now engaged. But I will assure you if you are thinking in terms of the Quebec savings banks you might come to a great surprise when you understand the real operations of the Quebec savings banks.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That is all, Mr. Chairman.

The CHAIRMAN: Next I will recognize Mr. Laflamme followed by Dr. McLean and then Mr. Laprise.

Mr. LAFLAMME: I have only one question, Mr. Chairman. In Paragraph 10, Mr. Rowat you state that perhaps a slowdown of our own manufacturing facilities is caused by the inability to sell the finished products?

Mr. ROWAT: Yes.

Mr. LAFLAMME: How could you change the inability to sell the finished products?

Mr. ROWAT: You are reading No. 10 on page 1?

Mr. LAFLAMME: Yes?

Mr. ROWAT: I said there is no shortage of manpower in Canada and I do not think anybody will quarrel with that statement.

Mr. LAFLAMME: Skilled manpower, you mean?

Mr. ROWAT: Let me say they talk about skilled and unskilled but I would like to draw to the Committee's attention that in 1929 through to 1939, in the days of the great depression, when I was a boy, we had a great deal of unskilled labour in Canada, which they claim we have today. But in 1939, they declared war and this unskilled labour became skilled labour almost overnight. Every-

thing began to roll and hum and buzz. Therefore, I cannot accept the idea of skilled or unskilled labour. I wanted to clarify that one point before moving on.

Mr. LAFLAMME: Just a moment, I want to follow you on this.

Mr. ROWAT: Very well.

Mr. LAFLAMME: To get rid of the unemployment you have to put back the men to manufacture do you not?

Mr. ROWAT: This is quite true.

Mr. LAFLAMME: Yes.

Mr. ROWAT: Now then—

Mr. LAFLAMME: If they produce, as you say in Paragraph 10, how do you eliminate what you call the inability to sell the finished products?

Mr. ROWAT: All right; this follows somewhat the remarks I was making to Mr. Cameron. It is more or less a follow-up of his questions. Now, I use the illustration in here and may I use it once more and bring it out a little more clearly. We have a condition in the community in which I live where we are about to build a new school. The estimated cost of the construction of this new school is $300,000. We are told that to go out and sell debentures on it, which we are advised to do, that over a period of years this school will cost us $555,000. Just a minute, this has a bearing on your question. The only reason we are not building more schools, and so on, is that the municipalities and the people both individually and collectively refuse to go further into debt. There are certain people who do not have the credit facilities to go even further into debt. I am reminded of a television show I saw not very long ago, I believe, down in New Brunswick on the deplorable conditions down there. If these people had the dollars—Well I cannot help it if I am stubbing somebody's toes. I seem to have created something here, I do not know what. It was not intentional I assure any hon. member that may be present from the Maritimes. But I assure you if they had the dollars to buy the bricks that could be available to build the decent homes and schools and roads and what not that are needed in that province it would certainly stimulate the economy and bring this about. The only reason they have not got it is that they have not got the necessary dollars to buy the materials, which in my opinion are avaliable. Thus, if this money came out of the Bank of Canada it would not be an added debt. As a matter of fact it would lower debt and lower taxation when it came into being, as it came out of the Bank of Canada and went into the national credit account. Let us assume that the money from the national credit account came to our community to build our new school and we had to pay only the cost of administration which in reality, in the last year that I was able to find the figures of the Bank of Canada, were somewhere in the neighbourhood of .3004 of 1 per cent, which is less than half of one per cent, if we could get our money to build our school at less than one half of one per cent, coming from the Bank of Canada, then we would have a reduction to the taxpayers in our locality of $200,000 over a period of 20 years on the construction of the school and I am sure Mr. Cameron would agree with this. Thus, I say to you in all sincerity, if you expand this over the whole of the dominion and finance the construction of non-profit, civil services out of money coming from the Bank of Canada, at the cost of administration, you would find there would be ample left to finance the construction and the advancement of

our national resources; yes, and do what Walter Gordon wants to do, buy Canada back from the States. I wholeheartedly agree and I maintain this would allow us to have not only economic nationalism, yes, but solidarity, too. I do not think the province of Quebec wants to opt out because of this and that. I think the province of Quebec is an economic problem and solve the economic problems of our country, gentlemen, and as I have said here before you have a scientific solution to Canada's economic problems. I am not looking for any 5 per cent royalty on a billion dollars either, gentlemen.

Mr. LAFLAMME: This is not a question, Mr. Chairman, but as I understand the witness there is only one solution in his mind which is to get enough money and to put enough money in everyone's hands who wants to buy anything that can be produced.

Mr. ROWAT: I did not make that remark.

Mr. LAFLAMME: Yes, but—

Mr. ROWAT: Mr. Laflamme, I must clarify this point, lest I be misunderstood. I said that the controlling factor regulating the amount of new money coming into existence would be our inventory level of purchasable production. Thus, if you take it from this point of view and there is another section in my brief which I did not read Mr. Chairman which I will have to refer to in order to answer his question, I put in there "this inventory level of purchasable production". I do not know what level it is but it is somewhere from where we are now at full storehouses and warehouses to empty at the bottom. I state in the brief that if the original estimate is not correct, when it is put into application, the figure will soon be arrived at, but I also went further than this and said that if for any given reason we had a famine in this country—and this is the best example I can find—and our production went down, there would have to be an equitable taxation system to take the redundant credit out of the system in order to allow us to have a balanced economy.

Mr. LAFLAMME: That is all, Mr. Chairman.

The CHAIRMAN: I now recognize Dr. McLean followed by Mr. Laprise and Mr. Thompson.

Mr. MCLEAN (*Charlotte*): Well, Mr. Rowat, I was kind of intrigued with your explanation about this money that was going to be created. As a manufacturer I am not particularly interested. I want to get the money when I want it. If I get it from the chartered banks, O.K. Do you mean to tell me that I am going to get this money from the Bank of Canada if I want it? Do I have to pay interest on it?

Mr. ROWAT: Is that your question, Mr. McLean?

Mr. MCLEAN (*Charlotte*): Yes. I would like to know about this expansion of credit. We have had restrictions on credit. At the present time what would you suggest; that the Bank of Canada would issue more money? Would they issue it at interest, how would I get it?

Mr. ROWAT: You are talking about you as an individual. All right.

Mr. MCLEAN (*Charlotte*): As a corporation.

Mr. ROWAT: I will take it that way. Let us assume that the particular arrangement I propose was in existence. This is what you—

Mr. MCLEAN (*Charlotte*): No. I want to know now.

Mr. ROWAT: If you are asking me about present arrangements—

Mr. MCLEAN (*Charlotte*): Well, how would you arrange for me to get this money. Say we have present arrangements; how would you arrange for me to get this money.

Mr. ROWAT: Very well, I will answer your question. I have suggested to you that the Bank of Canada would create this money against our real wealth of the country which is our production. I suggested to you that this money would go through the national credit account to be allocated to the needs of the people, according to the will of the people as expressed through their federal elected representatives of which you are one.

Mr. MCLEAN (*Charlotte*): Well how—

Mr. ROWAT: Just wait now; let me explain.

The CHAIRMAN: Let Mr. Rowat complete his answer.

Mr. ROWAT: Let me complete the answer, if I may. I suggest to you that this money would go out, in the form, let us say, of old age pension or family allowances, whatever way you as the members decided to get it out. Now this would not come into being with any interest charges against it other than the administrative costs of the Bank of Canada which we pay at the present time. I mentioned a moment this is less than one half of one per cent. Now then, once this got out into the market and got to the people, these people in turn want to reinvest it. We have credit unions that loan money to corporations, and I suggest to you that the chartered banks would be only too glad to loan you the money they would have, although, granted, there would have to be certain restrictions made. I might even state to the chartered banking system in relation to the personal savings they now hold—and one particular high official in one of the banks—I do not wish to name him—said to me that it is these personal savings that is driving the chartered banks crazy. But I suggest to you that when this particular situation would change, then this service that the chartered banks perform for us could be considered the same thing as you wanting to store an automobile. If you store an automobile you expect to pay storage charges on it. However, if you allow the man to use the automobile, to show him a profit, then he might be prepared to pay you a rental for it. This is the position which the chartered banks in my opinion will eventually reach. Now, I assure you that when this comes into being and our public services are financed from the National credit account, there will be ample money for all companies in this country to develop the manufacturing and the natural resources, as I see it.

Mr. MCLEAN (*Charlotte*): But in the meantime, I want $1 million.

Mr. ROWAT: In the meantime you had better get over into the House of Commons and make the necessary changes in the Bank Act so that you will be able to get your $1 million, Mr. McLean.

Mr. MCLEAN (*Charlotte*): That does not relieve me now; I want the $1 million now.

Mr. ROWAT: But, you see, Mr. McLean, that under the present system I have no jurisdiction to tell you what you can do now. Maybe some of your banker friends, if they have enough cash reserves, could loan you $1 million by creating it with the stroke of a pen and then charging it to your account.

Mr. MCLEAN (*Charlotte*): I know, but this is theory.

Mr. ROWAT: No, I am not talking theory. I am prepared to substantiate what I say now. The theory is in the future, but as for the present I will substantiate that, Mr. McLean.

Mr. MCLEAN (*Charlotte*): How are you going to make the people of Canada eat 1,400,000 cases of sardines?

Mr. ROWAT: But, you must understand, Mr. McLean, that our world is shrinking very fast. As long as there are hungry people in the world—we are feeding Red China with wheat, and I read in the paper the other day they do not know what they are going to do with the wheat that is being loaded; whether they are going to send it over there, and because they have a revolution we get nothing out of it, I do not know. I did not get the answer to this and many other questions.

Mr. MCLEAN (*Charlotte*): We expand the money supply, buy the goods in Canada, and give it to Red China; is that the idea?

Mr. ROWAT: No, I would not suggest we give it to Red China, but I would make one more statement here which I omitted from my brief, Mr. Chairman. Again, this comes to me from the Department of Trade and Commerce. I discussed this with the Department of Trade and Commerce in all the aspects that I have discussed it with you gentlemen here. Again I would say, that the economist whom I met with said "please leave me anonymous", and I will respect his request. I have had this request to remain anonymous from many economists, but they supplied me with, what I consider to be, very vital information. This gentleman in the Department of Trade and Commerce assured me that were this put into operation in Canada, it would bring about the results that I suggested to you; that is, a desirable economy, and so on. He went further to state that if we allowed our dollar to find its own level in the world market we could balance our exports and our imports without duties and without tariffs. Now, Mr. Chairman, this would take a lot of explaining if some of the gentlemen would like to question me on it. But this particular economist showed me how this would actually operate, and in part it is, again, in my brief using the differentiation of values between Canada and the United States—if you have studied the brief—and how one encourages imports and how the other encourages exports. They assured me, and this was again reaffirmed by another Ph.D. in economics, he said this is absolutely correct; this will happen, and I could supply these names if they doubted my statements, Mr. Chairman.

An hon. MEMBER: Mr. Chairman, may I ask a supplementary question?

The CHAIRMAN: I think Mr. Flemming already indicated he had a comment. Perhaps I will recognize him first.

An hon. MEMBER: All right.

Mr. FLEMMING: I have a supplementary to Dr. McLean's question concerning how he got his $1 million. Provided the legislation which Mr. Rowat suggests

should be passed and which is desirable, what is the actual mechanics of Dr. McLean getting $1 million to pay the people who bring in the fish to his plant and who have to get their money? How does the Bank of Canada get it to him? How is he going to get it?

Mr. ROWAT: Now again I used an illustration in my particular arrangement here which I did not read, Mr. Chairman; I might better have read it all; I think it would heve been quicker. However, this gives me a greater opportunity to advance it in detail. I started off to say that if we took the present inventory level of purchasable production at being $3X billions—and I used "X", an unknown, so I will not be crucified on the monetary cross, as was stated by one of our friends south of the border one time—I used the figure "X" because it is an unknown quantity.—Now, with this in mind, providing that the inventory level which would bring about a desirable economy was $2X billion, then this is justification for the federal parliament instructing the Bank of Canada to create $1X billion. Now this $1X billion, as I stated before, would not be the property of the Bank of Canada, would not be the property of the federal government, but would be channelled into a national credit account. I stated very emphatically that this money in the national credit account must be allocated to the needs of the Canadian people, according to the will of the Canadian people, expressed through you our elected representatives.

Mr. FLEMMING: In this specific instance, how did Dr. McLean get the money?

Mr. ROWAT: My specific answer is this: once this particular money goes out into existence and let us assume—

Mr. FLEMMING: Out into existence from what?

Mr. ROWAT: Out from the national credit account to finance the construction of our new schools—

Mr. FLEMMING: On whose order?

Mr. ROWAT: On the orders of you the members of the federal parliament. This particular money goes into the credit account. I know it is a new concept.

Mr. FLEMMING: I do not want to embarrass you.

Mr. ROWAT: You are not embarrassing me, Mr. Flemming.

The CHAIRMAN: Do I understand you to say that financing of government activities, including construction of roads, buildings, a payment of social welfare benefits, and so on, be carried out through the funds placed in this credit account which would not be derived from the raising of taxes but rather from the credit raising facilities of this new energy you tell us about? And the people who will be paid wages, and what have you, for building the roads and schools would then have these dollars to go and buy Dr. McLean's sardines.

Mr. ROWAT: Not only to buy his sardines, but to buy stock in his company if he is offering it for sale. I must say further to this—

The CHAIRMAN: You had better inquire into that.

Mr. ROWAT: Well, he wanted to know where he could borrow $1 million, I figured he was prepared to sell stock in his company; I just assumed that he was, I did not know.

Mr. FLEMMING: He would pay it back in a couple of months.

Mr. ROWAT: Well, this is all right, he can pay it back and then somebody else will be looking for it to develop—

Mr. FLEMMING: He sends the fish all over the world, Mr. Rowat.

Mr. ROWAT: Yes, but I pointed out a moment ago, and nobody questioned me on it, the fact that when this becomes a reality—and I have not answered your last question, which I will, Mr. Flemming—and our Canadian dollar is allowed to find its own level in the world market, we will be able to balance exports and imports without tariffs and without duties. What more could Mr. McLean want than that; a wide open market in the world for his product.

Mr. MCLEAN (*Charlotte*): How can you regulate other people's tariffs? How can you regulate the tariffs of Australia and New Zealand, and so forth?

Mr. ROWAT: I cannot regulate their tariffs, nor do I have to regulate their tariffs. But I should suggest to you, that if you made a study—and I could go into it in greater detail if the hon. members would like me to—of the exchange banks, and I could quote Mr. Coyne here, and maybe will if they persist in this, of how the dollar fluctuates up and down and the effect it has on this, you would not have to interfere with their tariffs at all. By allowing our dollar to find its own level in the world market, I have been assured, and can verify, I believe, the fact that you can balance your exports and your imports without tariffs and without duties, Mr. McLean.

Mr. MCLEAN (*Charlotte*): Well, I have had 50 years experience, and I would rather go by experience than theory.

Mr. ROWAT: I used this illustration a short while ago with a friend of mine who questioned the thought of my being able to even suggest to this Committee that the money for the financing and construction of new schools would come from the Bank of Canada, and he said "It is unheard of; I have been in this country 50 years and I have never seen it". I said "Turn back your mind 2,000 years; how many super jets did you see flying through the sky?" He said, "I did not see any". I said, "How many do you see now?" He said, "There are plenty". I said, "It had to be born in the concept of somebody's mind to start the movement to bring about this desirable end". I suggest to you, Mr. McLean, with all due reverence, that this is what has to happen. It is a new concept, but if it will work, why not have it?

Mr. MCLEAN (*Charlotte*): Would you not suggest to me though that I continue on with the commercial banks?

Mr. ROWAT: You have no alternative but to continue on with the commercial banks. In my opinion, I hope the time will never come when Mr. Cameron's desires become a reality and that we nationalize the banks; because this would not be my wish.

Mr. GILBERT: I understand that my poor friend, Mr. McLean, wants a $1 million. You have suggested that he go to a credit union or a savings bank. Now, I thought in your brief that you were going to require these institutions to have 100 per cent reserves.

Mr. ROWAT: This could be quite true.

Mr. GILBERT: How could he borrow from the credit union or, say, a trust company—

Mr. ROWAT: Let me—

Mr. GILBERT: —if you are going to require that they have 100 per cent reserves.

Mr. ROWAT: Let me take an illustration to answer that for you. May I use you as the credit union?

Mr. GILBERT: Certainly, I am a member of a credit union.

Mr. ROWAT: Well, I have no quarrel with credit unions. Let me assume that I am a gentleman who has $1 million, and I am prepared to buy $1 million certificates in your credit union. Is there any reason why you cannot take my $1 million now and reloan it to Mr. McLean? Does this interfere with your 100 per cent cash reserves?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You could lend him half of it but that is all. If you make a loan you have got to have 100 per cent—

Mr. ROWAT: He has the $1 million, because I gave it to him in exchange for $1 million of his certificates in his credit union. I gave him my $1 million in exchange for $1 million of his certificates in his credit union. Is there any reason why he cannot go across now and loan that $1 million to Mr. McLean to expand his factory, if he needs it?

Mr. GILBERT: Well, just how do you define reserves in my credit union? You said 100 per cent reserves—

Mr. ROWAT: Just a minute; never in my brief did I touch on credit unions.

Mr. GILBERT: No.

Mr. ROWAT: I am talking about the chartered banking system. I said that the eventual desirable situation would be to bring our banking system to the point where the chartered banks, eventually—and I said it would have to be done progressively—would be operating on 100 per cent cash reserve and the Bank of Canada would become the sole creator of all of our money supply; but this could be 40 years or 50 years in the future. It has taken us 100 years to get into this, and let us hope we can get out of it in less than 100 years.

Mr. GILBERT: Well, I want to help Mr. McLean, because—

Mr. ROWAT: I have already shown you how you can help Mr. McLean. I suggested, in a figurative way, that I had the $1 million that I was prepared to give you for credit certificates in your credit union. What is wrong with you taking it across and loaning it to Mr. McLean at a higher rate of interest, which is the thought that most people hold in the present banking system, and showing yourself a profit, satisfying him and satisfying me? This has been resolved just that quickly in a triangle, if you take this hypothetical case.

The CHAIRMAN: Mr. Gilbert, perhaps you can continue trying to help Mr. McLean when we resume this afternoon. Now, before we recess, I would suggest to the Committee that, as you know, on Tuesday we are going to hear from the Federation of Agriculture and Cuna International. We do not have other witnesses on the banking legislation scheduled at the moment. Of course, that

Thursday, the 19th, we do have a private bill referred to us, a bill for the incorporation of the Northwest Life Insurance Company of Canada. I would suggest to the Committee that at 11 o'clock on Thursday morning we hear from the sponsors of this bill. Their solicitor has written me asking for an opportunity to be heard at some early date. I suggest that we proceed along those lines.

Now, this afternoon we can continue any questioning we may have of Mr. Rowat, and then we would hear from Mr. Hallat. This afternoon you will have the privilege of having our distinguished Vice-Chairman, Mr. Laflamme, in the chair. I declare this meeting recessed until 3.45.

AFTERNOON SITTING

The VICE-CHAIRMAN: Gentlemen, I will now call the meeting to order. First on my list is Mr. Laprise. Will you proceed.

(*Translation*)

Mr. Laprise, you may put your questions.

Mr. LAPRISE: I would like to know if, according to you, the Bank of Canada should finance the development of the federal government, provinces, municipalities and school boards without interest, or, as you mentioned, just for the cost of administration, without hurting those who buy Government bonds or who go through brokers to do so? Do you think that if the Bank of Canada were financing public investment this could be harmful to Canadian savings?

(*English*)

Mr. ROWAT: If I have correctly understood the question, it is whether or not the Bank of Canada's financing of public services, such as new schools, would be detrimental to our economy. The answer to this would be "no", it would not be detrimental to our economy. However, I have pointed out in my brief that any money coming out of the Bank of Canada—and I am thinking in terms of this purpose—must not become cash reserves of the chartered banks so that they in turn could increase it 11½ times in loans to Canadians individually and collectively. In my brief I have put forth the statement that when the proposed changes are made, the Bank of Canada would become the sole creator of all additional money supply in Canada. And there is nothing to say that the money, as I have stated in my brief, which would be allocated through a national credit account, could not be transferred by the government of the day—and I may have been incorrect this morning when I referred to Parliament; I should have said the government of the day—from the national credit account which was created by the Bank of Canada and put it through what has been suggested in the House as the municipal development bank; and then from the municipal development bank it would be used to finance the construction of new schools. I would not say this would be interest free; I would be more inclined to use your last remark "at the cost of administration", and say that the cost of administration should not exceed, according to my research, one half of 1 per cent, because today the Bank of Canada operates, according to my research and figures on roughly .3004 of 1 per cent. I do not think it would be harmful to our economy; I think it would be a great boost. As I said this morning, it would lower the taxes in one case in my

own particular jurisdiction; on a $300,000 school the taxpayers would be saved approximately $200,000 in taxes over the next 20 years, and I think this would be beneficial rather than detrimental.

(*Translation*)

Mr. CLERMONT: A supplementary question, please? When Mr. Rowat mentions the building of schools, how could the Bank of Canada help to finance that?

(*English*)

How can the Bank of Canada finance the construction of schools when the schools belong to the provinces?

Mr. ROWAT: I am sorry, Mr. Chairman; I missed the question.

The VICE-CHAIRMAN: Mr. Clermont asked how could the Bank of Canada finance the construction of schools when the schools are under provincial jurisdiction?

Mr. ROWAT: This is a very good question. The point in question is this: In order to build a new school in any given municipality, under the present system we have to sell debentures. In my reasoning in this respect, it makes no difference whether the debentures are sold within your own province, in one of the other provinces, or even outside of our country. Thus I see no problem in municipalities borrowing from a municipal development bank at the cost of administration to build their school regardless of what province they may be in.

(*Translation*)

Mr. LAPRISE: In the event that the Bank of Canada would itself finance public developments, do you think that Canadian savings would be sufficient to finance private investments?

(*English*)

Mr. ROWAT: I hold the view, as I pointed out previously this morning, that the controlling factor of any additional money supply should be an inventory level of purchasable production. And assuming that the Bank of Canada created the figure that I used this morning, the x billion dollars—and I use the x as an unknown quantity—then this particular money, as I suggested a while ago, would go into a national credit account, and then go on to finance the other aspects of the municipal development bank and so on. I do not see that this would hinder; as a matter of fact I think it would stimulate private capital for the development of the commerce of our country.

(*Translation*)

Mr. LAPRISE: If I understand correctly, it would no longer be necessary now to apply outside the country to finance private developments. There would be more Canadian capital available for private enterprise. Is this correct?

(*English*)

Mr. ROWAT: I would assume this to be correct; however the determining factor of that would be the willingness of the Canadian people to invest their savings in the commercial side of our development.

(*Translation*)

The VICE-CHAIRMAN: Have you any other questions, Mr. Laprise?

(*English*)

If you have no further questions, I recognize Mr. Thompson.

Mr. THOMPSON: Mr. Chairman, I have three areas that refer specifically to the presentation this morning.

The first one is, and I quote from Mr. Rowat's presentation:

> —there is a national inventory level of purchasable production, which, when maintained by effective demand, will bring about a desirable economy—

Mr. Rowat said this was the crux of his presentation. He then went on to say that effective demand means money, of whatever form, in the hands of the consumer. My question comes back again to the question of Dr. McLean. How do you get that money out to private industry and commerce, you having explained just now what public capital is, as far as financing schools is concerned. Could you not clarify that somewhat? How do you get the money into the hands of the private sector of the economy.

Mr. ROWAT: To answer your question, Mr. Thompson, and thinking in terms of the basic principle which we agree on, the control of the expansion of our money supply, then, as I have stated in my brief, all additional monies created by the Bank of Canada would be allocated to a national credit account to be distributed to the people according to the will of the people, as expressed through their federal elected representatives, who make up the government of our country. Now if the federal elected representatives who make up the government of our country should desire to allocate a portion of this newly created money to be channeled through, for example, the I.D.B., this could be used to finance industry, if this was the desire of the elected members of the Parliament of the day and the Government of our country—and this would have to be the decision of the members of the day. In my opinion the important factor with respect to money created against production, is this. If I could illustrate the negative side of this to show the dangers, when you have the Bank of Canada loan, for instance, a million dollars to Mr. McLean, other than through this channel you would find that there would be a surplus of money for the amount of goods that is available which would be undesirable and would not be much of an improvement over the present condition. On the other hand, if you took the money that came from the Bank of Canada, created against our production, which first of all appeared in the national credit account then, Mr. Thompson, it would be the decision of the members of the day and the government of the country to send it out through the I.D.B. to finance the commerce of our country.

Mr. THOMPSON: I do not mean to read anything into Dr. McLean's question, but I imagine his problem has been getting credit because we are in a period of restricted credit at the present time, and this is what is holding much of industry back. You mean to say then that he would go to the I.D.B. to get it.

Mr. ROWAT: The I.D.B. is in operation now, and I do not know any reason the I.D.B., being a part and parcel of the Bank of Canada, if they so desire, could not grant him the loan at the present time.

Mr. GILBERT: Mr. Thompson, I wonder if I may ask for an opinion. Would you suggest that he go to one of the chartered banks for the loan.

Mr. ROWAT: I want to clarify a point before answering your question. I assume that you were projecting into the time when the solution that I have proposed would be in operation. I see no reason for there not being sufficient private capital in the hands of the chartered banks and other financial institutions to fulfil his desires if he wanted this. But today—and I am going to use today as an example and project it to tomorrow—we find cases where people go to the chartered banks for money, and the banks claim the risk is too great, and they have to go to the I.D.B. to get it. I sometimes try to figure out why this condition exists. But I could see no reason, when you take the municipalities, which I could visualize, out of the borrowing market today, for there not being ample credit; there would be an expanded money supply because our inventory is higher than this given level that I suggested to you. I believe—and I have never had anyone being able to prove to me otherwise—that there would not be ample credit to finance this private sector of our economy with private capital.

Mr. GILBERT: At this projected time, would you be demanding from the chartered banks a 100 per cent cash reserve or just the eight per cent.

Mr. ROWAT: I had hoped that you would read into my brief—and I would like to clarify this for the members present and others—that at this moment of time all that would happen is that the chartered banks would not be able to expand their bank credit, which they have already done—and I use figures to verify this; they would not be able to expand any more or create any more bank credit, as Mr. Coyne says, "out of nothing". They would not be able to do this in the future. Any addition to our total money supply would be dollars coming from the Bank of Canada. Does this answer your question, Mr. Gilbert?

Mr. GILBERT: I thought you suggested that at the ideal time, when your scheme was put into effect you would be demanding that the chartered banks have 100 per cent cash reserve. Now how can Mr. McLean get his million dollars if you are demanding the 100 per cent reserve?

Mr. ROWAT: I think, if you read my brief, you will find out that I am not demanding the 100 per cent reserve at this moment of time. If you remember me being quoted correctly this morning, I said that at some time in the distant future it would be the ideal situation to have a complete 100 per cent cash reserve, at which time the Bank of Canada then would become the sole creator of our total money supply. I also stated this morning that it took approximately one hundred years to get us into this particular situation—that is, as nation Canada—and I would think that it would be not unrealistic if we can get out in fifty years and get back to what would be the ideal situation, Mr. Gilbert.

Mr. GILBERT: I am sorry Mr. Thompson; I have just one short question.

Suppose Mr. McLean is to live another fifty years—and he certainly looks as though he will—he wants a million dollars, and your scheme has been put into

effect; how is he going to get the million dollars from the bank if you are going to demand that the banks have 100 per cent cash reserve.

Mr. ROWAT: This gives me an opportunity to clear up another point that may have been misunderstood this morning. In the wind-up of this morning's discussion we were making reference to the fact of you being a credit union and myself buying certificates from you and giving you my million dollars. I do not see any reason that you, in turn, could not take this million dollars and go over and loan it to Mr. McLean. But I may have left the wrong opinion in the minds of some people. I did not say—and I want this clarified—that the banks would become credit unions. However, I did say that their operation would have to alter from its present arrangement.

When this particular scheme starts to come into being—and I am using the words "starts to come into being" because I have emphasized it and I cannot emphasize it too strongly, it has to be a slow conversion and a slow roll or our economy could become terribly upset. I think I made the point this morning that if we had an automobile and wanted to store it in a garage, we would be expected to pay demurrage charges on it, and I think that if I go to the chartered banking system, put money on deposit and just want them to keep it there for me—and they are not able to reloan it—I should be required to pay them a demurrage charge for the service that they have rendered. However, on the other hand, if I were to take it, as is happening in some of the chartered banks today, and buy bank certificates with my money—now, they are already starting into this, Mr. Gilbert—in reality what I have done is exchange my money for bank certificates; the bank can then do what they like and loan it to Mr. McLean if they desire to do so.

Mr. GILBERT: Your are not imposing that 100 per cent cash reserve on me because you have given me your million dollars and I give it to Mr. McLean. Now where is my 100 per cent cash reserve.

Mr. ROWAT: Let me suggest to you that there is a great misunderstanding in this terminology of cash reserves. First you are talking of cash reserves as it applies to the chartered banks and now you are talking of cash reserves as it applies to credit unions There are two different definitions here. Instead of you being the credit union I am going to change you to the chartered bank that has already implemented the idea of selling bank certificates—and I think this is a good idea; I go in and I buy a million dollars of your bank certificates. Now you have my million dollars and I see no reason why, because it is yours, that you cannot turn around and loan it to whomever you wish and of course you take the risk with capital. Does this clarify this, Mr. Gilbert.

Mr. GILBERT: This is much the same as the near-banks are doing now.

Mr. ROWAT: I am not in the position to argue if this is or is not what the near-banks are doing now.

Mr. GILBERT: It is not only the near-banks but the credit unions, the caisses populaires; this is what they are doing.

Mr. ROWAT: I made the statement this morning and I would like to repeat it: I have never seen evidence that showed me that any of these near-banks are actually increasing our total money supply. I have been told this, but it has never been proven to my satisfaction that this is correct.

Mr. GILBERT: Thank you, Mr. Thompson, for allowing me to put those questions.

Mr. THOMPSON: Now I can ask a supplementary to Mr. Gilbert's question, Mr. Chairman. Am I correct in making this statement: what you are saying then is that as public credit comes into play in the economy the bank requirement reserves will increase until some time in the future they will reach 100 per cent?

Mr. ROWAT: In essence, you are correct. Let us take the illustration at this moment of time that the chartered banking system—and remember I said this morning that I spoke of the system and not of any individual banks—is operating at its maximum, that is, at its 8 per cent cash reserve. Now if you take this as the condition that exists at the present time, and you also take into consideration that the Bank of Canada is going to be called upon to create this 1X billion dollars that we have been referring to and putting it through the national credit account into the economy of the country, as soon as this happens then the chartered banks are not able to increase their bank credit. Then the cash reserve ratio of the chartered banks certainly does change and it will no longer be an 8 per cent cash reserve. It will start to rise gradually.

But, in winding this up, Mr. Thompson, I may state that you could never bring the chartered banks to 100 per cent cash reserve by this method. Some time in the future—and this again is not in the 50-year period that I spoke about, Mr. Gilbert, it would be sometime between now and that 50-year time —you are going to have to take still other measures to reduce the amount the chartered banks have already created, because as long as they have one dollar of bank credit which is making up part of our money supply in circulation in our country you would never be on 100 per cent cash reserve.

Eventually—and as I suggested, it might be 50 years, but you have to start from where you are—there would have to be other changes made in order to get to this 100 per cent cash reserve in the period I suggest of possibly 50 years, which is a long time in the future, and I see many things happening, Mr. Thompson, before that becomes a reality.

Mr. THOMPSON: Mr. Rowat, we all are very interested in the cost of living increase as are all Canadians. You make a statement on page 6, article 31 of your presentation.

Mr. ROWAT: Is that the first or second presentation?

Mr. THOMPSON: The second. You said that the chartered banks can make a gross yearly profit of $66 on $100 of Canadian currency deposited with them for safekeeping. Would you elaborate on that? That is pretty expensive money.

Mr. ROWAT: Yes, I would be pleased to elaborate on it, and at this time I will have to turn to the Chairman for some direction here, Mr. Thompson. I inquired of our Clerk yesterday whether it would be possible to use a flip chart in order to explain a given point and this would be the case in question, Mr. Thompson. I would like to be permitted to set up a flip chart which I have at the back of the room in order to be able to answer your questions and show you the manner in which this action comes into being. If permitted, I would do so. If not, I will try to do it by way of a verbal explanation.

The VICE-CHAIRMAN: I think it would be better that you try to explain to Mr. Thompson without having any charts.

Mr. ROWAT: Very well.

Mr. THOMPSON: Very briefly, Mr. Chairman.

Mr. ROWAT: Very well. In order to be able to do this I am going to have to use the illustration that I used with one of the top economists of one of the chartered banks a number of years ago, and he confirmed my statement to be correct. It was reconfirmed to be correct by the research department of the Bank of Canada. May I have your assistance, Mr. Chairman?

The VICE-CHAIRMAN: Yes.

Mr. ROWAT: You, Mr. Chairman, and I now have become personal friends and we will allow Mr. Gilbert to become the representative of the chartered banking system.

Mr. GILBERT: Mr. Chairman, that is a dubious honour.

Mr. ROWAT: Well if you do not wish to assume the responsibility maybe one of my friends in the back who are bankers could assist. At any rate, to illustrate the situation as it exists today and to answer Mr. Thompson's question, the Acting Chairman and I being personal friends go in to see our friend, the banker, who is representing the chartered banking system. At this moment of time I am in need of a $1,150 loan. But my banker friend says to me: I cannot lend you any money; I am loaned to saturation. And there is a point, as bankers well realize, of saturation beyond which they cannot extend bank credit or loans. At any rate, at this moment of time my friend speaks up and says: I would like to help Mr. Rowat out but I have not got $1,150. You, as the banker, ask him: "How much have you got? He says: I have only got $100. Now your next question to him is all-important: Have you got this $100 in dollar bills, Canadian currency? His answer is: Yes. Your next question is: Are you prepared to deposit this with me as a savings as long as I help out your friend? Your answer, again, is in the affirmative. Now the first transaction that appears on the ledger sheets of the chartered banking system is that their cash reserves increased by $100 because he gave you $100 of Bank of Canada notes. You also show on the liability side of your ledger that his personal savings has increased by $100. You, in turn, say to me: Now give me a note for $1,150 and I will put that on the asset side of our ledger and I will credit your bank account with $1,150, which I, figuratively, would do. Now Mr. Chairman, I say: But just a moment, you cannot do that; you only a moment ago could not loan me any money and now you have loaned me $1,150, and this is not right. You come back and say: But, this is right because if you look at this one transaction you will find that the sum total of the deposit liabilities in the two cases total $1,250. But the bank which has so graciously given it to us says that we only have to have 8 per cent of our deposit liabilities in the form of deposits with the notes of the Bank of Canada, 8 per cent of the $1,250 which appears as a deposit liability is the $100 which the Chairman gave to you as personal savings which made the whole transaction possible.

Now, gentlemen, this has been confirmed, as I said, by a late leading economist of one of the banks, and it has been reaffirmed by the research

department of the Bank of Canada as being accurate. Mr. Thompson, does that answer your question?

Mr. THOMPSON: Yes. What you are saying then is that the cash reserve system provides them with this bank credit which is actually the creation of new money? Is that what you said?

Mr. ROWAT: I would be inclined to quote my brief, and in quoting my brief I would be quoting Graham Towers when he was Governor of the Bank of Canada, when he said: "Banks do not lend money; they lend bank credit as a substitute for money." It would be this bank credit which becomes part and parcel of our total money supply that I would be referring to. Does that again answer your question, Mr. Thompson?

Mr. LAMBERT: I have a supplementary question. Would you agree, though, that if it were not for the 8 per cent statutory reserves that are called for that the bank could, in practice, operate on a 5 per cent basis, that you could make it 20 per cent and that this is merely a case of the rolling of credit—the same way you operate yourself, unless you operate on a straight cash basis. Everybody to whom you owe money does not call upon you at the same time to repay.

Mr. ROWAT: Well, as was pointed out in my brief and the discussion I had with a senior member of the federal government when I presented this particular question, it would be a catastrophe of the worst kind, sir, if we all decided to withdraw our savings from the chartered banks at one time. If you think that Prudential is bad or that Acceptance is bad, this would be of the worst nature that I can even imagine.

Mr. LAMBERT: Well, are you telling us anything new? The same thing would happen to the treasury branch of the Province of Alberta.

Mr. ROWAT: I am not arguing for the treasury branch in the province of Alberta, sir. I am trying to defend the brief I have before the standing committee.

Mr. THOMPSON: I have one more question and again it comes back to this cost of living factor. I quote from your brief:

> Canadians...are paying interest...on approximately 80 per cent of our total money supply, which...the chartered banks, created...

Is there an alternative for this?

Mr. ROWAT: An alternative for this, yes. By putting the proposals that I have suggested into being and projecting it 50 years into the future, as I suggested to Mr. Gilbert, when this would become an idealistic situation, then you would find out that Canadians would not have to pay interest on any of the money supply. All they would have to pay would be carrying charges of the administration of the Bank of Canada because the Bank of Canada is an instrument of the government of Canada.

Mr. LEBOE: I have a supplementary question.

The VICE-CHAIRMAN: Yes, Mr. Leboe.

Mr. LEBOE: Is it your opinion that this is borne out by the fact that the Bank of Canada today owns about 16 or 17 per cent of the national debt and that the money accrued from that ownership is returned to consolidated revenue?

Mr. ROWAT: Your statement is accurate; the revenue gathered from the interest on the government of Canada securities held by the Bank of Canada is returned at a given moment of time in the year—I do not know what time their fiscal year ends—to the consolidated revenue fund. The only amount that is retained by the Bank of Canada is the cost of administration. I argue that this should be the basis of our entire money supply.

The VICE-CHAIRMAN: As no other members wish to ask questions may I thank you, Mr. Rowat, on behalf of every member for the ideas you have presented with conviction to us. I cannot say that you have convinced every member but we will have a further opportunity to look at your brief. On behalf of everyone I thank you very much for appearing before us.

Mr. ROWAT: Mr. Chairman, it has been a privilege to be able to appear before this standing committee and I trust that my ideas will be a contributing factor, be it minor or major, in improving the economic conditions of Canada.

The VICE-CHAIRMAN: Thank you very much.

Gentlemen, I now will call on Mr. Harry H. Hallatt from Scarborough, Ontario to present his brief. Mr. Hallatt, as you may know, witnesses are allowed to give only a summary of their briefs, which will be followed by questions from members.

Mr. HARRY H. HALLAT (*Scarborough*): Mr. Chairman and honourable members—

Mr. GILBERT: Mr. Chairman, I wonder if you could tell us of Mr. Hallatt's background.

The VICE-CHAIRMAN: Unfortunately, I have nothing regarding the background of Mr. Hallatt. Perhaps he can tell us.

Mr. HALLATT: Just tell him that I am a hired and retired businessman.

(*Translation*)

Mr. LAPRISE: Mr. Chairman, we do not have the French interpretation at this moment.

The VICE-CHAIRMAN: Sir, could you please ascertain this?

(*English*)

Mr. HALLATT: Can you hear me all right?

The VICE-CHAIRMAN: Yes; please proceed.

Mr. HALLATT: May I refer to the brief itself, Mr. Chairman? I happened to be in Ottawa at the time of the meeting of the Commonwealth Parliamentary Association, and I took the occasion to talk to two or three of the members who were interested in my proposals, and it was suggested that I prepare a brief for this Committee. I had only a couple of days in which to do it. I sent to all of the members a copy of this little brochure, "Our Dual Economy", and I just typed out a few introductory pages which your duplicating department, through your efficient secretary, was good enough to duplicate. I thought they might serve as a summary of what I have to say. Any brief that I would have prepared would have been substantially the same as this little brochure.

This, I may say, is just a digest of what I have been talking about, as the brochure says, since the stock market crash in 1929.

I have spoken to your Chairman about my having a little angina trouble, and sometimes under emotion I may have to take a little time. He has kindly consented to read a part of it and I think I will be able to get along all right. I find that I lack a little oxygen, and reading does take a little more than I sometimes have; so I ask for your indulgence.

I do not think I shall read the preliminary remarks in the introductory pages. You have heard a great deal about the banking—

The VICE-CHAIRMAN: May I remind you, Mr. Hallatt, that your brief has already been distributed among the members of the Committee. They have had an opportunity to read it. If there are any particular parts of your summary or of your brief that you would like to have read I will do it for you.

Mr. HALLATT: Yes. What I was going to say is, that I do not think it is necessary to read the introductory pages. There are two pages on this discussion, and one refers to our present banking system and any proposals we might make to improve or change the administration of our banking system in order to obtain the results that some of us feel can be obtained by such changes.

You have heard a great deal about the present system and the proposals outlining what can be done, and perhaps, Mr. Chairman, you might read the first three or four pages. This is a digest of what I believe is the crux of our problem, and I would like to listen to someone else read them.

The VICE-CHAIRMAN: I have read those pages already, but perhaps I can summarize them. You are proposing that there be two kinds of banks: the national banks that will take care of the administration of all public enterprises, construction and buildings, and the other banks in our system that will take care of private business.

Mr. HALLATT: I am afraid that you do not have it quite right, Mr. Chairman.

The VICE-CHAIRMAN: Well, perhaps I had better read it.

Mr. HALLATT: If you will, because I think it is important. Thank you so much.

The VICE-CHAIRMAN:

> All of our economic problems and most of our social problems are due primarily to the failure of our political, educational, and business leaders to perceive that we have developed a dual public and private enterprise economy, and that these enterprises must be financed on different bases.
>
> Popes and poets and politicians have decried usury down the centuries, but it has remained for me to devise a system of separating the financing of public enterprise and private enterprise whereunder public works and housing, which are no part of our private production and private service structure, will be financed at the administrative cost of such financing, and private enterprise will be financed with private savings on a competitive basis.
>
> Happily the economies of truly democratic, private enterprise countries lend themselves perfectly to a system of using the commonly owned units of durable wealth and housing as bases for all needed money, which can be issued and recalled on a sound amortization basis at a small fraction of one per cent per annum.

This new idea, this new system of financing will enable us to provide public utility facilities by paying for them once, not over and over in high, unnecessary interest charges every few years, and will enable every family to own a comfortable home by paying for it also only once.

The financial facilities necessary for the administration of this new system are now in operation—the central bank, the financial departments of our federal, provincial, and municipal governments, and our private banks. Nationally, no new financial institutions are required. Internationally, we need only an International Clearing House.

The private banks will then become exactly what the private bankers have always represented them to be, and what the people have always understood them to be, namely, repositories for the savings of the people, and money loaning and money transfer agencies, but they will cease to be money manufactories.

Change in banking practice

The one slight change in banking practice that will be made in putting this new system of financing into operation is that the central bank will create all the money required. Issuing money for the financing of all public enterprise capital projects and for housing will provide ample money for all purposes.

Instead of the private banks creating and cancelling money a half dozen to a dozen or more times for each item of goods produced, as it is processed to completion, our money will be issued by the central bank for financing the construction of completed, essential, durable units of wealth —our homes, schools, hospitals, water and sewer works, power, lighting, transportation, and other public utility capital projects—and it will be cancelled on a safe and sound amortization basis.

Our money supply will automatically expand as our economy expands. Not a dollar will exist that does not have sound national wealth backing, and everyone will know from periodic statements of our national affairs exactly what is behind our dollars.

Perhaps I should now ask if there are any members who would like to ask questions.

Mr. HALLATT: There are only a couple more pages. I think they are important. Perhaps I could help a little now.

The VICE-CHAIRMAN: Yes, go ahead.

Mr. HALLATT: The change over from private bank—

The VICE-CHAIRMAN: Mr. Hallatt, this brief will be printed in the record and it has already been read by every member. I do not think I should allow you to read all your brief—

Mr. HALLATT: I just wanted to read the balance of this plan; but I accede to your ruling, sir.

The VICE-CHAIRMAN: I can read it if—

Mr. HALLATT: Whatever you wish to do, sir.

Mr. LEBOE: It may be just as well to take a minute or two to finish it.

Mr. HALLATT: I shall go on for a page or two.

Mr. LEBOE: How many pages are left?

Mr. HALLATT: Just two pages.

Mr. LEBOE: Rather than talk about it let us have it read.

Mr. HALLATT: This is the general plan. I wanted to refer to the index, as well.

The VICE-CHAIRMAN:

The easy change over

The change over from private bank money to national money can be made without adversely affecting our private financial, production, distribution, and personal service activities in any way. Indeed, it can be done with immediate gain for everyone. There will be employment for all willing and able workers. There will be an immediate increase in production, which will mean more of everything for everyone. Poverty in the midst of plenty will cease.

The central bank, in co-operation with the financial departments of government at all levels, will issue money to retire all internally held government bonds and debentures, and mortgages on ordinary homes, at the real value of such securities, and to finance all future public enterprise projects, and all future housing of a standard commensurate with our attained standard of living. Each branch of government will be entitled to issues of its requirements of money for these purposes in accordance with, and to the extent of its ability to retire, on a safe and sound amortization basis, all such advances made to and through it.

The original issuance by the central bank of all money needed to finance public utilities and housing, and its automatic withdrawal on a sound yet flexible amortization basis, will be front page and daily broadcast information for all citizens. Maintaining economic stability cannot be more simple. Instead of trying to maintain economic stability by manipulating the interest and tax rates, slightly increasing the rates of amortization of the bases of the money supply will reduce spending and increase public property and home ownership—not profits to the money lenders. To induce spending, the rates of amortization can be lowered. Taxes will be levied as always intended to pay for current services.

In making the change from private bank money to national money, the private banks will arrange with depositors of national money to borrow it on bank debentures redeemable at times stipulated therein, and will exchange it for deposits of money they created, which they will then cancel as they now cancel such money when it is paid into a bank by a borrower to pay off a bank loan—the reverse process of creating such money. The banks now borrow money they created. They will pay off such loans with loans of national money, and cease the private manufacture of money.

The new national money cannot be cancelled by the private banks. It can only be cancelled by being paid into the central bank in amortization of the bases of the national money supply.

Do I need to read the other paragraphs?

Mr. HALLATT: I would like to read them, if you do not want to. I am in your hands, sir. I think it is important that the plan be read.

The VICE-CHAIRMAN: I will do it.

Procedure not inflationary

The increase in the primary money supply resulting from the national issuance of the volume of money required to retire the bonds and debentures, and mortgages on homes, as above mentioned, will not cause inflation. These documents are secondary moneys. The people who hold them could spend them now as easily as they will be able to spend the money they will get for them. Actually there will be less paper purchasing power in existence when the bank money, government bonds and debentures, and privately owned transferable mortgages on homes are cancelled. These secondary moneys have a built-in inflationary gadget—high, unnecessary interest—which doubles their purchasing power every few years without effort by or risk to the holders, and without production.

But it is not the amount of money in existence that is of first importance in maintaining economic stability, contrary to the brainwashing the money dealers have given us. It is the amount of money put into and kept in circulation to finance the production of needs and wants that determines and regulates the price level.

The situation will be that we will have to guard against a deflationary trend because hundreds of millions of dollars of interest will be cut off. People will not spend their savings as freely as they now spend the unearned interest on bonds and debentures. This was the case in the depression of the thirties. There was enough money in saving deposits to have caused wild inflation if the people had spent their savings freely. But people acquire a habit of saving. Frugal people spend only part of their income normally. When earnings are down they curtail spending.

And let no one trot out "the flight of capital" bogey when we cut off opportunities for private investment in public enterprises, and in mortgages on homes. Canadian dollars are claims on Canadian goods only. If we can control our imports and exports, and we must control them, we can control the exchange medium, as we did during the war, as we are now doing, and as we must always do in managing the economy. Stability will not be a problem when we put an end to the private creation of money.

Mr. HALLATT: Are you short of breath? There is another page.

The VICE-CHAIRMAN: I think we have read enough to know what are the basic ideas.

Mr. HALLATT: Let me read one thing. We are all the same, we people, and I understand, and am told on good authority, that early in the year you are going to get rid of those funny money men so that you can get down to business. I heard that from one of the reporters.

I want to read just one thing, and I want to impress upon you the importance of what I am doing, as my two predecessors did. I am going to answer all your questions on any subject in connection with your terms of reference, that is, in connection with finance, trade and economic affairs, but here is a little something to all humanity, that noted:

> I consider "Our Dual Economy" to be one of the most important documents ever written.

This was by an intelligent man and one whom I consider to be one of the most intelligent I ever talked to.

I am ready for any questions you may have on any subject in connection with our economy and our finance.

The VICE-CHAIRMAN: Well, it does not seem, Mr. Hallatt, I do not see any member signifying his intention to ask questions. Mr. McLean?

Mr. MCLEAN (*Charlotte*): I heard you say that this would do away with poverty in the midst of plenty?

Mr. HALLATT: That is right.

Mr. MCLEAN (*Charlotte*): How are you going to do away with poverty if people will not work?

Mr. HALLATT: When I addressed the banking committee of the Liberal party here 35 years ago Mr. Euler asked me that same question. My reply was that I had been an employer of labour for a long time and that I had not come across very many people who would not work if they had an opportunity. Henry Ford always emphasized the need for people acquiring the habit of work. I asked Mr. Euler, "You are a manufacturer. How many people do you know who will not work? How many of your employees would not give a good day's work?" I said, "You may have some". I started to work when I was 8 years of age, at 4 cents an hour. I worked with men on the extra gang on a railroad when I was 12 years old. I was a conductor on a railroad at 20 years of age. I worked in a brick yard, and I worked opposite 3 or 4 men all the time. In other words, I did as much work as they did, digging with a spade.

I have never found people, sir, who have acquired a habit of working, not trying to keep up their end. Now, there are a few, one or two perhaps, but not 1 per cent. There are one or two in a thousand who will not work if they get the opportunity. I do not agree that that is the situation in Canada, or any place else. People must have an opportunity. That is all I am asking.

Mr. MCLEAN (*Charlotte*): Well, there is opportunity, but there are a certain number of people, I have found, who do not want to work. How would one take care of them?

Mr. HALLATT: Well, how many have you found? Can you take out your—

Mr. MCLEAN (*Charlotte*): Oh, I am not asking you how you are going to take care of the people who do not want work—

Mr. HALLATT: Cannot work, or will not work?

Mr. McLEAN (*Charlotte*): Will not work; they do not earn anything, or just enough to get by—work a day or two a week.

Mr. HALLATT: I would say that that is not my responsibility. It has nothing to do with—

Mr. McLEAN (*Charlotte*): We are certainly going to have poverty. Some of these people have children.

Mr. HALLATT: Give them an opportunity and I am satisfied that they will work. There is no reason why they should not. I do not agree with your premise, sir, that people will not work even if they are given an opportunity.

Mr. McLEAN (*Charlotte*): Some people will not.

Mr. HALLATT: Get them into the habit of working. Have work for them from the time they grow up, or from when they are children. They will work.

Mr. McLEAN (*Charlotte*): All right.

Mr. HALLATT: I do not agree with you, sir, that that is a problem.

Mr. McLEAN (*Charlotte*): You say that you have worked since you were 8. I was an accountant in a bank when I was 18, and I have worked all my life. I know something about work. We employ a lot of people. But there are a few people who do not want to work.

Mr. HALLATT: Are those our only problems—that there are a few people who just will not work?

Mr. McLEAN (*Charlotte*): I would like to know how you are going to take care of them. I notice you say here that we have learned that money is not, never was, and cannot be, gold or silver.

Mr. HALLATT: That is right.

Mr. McLEAN (*Charlotte*): Well, why could it not be gold?

Mr. HALLATT: Because, sir, you cannot express value in a substance—in a commodity.

Mr. McLEAN (*Charlotte*): Do you not express values in wheat and copper?

Mr. HALLATT: No.

Mr. McLEAN (*Charlotte*): If copper is worth so much and you have an inventory of copper is that not worth so much?

Mr. HALLATT: You are not expressing values in anything but a price language. If you want to exchange one with the other, you will barter, but you cannot even barter without using numbers—price language: Two of this for three of that. Money was never anything else. You go to the bank because you want to borrow some money—a few million dollars, if you like—and you find that the bankers just write up some numbers in a book—

Mr. McLEAN (*Charlotte*): I am not worried about that—

Mr. HALLATT: You are not giving me a chance to explain, sir.

Mr. McLEAN (*Charlotte*): I know all about that. The one I want to know about is gold. There are so many fine grains of gold, and there is a price put on it.

For an ounce of gold the price is 35 American dollars. Is that gold not worth $35.00 if a person buys it for $35.00?

Mr. HALLATT: That is not the question you asked me. We arbitrarily fix a price of $35.00.

Mr. McLEAN (*Charlotte*): But if the purchasing power of those $35.00 goes down should not the price of gold go up, as it would of wheat, or copper, or anything like that?

Mr. HALLATT: You are completely off the point that you were making, so far as I am concerned.

Mr. McLEAN (*Charlotte*): No, I am trying to make a point here.

Mr. HALLATT: I will have to ask you to go over it again, because you have left the point entirely.

Mr. McLEAN (*Charlotte*): You say here that gold could not become money, or anything like that.

Mr. HALLATT: No substance can be money.

Mr. McLEAN (*Charlotte*): I say it can. If you put a value on it and keep that value in relation to your paper money then you have a value; and as the value of your paper money goes down the value of your gold goes up.

Mr. HALLATT: Would that not apply to bricks or anything else?

Mr. McLEAN (*Charlotte*): Yes, certainly, Mr. Hallatt. You say that bricks can be money?

Mr. HALLATT: Why cannot it apply to your money, then, and you could give it some value.

Mr. McLEAN (*Charlotte*): We have had issues of paper money. We had it in France and in Germany and all over the place, but they always come back to something that they can regard as stable. The people of the word generally claim that gold has a value.

Mr. HALLATT: That has got nothing to do with money, sir.

Mr. McLEAN (*Charlotte*): Yes, it has, if you attach it to the money.

Mr. HALLATT: Well, I do not agree. Are you saying that any commodity can be money?

Mr. McLEAN (*Charlotte*): Any commodity can be—

Mr. HALLATT: We have had salt, we have had beads, beaver hides—

Mr. McLEAN (*Charlotte*): Anything that can be turned into money.

Mr. HALLATT: Anything that can be turned into money is money?

Mr. McLEAN (*Charlotte*): Here in Canada you have a bill and you turn it into commodities. Why can you not turn commodities into money?

Mr. HALLATT: I cannot argue that way, sir. If any commodity can be money then there is no reason for my being here.

Mr. McLEAN (*Charlotte*): Well, it must be money, because we do not have value behind our bills. We issue these bills.

Mr. HALLATT: Well, if that is the kind of question I am going to be asked I am helpless. If any commodity can be money, then—

Mr. McLEAN (*Charlotte*): We have silver and gold. We had the silver in the United States. We had the silver dollar—

The VICE-CHAIRMAN: Mr. McLean, please; you have had the opportunity of asking questions of the witness and if he says that he does not agree with the premise of your questions, then I do not think you should argue with him. We will not go any further with that. Mr. Thompson?

Mr. THOMPSON: It seems to me, Mr. Hallatt, that one of the problems that we face today in our present monetary system is the constant deflation of the value of money. What would your system do in regard to providing a stable dollar? By that I mean a dollar that is a dollar today, or next year, or 10 years from now? Do you have an answer to that problem?

Mr. HALLATT: I do not say, Mr. Thompson, that the value of the dollar, in terms of international exchange, would never change, or anything of that kind; but the value of the dollar is something that we have to arrive at arbitrarily; and insofar as international exchange is concerned we have to establish a ratio of the values of the different currencies.

Mr. THOMPSON: I am speaking locally, though. I am not thinking of international affairs.

Mr. HALLATT: Yes, I quite understand that. But one of the reasons for our constant inflation is, of course, the increase in the money units in terms of numbers that we put on the hours of labour, which will be reflected in the prices of the things that we produce.

Another thing that is contributing to our terrific, constant inflation, of course, is the high cost of money. We are using the interest on money—taxes—to control the economy—to say whether men shall work or not, whether we shall put men out of work to control the value of bonds.

If you remember, Mr. Thompson, back in 1952 Mr. Towers testified to the fact that controlling the price of bonds and of money, labour and production, was like driving two horses not in double-harness. He went on to explain that what was happening then was that they were trying to restrict credit, as they are doing now with the so-called tight money. Of course, there is no such thing as tight money; it is a misnomer. In order to protect the price of bonds they asked the banks to restrict credit. First they tried open market operations but that did not work, because so many of our large industries had money and they were lending it to the government on treasury bonds. Then the cash reserves did not work.

The only thing he could do, as he admitted in his testimony and it is in the record—was to call the bankers together and ask them to restrict credit. They could not do anything with the large corporations, which had lots of money, but they could do something with their customers—the farmers and the small business people. People used to come into my office and say that they wanted to buy farm machinery and so on, but that their credit had been cut from five thousand to one thousand.

In that way they were able to restrict credit—put people out of work—but they had to arrive at a balance so that the values of bonds would be maintained. That was the big problem at that time. As he said, it was like driving two horses not in double-harness. He said that maintaining the value of bonds tended to have priority. In other words, it tended to have priority over keeping people working. It was necessary to stop this boom, with everybody working and

making money—it was necessary to stop people from getting into that to the point where the price of bonds would go down and people would be taking money out of bonds and putting it into production. In order to stop this—and this is Mr. Towers' testimony—they had, in effect, to put people out of work—had to restrict credit to the small business people—in order that they would not be selling their bonds and going into business.

That happened. That is in the record, if you want to read it. I wonder if I am getting somewhere—

Mr. THOMPSON: I was just reading your statement in the last line of page 9 where you say:

> Money is only a certificate for—a claim on—production.

Mr. HALLATT: That is right.

Mr. THOMPSON: Well, the dollar in 1967 is going to have a claim on less production than it did in 1966. The dollar that my father put away when he was able to save a bit of money for his older age is no longer a dollar. This was the thing I was concerned about, and I wondered what your opinion was about it.

Mr. HALLETT: Well, of course, we are all concerned about that. I think somebody said this morning that the banks are worried about all the billions of dollars of idle money; they have savings in the bank that they do not know what to do with. It is a problem with them now.

There is no use talking about tight money. There never was such a thing as tight money. There is no use talking about cash reserves. That has no validity at all. There is no use talking about having 100 per cent money. We have 100 per cent money now, and we have always had 100 per cent money. If anybody wants to challenge that I will explain it. The bankers will agree that we have 100 per cent money now. With regard to cash reserves, as one fellow pointed out, they are supposing. We talk about 8 per cent, and that if people have 8 per cent of cash the banks can create 11½ times that much money in credit. They create money. That is why money was never anything else but figures and numbers. It is all money. We do not need it in printed form. That is stupid, because they can do it with just numbers in a ledger. Nobody is going to go into a bank and ask for their money back again. There is no reason why they could not get it, because there would not be any more money in the country. It is not necessary. It is just stupid to talk about having it.

We have 100 per cent money now, and there is not a banker who will deny the fact that we have 100 per cent money.

So far as inflation is concerned, it is caused by ever-increasing wages and the high cost of money. My reading of this problem is that there has been failure to recognize that we have two economies—public and private. There is no reason in the world why the public sector should borrow money from the private sector—positively no reason. These things are supposed to service at cost. All of our hospitals, public utilities, schools, highways and public works are supposed to service at cost. Where is any initiative in clipping coupons for something people are supposed to service at cost. Why should anybody get a profit on a workman's home or on anybody else's home after it is built?

Now, gentlemen, think of it. Give the architect a profit for designing a better home; give the workman and the contractor a profit for designing a better home; but where is the initiative in private enterprise in getting interest on somebody's home after it is built?

The VICE-CHAIRMAN: Mr. Hallatt, you have had the opportunity of expressing your views. As I mentioned at the beginning, your brief will be printed in our report.

I would like to thank you, on behalf of the Committee, for your contribution and for having appeared here today.

I should advise the members that the meeting that was to be held at 8.00 p.m. has been cancelled. We will resume our sittings next Tuesday, January 17, with the Canadian Federation of Agriculture.

I declare this meeting adjourned.

TEXT OF 1966

BRIEF AND STATEMENT

by Frank O'Hearn

prepared for presentation to the

HOUSE OF COMMONS COMMITTEE

on

FINANCE, TRADE AND ECONOMIC AFFAIRS

re

BANKING LEGISLATION

PART I

BRIEF AND STATEMENT

to Chairman and Members
Commons Committee on Finance,
Trade and Economic Affairs;

I present this Brief and Statement so you may know just what proposals I am submitting for your information and consideration.

I wish here to thank you for accepting my Brief, and I request an opportunity to appear before you in support thereof.

I recall that back in 1954 I filed a Brief with both the Commons and Senate Banking and Commerce Committees, but they wouldn't permit me to appear before them to speak in support of my Briefs.

Since 1954, I filed a Brief in 1961 to the Royal Commission on Banking and Finance, and in 1965 I filed a Brief to the Royal Commission on Taxation, and I appeared before them in testimony thereof.

While the Royal Commission on Banking and Finance accepted my Brief for its records and let me appear before it, the Chairman wouldn't let me make any statement or speak in behalf thereof, nor did they question me about my proposals, all of which seemed strange to me at that time. Later however, the reason became quite clear, for the Royal Commissioners had decided to suppress the contents of my Brief, and with the help of a subservient Press, they succeeded in doing so. Hence, when the Commissioners issued their report without even mentioning the information I disclosed to them, I found it necessary to publish in May 1964 a pamphlet "The Secrets of Banking and Finance", being a critical appraisal of their report to discredit their obvious efforts to conceal the truth from the government and general public. And in 1965 I also deemed it advisable to publish a booklet "The Evolution of Banking and Money" summarizing my investigations and findings as conducted and developed over the years.

After considerable unwarranted delay, the government now proposes at long last to review The Bank Act in connection with the renewal of the Bank

Charters, and to recommend to the House of Commons just what changes it proposes be made in the Acts and Statutes governing banking operations for the next ten years.

Beyond all question, some basic changes must be made so we can avoid bungling along in the future like we've been doing in the past years. It's possible that this may be the last chance we Canadians will have to preserve our integrity and our nationality as an integrated federated nation, so it's up to Parliament to see that the proposed changes are all-sufficient.

I would here say that there isn't much point in making changes in the banking laws if the laws aren't to be properly enforced. I say this because I find that the banks at present and have been over the years, operating outside the existing laws. Our banking laws and statutes have not been properly enforced and they are not being complied with by either the Chartered Banks or our national bank, The Bank of Canada. They are acting as a law unto themselves. By brazeningly flouting the laws governing their operations, they have bedeviled the best efforts of the people of Canada, and have placed themselves and the Canadian people down in a deficit position, and rendered them unable to solve the various political, economic and financial problems confronting them.

In support of this statement, I beg to inform this Committee, and charge that the Bank of Canada is secretly making over $4 million in cash profits each and every day, and that worse still it grossly fails to report or turn this profit over to the Receiver-General of Canada, as called for by the laws governing its operations.

I charge that it extorts over $4 millions in cash day by day from the Chartered Banks and their customers and that it gets the money for free through trickery. It extorts used currency from the Chartered Banks without paying them for it. Moreover, instead of crediting the Receiver-General with the profit, or else returning the cash back to the banks it gets the money from or paying them for it, the Officials foolishly and illegally brand the cash money as worthless, and proceed to mutilate and burn it up at the expense of the government and people of Canada.

It burns up the four million dollars daily as if it is garbage instead of valuable legal tender. This it can do only because it gets the $4 millions daily from the Chartered Banks for free. If it had paid the Chartered Banks even exchange for the used currency it got from them for free they would now have the money and it couldn't very well be burned up without reporting a cash shortage.

Moreover, after burning up the unusable currency, the Bank of Canada didn't even replace it for itself from its new currency stockpile so it could pay the Chartered Banks for it, or credit the extra capital to the government.

The trickery and improper method used by the Bank of Canada, is to charge the Chartered Banks for double the face value of the currency it sells, lends or rents to them, and by subsequently collecting double from them, once from their deposit accounts and once again by return of the currency itself. It managed to

accomplish this fraud by making invalid transfers from the banks' deposit accounts to their loan accounts, concealing in this way, both their profits and liabilities accordingly.

The Bank of Canada resorts to the same kind of trickery when it purchases securities from the Chartered Banks or the public, the difference being that it issues its own cheque currency in payment for the securities instead of note currency. When it gets its cheque currency back by way of deposits however, it is mutilated and destroyed too. This has the same effect as if it also destroyed its own note currency, instead of reporting the recovered amounts as deposit assets or cash overdrafts.

I charge that by mutilating and burning up its own incoming note and cheque currency, the Bank of Canada officials actually and illegally destroyed the cash reserves of the Chartered Banks and the cash savings of the Canadian people.

While the Bank of Canada credited the Chartered Banks when it got its old note and cheque currency back from them, the Chartered Banks were entitled to those credits in order to adjust over-charges previously made against them by the Bank of Canada. Despite this fact, the Bank of Canada forthwith cancelled the credits by invalid debit charges. Hence, the tragic joker is that in this illegal and foolish way, the Bank of Canada left the Chartered Banks without either the credits or new currency needed to recompense them for the damaged currency they turned back to it for free.

In this way, the Bank of Canada officials prevented us from using our cash savings in lieu of taxes and bond sales or using them to pay off the public debt. In this way too, they manage to keep us enslaved in perpetual debt, and burden us with usurious interest charges, and deny us the capital benefits which would otherwise accrue to us from our banking and currency transactions. Obviously, if they had not mutilated and burned up the used currency they fraudulently extorted from us through the Chartered Banks, we would each be richer accordingly.

Inasmuch as the Bank of Canada officials have impoverished us in the foregoing manner over the years to a total of over $1,000 per capita, they have hamstrung our best economic endeavours, and have accordingly branded themselves as public enemies and saboteurs of our banking and money system.

To put it another way, I charge that our governmental borrowing authorities are continuously borrowing from the public and the banks, while at the same time, our chief financial agency, the Bank of Canada, is also continously mutilating and burning up valuable though unusable note and cheque currency by the millions day by day, on top of which it is hiding from public view billions in new note currency, all of which it fails to report in its financial statements and statistical data.

I further charge that at the same time, our taxing authorities are also continuously levying untold billions in taxes on us under the foregoing intolerable circumstances.

Bearing these things in mind, I contend that both the public borrowing and taxation are unwarranted and should cease and should have ceased long ago,

until such time as the currency being concealed and being destroyed by the Bank of Canada officials is properly accounted for, restored and used for public purposes, in lieu of the unwarranted borrowings and tax levies.

As to the Chartered Banks, they fail to report the $4 million daily loss, and they fail to charge the Bank of Canada for the money they turned over to it for free. I contend that they can do this only because they, in turn, make over $4 millions profit daily from their customers without reporting the profit. They can turn the money over to the Bank of Canada for free only because they get it from their customers for free too, cheating them in this way accordingly.

The Chartered Banks, using the same illegal methods employed by the Bank of Canada, likewise charge their customers double the face value of the securities they purchase from them and the money they sell, lend or rent to them, and then by subsequently collecting double from them, once by way of cash and again by way of transfers from their deposit accounts. They accomplished this fraud by making invalid transfers from customers deposit accounts to their loan accounts, concealing both their profits and liabilities.

Obviously, had the Chartered Banks not so cheated their customers, the customers would have made the $4 million daily profit instead of the Bank of Canada, and they could have then paid it to the Receiver-General direct. This is one way in which they could have properly recorded their banking transactions as they actually took place.

In further support of my charge that the banks are operating outside the existing laws governing their operations, I submit the following with regard to the manipulations of accounts and currencies by Bank of Canada and Finance Department Officials;

As I've already stated, the Bank of Canada is making a secret $4 million cash profit daily which they are withholding from the government and which, instead, they are mutilating and burning up at the expense of the Canadian people. They do so because either of their incompetence or their evil determination to keep us all in their devilish clutch. They destroy this public money while at the same time admitting it is worth its face value right up until they destroy it. They don't even offer any reason for their illegal actions.

This wholesale destruction of legal tender obviously causes a shortage in the assets of the banks, but the officials refuse to report their cash deficit. Moreover, they refuse to deposit or stockpile the currency, or to transfer new currency from their hidden stockpile to replace for free the money they destroy. The Bank of Canada and Finance Department officials get this money for free from the Chartered Bank officials and then mutilate it for destruction.

A prime example of this devilish mutilation of legal tender to be destroyed by the Bank of Canada officials and Finance Department officials is the case before the Vancouver Police Department and Courts regarding the theft of $1.2 millions worth as charged against Vancouver policemen et al.

Bank of Canada officials there testified in Court that the stolen currency they mutilated is still worth its full face value, and will retain its face value until it is finally destroyed by the Ottawa officials. They offered nothing to support their foolish claim that the valuable negotiable currency suddenly loses its value when it arrives at Ottawa. Their claim is obviously invalid and fallacious.

In this connection, I submit that Mr. Gordon Smith, Bank of Canada Accountant, Vancouver Office, mis-reported the receipt of the mutilated currency from the Chartered Banks, and its dispatch to Ottawa.

Mr. Smith deceived our government and Parliament by mis-reporting that the currency he mutilated for destruction was received from the Chartered Banks and paid for, instead of reporting that it was received from them for free, making it available in this way as cash reserves to be held for their benefit and for the benefit of the government and people of Canada.

Mr. Smith also mis-reported similar amounts as owing by the Chartered Banks to the Bank of Canada, instead of properly reporting it as amounts owing to the Receiver-General to provide the government with the new capital gains it is entitled to get for free from the Chartered Banks.

The Bank of Canada, by over-charging the Chartered Banks and subsequently collecting repayment for additional loans or advances it never made them, obviously doubled the cost of its currency to them. Moreover, our proposal to cancel and reverse the invalid debits will make it possible for the Bank of Canada and the Chartered Banks to provide the government with the costless credits it is entitled to get from them.

I submit moreover that it was an illegal and foolish act on the part of Mr. Smith to mutilate his bank's cash holdings. Having done so, he should now get the currency replaced and have it reported as a cash asset which it needs to offset its hidden liabilities to the government.

By his improper manipulations, Mr. Smith grossly falsified the Bank of Canada's books and records, and misrepresented its financial condition accordingly.

I charge too that the books of the Bank of Canada and Chartered Banks accounts and records have been falsified by similar manipulations by their accountants to a total of over $18 billions.

In support of this charge, I submit that the Chartered Banks over the years illegally turned $18 billions worth of unusable currency over to the Bank of Canada for free to be mutilated and destroyed and that they have nothing whatsoever to show for it in exchange. They even refuse to claim back the over-payments they made to the Bank of Canada.

The currency recovered by the Vancouver Police Department should have been safeguarded until the Courts decide to whom it really belongs and just what disposition of it should be made. It undoubtedly is public property—a Crown asset—in which each Canadian including the policeman has a beneficial interest. This stolen currency which the Chartered Banks extorted from their customers should therefore be treated as public property.

Inasmuch as the mutilated currency still retains its full face value and is legal tender beyond dispute though it has become unusable through wear and tear it should have been deposited right back by the Vancouver Police Department with the Bank of Canada who couldn't very well refuse to accept it for deposit in view of their testimony in the preliminary Court hearings.

This deposit of improperly mutilated currency should have been made for the account of the Federal Government to whom it undoubtedly belongs. The

proposed deposit would, however, place the money in the hands of the government officials not for destruction but to provide the government with a costless cash asset to be used for the benefit of the Canadian people.

The Bank of Canada and Chartered Bank officials must stop their present illegal practice of mutilating currency for destruction before it has been deposited or credited to the Government.

In view of the foregoing, it's clearly up to the Bank of Canada and Chartered Banks to forthwith correct this intolerable condition, in the public interest.

This they could have done by depositing the mutilated currency recovered by the Vancouver Police Department, as cash for the credit of the Canadian Government. The Chartered Banks could then have followed up by charging the Bank of Canada with all the other unreported amounts they turned over to it for free, and by then crediting the proceeds to the Receiver-General of Canada to provide the government with the costless new capital due it from their currency operations.

Even though the stolen currency may have since been delivered to the Mint and destroyed there, I submit that it should not have been mutilated or destroyed. It should have been deposited as legal tender for credit of the Receiver-General. The misguided policemen charged with the theft of the mutilated currency would have been better occupied by arresting the people who criminally mutilated it.

By implementing my proposal to salvage the amounts we've lost by their foolish and illegal actions, the government and people of Canada, and the banks too, will be automatically placed in a solvent and capital position, in place of the deficit position disclosed by the public accounts. The government's proposed war on poverty can't succeed unless our missing cash reserves are salvaged.

I here again stress the fact that the banks are flouting the laws governing their operations inasmuch as the present Act clearly indicates that despite all else therein, the banks must disclose their true financial condition. Regardless whether the banks may legally grow at the expense of the public, or whether they may legally or can actually invest their available cash reserves ten or twenty times over, which they pretend they may and can do, or whether their cash reserves should be recorded as assets by the Bank of Canada or as liabilities only, the fact remains that when they overinvest or go short of cash they must report their cash deficits accordingly in order to properly report their true financial condition as called for by The Bank Act. Hence, they must forthwith report cash deficits totalling over $18 billions, as well as their money profits for a like total so the gains may be credited to the Receiver-General. Hence, I find and must charge that despite the official signatures on their statements, and despite the certification of their auditors, and the general acceptance by everybody that their reports and statements are true and factual, their reports and statements, instead, are grossly false and fail to disclose their true financial condition, as called for by Law.

In support of this statement, I need merely to point out that neither the Bank of Canada or the Chartered Banks report any deposit assets whatsoever, though the Chartered Banks acknowledge having received over $18 billions in Canadian cash deposits from their customers, and having deposited over $18

billions in the Bank of Canada. Nor do they report any new capital increase from their deficit dollar transactions. They definitely are in a deficit and bankrupt condition, though they have successfully concealed this fact up to the present time.

My investigations reveal that our National Economy is hamstrung by their bad bookkeeping and bad monetary procedures. By grossly mis-managing our money supply, the erring officials have placed us all in a deficit position, though it should be quite clear to everybody that we can't run our private or public economy on a misplaced deficit basis forever. Cash settlements must be provided for so as to make our public and private debts repayable. Otherwise, national repudiation and liquidation will overtake us and drag us all down into the financial and economic abyss just waiting to engulf us all, because of our own folly.

Hence, all roadblocks to a beneficial change in our banking laws and practices should be removed, so as to free ourselves from our mounting deficits and debts. I therefore hope that the adoption of the essential and beneficial changes I propose will be implemented, and I hope nobody will fear them, and that everybody will see the necessity of putting ourselves on record in favour of them.

I must again stress the fact that the Chartered Banks do not report any deposit assets on hand. I submit the reason is that instead of safeguarding their deposit assets and cash reserves, they turned the cash they got from their customers by way of deposit or debt repayments, back to the Bank of Canada. By doing so, they settled their original indebtedness to it for the currency or securities they got from it. On top of this, they made additional repayments to the Bank of Canada by way of transfers from their deposit accounts that they had with it. By doing this, they paid the Bank of Canada twice over for its currency or securities. The fact is that the Chartered Banks got no assets of any kind from the Bank of Canada for the additional repayments they made it, nor does the Bank of Canada hold any of this cash in reserve for the Chartered Banks.

Moreover, the Chartered Banks cancelled their own and their customers cheque currency too, which cheque currency they had covered and redeemed in note currency at par value. By doing this, they destroy their own currency assets and cheat themselves and their customers out of untold billions of dollars in cash assets and capital gains they need to meet their own requirements. In fact, the Chartered Banks fell for the same kind of trickery that they pulled over on their own customers.

Hence, the Chartered Banks depleted their own cash assets and placed themselves in a deficit position, which deficit they omitted to disclose as cash shortages in their financial statements and reports. They successfully concealed and offset their bankrupt position by omitting to report a corresponding profit liability to the Receiver-General for the gains and new capital provided by their loan, sale or rental of their deficit dollars to their customers. As I've already stated, they got away with this fraud by improperly cancelling and wiping out deposit liabilities owing to their borrowing customers. They did this by way of

invalid debit charges against customers deposit accounts, which invalid charges the victimized customers foolishly paid, actually paying in this manner, for their bank borrowings twice over.

Again referring to the Bank of Canada, my statement that it made a capital gain of over $18 billions is confirmed inasmuch as it got a total of over $19 billions in assets at a cost of only $1 billion, and it did this without reporting this supply of new capital or paying it to anybody in exchange.

The reason the Bank of Canda was able to conceal its capital gains and profit liabilities is, I reiterate, that its officials are foolishly and illegally cancelling and burning up lawful Canadian money day by day, instead of returning it to its owners the Chartered Banks, or stockpiling it as cash reserves, and making it available for public spending in lieu of taxation or bond issues. In this way they illegally cause great loss and damage to our National Economy. They keep on burning up the legal tender, i.e., the cash reserves of the Chartered Banks and the cash savings of the public just as if it is garbage or refuse. Obviously, had they put it back in stock as cash on hand or had they returned it or deposited it right back with the banks they got it from and reported a currency profit, all would have been well, but they didn't do so. Neither did they report the deficit position they placed the bank in when they burned up their own cash assets.

I stated too that the Bank of Canada has a secret stockpile of unissued currency totalling billions of dollars, and I submit that it is illegally concealing and withholding this currency from the government and people of Canada to whom it belongs. I submit that this costless currency should be forthwith deposited as legal tender cash with its own Tellers to replace the used currency destroyed and should be listed and reported in its financial statements as a cash asset on hand, i.e., as cash held in reserve, so that the supply of new capital accruing thereby may be credited as currency profits owing to the Receiver-General. I submit that it is the mutilation, destruction, repudiation and loss of these excess amounts that the banks collect from their customers over and above the face value of the money they put out and circulate from their deficit position, that is the basic cause of our unsolved financial and economic problems. Moreover, the loss of its potential earnings further aggravates the intolerable situation.

The banks are of course, exceeding their authority in exacting double for their note and dollar currency without reporting the profit therefrom. They are conducting their operations on a paper basis instead of on the money basis called for by the laws governing their operations, and they foolishly make their own cash assets appear to be worthless. The Bank Act should be specifically amended to prohibit this illegal practice.

This illegal extortion and destruction of our money by the banks, and their disastrous double-dealing in our currency transactions should be prohibited by the revised Bank Act under penalty of imprisonment.

I reiterate my charge that the Chartered Banks grossly cheated their own borrowing customers to a total of over $18 billions without reporting the capital gains they made thereby. Instead of turning the money or profits over to the Receiver-General as profits from their deficit dollar transactions, they did away

with the money and placed themselves in a deficit position, without replacing it or returning it, or reporting the cash loss or shortages in their statements and reports.

As I've previously stated, the Bank of Canada in turn failed to replace the unusable currency it destroyed and failed to provide the government with an inventory of the legal tender it holds on hand. It also failed to report the capital gains it made from the loan, sale or rental of its costless currency to the government and banks, and it also failed to turn either the cash or the profits over to the Receiver-General for the benefit of the Parliament and people of Canada. The officials instead grossly depleted our cash savings and reserves by a total of over $18 billions. By their illegal methods, they made this amount of valuable money appear to be worthless, and they brazenly cancelled or dumped this huge amount of public funds down their deficit-sinkhole into their incinerators, and burned it all up right in front of the eyes of an unsuspecting and gullible Canadian public without reporting the loss, cheating in this way each man, woman and child in Canada out of a $1,000 share therein.

This is the costless and debtless money, the costless product of our monetary system, that has been drained from our national Economy and which must now be replaced free of further cost, and this is the missing cash we must now salvage in the ways I herein propose. I hope this Committee and Parliament will see to it that the necessary amendments are made in the Bank of Canada Act and The Bank Act, together with such stiff penalties that never again will the officials of the national bank or the Chartered Banks cancel or burn up or destroy lawful money of Canada.

The dilemma facing us is that the Bank of Canada and the Chartered Banks owe $18 billions to the government and people of Canada, and the government and people owe $18 billions to their bondholders, and that consequently we can't pay off the bonds, or our external or commercial debt either or even make them repayable, until we collect the money from either the Bank of Canada or the Chartered Banks.

We can't free ourselves from the beck and call of the government and banking officials and the burden or their debts and deficits and debt-ridden money system just by getting a new flag or a new Constitution, or by adopting a republican form of government, or by balkanizing our country. We can free ourselves only by collecting the $18 billions of costless, debtless money the banks owe us—it's that simple.

The banking Charters obviously should not be renewed until the bank officials commence to replace and restore free of charge the $18 billions they illegally mutilated and destroyed at the expense of the Parliament and people of Canada. Nothing less will suffice.

The replacement of our missing cash reserves and the enrichment of our people will, according to my Formula, be a simple and costless procedure. Any of the alternate Plans I offer will suffice.

The part that the government and Parliament played in this bizarre fraud on the people is clear. They sold us down the river. They capitulated to the

Finance Department and banking Officials—the real rulers of Canada, the power behind the Throne.

It's perfectly obvious that if the government had encashed the currency profits or got the new capital credits it was entitled to get from the banks, or had properly invested the proceeds of the public debt and used the extra capital in lieu of taxation or bond issues, it could have reduced the amounts it collected from the public by a total of over $18 billions. Instead, it turned the proceeds of the public debt over to the banks to be mutilated and destroyed.

I therefore must charge that the government and Parliament by neglecting their duty and by their own unlawful actions, inexcusably and foolishly cheated and impoverished the people to a total of over $18 billions, equivalent to $1,000 per capita, and they accordingly are the chief culprits in this giant fraud. It's up to his Committee and Parliament to instruct the erring Finance Department Officials to switch their mis-placed deficit from the government accounts right back to the banking sector of our Economy, where it originally came from and where it properly belong. This is a prerequisite to the recovery of our missing cash reserves.

It would be impractical for the government to now levy taxation to pay off its unsecured war debts, though it levied and collected needless billions of dollars to pay unwarranted carrying charges, while still leaving the principal unpaid. It would be a fatal error for the government to levy taxation instead of collecting the money from the banks, and it would be a fatal error too for the government to longer deny itself and the public the $18 billions needed to honor its unsecured bonded debt and sustain our National Economy. No longer can it permit incompetence or fear to cloak its inaction. There is but one choice for the government and Parliament and that is to implement the Plans I've outlined herein, and I hope you will press them to do so.

Only by salvaging and monetizing the missing proceeds of the public debt, the missing cash reserves of the banks and people of Canada; only by reclaiming our hidden bank balances; our uncashed money profits, may we permanently enrich ourselves without further cost, and get the Equity in our National Economy we're entitled to, and provide ourselves with a permanent cash dollar and a sound and solvent financial and economic system, able to pay all debts, and also avert the ever-present threat to our personal and national freedom and security.

To do this, the Banks in brief, would be required to list their own currencies as assets too, as well as listing other peoples' money as assets. The Bank Act should be amended to specifically prescribe that this change be made as called for by my Formula.

I propose too that The Bank Act should be amended so as to provide that it be administered by a new and separate government ministry to become known as "The Minister of Banking and Currency". The remaining financial duties should, I suggest, be administered by a separate minister to become known as "The Minister of Public Accounts and Receiver-General". It is important that this proposed split-up of the Finance Department be made for, under the present set-up, the Minister of Finance and his officials are virtual "Dictators of Canada".

Dictators who falsify public accounts and burn up and otherwise manipulate our supply of money at will, and who deceive Parliament and everybody else with their lying propaganda.

A glaring example of the monstrous lies propagated by the Finance Department officials was loosed on the public in the pre-budget White Paper tabled in the House of Commons in March by Finance Minister Sharp. Dealing with the government debt, the Finance Minister went to great lengths to make it appear that each Canadian is loaded perpetually with an unsecured unpayable government debt of $782 each, on which they have to pay hundreds of millions yearly in interest charges to avoid foreclosure. The truth of the matter is that instead of being in the hole for $782 each as the Finance Minister asserts, each Canadian would if the accounts had been properly prepared and presented by the Finance Minister, now have an inherited equity in the government's asset resources of $120 each. Rectification of this deception by proper accounting would make a difference of $900 to the good for each Canadian, which in total amounts to over $18 billions for some 20 million Canadians. My Formula is intended to liberate the Canadian people from this inherited burden of perpetual debt immorally and illegally imposed on us by the Ottawa Financial Officialdom.

To perpetuate his deception, the Finance Minister according to his March budget, proposes to collect still more and more money from the public instead of recovering the money already over-collected from them and over-paid to the bankers.

Other specific instances of their monstrous deceptions of the Parliament and people of Canada is exemplified in the report printed in the Canada Gazette in March this year dealing with the Chartered Bank rankings as at January 31st last, and in the Submission and evidence tendered by the Governor of the Bank of Canada, Mr. L. Rasminsky, before the Royal Commission on Banking and Finance in 1962 and 1963, dealing particularly with the effect of Bank of Canada operations on the Chartered Banks.

These lying Dictators would perpetuate our historic cycles of depressions, wars, inflations and crash. There is no room in our Canadian Economy for incompetent or illegal Dictators. The guilty functionaries must go and be replaced with competent, law-abiding officials. The risk is now too great. It's high time that we rid ourselves of the enemies within before they get us all destroyed by the enemies without.

In connection with the government's proposed banking legislation as presented by Finance Minister Sharp, which Bills are now under review by this Committee, my over-all appraisal thereof is that the Bills as presented are grossly inadequate, and fail to meet the needs of the Canadian people, and should therefore be revised by this Committee and Parliament.

I make this over-all charge because the Finance Minister fails to recommend any basic reforms on the procedures which are presently being used by the banks and which, as I've set out before, are contrary to the laws governing banking operations.

The inadequacies of the Finance Minister's proposals lie not only in what he proposes but also in the things he omitted to propose that he should have.

The Finance Minister for instance, ignores the insolvent condition of the publicly-owned Bank of Canada and the privately owned Chartered Banks, and he fails to recommend that they place themselves forthwith in a sound and solvent condition, or at least to report their deficit condition, so that all may see just how they stand.

The Finance Minister also ignores the fact that the bank officials are continually mutilating, burning up and otherwise destroying lawful legal tender, and he fails to recommend that the revised Bank Act should specifically put a stop to this illegal practice. He fails also to recommend that they be required to gradually replace as required, the costless and debtless money illegally destroyed to date by the banks and their customers, of which the Canadian government is the largest one. By failing to call for this replacement, the Finance Minister is grossly remiss in his duty.

The Finance Minister failed moreover to recommend that the revised Bank Act should specifically prohibit the Banks from over-charging their customers or collecting premiums from them over and above the face value of the currencies they lend, rent or circulate through their operations, as disclosed hereinbefore.

The Finance Minister grossly failed to propose that the revised Bank Act should specifically prohibit the banks from cancelling their legitimate deposit liabilities and by also cancelling their deposit assets to a like extent, as their now fraudulently do. By failing to recommend this reform, the Finance Minister was remiss in his duty to the public.

He failed also to recommend the switching of the phony cash deficit reported by him in the public accounts, from the government sector of the Economy over to the banking sector where it belongs, so that the government and people may be able to encash the secret cash savings and reserves the banks presently deny them, and which cash assets we must get to place ourselves and the government, and the banks too, in a sound and solvent condition.

The Finance Minister also failed to call for amended statements from the banks to show their true financial condition, and he himself also failed to present the government and Canadian people with a proper government statement showing its true financial position, in place of the phony deficit position he reported.

The foregoing specific matters should have been taken into consideration by the Finance Minister and reported to Parliament in his proposed Bank Act revision.

He instead confined his proposals to more or less minor details and he clearly indicated his intention to disregard the illegal and unsound basic operations of the banks, and his evil intentions to try and perpetuate the existing evil conditions prevailing in Canada as a result of the unjustifiable stand of himself and his officials and his predecessors in office.

I therefore charge that the Finance Minister in taking his stand is remiss in enforcing the terms and conditions of the existing Bank Act, and is also grossly deceiving the government and people of Canada. I submit that he therefore brands himself and his officials as incompetent and unfit to longer hold the power they exert over the business and very lives of the Canadian people.

I therefore call upon this Committee and Parliament to come to our rescue and free us from the devilish clutch of the Finance Minister and his Financial Establishment.

Amongst other things, the Finance Minister proposes to permit an increase in bank interest rates above the present 6% ceiling immediately should the legislation become law, and final removal of the ceiling altogether at some later date depending on his interpretation of the circumstances which may then prevail.

The point however, that the Minister entirely overlooks is that when we recover our unclaimed bank balances and get the money destroyed on us replaced, there will be a plentiful supply of money available for lending and investment purposes, and that decidedly lower interest rates for bank and other kinds of lending will surely follow.

Replacement of the money destroyed on us will put an end for all time to the inflated debt and usurious interest which have been plaguing mankind more or less since biblical times. The present 6 per cent ceiling and competitive mortgage interest rates are bound to seem quite high when the lower lending value of our increased money supply is eventually stabilized at reasonable levels.

The Finance Minister obviously is magnifying the interest rate ceiling matter in a vain effort to keep the public in ignorance of the more fundamental changes in the Bank Act needed for the public good.

The Finance Minister also proposes to delete from the Bank of Canada notes its "promises-to-pay bearer on demand" the money we lack for our business requirements. He claims the promises don't mean anything anyway and should be deleted from the notes altogether. I find however that the promises are intended to mean something and that they should therefore be made negotiable before or regardless whether the controversial wording is deleted from the notes or not. Deletion of the promises from the notes wouldn't of itself convert them from mere substitutes to real money.

The Finance Minister, through ignorance or design, chooses to ignore the fact that the Bank of Canada has already "promised-to-pay" over $20 billions on demand to its note holders and the depositors holding bank balances redeemable in notes. He ignores the fact that the Bank of Canada has already repudiated its promises, and he miserably fails to report this default to the government and people of Canada.

He moreover fails to report that the reason why the Bank of Canada cannot honor its promises is because it burned up all its promissory notes that it got back for free, and because it then failed to replace them with the money it needed to make its promises good.

The Bank of Canada for instance, could have replaced the mutilated promissory notes it got back for free with money and made it available to meet its promises-to-pay, and made them in this way as good as money, which of course they are not at present.

Obviously, the promissory notes aren't as good as money at present because they aren't redeemable in money as the bank pretends. Hence, the notes are merely phony substitutes for money, which we are forced to use as money to our great loss and damage.

The reason why we the public are the losers is because the promissory notes can't take care of our business requirements and make our debts payable too, and because the use of the promissory notes as substitutes instead of as additives, using the money too, leaves the banks, the government and people of Canada all in a deficit position, instead of in the capital position within which the laws governing our financial operations obviously intended us to operate.

With regard to the Finance Minister's proposed changes in the amount of cash reserves the Chartered Banks must retain on deposit with the Bank of Canada or on hand, I find that the basis of these reserve requirements is entirely meaningless. The present reserve basis is purely fictitious, imaginary and illusionary, and was originally designed to and is being perpetuated to deceive the public and government.

I find according to the facts of the matter, that the present 8 per cent minimum of cash reserves and 92 per cent maximum of investment reserves against admitted deposit liabilities, amounts really to only 4 per cent and 46 per cent respectively of the true liabilities of the Chartered Banks. This is because the banks conceal their true liabilities and because hidden liabilities totalling $18 billions have been omitted by them from their reports and statements.

From this it may be properly concluded that the private Chartered Banks have no cash or investment reserves whatsoever to show against the undisclosed portion of their deposit and loan account liabilities. Hence, they should be required to report deficits for the full amounts involved, for if they had not cancelled, burned up or otherwise destroyed their cash assets, as they did, they would now have on hand or on deposit with the central bank a total of 54 per cent cash reserves, instead of only the 8 per cent of their fictitious requirements as suggested by the Finance Minister in his proposal to amend the Bank of Canada Act.

I must accordingly charge that the Finance Minister's proposals in this regard are altogether inadequate and should be disregarded by Parliament in favor of the 50 per cent banking deficit or 54 per cent cash reserve proposals made in my Financial Formula.

The Canadian Parliament can no longer afford to play games in this never-never land of misplaced deficits, and must require that the central bank, and the private Chartered Banks it dominates, must forthwith amend their statements and reports to show their true financial condition as called for by Law, and fully account for the cash reserves they have already illegally destroyed at the public expense.

The Finance Minister fails to deal with other important matters such as (1) He fails to spell out just what Canadian money is intended to be and just what constitutes our national money supply despite the fact that all of our Canadian money is derived from the operations of the Bank of Canada and the Chartered Banks under the banking acts he submits for study by this Committee. Neither does he interpret the term money within the meaning of the acts. (2) He fails to differentiate in the new acts between money as a banking asset and capital balances as banking liabilities. (3) He fails to set out the value of money as compared with the value of bank credit balances. (4) He fails to definitely state whether government cheques or official bank cheques are to be handled and recorded as lawful money assets within the meaning of The Bank Acts. (5) He

fails to definitely state whether such paper is to be handled and recorded as legal tender assets or be used merely for payments only. (6) He fails to prohibit the mutilation and destruction of legal tender notes by the Chartered Banks and Bank of Canada officials, though such mutilation of currency by laymen is an offence under the banking acts subject to fines and imprisonment. (7) He fails to spell out just how money is to be legally issued in Canada and by whom, and the disposition of the profits from such issues. (8) He ignores the fact that cheques are continually used as substitutes for money by the banks and the public despite the fact that the Statutes prohibit such use as being unlawful. (9) He fails to differentiate between banking loans and banking advances. (10) He failed to order the Bank of Canada officials to disclose their huge stockpile of new currency and to report it as a cash asset available to replace the legal currency they and the Chartered Bank Officials have already illegally mutilated and destroyed. (11) He ignores the deficit in the cash assets of the banks and fails to prohibit them from loading their cash deficits on the Canadian government and people. (12) He fails to stipulate that the banks must include their currency profits and deposit assets in their returns to the government and public.

I submit that these matters should be properly dealt with in the new Acts to govern the banks for the next ten years, and I hope this Committee will make sure this is done.

It's clear from the foregoing that our entire Economy has unfortunately been built up on a base of mis-placed deficits and unpayable debts. Our financial base is obviously insecure based as it is largely on the confidence factor, and is liable to topple at any moment like it did in the dirty thirties. Or alternately, it threatens to mushroom into rampant inflation, which could if possible, be worse than the depression.

This is why my Formula calls for us to reinforce our economic base with a real permanent kind of money, instead of mis-placed deficits.

It's clear from this Brief that I propose we save our banks from the illegal manipulations of the so-called Ottawa Financial Establishment, who are trying to perpetuate their age-long subversion of our banking system, and keep us enslaved in their devilish clutch for their own illegal and immoral purposes. To make matters still worse, they in turn capitulate to their international bosses, so that in the final analysis, we Canadians aren't even masters in our own house.

The mistreatment of our money as a market commodity by our government and banks, instead of as an essential element of our capitalist society, has been a most disastrous error, and unless uprooted immediately, this flaw will exact more severe penalties than ever before.

In summing up my Critical Appraisal of our existing banking and currency procedures, I submit that our Canadian banks got $18 billions from their customers for free, without reporting the profit, and that they then destroyed the entire amount, without reporting the loss. They destroyed the evidence; they improperly paired-off the loss against the profit, and cancelled both, and in this way, they concealed their crimes and penalized everybody accordingly.

The foregoing explains why I submit that only through my Copyrighted Formula may we free ourselves from this intolerable and menacing situation.

PART 2

This is a re-statement and clarification of the Copyrighted Financial Reform Formula that I've developed over the years to improve our prevailing monetary, banking, accounting and taxing procedures so as to remedy the fundamental flaws in our financial system and at the same time, enrich our government and people.

My purpose, briefly, is to recoup the huge losses we've inflicted upon ourselves by our own financial bungling. My Formula proposes that this be done by salvaging our missing cash reserves in the manner hereinafter set forth.

I first would stress the fact that according to the British North America Act, the control and management of our finances and financial operations, including banking loans and the issue and safeguarding of our currencies and money supplies, etc., rests exclusively with the Federal Parliament.

In practice however, Parliament has delegated its exclusive Franchise to the Bank of Canada and the Chartered Banks to be operated on its behalf.

If this exclusive Franchise means anything, it certainly means that all new money and capital put out through the Bank of Canada and the Chartered Banks under their Charters, together with the capital profits therefrom, must accrue to Parliament alone, and must therefore be always accounted for to Parliament.

This requirement unfortunately, has never yet been complied with or completed or carried out. Hence, one of the chief aims of my Formula is to get a proper accounting of all such new money and capital amounts and profits accruing to the Canadian Government. My Formula provides for this in the following manner, viz;

A BETTER KIND OF CENTRAL BANK

It's quite clear that Canada's Central Bank is intended to be a Reserve Bank as well as a bank of issue. It undeniably is intended to receive, hold and safeguard the cash reserves of our banks and government and the cash savings of our people. Hence, to comply with this requirement and give effect thereto, I propose the following changes be made;

(1)—That the name of our present central bank be changed to "The Reserve Bank of Canada". (2) That this reformed central bank be required to accumulate, hold and safeguard our national cash savings and reserves. (3) That these cash reserves or savings shall consist of the legal tender currency it issues when such currency is properly received back from the government or Chartered Banks. (4) That regardless whether the currency so received back consists of new, used or damaged notes, they shall all be regarded as having the same equivalent value. When such used notes are received back, they must be paid for at face value and shall be deposited or stockpiled as cash assets. If they are subsequently cancelled, burned up or destroyed, they must be replaced free of cost from the Reserve Bank of Canada's stockpile of new currency. In the latter event, the new currency shall be stockpiled and reported as a cash asset, for the government and the used notes shall then be destroyed as no longer having any exchange value and as no longer being legal tender.

By this proposal, it's to be understood that the reformed Reserve Bank of Canada must hence forth carry its own notes as cash reserves or deposit assets, providing they were previously issued and properly collected back in exchange. Furthermore, that this new kind of cash asset is intended to be used to provide The Reserve Bank of Canada with a permanent supply of cash money to offset its increased liabilities, and to provide the government with a supply of costless checking balances. This is essential so as to credit the government with the new capital resources it is entitled to get from the banking and monetary Franchise it assigned to the banks to handle on its behalf. As an alternative, the revised Bank of Canada could properly receive and hold government currency either notes or certified cheques, as its new permanent cash account asset.

It's to be understood too that when the revised Reserve Bank of Canada in the future lends, sells or rents new currency to the Chartered Banks, it shall charge them for the face value thereof once only, and shall not charge them any premiums thereon, or issue them at any discount value either.

Furthermore, the new Reserve Bank should forthwith properly report its hidden liabilities in the proper total involved, as owing to the government direct or alternately, as owing to the Chartered Banks so they in turn may report their hidden capital liabilities to the government or their customers.

In either event, the Reserve Bank could replace all mutilated used currency received back from the Chartered Banks witn new currency from its own stockpile, or alternately turn it back by way of deposit with the Chartered Banks from whom it got it, otherwise it would hold it as a cash asset of its own.

In the event the used currency be deposited back with the Chartered Banks, they would in this way get the necessary currency asset needed to offset their hidden pass book liabilities to the government or other customers. Either method would suffice to properly report the currency transactions.

Regardless whether the proposed cash reserves or currency assets be carried by either the Reserve Bank or the Chartered Banks, or in part by each, the amounts shall be for the proper total only, and shall not if combined exceed the amounts necessary to provide the government with the amounts properly due it from the currency operations of the Central and Chartered Banks. This control is necessary so the government be provided with the proposed costless checking balances once only, whether they are provided by the Central or Chartered Banks, one or the other.

The financial statements of the enlarged Reserve Bank of Canada should of course, disclose its enlarged and improved financial standing accordingly.

A BETTER KIND OF COMMERCIAL BANKS

In order to provide ourselves with a better kind of commercial banks, or Chartered Banks, as we call them, my Formula calls for certain basic changes to be made in their make-up as follows;

(1) The Chartered Banks shall pay the Central Bank once only for the currency or the securities they get from it, i.e., they shall pay it the face value only for such currency or securities and no more or less. (2) The Chartered Banks, in turn, shall charge their customers once only for loans, i.e., they shall

charge their customers the loan amounts only, no more or no less. (3) The improved and enlarged Chartered Banks shall not mutilate their legal tender cash holdings for destruction by the Central Bank officials unless they get in return an equivalent amount of new currency free of cost from the Central Bank. (4) In the latter event, the reformed Chartered Banks shall stockpile the new currency as a cash asset and shall report it as being required to offset their present hidden pass book liabilities to their customers or to the government. (5) The improved Chartered Banks shall properly report the dispatch to the Central Bank of any used currency as cash deposits with it, and shall not mis-report such dispatch of used currency as repayments to the Central Bank instead of as cash deposits. (6) The improved Chartered Banks shall not mis-credit or over-credit the Central Bank for premiums on the new currency they borrow, buy or rent from it, but shall report the face value cost thereof only.

In order to bring the present financial condition of the Chartered Banks in line with the foregoing proposed improvements, they shall charge the new Reserve Bank of Canada for all unreported deposits made with it to date. The proceeds thereof, as charged, shall be credited to the Government to provide it with the new capital it is entitled to get from such revised procedures.

This latter proposal would not apply of course if the new capital referred to has been alternately, credited to the government by the Central Bank. The costless checking balances are to be provided to the government once only, either by the Central Bank or the Chartered Banks, but not by both in connection with the same transactions.

The financial statements of the reformed and enlarged Chartered Banks shall report their increased cash holdings and deposit assets accordingly, along with their increased liabilities to the government.

A BETTER KIND OF MONEY

The better kind of money envisaged by my Financial Reform Formula would consist of a new Canadian Dollar intended to be carried by the issuers as a cash asset or cash reserve. The new Canadian Dollar would be carried as a cash asset by the reformed Reserve Bank of Canada in the same way as our central bank presently carries other currencies as cash assets or reserves.

The physical form of the new paper dollar need be changed but little, so long as the new dollar shall be issued as a legal tender certificate, instead of the promissory form of note as presently used. The new dollars are to be treated as cash money in themselves, bearing no promise of redemption in any way whatsoever.

The initial supply of these new Canadian Dollars would be accumulated or provided by the Reserve Bank and reported as cash assets in the proper amounts, and would be treated as cash assets needed to offset its hidden liabilities to the government or Chartered Banks.

When wear and tear renders these proposed new Canadian Dollars unfit for further use in exchange, they shall be destroyed only after they have been replaced without cost by the issuers and when the new replacement dollars are held and reported as cash assets in place of those destroyed.

This proposed stockpile of a new kind of Canadian currency when carried as cash assets by the Central or Chartered Banks shall constitute our cash savings and be used as a permanent basic money supply. On top of this, our available money supply would be further increased by the existing supply as indicated by our pass book balances and outstanding circulation.

A BETTER KIND OF PUBLIC FINANCE

My Formula in this regard proposes that the government must get a profit or get credit for the amount of new money issued, whether direct or through the banks.

If the new money be issued through the banks, the government would get credit for it without cost either from the central bank or the Chartered Banks, but not from both for the same transactions. If issued by the government direct, it would get the profit from spending new money directly into circulation.

To put it another way, all amounts heretofor improperly transferred from government deposit accounts to its loan accounts, according to present practices, would be put back into its deposit accounts and made again available for public purposes in lieu of the new capital it failed to get credit for from its currency and banking transactions.

An alternate way of implementing my Copyrighted Formula for Public Financing would be for the government to get credit for its tax levies from the taxpayers' banks as well as from its own bankers.

By doing this, the government would get double value from its taxation without any additional cost to anybody. Or, to put it another way, it could get full tax value from only half its present tax levies.

Either technique would provide the extra capital we need to solve our financial problems.

In either event, the government would be relieved of the necessity of levying unwarranted taxes or putting out unwarranted debt obligations, as it now finds it necessary to do, to fill the gap in its income resulting from its failure to get credit from the banks for the issue of new money under its exclusive Franchise.

When my Formula in these respects is implemented, the improved position of the government's financial condition would be reflected in its reconstructed Balance Sheet.

A BETTER KIND OF CAPITALIST ECONOMY

The purpose of my Formula in this regard is to bring about a beneficial switch of our Economy as it presently exists from a deficit basis to a solvent capitalist basis.

My Formula calls for this to be effected through my proposed betterments of the Central Bank, the Chartered Banks and the dollar itself as hereinbefore set forth.

By having the central bank or the Chartered Banks provide the government with costless checking balances in amounts more than sufficient to offset the deficit or net debt figure shown in the government's balance sheet, the cash deficit reported would be replaced with cash assets.

The government's balance sheet would then show cash assets more than sufficient to replace and wipe out its present net debt item, and it would henceforth report a balance sheet Surplus, instead of reporting its present deficit position.

This would place the government in a sound and solvent position and would make the outstanding government debt repayable. Moreover, the earning value of this new government cash asset would offset the heavy carrying charges on the unpaid debt now being levied on the taxpayers.

A BETTER KIND OF MONEY FOR INTERNATIONAL EXCHANGE

The foregoing summarizes my Financial Formula for improving our domestic exchange transactions. In addition, I also beg to submit an outline of my Formula for International Money for our foreign trade and settlements, as follows;

I submitted a proposal to the International Monetary Fund for their consideration some years ago, in competition with the other Plans they have for consideration, but so far the Fund has made no choice, and so far the Canadian Government has not seen fit to have its Fund Delegates endorse or promote my Plan, which according to United Nations Officials is undoubtedly more conceptually correct and more attractive than the compromise plans now getting attention from the Delegates and Officials.

Here's how my Formula for International Money, as submitted, could be beneficially implemented through existing International Agencies;

The holdings of the IMF include $9 billions worth of securities payable in Members Currencies. While these are demand securities, they are non-negotiable and non-interest bearing, and while they are held by the Fund as assets, they may be considered as frozen capital derived from subscriptions of the member governments.

The proposal I made to the Fund is intended to bring about the release of all this frozen capital by freeing it and making it available to the member nations in the form of negotiable checking balances suitable for use as payments for international trade and balances. By releasihg this frozen capital for circulation as international money, the operations of the IMF and the World Bank would be revamped and brought into line with the requirements of my Formula.

Checking balances would be alloted to the member nations providing them in this way with a free supply of costless new capital. The member nations could then use certified payments drawn on their checking accounts as valuable negotiable international money in full settlements, in lieu of and in place of existing methods and media.

In giving effect to my proposals, the Fund would turn over its $9 billions of uncashed demand obligations to the revamped International Bank in exchange

for a like amount of negotiable checking balances. The IMF would then have the checking balances as its asset in place of the members demand obligations, and it could then commence making payments by way of cheque immediately.

In addition to the foregoing, the revamped International Bank would accept all IMF cheques from the Payees as cash deposits, and it could do this free of cost to the Fund, and without making any charges or reductions in its checking balances whatsoever. In this way, the IMF would make a clear capital gain for the full amount of the checking issues accepted by the International Bank as cash deposits from the Payees.

Moreover, as the IMF cheques were received on deposit by the International Bank, the Fund could if so desired, draw back an equivalent amount of its present investment holdings against its own checking balances. In this manner, the IMF could regulate the total amount of checking balances outstanding on the books of the International Bank, over and above the permanent portion outstanding against the permanent deposit assets referred to above.

If these proposals were to be carried out as I've suggested, Canada's share of the resulting capital gains would amount to some $400 millions.

Though the IMF officials haven't yet advised me of their decision in regard to my proposals, and though my proposals haven't so far as I know, been yet submitted to the member nations for consideration, I would say that the United Nations Secretariat for Economic and Social Affairs wrote me saying that my Formula is conceptually well founded, and that my proposals represent a valuable contribution to the general progress of ideas, and to a better understanding of the fundamental issues which confront the world Economy.

It's obvious that a sound international dollar for our foreign trade and settlement is a must if we Canadians are to have a sound basis for peaceful and prosperous international trade and intercourse.

I therefore hope that this Committee and Parliament will come to this conclusion too, and will resolve that Canada should spearhead a movement in the United Nations to have my proposals submitted to the member nations for open discussion and study, and will also resolve that Parliament should take the necessary steps to help get the world at long last an international dollar suitable for our international trade and settlements.

This is essential because the use of Canadian dollars and other domestic currencies and other substitutes now being used are no longer satisfactory, and because their continued use is even now bringing about a blockage in international trade, and because the current shortage in international money is restricting world trade to the great detriment of all nations alike, and is directly responsible for the unsolved world trade problems, and because this intolerable situation is liable to lead to undue world competition and international discord and strife.

PART 3

I hope that the government and people of Canada will now recognize and agree that I've succeeded in solving the great money mystery, the great fraud that has fooled everybody for the past 270 years, and that I've disclosed and submitted herein the ways and means to put an end to this almost unbelievable

fraud, and so place our National Economy in a sound and solvent condition, and put the Canadian people in a position to solve the various other economic and financial problems facing us today.

My new Capitalist Reform Formula proposes, in brief, that instead of destroying issued or used note currency or cheque currency when it gets back into the hands of the issuers, it should, up to a definite amount, be capitalized for the public purse. In other words, my Formula is intended to create and provide bank credit checking balances free to the government without creating any government debt to the banks to offset the free checking balances.

I propose that this be done by having the banks stockpile it as cash savings held in reserve, and by having them issue checking balances against it for the Receiver-General. Alternately, the banking deficits arising from the destruction of their currencies could be beneficially capitalized for the public purse, instead of capitalizing the issued currencies. I propose, in short, that we make our capitalist system solvent by means of my Formula.

We have a moral and legal obligation to end the phony dollar scheme imposed on us by our finance department and banking officials, and to stop their gross depletion of our cash resources. My Formula would constitute a history-making switch from deficit to capital financing; from a minus into a plus; a change-over which is absolutely essential to our economic survival. We can't go on indefinitely taxing ourselves and indebting ourselves in lieu of restoring and using the cash we've been cheated out of.

The many benefits which would accrue to our government and people through the use of my Formula are quite obvious. The supply of new cash capital for the government would become available for public uses, and its use would benefit each and every person in Canada. The replacement of the cash reserves we've destroyed to date would provide the proper ratios between our cash reserves, money supply, gross national product, total indebtedness and total business turnover, and would avert our ever-present threat of depression or inflation.

The domestic and foreign exchange value of our money would be properly adjusted according to the improvements I've suggested, and this more realistic value of our money would be mute testimony of the validity of my Formula.

The use of our new-found cash reserves as a permanent monetary base would place our government and people in a sound and solvent condition, and would ensure permanent prosperity, insofar as monetary affairs are concerned. The proper balancing of our public and private accounts would remove fear of further depressions and of inflations too, and would avert undue fluctuations in the value of our money.

By salvaging our missing cash savings; our unclaimed bank balances; our uncashed money profits, we would put an end to involuntary unemployment and discriminations, and could provide ourselves with markets freed of restrictions and undue competitions. Moreover, the costless tax reductions it would make possible would reduce our productive and living costs and prices, and would stabilize our Economy and provide us all with the equivalent of a substantial increase in our incomes, all to our common benefit.

Billions in new capital will be unleashed for investment purposes through my proposed costless repayment of the public debt. Or alternately, this new capital could be beneficially used by the government to buy back whatever portion of our Canadian resources now in the hands of foreigners, that may be deemed as essential to buy back for the benefit of our citizens. The investment of this new-found capital by the government in equity securities would give each Canadian a share of business profits and would provide a basis for solving the age-long conflict between labor and employees.

My Formula is designed to show just how our government and people, through my efforts, may be enriched to the tune of over $18 billions, equivalent to $1,000 per capita. Inasmuch as I've uncovered a huge hidden reserve of unclaimed bank balances and a huge potential of currency to back the bank balances up, my great discovery will provide a thousand dollar share in our Economy to each man, woman and child in Canada, a share they haven't now got. No person could have any legitimate objection to my proposed beneficial financial reforms.

While neither the government or banks have so far seen fit to buy or license my Copyrighted Financial Reform Formula to enrich themselves and people of Canada, perhaps this Committee may influence Parliament to do so in the public interest. My Formula is most essential. It is the only Formula which will enable Canadians, for instance, to live together with themselves and with the atomic bomb in peace and prosperity. There will be no breakup in Canada nor will we succumb to any other nation if we salvage our $18 billions cash savings which we've destroyed on ourselves and use the money to place our government and people in a sound and solvent condition, instead of the insolvent deficit position we are now vainly trying to operate from. Cash deficits and unpayable domestic and external debts are levying their disastrous penalties on everybody for foolishly trying to use deficit money alone in place of permanent capital money for our domestic and international trade and settlements. If a run on the banks should happen, their insolvent condition would soon show up.

We Canadians now have an unprecedented opportunity to benefit the entire world by initiating an historical switch-over from deficit financing to sound capitalistic financing for both domestic and external trade, and I hope everybody will see fit to endorse my proposals.

I feel that this Committee and Parliament should now undertake to complete the task of salvaging the entire $18 billions on behalf of the public in general. Amended financial statements should be called for from the erring officials of the Bank of Canada, the Finance Department and each Chartered Bank to show their true financial condition, so as to comply with the laws governing their operations.

These amended statements and the restoration of our destroyed cash reserves too, should be demanded before the banking Charters expire. Otherwise, the banks and the finance department and banking officials too will downgrade themselves accordingly and subject themselves to the wrath of the Canadian people.

This completes my Brief and Statement, and I hope that this Committee will in the public interest, urge Parliament and the government to deal with me for

my Copyrighted Financial Reform Formula, and will urge them to enact the legislation necessary to implement my plans and proposals. I hope too, you will urge them to do so while time and opportunity permits.

I am submitting this Brief and making this Statement to you on behalf of myself and the public in general.

FRANK O'HEARN
Director
THE PRIVATE RESEARCH BUREAU

SCHEDULE OF EXHIBITS

Filed by Frank O'Hearn with Brief

EXHIBIT

"A"— Record of my loan account transactions with the Bank of Nova Scotia, as set forth in Exhibit # 48 as filed by me with my Brief to the Royal Commission on Taxation in 1963.

"B"— Memo further explaining foregoing Exhibit "A" loan account.

"C"— Copy of my letter dated March 20th, 1963 to the Royal Commission on Banking and Finance.

"D"— Bulletin exposing the falsification of war financing accounts by our government and banks, and misappropriation of public funds.

Copy of Exhibit # 48 filed with Brief to Royal Commission on Taxation.

EXHIBIT "A"

My record of my Loan account transactions with the Bank of Nova Scotia, Scarboro, Ont., Kingston Rd. and St. Clair Ave., Branch.

Date	Items	Debits	Credits	Balance
1958				
Nov. 13	Amount of debt incurred ..		$ 5,600.	$ 5,600. Cr.
Dec. 9	Amount of debt incurred ..		5,400.	11,000. Cr.
Dec. 28	Debit Memo re U.S. Exchange	$ 172.16 (P.O.)		10,827.84 Cr.
1959				
Oct. 29	Cash repayment on account	3,000.00		7,827.84 Cr.
Oct. 29	Repayment from my savings a/c by way of transfer	2,000.00		5,827.84 Cr.
Oct. 30	Cr.M. transfer to my Savings a/c		(P.O.) 172.16	6,000. Cr.
1961				
Sept. 21	Cash repayment on account	3,000.00		3,000. Cr.
Sept. 29	Cash repayment on account	4,000.00		1,000. *Dr.*
Nov. 8	Invalid transfer from my savings account to my loan a/c made by bank without authority	9,000.00		10,000. Dr.**
		$21,172.16	$11,172.16	$10,000. *Dr.***

** The bank still owes me this amount.

This is a true statement of my loan account.

Frank O'Hearn

P S.—My records show that the Bank of Nova Scotia still owes me the sum of $10,000 as above indicated and that I, in turn, am indebted to Parliament for the amount of new capital circulated through my monetary transactions with the Bank of Nova Scotia. Of course, I can't pay up unless the bank pays me first. I will abandon my claim against the bank if it will pay the government direct.

Frank O'Hearn

P.S.S.—The simple fact is that the Bank of Nova Scotia stole $10,000. from my savings account to repay itself for additional loans it had never made to me.

Frank O'Hearn

Exhibit "B"

Memo by Frank O'Hearn further explaining his Bank of Nova Scotia Loan Account Transactions.

Back in 1958 I bought, borrowed or rented a total of $11,000 from the Bank of Nova Scotia, and that of course is the total amount I owed them. When I got the statement from the bank, I found that they had charged me with a total of $22,000 instead of only $11,000. They charged me $11,000 for the loan and a further $11,000 for covering my cheque payments. Against this $22,000 they credited my savings account with a total of $11,000 only. In doing this, they obviously made a clear capital gain of $11,000 which gain they failed to report in their statements or take into consideration in any way whatsoever.

I took the matter up with the Accountant and after due consideration, he agreed that the bank actually did charge me twice over. He definitely stated that I was the only person who advanced the over-charge claim and the only person ever to complain about it. He stated furthermore that the bank made a practice of similarly charging every customer twice over, and he grudgingly admitted that he didn't know why, but they did.

I then advised them that even though they charged me double, I wouldn't pay them double, and they agreed that I wouldn't have to pay twice over as if they made me two loans, and they wouldn't expect me to do so. I told them too that if they didn't report the profit or turn it over to the government, I would claim it and pay it to the government myself. So, the matter was left standing that way at that time.

According to my records, the first amount of $5,600 involved was on November 13th 1958, and the second amount of $5,400 was on December 9th of the same year, making the amount I owed them at the end of 1958 $11,000 as collateral for which I gave them securities for a further amount of $11,000 to put the transaction on a 50 per cent margin basis.

On October 29th 1959 I made the bank a cash payment of $3,000 from the sale of part of the collateral, and I paid them a further $2,000 from my savings account by way of transfer. This $5,000 reduced my indebtedness to the bank down to $6,000.

A couple of years later, on September 21st 1961 to be exact, I had my broker pay them $3,000 cash and on the 29th of the same month, my broker paid them a further $4,000 and took delivery of all the securities remaining in my account.

This $7,000 cash payment not only paid my $6,000 debt in full, but left a balance of $1,000 standing to the credit of my loan account in my favor. Hence, I had balances in my favor in my loan account, my savings account and my current account, and I was not indebted any further to the bank in any way whatsoever.

Despite this situation, the bank several months later transferred without any notice or authorization from me, a sum of $9,000 from my savings account to my loan account, which transfer increased my loan account balance to $10,000 in my favor, and depleted my savings account accordingly. But the fact still remains that they owed me the same amount after they made the unauthorized transfer as they did before they made it.

I took the matter up with them and protested against the transfer and in reply they advanced the foolish claim that I was still indebted to them for $9,000, so they took it from my savings account. I disputed their claim and pointed out that months before I not only had paid them off in full but actually over-paid them by $1,000 as evidenced by the balance in my loan account. I pointed out also that I borrowed the money from my broker to pay off my bank debt and that my debt thenceforth was owing to them and not to the bank. Obviously, I could not have been indebted to the brokers and the bank too at the same time for the same transactions. I admitted my debt to my brokers when they paid the bank cash for my stocks and took delivery of my securities, but I disputed my indebtedness to the bank inasmuch as I couldn't possibly be indebted to both at the one and same time for the same transactions. The question of interest or rental charges did not enter into the situation inasmuch as I paid the carrying charges to them monthly—only the principal amounts are involved.

This is how the matter stands even to this day. The transfer the bank made from my savings account was clearly invalid, for according to the Law as explained to me by my counsel, as all my accounts were in a credit position in my favor, any transfers made without my authority were illegal, inasmuch as none of my accounts were in a debit position against which a transfer could be legally made.

I issued cheques on my accounts but they refused to cover them, saying there was no balance in my favor, which obviously was not in accordance with the facts. I would say here, that shortly after my dispute with the bank occurred, both the accountant and the manager were moved away from their branch and the bank refused to tell me where they went or what happened to them, and I have never seen or heard from them since. But their successors also refused to pay me the $10,000 they still owed me. I told them definitely they had to either report the $10,000 capital gain they made from my transactions with them or else turn the profit over to me so I could pay it to the Receiver-General of Canada to whom it belongs according to the laws governing banking and currency transactions. But they would do neither. So I advised them I would take legal action accordingly to get my $10,000.

To put it in other words, according to my records I rented $11,000 from the Bank of Nova Scotia. I returned $10,000 to it in cash and made a profit of $10,000 on the deal. This is not a stock profit that I'm referring to, but a money profit. I did make a small profit on the purchase and sale of the stocks after holding them for some years, but I cashed in this stock profit. The bank however, forcibly took my money profit away from me and refuses to return it to me advancing the foolish claim that I was indebted to it for an additional $10,000 because it had loaned me that amount over and above the original $11,000 loan, which claim of course, is absolutely false, for it never made any extra loan to me and it was not entitled to collect repayment of a loan it never made me. It won't even take this money profit for itself, or turn either the money or the money profit over to the government, as I told it to do. As to the money itself, strange to relate the bank has since mutilated and destroyed the entire amount that I rented and returned to it or gave it to the Bank of Canada for free to be mutilated and destroyed. It's this cash asset that I want restored, and it's this money profit that I want to get for myself, and everybody else, either direct or through the government.

I reported the entire situation in my Brief to the Royal Commission on Banking and Finance, but it too ignored my protests and concealed the facts from the government in their report made in February 1964. I then reported the situation in my Brief to the Royal Commission on Taxation which gave me a fair hearing and which promised to take my complaints into consideration in their report to the government.

Now, I would not publicize this intolerable situation were I not in a position to tell the bank just how it could pay me the $10,000 it still owes me without any cost to itself. One way it can readily do this is by simply paying me the used or damaged currency it has on hand, instead of mutilating it for destructive purposes and sending it to Ottawa to be burned up as worthless. Bank of Nova Scotia officials actually cancel and mutilate legal tender which they admit is worth its face value right up till the moment it is finally destroyed by the Bank of Canada officials. It's beyond comprehension why they insist on destroying legal tender instead of using it to pay their legal indebtedness to me and their other customers.

In brief, because the Bank of Nova Scotia doesn't report a $10,000 capital gain from my transactions, I claim it must either reverse the charges it made against my savings account or else it must return me the cash I paid it.

The foregoing explains my charge that the Bank of Nova Scotia has grossly cheated me out of $10,000 without reporting a profit, and why I furthermore charge that it has cheated the government and its other customers in a similar manner to a total of over $3 billions, of which customers the government is far the largest and which has therefore suffered the greatest loss. This is obvious for the bank treats individual accounts and corporation accounts in the same manner as it treats the government accounts.

Moreover, all the other Chartered Banks are of course, in the same position with respect to the government and their other customers as my bank is. The amount that the Chartered Banks altogether owe their customers totals the huge sum of over $18 billions, and I submit that in order to show their true financial condition the banks must show this total on their books as credit balances in their loan accounts still owing to the government and other customers.

Frank O'Hearn

EXHIBIT "C"

Copy of Frank O'Hearn's letter to Royal Commission on Banking and Finance dated March 20th, 1963.

I have just received a copy of the Submission made to you by the Canadian Bankers' Association in July 1962 and in support of which they appeared before you in January last. In connection therewith and in further connection with my Submission to you, please permit me to advise you as follows;

While we agree with the statement made by the Bankers' Association that "Our financial system must clearly serve the public, not the other way round", we must say in considering the role of banking in our Economy, that their submission is chock full of gross mis-statements, deceptions and selfish suggestions, one and all obviously made for the purpose of deceiving the Commissioners, our parliament and general public so they may as they did in 1954, again fraudulently secure renewal of their banking Charters, and continue to enslave the public instead of serving them as they profess to do.

Amongst the deceptions and mis-statements which stick out most noticeably are the following;

1. Their statement that "it is an accounting truism that the deposits entrusted to the Chartered Banks are the banks' liabilities to the Public" is grossly incorrect. The fact, as we've already pointed out to you in our Brief, is that bank deposits make up our money supply or stock of money, and that as money is always an asset, not a liability, the deposits the banks got from their customers whether in bank funds or customers funds, should therefore be always listed by them as banking assets. This obviously, is necessary so they may have the monetary assets as well as the investment assets needed by them to offset their liabilities which total, as we've also already pointed out, more than double the amount of liabilities admitted by the banks in their financial statements. It is this gross falsification of banking statements that has caused us the loss of half our money supply that we should have available for our requirements.

2. The bankers omit to disclose in their submission the techniques they use to wipe out all their deposit assets and half their deposit liabilities, and in this way hide the loss of our money from parliament and the public too. Here is one method they use; they mis-place both debits and credits. For instance, they have improperly charged billions in deposit debits against customers pass book balances to reduce banking liabilities, which debits they should have entered on the asset side of their statements to increase their deposit assets, instead of misusing them to reduce deposit liabilities. By this technique, they were able to do completely away with our entire stock of savings reserves, but in doing so, they cheated themselves as well as their customers.

3. Their statements that "the banks lend or invest the funds deposited with them" and "The funds on deposit with them are made available to borrowers and are continually employed in their lending and investment activities" are all grossly incorrect, and are clearly in direct contradiction to their other statements dealing with the "money-providing" functions of the banks. This latter function

refers to the issue of costless money in handling their customers transactions. Moreover, it is this latter function that distinguishes the banks from all other operators in the financial field. Their tricky method of helping circulate costless money is a most distinguishing characteristic of the banks.

4. Their statement that they are "able to repay their depositors on demand" is grossly incorrect too. The fallacy of this statement is obvious for the banks could pay off only a small portion of their true liabilities from their present holdings and would have to default on their main liabilities because of their inability to collect from their own debtors. Their claim is fallacious too because of the fact that their pass book liabilities to customers total over double the amounts they admit in their statements. Hence, it would be only by conspiracy and manipulation of bank funds that the banks could survive any real run on them by their creditors.

5. One of the most reprehensible features of the bankers' submission is their obvious attempt to hide the fact from the Canadian people that the huge deficit in our national Economy is in the banking system, not in the government accounts, as the bankers and Finance Department officials mis-lead the public to believe. The deficit reported in the governmental accounts would be changed to a surplus were the banks to credit the government with the amounts they over-collected from it in the course of its borrowings and repayments. The deficit in the banking system would be changed to a surplus too, were the banks to report our national money supply and cash savings as banking assets so that the resulting surplus would become available to them as deposit assets to offset the costless credits which should go to the government.

6. Another reprehensible feature is the bankers attempt to hide the fact that the Taxpayers banks failed to credit the Receiver-General with freed credits to offset the cheque charges made against their pass book balances. Had they done this, the Receiver-General would have gotten double payment of the tax cheques, once from its own bankers and once again from the taxpayers bankers; once for the deposits and once to offset the payments. Had they done this, the government would have been able to follow up with huge tax cuts for the benefit of the taxpayers and for the reduction of living costs and production costs all in the public interest.

7. That the government and people of Canada are illegally forced by the bankers to use bank money only to the complete exclusion of their own money, instead of making use of both, is clearly indicated by the sharp fluctuations in money and credit availabilities enforced through their artificial cycles of so-called "tight" or "easy" money periods.

8. The bankers statement that "for a generation, no Canadian has lost a night's sleep worrying about the safety of his "money in the bank" is obviously false. Inasmuch as the term "safety" of our money necessarily includes both the quantity and value thereof, it can be safely assumed that millions of Canadians have lost many a night's sleep worrying about the depreciated value of his bank money and the complete loss of his own money which he was illegally forced to turn over to the government and banks by way of over-payments, improper payments and over-taxation.

The foregoing examples of the bankers' duplicity clearly indicate how they operate outside the law and against the public interest. The foregoing examples should be sufficient to convince the Commissioners that the Submission by the Bankers' Association is intended to deceive them, and Parliament and general public too. The intent of the Submission clearly is to get their 1964 Charter renewals railroaded through Parliament, just like the 1954 renewals were railroaded through Parliament by Collusion amongst the bankers, the then Minister of Finance and the Chairmen of the Commons and Senate Banking and Commerce Committees.

The lesson to be learned by you Commissioners, we suggest, is to avert in 1964 a similar fraud on the Canadian government and people. You should call upon the government and bankers to disclose and properly account for the public funds we've entrusted to their custody. Failure to account for these billions of public funds will bring their own punishment. The logical thing for the government to do under the circumstances would be to implement the proposals we've submitted to you in our Brief, and we hope the foregoing criteria will assist you in coming to the same conclusions.

end of the Frank O'Hearn letter

P.S.—The Royal Commission on Banking and Finance completely ignored this letter that I wrote them, and deliberately concealed the contents from the government and people of Canada.

EXHIBIT "D"

Bulletin exposing falsification of war financing accounts by our government and banks, and mis-appropriation of public funds.

The total costs of government for period 1939-46 approximated $25 billions
Made up as follows; for war expenses .....$20 billions
for non-war expenses ..... 5 billions

$25 billions

The Finance Department Officials reported these expenses were financed as follows;
By tax revenue collections .....$13 billions
By proceeds of bond sales ** ..... 12 billions **

Total government collections reported .....$25 billions

** Instead, however, of putting out only $12 billions in bonds during the war period, they actually put out bonds to a total exceeding $17 billions.

The above figures were taken from government reports to Parliament as recorded in Hansard Reports for 1946 and 1947.

** While it didn't seem clearly reported, the extra $5 billions in bonds put out were, presumably, put out to re-finance maturities of pre-war debt obligations.

In connection with the foregoing, I find and must charge that the government Finance Department Officials grossly deceived Parliament and the Canadian people in the following respects, viz.,

1. Because they failed to report that pending receipt of the tax and bond money, they paid out a total of $9 billions in new money directly to the public to defray war costs.

2. Because they recorded their new money payments as having, instead, been directly put out by their bankers and that the government was consequently indebted to them to a total of $9 billions. I find however, that the government itself paid out the new money directly. I submit that they mis-reported deposits of this new money as loans, and that unwarranted debt charges were made against the government.

3. Because they failed to report that they used bond moneys to a total of $9 billions to repay the fictitious bank debts. I submit that these improper debt charges must now be refunded.

4. Because, to further worsen their fraud, they paid out a total of $39 billions, instead of paying out only $30 billions, leaving a $9 billion deficit in the government's cash assets.

5. Because they further increased the deficit in the government's cash assets by an additional $9 billions by improperly paying their alleged bank debts twice

over, once in cash as they deposited their tax and bond money collections, and once again as they transferred similar amounts from the government's chequing balances to the banks.

6. Because in other words, they illegally paid public funds to their bankers for free as repayment of loans, which loans I submit, the banks had never made to the government, as alleged. They must now get back these improper payments and over-payments.

From the foregoing, it's clear that the government paid out $30 billions to the public directly, and also improperly paid $18 billions to its bankers, making its total payments $48 billions to cover its legitimate expenses of only $30 billions.

Or to put it another way, inasmuch as the government paid $9 billions of its war-time costs with new money, all it needed to collect from the public was $21 billions. But despite this, the Finance Department Officials collected $30 billions from the public. Then they turned this extra $9 billions over to the banks for free and left the government with unsecured public debt obligations outstanding unpaid with nothing to show for the extra money they collected in from the public, or the extra money they paid the banks.

Obviously, had the Finance Department Officials not made the improper payments to the banks, the government would have had $18 billions cash on hand available for spending and debt repayments.

Hence, I charge that this entire $18 billions is still missing from the Government Treasury, and I submit that the banks were not entitled to the over-payments made them. In brief, the government put it out and the banks took it out. I submit too that this entire amount is presently owing to the government by its bankers.

In view of the foregoing, I charge that the Finance Department Officials grossly mis-appropriated public funds to a total of $18 billions in the foregoing manner.

It's clear from the foregoing too that if the finance officials had retained the $18 billions instead of giving it to its bankers for free, the government would now have $18 billions cash on hand and a balance sheet surplus of $3 billions, in place of the fictitious $15 billions cash deficit they reported in its financial statements.

According to my investigations, this entire $18 billions, instead of being deposited or stockpiled and reported as cash on hand, by either the government or its bankers, was cancelled, mutilated, burned and completely destroyed by the banks at the public expense, and caused us great loss and damage accordingly. I repeat, the government put it in circulation and the banks took it out. Further more, inasmuch as the government war debts were left outstanding unpaid, the subversive Finance Department Officials left the banks, the government and the public all in an insolvent, bankrupt and deficit position, unable to pay our debts or solve our other economic problems.

Hence, I further charge that the finance officials grossly deceived Parliament by reporting the cash deficit as being in the government's cash accounts instead of properly reporting the deficit as being in the banking cash accounts,and by also failing to report that the entire amount is still owing by the banks to the government.

This constitutes the hidden cash assets; the unclaimed bank balances; the proceeds of the public debt; and uncashed money profits that must be salvaged in the public interest in a costless and beneficial manner, and I submit my Copyrighted Financial Reform Formula to the government and people of Canada for this purpose.

This Bulletin is issued by

Frank O'Hearn,

Director,

THE PRIVATE RESEARCH BUREAU.

APPENDIX

HIGHLIGHTS OF BRIEF

According to the brief:

1. The Canadian banks are operating outside the existing laws governing their operations.

2. The Bank of Canada is secretly making huge profits from its currency operations without reporting the profits or paying it to the Receiver-General.

3. The Bank of Canada is destroying huge amounts of legal tender at the public expense, instead of depositing it or stockpiling it as cash assets, or replacing it from its secret stockpile of costless new currency.

4. The banks are all charging their customers for double the face value of the securities they sell and money they lend to them, all without reporting the clear profit accruing therefrom.

5. The banks are continually mutilating and destroying huge amounts of legal tender and substitute bank currency at their customers expense, and are doing so without reporting the losses and cash shortages resulting from their illegal methods.

6. The financial statements and reports issued by the banks are all grossly incorrect and false, and do not show their true financial condition as called for by the laws governing their operations.

7. The financial statements of the government as issued by the Finance Department officials are also grossly incorrect and false.

8. The banks fail to report as cash resources or reserves any of the deposit assets they get from their customers or any of the money they collect from them for repayment of loans or for securities they sold to them.

9. The cash savings of the public and the cash reserves of the Banks have been illegally depleted and destroyed to a total of over $18 billions to date.

10. This huge fraud on the public was made possible and was accomplished by bad bookkeeping and mis-management of our national money supply by the banking and Finance Department officials.

11. The banks are all in a bankrupt condition and are operating from a deficit position, instead of from a capital position as intended by the laws governing their operations.

12. The huge deficit in the cash resources of the banking sector of our Economy has been, instead, improperly foisted on to the government and people.

13. The government has already over-collected $18 billions in taxes and bond money from the public and turned it all over to the banks for free, to repay loans they never made to it, leaving us burdened with perpetual debt and deficits instead of capital equities.

14. The Minister of Finance and his Ottawa Establishment are grossly manipulating and misappropriating public funds and accounts and are imposing themselves as the "Power behind the Throne", secretly running our Economy as Dictators to our great loss and damage.

15. Specific charges are listed exposing the deceptions on the government and people of Canada by the Finance Minister and the Governor of the Bank of Canada.

16. The government has grossly failed to provide us with a sound and suitable international dollar for our foreign trade transactions and settlements.

In order to overcome and remedy the foregoing flaws in our financial system, and to salvage and get everybody a share in the $18 billions improperly and illegally extorted from us and destroyed at our expense by the Finance Department and banking officials, Frank O'Hearn has invented a Process, made a great discovery and developed a Formula for this purpose, which he proposes the government should encash, license, lease or buy from him so as to implement it in the public interest.

APPENDIX "GG"

A SCIENTIFIC SOLUTION TO CANADA'S ECONOMIC PROBLEMS

Mr. Chairman and members of the Finance, Trade and Economic Affairs Committee, I consider it a privilege to be afforded the opportunity of presenting, for your evalution, proposals for improving our Canadian Banking System. The proposed changes, which will alter the present and the suggested banking system, are of a two-fold nature. The one pertaining to creation, the other to the regulation, of our total money supply.

The creation of our total money supply should eventually become the duty and function of the Bank of Canada. The regulation of our money supply should be done scientifically, based upon the amount of purchasable production available in Canada.

In order to eliminate repetition, the submission I presented to the Royal Commission on Banking and Finance, April 12th, 1962, is attached as part of this document. This will enable the committee as a whole, or in part, to evaluate my findings of the present banking system, and the proposed changes which will be outlined in greater detail throughout the remainder of this submission.

Before we can properly analyze the proposed changes, and the effects they will have on Canada and Canadians, it is necessary to evaluate our present economy. To do this let us fix in our minds a map of this great country, with all its raw materials and natural resources.

Without raw materials and natural resources a country is handicapped. However, in Canada we are blessed in this respect, for we have plenty of both.

The raw materials and natural resources are of little value until they are transported to our factories and processed. Thus we must consider our transportation and manufacturing facilities.

We have an adequate transportation system. The highways, waterways, and railways, not to mention our air transportation, do a good job, and can be expanded if necessary.

In considering our manufacturing facilities, we find that many of our factories are operating below capacity, some closed down completely.

The rate of production of our factories is directly affected by two factors, other than raw materials and natural resources. The one being manpower, and the other the ability to sell the finished produce.

There is no shortage of manpower in Canada, for we have that undesirable condition where thousands of men and women are unemployed. Thus the slow down of our manufacturing facilities is caused by the inability to sell the finished produce.

The produce presently filling our stores and warehouses is made up of Canadian materials, and imports received in exchange for the same. Thus for all practical purposes, this purchasable production, presently filling our stores and warehouses, can be considered as Canadian materials. These materials came out of Canada, reaching from British Columbia on the west to Newfoundland on the east, from our farms, forests, factories, fiheries and mines etc., and were produced by Canadians individually and collectively.

The economy of our country depends on three factors, production, consumption, and the population. Individual Canadians, who collectively make up the population, being the most important aspect.

A high level of unemployment at a time when the factories are operating below capacity, such as we have in Canada at present, is a true indication of an undesirable economy.

The vast majority of Canadians are looking for guidance, from the various governmental bodies, to establish a desirable economy. A desirable economy being one which utilizes all modern methods of production, at the same time offering employment to all.

It is the purpose of this document to point out, and substantiate, that: "There is a national inventory level of purchasable production, which, when maintained by effective demand, will bring about a desirable economy"

Before substantiating the above statement, let us differentiate between demand and effective demand. In our society, a hungry person standing in front of a super-market has a demand for food. However, unless he, or she, has the necessary money to purchase the food available, the demand does not become effective. Thus before a demand can become effective one must have the necessary money, in one form or another, to complete the transaction.

The following will confirm that there is a national inventory level of purchasable production, which, when maintained by effective demand, will bring about a desirable economy. Let us figuratively purchase one-third (1/3) of the materials presently filling our stores and warehouses, and by continued purchases attempt to maintain it at that level on a per capita basis. As soon as this is done, in a competitive free enterprise society, the merchant will re-order from the warehouses, and the warehouses from their suppliers. This will stimulate the economy, speed up the factories, supply jobs for the thousands presently unemployed, and bring about the condition most Canadians are looking for, a desirable economy.

Since there is a national inventory level of purchasable production, which, when maintained by effective demand, will bring about a desirable economy, let us consider why we do not have this economic condition at the present time. Many individuals and the various governmental bodies in Canada would purchase more of the national inventory, which Canadians have produced individually and collectively, providing they did not have to borrow the money at high rates of interest and go deeper into debt. Others have neither the money nor the credit facilities to enable them to purchase the materials they need. Thus, the merchandise remains unsold in the stores and warehouses. In reality, it is the lack of purchasing power (money) in the hands of the would be consumers which is causing our economic problems.

Here-after in this brief, the proposed changes in the banking system will be referred to as the solution. The application of which will require:

(a) That the money supply of our country be regulated, and determined by a given national inventory level of purchasable production, which will be calculated scientifically and at regular intervals as required.

(b) That the Bank of Canada become the sole creator of all additional money supply needed in Canada.

(c) That all additional money supply, created by the Bank of Canada, be channelled through a National Credit Account.

(d) That all monies in the National Credit Account be allocated to the needs of the Canadian people, according to the will of the people, as expressed through their elected Federal representatives.

When the solution is implemented, any time the national inventory level of purchasable production is above a given level, this will be justification for increasing the money supply by an amount equal to the value of the inventory above the given level. The additional money will be created by the Bank of Canada, after being authorized by the Parliament of Canada, and deposited into a National Credit Account. Should the inventory of purchasable production go below the given level, the money supply will be reduced by an equitable taxation system and cancelled out of existence.

It has been calculated that a national inventory level of purchasable production, equal to approximately two-thirds (2/3) of the present amount, will bring about a desirable economy. However, should this figure be either too great, or too small, the correct level will be readily ascertained when the principals of the solution are applied.

When the solution is in operation it will enable the Federal Parliament to finance a Municipal Development Fund from the National Credit Account. The Municipal Development Fund will in turn be able to finance public services, of the various levels of government, at a low rate of interest. The rate charged will only need to be enough to cover the administration costs. When public services are financed in this manner, it will increase the amount of financial credit available for competitive free enterprise to develop the natural resources of our country.

The application of the solution will also make it possible to pay added benefits to old age pensioners, family allowances, and grants for health and educational purposes. These additional benefits will be regulated and determined by the increased money supply, which in turn will be regulated by Canadian production.

One of the most notable changes, with the implementing of the solution, will be in the field of taxation. Taxes at all levels of government will be reduced, because of the reduction in the interest charges on expenditures for public services.

Let us take the financing of a proposed new school, presently under consideration, to illustrate the reduction in taxation that will be made possible with the advent of the solution. The estimated cost of constructing the new school is $300,000.00. The taxpayers have been informed that financing, by the present debenture method, the school will cost $555,000.00 over a period of twenty (20) years. When the solution is a reality, a school, such as the one just mentioned, will be financed from the Municipal Development Fund at a rate of interest just enough to cover the administration costs. This will bring about a reduction in taxation of at least $200,000.00 over a period of twenty (20) years, for the taxpayers concerned. When this method of financing public services is utilized throughout the Dominion of Canada, it is plain to see it will constitute a substantial reduction in general taxation.

When the solution is operational, the above mentioned allocation of monies, from the National Credit Account by the Federal Parliament, will be achieved without further national debt and while lowering taxation. This, along with the fact that a desirable economy will become a reality, is ample justification to make the necessary changes in the proposed Bill C-102. These changes, being basic, will have far reaching effects, and assure a prosperous and growing economy.

Since the Bank of Canada will become the sole creator of all additional money supply in Canada, the amount of chartered bank credit now in existence, (which is part of our money supply), must not be increased, regardless of any future action taken by the Bank of Canada.

Now let us figuratively apply the solution to our present economy and evaluate the results. We will let the market value of the present national inventory level of purchasable production be represented by $3X,000,000,000,00. It is necessary to use an unknown quantity "X", in the above figure, for the actual market value of the inventory has not been compiled. However, by this method we will be able to evaluate the basic benefits which will be derived for Canada and Canadians, with the solution in operation.

Since it has been calculated that two-thirds (2/3) of the present inventory level of purchasable production, which, when maintained by effective demand, will bring about a desirable economy, the application of the solution will justify the Federal Parliament instructing the Bank of Canada to create an additional $1X,000,000,000.00. This newly created $1X,000,000,000.00 will become the initial entry in the National Credit Account.

The allocation by the Federal Parliament, of this money from the National Credit Account, along with all other monies which will be deposited in the account because of increased production, will assure a lasting and scientific correction to our economic problems. The Canadian people will be guaranteed, at all times, sufficient money to buy the purchasable production available in Canada. The purchasable production available, being the end results of the efforts put forth by Canadians individually and collectively.

When the solution is applied it will make increased production, be it caused by automation, cybernation, or otherwise, a real blessing to Canada and Canadians. It will overcome, once and for all times, the stumbling block of distribution, which is presently handicapping the economy of the western world, of which we are a part.

The implementing of the solution will assure that the chartered banks, which perform a necessary service in our society, will remain a competitive free enterprise endeavour. The only change being that the Bank of Canada will become the sole creator of all additional money supply needed in Canada, and the money supply will be regulated and determined by a given national inventory level of purchasable production.

When we consider that the proposed changes in the Bank Acts, up for revision, will bring about a desirable economy, without further national debt, and while lowering taxation in general, this is justification for the members of this all important committee to give the document in hand their very careful

consideration, and eventual endorsation. However, there is one more aspect which must be taken into consideration, our foreign trade.

When the solution is applied, and our national money supply is scientifically regulated according to purchasable production available in Canada, this will enable supply and demand to regulate the value of the Canadian dollar on the world market, without any danger of national economic stagnation. It will also enable the reduction, if not the discarding, of our tariffis and duties. The end result will be unrestricted trade between Canada and all other nations of the world, with comparative advantages for all concerned.

To understand foreign trade one has to have a working knowledge of foreign exchange, and what determines the value of the Canadian dollar, in relation to currencies of other countries, when the rate is not pre-set. Transfer of monies from one country to another, through the foreign exchange, can be compared to an auction sale, where supply and demand regulates the price. When Canadian dollars are plentiful, at the foreign exchange, other countries desiring our money bid low, forcing the value of the Canadian dollar down. When Canadian dollars are scarce, on the exchange, the opposite condition exists, and the value of the Canadian dollar increases on the world market.

The main determining factor regulating the amount of money to be exchanged, for currencies of other countries, is the buying and selling of goods and services between nations. On the world market, as on the national market, it is much more convenient to exchange commodities using money, as a medium of exchange, than it is to use the barter system. Thus when one country buys from, or sells to another, an exchange of currencies is necessitated. It is the transfering of currencies, commonly called buying and selling of money, which determines the value of our currency, in relation to that of other countries, on the world market, when the exchange rate is not pre-set.

The value of our money, on the international market, has a direct bearing on the export and import business of Canada. This is readily apparent when one evaluates the effect of an unbalanced dollar, both high and low, with our neighbour south of the border. What holds true, in this respect, with the United States of America, is also true with all other nations of the world.

Consider the effect providing our dollar was only worth 75 cents in the U.S.A. Under these conditions we would be obliged to pay $1.25 Canadian currency for $1.00 worth of American produce, which would have a tendency to retard our imports. However, under the same conditions the Americans would only have to pay 75 cents American currency for $1.00 worth of Canadian produce and would have the tendency to stimulate our exports.

Now consider the effect providing our money was at a premium and the American dollar was only worth 75 cents in Canada. The above mentioned conditions would reverse themselves. The important aspect of these international trade patterns is that, with any given change in the import and export ratio, there is a corresponding change in the foreign exchange ratio of the countries concerned, again providing that the currency ratio has not been pre-set. Thus it is not difficult to prove, as is taught in economics, that by allowing our country's currency to find its own level on the world market, we can balance our exports and imports without duties and tariffs.

The very idea of being able to exchange goods and services, to the mutual benefit of all concerned, has been the chief objective of mankind, and one of the highest ideals, since the earliest recorded history. The application of the solution will enable this to become a reality throughout our entire nation, and, at least to a degree, in the countries with whom we buy and sell commodities.

Mr. Chairman and members of this standing committee of Finance, Trade and Economic Affairs, the establishing of a desirable economy in Canada will be one of the greatest contributions that can, and must be made, to solidify our nation. It is the answer to the Honourable Prime Minister's war on poverty, and will assure that Canadians, one and all, can have the best health and educational system, which is physically possible to produce.

Respectfully yours,

Melvin A. Roat.

CANADIAN BANKING

PRESENT IMPERFECTIONS EXPOSED AND WORKABLE CORRECTIONS PRESENTED

The present imperfections in our Canadian money and banking system are of a twofold nature. One concerns the manner in which our money supply comes into existence; the other the lack of relationship between the amount of money in circulation (money times velocity) and the production of our country.

This brief deals with these imperfections and suggests changes which could and should be made in our banking system. These changes would enable the Federal Government to correct our economic problems without further debt and/or taxation and eliminate once and for all recessions, depressions and inflation in Canada.

We, in this country, are fortunate to be living under a form of democracy, where individuals have the opportunity to express their thoughts and present their research on all subjects affecting the management of our country. In presenting my research and suggested corrections in our Canadian Bank Act, I avail myself of this opportunity.

As a boy back in the hungry thirties I could never understand why my father, a locomotive engineer willing to do any kind of work, could not get a job. Because he was without work we had insufficient money to purchase the food and clothing which were available. I was told this condition existed because there was a scarcity of money.

Shortly thereafter war was declared and the scarcity of money disappeared. There has always been plenty of money for war time purposes, but very often there is no money to alleviate human suffering in peace time. Upon returning to civilian life I continued to ponder the subject of money; WHERE DOES IT COME FROM? WHO OR WHAT DETERMINES ITS SUPPLY? I was determined to learn and I have learned the answers to these questions.

In 1954 it was drawn to my attention that BANKS CANNOT AND DO NOT LEND OUR DEPOSITS. When Graham Towers was governor of the Bank of Canada he assured the people that; "The banks cannot, of course, loan the money of their depositors. Now what the depositors do with these savings is something quite beyond the control of the banks." (Taken from the 1939 Banking and Commerce Report, page 455.)

This truth, which is contrary to the popular belief of banking, prompted me to make a detailed study of our money and banking system and compile this brief.

A brief is of little value unless the statements in it are accurate. I am prepared to substantiate all statements contained herein, using the Bank of Canada Statistical Summary, the Canadian Bank Act and other legal documents for this purpose.

Having learned that THE BANKS DO NOT LEND OUR DEPOSITS it raised a very important question in my mind; HOW CAN THE BANKS AFFORD TO PAY US INTEREST ON OUR DEPOSITS WHICH THEY DO NOT LEND? This appeared paradoxical and raised another question in my mind; WHAT DO THE BANKS LEND?

In my studies I discussed, with a noted Canadian economist, the statement which appears in Quick Canadian Facts, 16th edition, page 141; "The chartered banks are required to keep a minimum of eight percent of their Canadian deposit liabilities in the form of deposits with, and notes of, the Bank of Canada." This eight percent of Canadian deposit liabilities is commonly called the cash reserves of the chartered banks and hereafter in this brief will be referred to as cash reserves. In a like manner the Canadian deposit liabilities will be referred to as deposit liabilities.

The statement in Quick Canadian Facts is correct. It is derived from sub-section one of section seventy-one of the Canadian Bank Act, as revised in 1954. THIS PROVISION IN THE BANK ACT ENABLES THE CHARTERED BANKS TO LEGALLY CREATE OUR MEDIUM OF EXCHANGE CALLED MONEY, PAY US INTEREST ON OUR DEPOSITS—WHICH THEY DO NOT LEND—AND OPERATE AT A CONSISTENT PROFIT.

Having learned this, it was necessary to ascertain how the chartered banks come into possession of their cash reserves and what makes up their deposit liabilities.

Cash reserves are increased every time we deposit Bank of Canada notes (Canadian currency) with the chartered banks. Cash reserves are also increased every time the Bank of Canada purchases securities on the open market.

The purchasing of securities, Government of Canada or otherwise, by the banks are nothing more than the granting of loans. The securities (bonds or treasury bills) are the collateral which guarantee the repayment of these loans.

The deposit liabilities of the chartered banks consist of our personal savings plus bank loans and/or the purchase of securities by the chartered banks, which appear as deposits in someone's account.

To elaborate on the statement concerning cash reserves, let us consider the deposit of $100.00 in Canadian currency with the chartered banking system. It

increases the bank's supply of Bank of Canada notes by $100.00 which constitutes a part of its cash reserves. THUS WE LEARN THAT EVERY DEPOSIT OF CANADIAN CURRENCY IN THE CHARTERED BANKING SYSTEM INCREASES THEIR CASH RESERVES BY AN EQUAL AMOUNT.

Now let us consider how the cash reserves of the chartered banks are increased when the Bank of Canada purchases Federal Government securities, be it bonds or treasury bills. This can best be understood when we realize that THE BANK OF CANADA IS EMPOWERED TO CREATE MONEY FOR THE PURCHASE OF SECURITIES AND THERE IS NO GOLD NEEDED TO BACK CANADIAN MONEY. When the Bank of Canada purchases Federal Government securities it pays for them by crediting the Government of Canada's account, at the Bank of Canada, with newly created money. However, the majority of the Government of Canada's money is kept on deposit with the chartered banks. Thus, this newly created money can be, and is, transferred to the Government of Canada's account with the chartered banks. The transfer, which takes place at the Bank of Canada, is from the Government of Canada's account to the chartered banks' account. This transfer increases the chartered banks' deposits with the Bank of Canada and raises their cash reserves by an equal amount. James E. Coyne, while governor of the Bank of Canada, made it very clear that the purchase of securities by the Bank of Canada increases the cash reserves of the chartered banks.

The cash reserves of the chartered banks are made up of money created by the Bank of Canada and deposited with the chartered banks by the Canadian people individually and collectively.

To elaborate on the statement of what makes up the deposit liabilities of the chartered banks; let us consider again the deposit of $100.00 with the chartered banks. This appears as a deposit in someone's account and is part of their deposit liabilities. Now let us consider what happens when the chartered banks grant loans or purchase securities. The borrower puts up the collateral, which guarantees the repayment of the loan, and the bank credits the borrower's account with the amount of the loan. Thus bank loans, or the purchase of securities by the banks, increase the deposit in someone's account and are part of the banks' deposit liabilities. The strange thing is THE GRANTING OF A LOAN OR THE PURCHASE OF A SECURITY, BY THE BANKS, WHICH CREATES A DEPOSIT, NEVER LOWERS ANY OTHER DEPOSITS, SINCE OUR TOTAL MONEY SUPPLY IS MADE UP OF CURRENCY PLUS BANK DEPOSITS; IT NECESSARILY FOLLOWS THAT EVERY BANK LOAN, WHICH CREATES A DEPOSIT, INCREASES OUR TOTAL MONEY SUPPLY. (More of this will be mentioned later.)

While discussing Canadian banking, with other leading economists, the following was confirmed as being corrrect:

> "The deposit of $100.00 in Canadian currency, as a savings in the chartered banking system, increases their cash reserves by $100.00. This increase in cash reserves enables the chartered banks to create and loan an additional $1,150.00, which appears as a deposit in the borrower's account."

This expansion of bank credit by the chartered banks is affirmed in the Bank of Canada Statistical Summary and can be proven when the provisions of

the Bank Act are applied. THE $100.00 DEPOSITED IS THE 8 PER CENT CASH RESERVE, REQUIRED BY LAW, OF THE $1,250.00 DEPOSIT LIABILITIES INCURRED BY THE BANKS IN THIS TRANSACTION.

The one aspect of Canadian banking, which confuses most people, is the fact that banks cannot and do not lend our deposits. One of our leading Canadian economists verified this statement as follows:

> "Supposing you deposited $100.00 in Canadian Currency in the bank. This appears as a deposit in your account and is part of your assets. It is an asset of yours and a liability of the bank. Of course we all know banks cannot lend liabilities."

In my research I made a detailed study of the Bank of Canada Statistical Summary, particularly where it applies to the amount of money created by the Bank of Canada and the amount of credit created by the chartered banks. The Summary verifies the fact that our personal savings, with the chartered banks, are in excess of $7,000,000,000.00. It also shows that the total amount of legal tender in our country, including all currency, is approximately $3,000,000,000.00. THIS CAUSED ME TO WONDER WHAT WOULD HAPPEN IF WE DECIDED TO WITHDRAW ALL OF OUR SAVINGS AT ONE TIME. This appears to be another paradox. However, in view of the fact that the banks cannot lend our deposits, we should be able to withdraw all of our savings at one time.

While discussing Canadian banking with an economic adviser of the Federal Government, I asked the following question:

> "How could the Canadian people hope to be able to get their savings of $7,000,000,000.00 from the chartered banks, providing they all decided to withdraw them at one time, when there is less that $3,000,000,000.00 of Canadian currency in existence?"

He suggested that my answer to this question should come from the Bank of Canada and arranged a conference for me with its research department.

The research department assured me my reasoning was correct: "MOST OF OUR PERSONAL SAVINGS ARE NOTHING MORE THAN BANK CREDIT CREATED BY THE CHARTERED BANKS AND LOANED TO THE PEOPLE INDIVIDUALLY AND COLLECTIVELY AT INTEREST. THE LOANS APPEARED ORIGINALLY AS DEPOSITS IN THE BORROWERS' ACCOUNTS, BUT BECAUSE OF BUSINESS ACTIVITIES, HAVE BEEN TRANSFERRED FROM THE BORROWERS' ACCOUNTS TO OUR SAVINGS ACCOUNTS." They suggested that further questions on money and banking could be put in letter form and sent to the Bank of Canada.

The Bank of Canada has affirmed by letter, THAT BANK LOANS APPEAR AS DEPOSITS IN THE BORROWERS' ACCOUNTS WITHOUT LOWERING ANY OTHER DEPOSITS. This confirms the statement made earlier, THAT EVERY BANK LOAN INCREASES OUR TOTAL MONEY SUPPLY. Our total money supply, of approximately $15,000,000,000.00, is made up of currency plus bank deposits.

Let us consider the manner in which Graham Towers, when he was governor of the Bank of Canada, explained the creation of money and/or bank credit, by the chartered banks. On page 285 of the 1939 Banking and Commerce Report it is recorded that Mr. Towers agreed to the statement; that the chartered banks

do not lend money, but bank credit, a substitute for money. One of the questions asked was: "THEN WE AUTHORIZE THE BANKS TO ISSUE A SUBSTITUTE FOR MONEY?" Mr. Towers answered: "YES, I THINK THAT IS A FAIR STATEMENT OF BANKING."

On page 79 in the Book "Understanding the Canadian Economy", which is used as an authorized text in many Canadian schools, under the heading "the creation of money by banks," the following appears:

> "We have already learned that the most important kind of money is credit. The most important kind of credit is the credit created out of thin air by the banking system. Eighty percent of the volume of business in Canada uses money that isn't there. Banks lend it out of nowhere to people, and when it is paid back it returns to nowhere. It can't be seen, yet it can make the difference between full employment and mass unemployment. Most of the revenue of banks is interest on money that does not exist."

Let us consider the expansion of bank credit, made possible and legal by our Bank Act, and the profits the chartered banks can derive from such transactions. This will be considered in three phases. First, the deposit of $100.00 in Canadian currency with the chartered banking system, and the gross profit they can make on our savings. Second, the deposit of an old age pension cheque with the chartered banks, and the expansion of bank credit this makes possible. Third, the purchase of Federal Government securities by the Bank of Canada and the chartered banks, as it happened in 1958.

As previously illustrated, the deposit of $100.00 in Canadian currency with the chartered banking system is sufficient cash reserve for the chartered banks to create $1,150.00 of bank credit and lend it to the Canadian people at interest. This means that $100.00 of Canadian currency on deposit with the chartered banking system enables the chartered banks to collect interest on $1,150.00 of bank loans. When the $3.00 yearly interest paid on the $100.00 savings deposit is deducted from the $69.00 interest charged on the $1,150.00 loan, we find that THE CHARTERED BANKS CAN MAKE A GROSS YEARLY PROFIT OF $66.00 ON $100.00 OF CANADIAN CURRENCY DEPOSITED WITH THEM FOR SAFE KEEPING—WHICH THEY NEVER OWNED IN THE FIRST PLACE.

What happens when a senior citizen deposits his, or her, pension cheque with the chartered banking system? The $55.00 appears as a deposit in the elderly person's bank account and INCREASED THE CASH RESERVES OF THE CHARTERED BANKS BY $55.00, FOR ALL OF THESE PENSION CHEQUES ARE CLEARED THROUGH THE BANK OF CANADA. The transfer which takes place, at the Bank of Canada, is from the Government of Canada's account to the chartered banks' account. This transfer increases the deposits of the chartered banks with the Bank of Canada, without lowering their supply of Bank of Canada notes. Since the cash reserves of the chartered banks are made up of deposits with, and notes of, the Bank of Canada, the deposit of a $55.00 pension cheque with the chartered banking system increases their cash reserves by an equal amount. This increase of $55.00 in the cash reserves of the chartered banks enables them to create an additional $632.50 of bank credit and lend it to the Canadian people at interest.

Our total money supply was increased by approximately $1,600,000,000.00 in the twelve month period ending October 1958. This increase was in the form of extra money needed to purchase additional direct and guaranteed funded securities of the Federal Government. The majority of these securities were Government of Canada bonds. The investing public outside the banks were reluctant to purchase these securities. Thus the Bank of Canada commenced to purchase a percentage of the Government of Canada bonds. Since the purchase of securities by the Bank of Canada increases the cash reserves of the chartered banks; the action taken by the Bank of Canada, in this instance, increased the cash reserves of the chartered banks sufficiently for them to increase their bank credit by $1,300,000,000.00 and purchase the remainder of the Federal Government direct and guaranteed funded securities, by merely increasing the figures in their own ledgers. CANADIANS ARE BEING TAXED IN EXCESS OF $40,000,000.00 PER YEAR TO PAY THE INTEREST ON THESE SECURITIES PURCHASED BY THE CHARTERED BANKS, WITH CREDIT CREATED OUT OF THIN AIR.

We are being taxed in excess of $800,000,000.00 per year to pay the interest on our national debt, which has been incurred over the years because of our imperfect money and banking system. Approximately fourteen cents out of every tax dollar we pay to the Federal Government, whether it be direct or indirect taxation, is used to pay the interest on this debt.

Our total money supply comes into existence in the manner which has been put forth. WE CANADIANS, INDIVIDUALLY AND COLLECTIVELY, ARE PAYING INTEREST TO THE CHARTERED BANKS ON APPROXIMATELY 80 PER CENT OF OUR TOTAL MONEY SUPPLY, WHICH THEY, THE CHARTERED BANKS, CREATED OUT OF THIN AIR BY WRITING FIGURES IN THEIR OWN BOOKS. I would like to mention here that IT IS NOT THE CHARTERED BANKS WHICH ARE AT FAULT. THEIR CREATION OF MONEY AND/OR BANK CREDIT IS LEGAL IN CANADA. IT IS THE BANKING SYSTEM ADOPTED BY OUR FEDERAL GOVERNMENT WHICH IS WRONG. OUR PRESENT BANKING SYSTEM CAN AND SHOULD BE CHANGED.

According to section #91 of the British North America Act THE FEDERAL GOVERNMENT HAS THE RIGHT, AND IT IS THEIR RESPONSIBILITY, TO CREATE OUR MONEY AND REGULATE OUR BANKING SYSTEM. IT IS QUITE EVIDENT THAT THE PRESENT BANKING SYSTEM HAS FAILED TO SERVE THE BEST INTERESTS OF THE CANADIAN PEOPLE.

The imperfections in our present money and banking system, and the corrections which could, *and should*, be made in the same, are better understood when we consider the following facts pertaining to economics:

(a) "A money system is good and without it we could not have reached the standard of living that we now enjoy."

(b) "Money has but one function, to assist in the distribution of materials from the producer to the consumer, either now or at some time in the future."

(c) "The only reason for production is consumption."

(d) "The consumer is equally as important as the producer, for without consumption there is no need for production.

(e) "Money is but a medium of exchange and in itself has no real value."

(f) "It is the production of our country which gives our money its real value."

(g) "To have a balanced economy the amount of money in circulation (money times velocity) must be equal to the production of our country."

(h) "Money, the life blood of our nation, has to be in circulation to perform the function for which it was created."

(i) "The purpose of society is to gather collectively, for consumption individually, the product of our intellectual, inherited and natural resources."

Our money and banking system should be based upon the economic formula: "MONEY TIMES VELOCITY EQUALS PRICE TIMES TRANSACTION." To put it in simpler terms: "THE AMOUNT OF MONEY IN CIRCULATION SHOULD BE EQUAL TO, AND DETERMINED BY, THE DESIRABLE AND FOR SALE PRODUCTION OF OUR COUNTRY." THE BANK OF CANADA, OUR CENTRAL BANK, SHOULD BE THE SOLE CREATOR OF OUR MEDIUM OF EXCHANGE CALLED MONEY.

I have been assured by other leading economists that the Bank of Canada can carry out the tasks it would be called upon to perform, when the following proposed changes are made in our Canadian Bank Act.

The Federal Government should amend the Bank Act and bring the chartered banks to operate on 100 per cent cash reserve. The change from 8 per cent to 100 per cent cash reserve will have to be done progressively over a period of time to maintain a stable economy. WHEN THE CHARTERED BANKS ARE OPERATING ON 100 PER CENT CASH RESERVE THE BANK OF CANADA WILL BE THE SOLE CREATOR OF OUR TOTAL MONEY SUPPLY.

Canadians operating within a competitive free enterprise system, wherever possible, should determine the production of our country. The Bank of Canada, working in co-ordination with the Federal Government, should issue our total money supply. The supply should be regulated so that the amount of money in circulation (money times velocity) would always be equal to the desirable and for sale production of our country. This would guarantee Canadians a balanced economy.

Lest anyone has the thought that these proposed changes would allow the Federal Government or the Bank of Canada to turn on and off our money supply at will, and possibly cause conditions of worthless money, it should be emphasized, THAT WHEN THE PROPOSALS IN THIS BRIEF ARE IMPLEMENTED, IT WILL BE THE PRODUCTION OF OUR COUNTRY WHICH WILL DETERMINE OUR MONEY SUPPLY. The Federal Government and the Bank of Canada will simply be administering this portion of our affairs. IN ORDER THAT WE CANADIANS HAVE TRUE DEMOCRACY ALL MONEY CREATED BY THE BANK OF CANADA SHOULD BE DISTRIBUTED AS DIRECTLY AS POSSIBLE TO THE CANADIAN PEOPLE. THIS DISTRIBUTION SHOULD BE DONE IN ACCORDANCE WITH THE WILL OF THE PEOPLE. THE FEDERAL GOVERNMENT COULD, AND SHOLD, OPERATE ON A PAY AS YOU GO BASIS BY MAKING THE PROPOSED CORRECTIONS IN OUR PRESENT BANK ACT.

When the Federal Government implements these changes in our money and banking system, we will have economic freedom, which was the main objective of Sir John A. MacDonald. We will have control of the issue of our currency and credit and able to enjoy true democracy along with sovereignty of parliament, as was suggested by the late Right Honourable MacKenzie King.

Last, but not least, when these change are made, MONEY WILL BECOME OUR SERVANT INSTEAD OF OUR MASTER.

I deem it a privilege to have been able to present this brief to the Royal Commission set up by the Right Honourable John Diefenbaker to re-evaluate our present money and banking system.

Respectfully yours,
Melvin A. Rowat,
Elmvale, Ontario.

APPENDIX "HH"

SUBMISSION

to

The Parliamentary Committee

on

Finance, Trade, & Economic Affairs

by

Harry H. Hallatt

Honourable Members of the Parliamentary Committee on Finance, Trade, and Economic Affairs:

I am pleased that all of these subjects come within the purview of your enquiry, since all of these matters should, indeed must be direct responsibility, and under the control of the government of Canada.

I will say at once that financial control is the key to the proper administration of our economic and social affairs, and that until it is exercised by our government, all talk of securing and maintaining economic stability, is, to use MacKenzie King's phrase, idle and futile.

Mr. Chairman: We have made a break-through in the analysis and understanding of our economic and social problems, and in their solutions. We have learned that we have been "all wrong" in the administration of our financial system. We have erroneously allowed private institutions to create and cancel our money units, primarily in their own interests, rather than in the best interests of all citizens.

We have learned that money is not, never was, nor can be gold, silver, wampum or any other substance; that the so-called gold standard was in reality a gold combine—the daddy of all combines.

Money is a price language in which we express values in establishing a basis of exchange of our specialized production and services, and our money units become debt contracts which must be fulfilled and discharged as we consume our production, and as our services are consumated.

Our money system is just a service, and is worth, like any other service, the mental and manual labor cost of operating it in public enterprise, and plus a competitive profit when used in private enterprise, with its attendant risks.

This means that the issuance and cancellation of money used in public enterprises, through the financial departments of government at all levels, for financing all government capital projects and housing, none of which is any part of our private enterprise structure, will cost less than we are now paying to advertise and sell bonds, and less the interest we are now paying, and that competition will keep the service cost of financing private enterprise stable, when private institutions are no longer allowed to create money. I am taking it for granted that all members of the committee are aware that our private banks

create our money supply; that they thus have the advantage of creating all the money they lend, and that they have the control advantage of calling in loans and destroying money at will.

It will be clear that we will not need to worry about the bank interest rate when the banks cease to have the advantage of creating all the money they lend. They will have to compete with other lenders on equal terms. They will no longer be able to call in and destroy other lender's money.

Mr. Chairman, the Committee should be able to "take it from here" as the saying goes, but I suppose there will be some who will still ask where the money is coming from for medicare, for welfare, for pensions, for housing, schools, hospitals and many other needs and wants, and of course the answer is that money has very little to do with it—not more than theatre tickets have to do with producing a show, or than the records in a factory office have to do with the production in the factory. We can have all the money we have the man power to use.

Medicare, pensions, and all other benefits do not cost money. They only cost work, but money costs too much work, and therein lies our difficulties. We can bestow all the benefits we care to provide with our labors. In the final analysis, money is not a means of providing these benefits. Our savings are mostly claims on unpaid-for durable wealth—public structures, housing, factories, office buildings, churches, and many other such structures. Current benefits must come out of earnings in current production and services if economic stability is to be maintained. This dictates that we must have regard for how much time we can afford to spend in producing public durables, and how much time we wish to spend producing current needs and wants. It is not a money problem. It is a production and service problem. If people with lots of money were suddenly to become generous, and were to donate hundreds of millions of dollars for medicare, pensions, and other benefits, we would have price hikes that would really bring house-wives out on parade; too much money chasing too few goods. It would be just as bad if we tax too much money out of incomes for these purposes, without a corresponding increase in the production of consumer goods.

All this, of course points up a basic flaw in the private creation and issuance of money into any activity that will pay the private money manufacturers an interest profit, regardless of whether the basic needs of the people are met. There can be no solution to our chronic economic and social problems as long as private institutions have the power to manufacture and destroy our money supply to their own advantage.

The B.N.A. Act provides that our government shall coin and regulate the value of money. Unfortunately, the Fathers of Confederation did not understand the nature of money. They considered hard money—coins of gold and silver and copper—to be the real money, and they considered the money the private banks created—book money—to be bank credit. They did not know that the so-called bank credit was real money. They did not know that the banks did not extend their own credit, as represented, or that the banks monetized the assets, or credit of the borrowers, in short, that they created and loaned to the progressive borrowers the borrowers own money.

You, no doubt, have heard of people who had schemes for doing away with money. I want to put on record the fact that we cannot do away with money

unless we do away with arithmetic—unless we stop the exchange of goods and services, and expunge numerals from our language.

Conversely, if we were all honest, and had infallible memories, we could have a money system without even a pencil to write down the money unit figures. If understanding that simple postulate bothers you, you may have difficulty in understanding the simple solutions to our chronic economic and social problems. It cannot be over emphasized that money never was nor can be anything but number words, and that is what we are using now, as you should know if you have ever had a bank pass book.

I want to emphasize the fact that we can correct the errors we have been making in administering our money system without adversely disturbing our production and service activities, and without adversely affecting our private enterprise system, but rather with gain for every one, even the money lenders. All earnings, including profits, must come out of production and services, and if we put first thing first in our endeavors, there will be more of everything for everybody.

Making the change-over from private banker money to national money can be done so smoothly that people who do not read or listen to the financial news might not be aware of its happening.

In talking my proposals for economic betterment over with Dr. T. R. Vout, Mr. Diefenbaker's economic advisor, he said, "Hallatt you are a hundred and fifty years ahead of us." Give me the use of the airways and I will tell the people the truth about our money system in a hundred and fifty minutes, and the great majority of them will understand. Do you say that the people should be denied the opportunity to hear the truth about our faulty oppressive, money system, and what can be done about it? I ask that of the Committee on Broadcasting.

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3

OUR DUAL ECONOMY

A CAPITAL IDEA

All of our economic problems and most of our social problems are due primarily to the failure of our political, educational, and business leaders to perceive that we have developed a dual public and private enterprise economy, and that these enterprises must be financed on different bases.

Popes and poets and politicians have decried usury down the centuries, but it has remained for me to devise a system of separating the financing of public enterprise and private enterprise whereunder public works and housing, which are no part of our private production and private service structure, will be financed at the administrative cost of such financing, and private enterprise will be financed with private savings on a competitive basis.

Happily the economies of truly democratic, private enterprise countries lend themselves perfectly to a system of using the commonly owned units of durable wealth and housing as bases for all needed money, which can be issued and recalled on a sound amortization basis at a small fraction of one percent per annum.

This new idea, this new system of financing will enable us to provide public utility facilities by paying for them once, not over and over in high, unnecessary interest charges every few years, and will enable every family to own a comfortable home by paying for it also only once.

The financial facilities necessary for the administration of this new system are now in operation—the central bank, the financial departments of our federal, provincial, and municipal governments, and our private banks. Nationally, no new financial institutions are required. Internationally, we need only an International Clearing House.

The private banks will then become exactly what the private bankers have always represented them to be, and what the people have always understood them to be, namely, repositories for the savings of the people, and money loaning and money transfer agencies, but they will cease to be money manufactories.

4

Change in banking practice

The one slight change in banking practice that will be made in putting this new system of financing into operation is that the central bank will create all the money required. Issuing money for the financing of all public enterprise capital projects and for housing will provide ample money for all purposes.

Instead of the private banks creating and cancelling money a half dozen to a dozen or more times for each item of goods produced, as it is processed to completion, our money will be issued by the central bank for financing the construction of completed, essential, durable units of wealth—our homes, schools hospitals, water and sewer works, power, lighting, transportation, and other public utility capital projects—and it will be cancelled on a safe and sound amortization basis.

Our money supply will automatically expand as our economy expands. Not a dollar will exist that does not have sound national wealth backing, and everyone will know from periodic statements of our national affairs exactly what is behind our dollars.

The easy change over

The change over from private bank money to national money can be made without adversely affecting our private financial, production, distribution, and personal service activities in any way. Indeed, it can be done with immediate gain for everyone. There will be employment for all willing and able workers. There will be an immediate increase in production, which will mean more of everything for everyone. Poverty in the midst of plenty will cease.

The central bank, in co-operation with the financial departments of government at all levels, will issue money to retire all internally held government bonds and debentures, and mortgages on ordinary homes, at the real value of such securities, and to finance all future public enterprise projects, and all future housing of a standard commensurate with our attained standard of living. Each branch of government will be entitled to issues of its requirements of money for these purposes in accordance with, and to the extent of its ability to retire, on a safe and sound amortization basis, all such advances made to and through it.

The original issuance by the central bank of all money needed to finance public utilities and housing, and its automatic withdrawal on a sound yet flexible amortization basis, will be front page and daily broadcast information for all citizens. Maintaining economic stability cannot be more simple. Instead of trying to maintain economic stability by manipulating the interest and tax rates, slightly increasing the rates of amortization of the bases of the money supply will reduce spending and increase public property and home ownership—not profits to the money lenders. To induce spending, the rates of amortization can be lowered. Taxes will be levied as always intended to pay for current services.

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In making the change from private bank money to national money, the private banks will arrange with depositors of national money to borrow it on bank debentures redeemable at times stipulated therein, and will exchange it for deposits of money they created, which they will then cancel as they now cancel such money when it is paid into a bank by a borrower to pay off a bank loan—the reverse process of creating such money. The banks now borrow money they created. They will pay off such loans with loans of national money, and cease the private manufacture of money.

The new national money cannot be cancelled by the private banks. It can only be cancelled by being paid into the central bank in amortization of the bases of the national money supply.

Procedure not inflationary

The increase in the primary money supply resulting from the national issuance of the volume of money required to retire the bonds and debentures, and mortgages on homes, as above mentioned, will not cause inflation. These documents are secondary moneys. The people who hold them could spend them now as easily as they will be able to spend the money they will get for them.

Actually there will be less paper purchasing power in existence when the bank money, government bonds and debentures, and privately owned transferable mortgages on homes are cancelled. These secondary moneys have a built-in inflationary gadget—high, unnecessary interest—which doubles their purchasing power every few years without effort by or risk to the holders, and without production.

But it is not the amount of money in existence that is of first importance in maintaining economic stability, contrary to the brain-washing the money dealers have given us. It is the amount of money put into and kept in circulation to finance the production of needs and wants that determines and regulates the price level.

The situation will be that we will have to guard against a deflationary trend because hundreds of millions of dollars of interest will be cut off. People will not spend their savings as freely as they now spend the unearned interest on bonds and debentures. This was the case in the depression of the thirties. There was enough money in saving deposits to have caused wild inflation if the people had spent their savings freely. But people acquire a habit of saving. Frugal people spend only part of their income normally. When earnings are down they curtail spending.

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And let no one trot out "the flight of capital" bogey when we cut off opportunities for private investment in public enterprises, and in mortgages on homes. Canadian dollars are claims on Canadian goods only. If we can control our imports and exports, and we must control them, we can control the exchange medium, as we did during the war, as we are now doing, and as we must always do in managing the economy. Stability will not be a problem when we put an end to the private creation of money.

National Growth

There will be no problems in putting a dual economy financial system into operation. There will be more investment in private production and private service enterprises when private investments in non productive projects are cut off. Then private earnings will all be production earnings, not mostly overhead expense. Once we put the doing of obviously necessary work first in our thinking, instead of first thinking of interest and profits, regardless of production, we will realize how slow our economic progress has been.

In developing the country, of course, we must be prudent in directing activities so as to ensure the production of an adequate volume of consumers' goods to maintain a good living standard.

One most important national growth situation will result from the national issuance and control of the money supply. No longer will billions of dollars of unearned interest flow from outlying districts into great financial centres. Each county and city, under a Dual Economy Financial System, will be responsible for the soundness of its share of the national purchasing power. No longer will counties and cities have to go hat in hand to Bay Street and James Street for money with which to finance the contruction of needed service facilities, nor will prospective home owners be at the mercy of distant loan company head offices,

and local loan sharks. The ability of any community to amortize its homes and public utility works will determine its right to an advance of national money for these purposes.

This situation will spark the industrial development of all sections of the nation, indeed, the growth of a community will, in itself, tell the story of the ingenuity, industry, and capacity of its citizens, in friendly competitive rivalry on an equal basis with all other communities, that is, on a basis whereby money for the development of any community will be available to match the thrift, industry, and good business sense of its citizens.

It cannot be over emphasized that everyone stands to benefit by the adoption of a Dual Economy Financial System as advocated herein. Work, mental and manual is the producer of all wealth—of the needs and wants of humanity. The more efficiently we work, the less overhead in financing, the more of everything there will be for everyone.

Socialists argue that profits in business take from the workers, but free enterprisers believe that rewarding initiative will result in more production, and faster technological advancement, which will more than make up for the overhead cost of competitive profits, and we believe in freedom of choice of work, freedom to live where we choose, and many other freedoms we take for granted in a free enterprise economy.

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Certainly there is no initiative exercised in merely collecting interest on financing public enterprises and the homes of the people, which, as I previously pointed out, are no part of our private enterprise production and private service structure.

The Middle Way

The Dual Economy Financial Plan set forth herein is the Middle Way between communist dictatorship and private financial domination. All nations must be taught the truth about money. All nations must learn that there need be no scarcity of money required in the production and exchange of their own products and services. They must learn that they cannot buy foreign goods and services with their own money, which is a claim only on their own goods and services, and that the only way they can acquire foreign goods and services is to exchange their own goods and services for them, permit investments of them in their own country, borrow them, or receive and accept them as gifts. They must learn that directing the issuance of money into activities which first supply the basic needs of all citizens is most important in managing their economic affairs.

They must learn that putting private savings into production and service enterprises is a basic tenet of a private enterprise economy, and that national progress is possible only with the production of more than is consumed; that workers cannot expect to consume all they produce in an expanding economy. Each generation receives much, but must contribute more to make any progress.

They must learn that the only limit to their economic and social progress is their physical abilities to supply their needs and wants from natural resources at their command, the capacity to learn, and the values they place on human rights and dignity.

"Inventors often patch up old ideas, until some man of original mind happens along. In a flash he sees a new and simple principle that can be applied. All wonder that it was never thought of before. It looks as if this erstwhile brick and tile manufacturer, turned monetary reformer, has hit upon a simple, effective means to make Canada a depression-proof nation of homes and industry, by the issuance of national money, at its administrative cost, to equate the value of the homes and public works of the nation. The Hallatt Plan has merits of understandability and practicability. It may sweep Canada like wildfire. If so, nothing can stop it becoming law."

From an editorial in Edmonton Bulletin by J. S. Cowper.

8

ECONOMIC AND SOCIAL PROBLEMS

Housing and services for them

When we put first things first in our planning, we will first provide shelter for all citizens. Shelter is no longer just four walls and a roof. We must provide modern or modernized homes complete with modern conveniences and services.

As stated previously herein, the cost of financing homes and public utility works, under a Dual Economy Financial System, will be but a small fraction of one percent per annum. Modern and modernized three and four bedroom homes will cost respectively a dollar and a dime and a dollar and a quarter a day, and the cost of public services will be greatly reduced because of the lower cost of financing them.

This cost is worked out on a basis of paying for a home over a period of forty years, the normal work span of the average citizen, but the home will last at least the full life span, so there will be no payment to make after retirement. Only a few owners, of course, will live in the same home for life, but it is obvious that a home can usually be exchanged for one of equal value.

Surely anyone can visualize the tremendous lift it will give to the economy when every family can afford a comfortable home, and can enjoy all available public utility services for them at greatly reduced financing costs. As we improve our methods of production, families can have better and more roomy homes.

No costly insurance needed

There need be no costly insurance against loss by destruction of the bases of our money supply, nor will it be necessary to build up huge funds to pay for such losses. Each branch of government can budget for amounts to cover minor property losses, and the senior government can budget for an additional amount to cover major capital losses.

Actually it will matter little whether such amounts are collected annually in taxes in anticipation of such major losses, or whether new money is issued and recalled in the following tax period. Normally the reconstruction costs will be spread over the tax period following the losses, and the tax money will be coming in as fast as it is required.

But whether or not there might be some lag in this respect, and some new money might be temporarily required, the stability of the economy will not be adversely affected, since it is the amount of money put into circulation over a given period, in relation to total production and consumption, that is the important factor in maintaining economic stability, whether it is new money, or funds previously taxed out of circulation. Home owners will, of course, advisedly insure with provate or mutual benefit agencies against loss of their equities by fire or other damage.

9

Employment, automation.

The continual talk about automation putting people out of work is sustained by a hope by too many people that they will soon be able to live without working; by people too lacking in initiative and drive to learn how, and to do other jobs. Such people have been complaining about machinery putting men out of work since the first wheel was made. Are they never going to learn that more and better machinery has always been the catalyst for the creation of more jobs?

It should be obvious to anyone who is capable of analytical thought, that the necessity for maintaining our possessions is the criterion of the limit of the things we can have—the limit of work that will satisfy our needs and wants.

If we were actually to give each young married couple just the things they feel they would need for a comfortable, satisfying life, they wouldn't be able to maintain them—keep them up—if they worked continuously, much less be able to renew them for their children when they begin their married lives. Write down all the things you think you would like, dear reader, starting with a home, a couple of cars, a summer cottage, a helicopter, a yacht, riding horses and another few thousand things.

What honest, willing, and resourceful workers should do is to shout down the idle talk of never-sweats who are making a living writing and talking about compensation for losses because of automation. Tell them to start thinking how to develop ever more automatic machinery, including computers, so we can have more of the things we need and want. Tell them to pipe down until the average worker can at least have a modern or modernized home, a new car once in a while, and maybe a set of golf clubs.

Our politicians get themselves elected to high salaried jobs, very often promising compensation to people who are put out of work by computers and other automatic machines, and in the same breath they expound on the necessity for jobs for everyone.

Surely it is time the people demanded less inconsistency from politicians, and did some independent thinking on the subject of unemployment, starting with the premise that there can be no valid excuse for unemployment when there is so much work to be done.

10

The things we need and want only cost work, not money. Money is only a certificate for—a claim on production. It is the high cost of money that has kept the world in turmoil, and will continue to do so until the people take time to think and do something about the totally absurd interest racket.

Industrial peace

But there is more to employment than just a job. There must be industrial peace and wage stability. We must understand that ever higher wages, in terms of dollars, does not necessarily mean more purchasing power. Actually, our wages are what we produce. The axiom "more money for less work" has no basis in logic, except to the extent that work is made less onerous by mechanical devices, ever better tools, and other improved methods of operation.

We are producing more per man hour, therefore we are earning more per man hour, but the philosophy that an increase in money wages is automatically warranted because of improved methods in one or a few industries is illogical. The body of workers in any one industry contribute little if anything to its technological advancement. Individuals devise and develop improved methods.

Having regard to our pourpose of acquiring an ever higher standard of living, to which the retired generation has contributed, and in which it is entitled to share, prices should be reduced as a result of increased production from improved methods, so that all citizens can share equitably in the better living such increased production provides.

The workers in one industry cannot in equity enforce demands for an increased share of the national income without the consent of a least a democratic majority of all other groups. An increase in wages in one or a few industries alwarys triggers off demands in all other industries for higher wages regardless of the fact that in most of them there has been little if any increase in production from improved methods. Such a general increase in wages is positively inflationary. Since the turn of the century, wages have gone up fifteen to twenty times as much as they then were, and certainly take home pay, in terms of purchasing power, has not gone up nearly that much, indeed, has gone up comparatively little.

Our standard of living has gone up because of increased production, not because of higher wages. The same result would have been accomplished with stable wages and lower prices. In fact, we must have lower prices in order that the retired generations can enjoy the ever higher standard of living.

11

We are including only bare necessities in our cost of living index, whereas we should include the ever widening variety of the good things our increased production provides—even travel and recreational facilities. The cost of living index should be a standard of living index, not a cost of bare existence index. Statistics on inflation as presently compiled are an insult to the intelligence of every thinking person.

Both labor and management are responsible for ever increasing prices. Industrialists, generally, strive to get their products into an ever higher price category. Any tears they shed over higher wages are of the crocodile variety. The losers are of the retired generation, especially those who save for their retirement.

What both labor and management fail to perceive is that we all lose because of inflation, that we all must retire, and that excessive profits must and will be levelled off and distributed through graduated taxes—an accepted principle of taxation.

100 per cent vocational and other groups

The solution to wage and price instability is the formation of 100 per cent vocational and other citizen groups whose representatives will all have a say in whether demands for higher wages warrant strike action, having regard to the effect the granting of such demands will have on the whole economy.

Labor-management disputes are everybody's business. We all lose because of loss of production anywhere. Obviously raising all wages and salaries does not help anybody, but does depreciate the value of savings. Strikes are not the solution. Consultation by all interested groups is the solution, and everyone is interested. It is that simple.

Problems of health, welfare, pensions

The solutions to the problems of health, welfare, and pensions are also quite simple. Each and every citizen is entitled to an opportunity to earn a living for himself and his dependents, to health services, and to old age security. We cannot afford to have able, idle people, nor sick people who can be made well and productive. We dare not and will not neglect the retired generation to whom we owe our immediate heritage. These matters are a national responsibility. The cost is incrurred daily, and it should be collected as required by the Department of National Revenue in the least expensive way possible.

Divided federal, provincial, and municipal authority in administering the laws and regulations which affect the cultural lives of all citizens can only add to expense, inefficiency and confusion. The senior government must be the final authority, and the provincial and municipal governments must be but regional and local administrations.

12

No huge social benefit funds needed

There is no necessity to build up huge funds from which to pay pensions, unemployment, family, medicare, welfare and other social benefits. Doing so is thoughtlessly accepting the utterly false and ridiculous concept that the public sector must borrow from the private sector at interest for these purposes instead of assessing the private sector on a current expense basis. In fact, building up funds for pensions, unemployment and other benefits is inconsitent with what we are now doing. We are now making pension and other social benefit payments from the Consolidated Revenue Fund, and there is no logical reason why we should collect more than is needed as we go along. Taxing the people to build funds prior to their use is inflationary, as the workers will demand higher wages to enable them to maintain their attained standard of living.

Building huge benefit funds will mean, under the present system, more money created by our private banks on which we must pay high interest, as it is obviously ridiculous to imagine that we escape such interest by lending accumulated funds to government. The government collects taxes from everybody to pay the interest. The private money manufacturers get the interest, because if there is any money in existence they created it, and as long as it exists they get the interest on it, less, of course, the amount they pay the depositors to hold

money out of circulation and thus stifle competition in the money lending business—the private banks having a monopoly of creating all the money they lend.

Building up ever larger social benefit funds and maintaining them will not reduce the amounts that have to be contributed each year, ad infinitum. Paying out ever increasing pensions over longer periods of time will require ever increasing contributions. It is just tidy housekeeping that the amount needed for social benefits each year should be collected each year.

However, should it transpire that because of a national disaster, and/or other unanticipated losses, sums in excess of amounts budgeted for social benefits are needed, new money can be issued with not more inflationary pressure on the economy than there would be in using money that had been previously contributed from earnings or taxed out of circulation.

To repeat, it is the amount of money put into and taken out of circulation in a given period, in relation to production and consumption, that is important in maintaining wage and price stability.

Such new money, in excess of amounts that can properly be capitalized in reconstruction operations, and in a re-issuance of money against equities in public properties, must of course, be taxed out of circulation as expeditiously as is practical and generally advantageous in maintaining economic stability.

13

An economic law

It must be understood, and recognized as an economic law in private enterprise economies, that there shall be no opportunities for private profit in financing the construction and maintenance of the bases of the economy's money supply, nor in financing the economy's governmental social benefit programs.

Fictitious interest profits

The average investor mistakenly believes he is making money by investing in government bonds and debentures, in mortgages on homes, and in investment insurance policies, and the average saving depositor mistakenly thinks his saving deposits are earning money for him. The fact is that they are paying their own interest besides keeping up a costly unnecessary part of our present financial operations. They are getting back only a part of the money they are paying unnecessarily in interest and taxes on money loaned by money lending institutions at high interest rates for financing their homes and public service projects.

Insurance policy holders who invest more in insurance than the cost of sickness, accident and death risks, are building their own policy cash surrender values by paying high, unnecessary interest on loans of their own money on mortgages on their own homes, and on debentures on the public utility projects which serve them.

Insurance to cover loss by sickness, accident and death is good business, but insurance policy investment for profit in anything but private production and private service enterprises is, as has been said of the gold exhange standard, " a delusion and a snare."

The power of interest

The tens of billions of dollars that are piling up in our banks denote not only perpetual inflation, but are evidence of the fact that we are not paying for our possessions individually or collectively; that a comparatively small section of our population, by means of unearned interest, has actually acquired control of most of the real wealth of the country.

They are the new Feudal Lords who control capital, labor, and government. They collect the "rents", in unearned interest on the homes of the people, and on the unpaid-for public enterprise capital projects from schools to parliament buildings. They do not now need to hold Crown Deeds to vast areas of the country,—Dukedoms, and the like; they just hold bulging portfolios of unearned interest bearing bonds, debentures and mortgages on most of all properties.

Few people seem to realize that money in deposits in banks is a debt which the country owes to the depositors, and that comparatively little of it is owing to millions of citizens. These millions have little money on deposit, yet they are the workers who must, by production and services, make and keep all deposits good purchasing power, and must, in addition, pay in taxes other tens of billions of dollars on bonds and debentures and mortgages, and unearned interest thereon.

14

Bank deposits are increasing rapidly, which means that the debt owed by the workers is increasing rapidly. Seventy-five to eighty per cent of bank deposits are lying idle in saving deposits, yet the banks are paying interest on the idle money to lessen public participation in the money lending business, and thus to get a higher rate of interest for creating all the money needed to finance the economy.

Deposits and bonds and debentures and mortgages are piling up like mountains. Governments are issuing bonds to pay interest—refunding, they call it —which means compounding interest. Loan and Insurance Companies show that their bond and mortgage investment portfolios are increasing rapidly, which means that the debts of the real producers are increasing; that the debts are being compounded by unearned compound interest.

We are not paying for all the new government works, nor all the interest, because we cannot pay the high interest. Only a comparatively few people ever get their homes paid for. It is the business of the money lenders to keep people paying interest.

The money lending faction dare not pay out all of their swollen profits in wages and dividends because the employees and stockholders would spend the easy-come unearned profits on consumer goods, and prices would go sky high —such wages and dividends not being in payment of production of consumers' goods. Indeed, Loan and Insurance Companies are urging investors and policy holders to allow their profits to accumulate. Do they see the hand-writing on the wall? Are they beginning to realize that a private enterprise economy can only tolerate earnings and profits in actual production? Are they merely trying to stave off collapse of the unearned interest system, not knowing what else to do, but knowing that the people will not again tolerate periodic depressions as a financial control mechanism?

So the money lending institutions build sky-scraper head offices, and they encourage governments to build fabulous city halls, post offices and other structures—anything in which they can invest their rapidly accumulating unearned interest funds, and be sure of having the interest paid in taxes. As the manager of a mortgage company once told me, "We want to invest our money in the largest amounts possible, at the highest interest rates, for the longest periods, and where there will be no bother about collections."

15

Yes, of course, paying out wages for the construction of great edifices means money being paid into circulation, much of which will be spent for consumers' goods, but without corresponding production of consumers' basic needs, particularly homes; so we have continual inflation, and not enough modern or modernized homes.

To illustrate the power of interest, and the impossibility of preventing perpetual inflation under the present unearned interest system—assuming that I have taught the politicians enough about money, over the past third of a century, to ensure that they will never again allow the private money manufacturing banks to bring on a depression every few years by calling in and destroying most of the country's pay roll money—let us look at the financing of one of the many sky-scrapers that have been going up all over the country—the Toronto City Hall.

This building cost in excess of $27,000,000.00, not including land and furnishings—enough to finance the construction of at least two thousand modern three- and four-bedroom homes, including land, or of modernizing at least six thousand such homes. Let us say that the Toronto City Hall will last 100 years. Actually it should be a good, serviceable City Hall in a hundred years. Computers will be doing a lot of the work. If we continue the present rate of inflation it will be worth many times more than it is now, in money terms.

Under the Dual Economy Money System, the Bank of Canada would have issued the money to finance the construction of the building, and the City would have undertaken to amortize the building in say 100 years. The amortization cost to the rate payers would have been $270,000.00 each year, approximating one-seventh of a mill on the annual tax bill, but this rate would be progressively reduced as the annual tax bill increased.

Under the present interest system Toronto is paying 5 1/4 to 6 per cent per annum for money. Supposing that Toronto would pay each year only the $270,000.00 required to amortize the building in 100 years, how much would the City still owe under the existing financial contracts?

Assuming an average interest rate of 5 per cent, Toronto would still owe $2,965,060,000.00—over 109 times the principal cost of the building. At 6 per cent interest, Toronto would still owe $7,712,280,000.00,—over 285 times the principal cost of the building. At 7 per cent, the rate most people are paying to finance their homes, and there is an insistent demand for higher interest rates, Toronto would still owe $19,911,420,000.00—over 737 times the principal cost of the building, and over eleven times the total assessment of Toronto in 1965.

The private creation of money at high interest has been a pitiless scourge of humanity down the centuries. We now know what to do.

16

The Gold Standard

There never was nor can be a Gold Standard, in the sense that it is a standard of measure of the values of national currencies. Such a thing is a physical impossibility. The terms Gold Standard, Commodity Money, Hard Money, and Soft Money are misnomers. They are meaningless. Money is not, and never was a substance—a commodity. Money is a price language of number words. We cannot express prices and establish a basis of exchange in a substance—a commodity. The failure to comprehend this simple truth has been the cause of economic strife, of unemployment, of poverty, of burdensome debt since the beginning of trading.

A specific commodity cannot be a standard or unit of measurement of other commodities in any way. The wood in a yard stick is not a measure; the distance—one (yard)—is the unit of measurement. The tin in a pint cup is not a measure; the quantity—one (pint)—is the unit of measurement. The gold in the ounce is not a standard or unit measurement of the values of other commodities or of national currencies; the number one, call it ounce, dollar, pound or any other identifying name, is the unit of measurement—the common denominator of the numerical values of all national currencies—one (ounce) to thirty-five (dollars) to twelve and a half (pounds) and so on, and the commodity gold is merely an acceptable commodity in balancing trade, but it is not a useful one, in fact, it is always a costly, useless one to the nations which hold it in quantities.

In exchanging gold for skins, or beads for salt, we must establish the basis of exchange in numbers which indicate the quantity and or the amount of each—so much gold for so many skins, or so much salt for so many beads. Which commodity in each of these transactions is the money? Obviously neither, yet all of these commodities have supposedly been used for money. The numbers are the exchange media.

It is true that certain commodities were acceptable in most exchange transactions in different areas at different times, and that gold has become an acceptable commodity in most exchange transactions in most parts of the world, but national leaders are beginning to realize that a creditor nation might better hold promises to pay in useful goods with a premium for deferment. Shipping gold around the world, back and forth, to and from other countries to effect temporary balance of trade is not only a waste of time and ridiculously expensive, it is a reflection on our maturity—indeed, our sanity.

17

We now know that our money units are just figures set up by our chartered banks in their ledgers to the credit of progressive borrowers; that the banks are just monetizing the assets of the borrowers—not lending bank credit as represented; that most of our business is transacted by transferring money figures in bank ledgers from one account to another; that folding money, so-called, and coins are just convenient money transfer pieces, as are cheques.

Gold lenders soon discovered that they could charge equally high interest rates for promises to pay gold on demand, and later, for an ever increasing volume of just promises to pay dollars, pounds and other currencies, purportedly all redeemable in gold, as they could charge for gold. The so-called Gold

Standard has been nothing more than a money lenders' combine—the daddy of all combines.

Originally the goldsmiths, having strongboxes in which to keep their gold, and for a fee the saved gold of other people, became lenders of gold to borrowers who wished to exchange it for useful goods and services. Gradually the gold lenders began to give the borrowers notes in which they promised to pay the holders specified amounts of gold on demand.

It transpired that the gold lenders soon realized that their notes were an effective substitute for the gold—were being used as an exchange medium; that actually they, the gold lenders, were monetizing the goods and services that were being exchanged. Most of their own and their depositors' gold remained in their strongboxes. This led to excesses by the gold lenders. They gave out more promises to pay gold than they had gold to pay.

Often this got the gold lenders into trouble. Borrowers who were known to have borrowed heavily from the gold lender would fail because of losses, perhaps of a ship at sea or as a result of a fire or other catastrophe. There would be a "run" on the gold lender by depositors and holders of the gold lender's promises to pay gold on demand. The gold lender would often fail.

There were many such failures of goldsmiths. They eventually got together and made a combine agreement, which they called The Gold Standard, whereunder each gold lender would limit his promises to pay gold on demand to two and one-half times the amount of gold in his possession. There were no doubt some goldsmiths who argued that no one should promise to pay gold that he did not possess, but it was disclosed that many others had promised to pay on demand many times the amount of gold in their possession.

The so-called gold standard—the combine agreement on a ratio of two and one-half paper money units to one gold money unit—was probably decided upon because it was an approximate average position of the goldsmiths present at the conference, and they apparently realized that if they attempted to return to the hundred per cent gold basis they would put the whole economy into a depression. But, more important, they perceived that they were developing a lucrative money creating business that must be kept under their own control.

18

The ratio of two and one-half paper money units to one gold money unit was never enforced, or our progress would have been more tortuously slow than it has been. Indeed the paper money evolved to include ever increasing amounts of book-money. The number of paper money units, including book-money, (bank deposits) bonds and debentures, and mortgages on homes—all paper purchasing power—is now scores of times more than the total number of gold money units available, and the combine—the private money manufacturing monopoly—is still in operation, even though governments and central banks have relieved the private banks—saved them the expense—of supplying bills and coins, being under the delusion that so doing gives the government adequate control over the private money manufacturing business.

By taking over the printing of bank notes, or bills, the government can exercise some control over the amount of book money the private banks can create, since the banks must have sufficient so-called cash—petty cash—for the

convenience of their customers,—pocket and till money—about five to eight percent of our total supply of money.

But that is as far as effective government control extends. The government has no power to compel the private banks to create and lend money into industry no matter how much petty cash it makes available to the private banks for circulation.

It therefore boils down to the simple fact that the private banks are still largely in control of the economic progress of the economy. They still have the last word as to the activities for which they will create and lend money, with the result that too much of our money is created and loaned into all sorts of luxury and speculative activities without due regard for the first and basic needs of all the people.

As an authority, giving evidence at the hearing conducted by the Banking and Commerce Committee at Ottawa in 1954, The President of the Canadian Bankers Association, Mr. Atkinson, stated; "Making additional credit available for loans would be a matter for the banks themselves."

That the bankers are becoming aware that the gold standard combine cannot much longer be tolerated is evident from the letter written by David Rockefeller to President Kennedy respecting "the present law regarding the 25 per cent gold reserve against Federal Reserve notes and deposits." He wrote; "I personally do not see why the nation's full gold supply should not be available for international purposes. I would not be averse to seeing the law repealed altogether." This is tantamount to advising the President to get rid of the useless stuff in exchange for something useful before the other nations wake up.

19

An International Clearing House

An understanding of the nature and purpose of money discloses a simple method of handling international trade and investment transactions, and assistance programs. It is simply a matter of having a central place in which to keep accounts of the imports and exports of all nations, and of establishing a ratio of the numerical values of the different national monetary units in relation to an international common denominator which will serve as an international monetary unit. This will constitute a means of establishing a basis of exchange of all national monetary units.

All that is needed is to set up a credit in an International Clearing House of international money units for each trading nation in accordance with its requirements of exchange funds with which to transact the exchange of its volume of imports and exports. This will simply be monetizing a part of each trading nation's wealth, to do which, the International Clearing House will be given power by all nations which employ it as part of their monetary system.

The amount of international money that will be created for each trading nation by the International Clearing House will be determined by the volume of each nation's trade. There need not, and should not be any discounting of a nation's currency in the event that it is temporarily unable to meet its international trade obligations. It will simply be a matter of the International Clearing House temporarily increasing the amount of international credit money for such nation—monetizing a little more of its wealth. Each nation will, of course,

contribute to the operating cost of the International Clearing House in proportion to the amount of international credit money created for it.

By majority or other consent of its members, the International Clearing House will also be empowered to create and lend money to nations for development purposes. Any overall profits on such transactions will be used for operating expenses.

If people in one country wish to invest in another country, or if a country wishes to make a loan or a gift to another country, it will simply be a matter of the creditor country building up its international money reserves by exporting more than it imports.

It will be obvious that the only international money needed will be the international money units set up in the records of the International Clearing House.

Balanced trade necessary

Each nation must, of course, be bound by the necessity of balancing its trade within reasonable periods, and will understand that the only favorable balance of trade is an actual balance. Investments by the people of one nation in another nation need have but little or no effect on balance of trade payments. It is goods that are invested bilaterally and multilaterally, not money. The same applies to loans and gifts. Nations do not sell goods for another nation's money. They exchange goods. The exporting nation is not paid for its exports until it receives imports from somewhere in payment.

20

Foreign investment profits

The matter of paying profits on foreign investments will always be a matter of national policy as to how much of such profits must be expended or re-invested in the investee country, and how much goods will be exported to acquire foreign exchange with which to make such profit payments.

Reciprocal equal foreign investments by and in any country will cancel out such investment profits, ordinarily, but a debtor nation on balance of foreign investments and trade may rightfully impose restrictions on exports of profits on such foreign investments as a tenet of national policy in protection of its international balance of payments situation.

It is simply a case of "let the foreign investor beware". Having become, by investing in a foreign country, part owner of that country's wealth, the investor cannot expect to be able to withdraw part of the wealth of that country at will. He did not invest money, therefore he cannot withdraw money. Money does not flow, as is commonly believed, from one country to another. Money is the price tag on the goods invested. It is the goods that flow—in all directions.

Stable currency vital

Changing the ratio value of a nation's currency in relation to the values of currencies of other nations does not help to balance payments, which must be made in goods, but does upset trading relations. Depreciating a currency is simply a form of national price cutting, and of lowering the wages of workers, but not the interest of the money lenders. It may allow a nation temporarily to

better its so-called cash position, but its overall standard of living position will be lowered. There need be no such disruption in a properly organized society of nations.

Discounting a nation's currency because its so-called cash reserves are down below the amount the money lenders deem necessary to maintain liquidity, is as ridiculous as would be discounting the cheques of a billion dollar corporation because its cash in bank position slipped below normal in adding to its inventory. To talk of a nation, that is worth thousands of billions of dollars in real wealth, becoming insolvent when its imports exceed its exports for a short time, is an affront to the intelligence of man.

21

The whole practice of juggling national currencies glaringly points up the general lack of understanding of the nature and purpose of money. The idea that money is wealth must be dispelled.

Nations must live within means

It must be realized however that the people of any nation, who are living beyond their means—consuming more than they are producing, through borrowing—must tighten their belts, roll up their sleeves, and thus meet the situation head on. They must eliminate unearned interest, and limit profits on investments to earnings in the physical production of the needs and wants of all citizens.

National control imperative

The entire philosophy of controlling the national economy by manipulating the interest and tax rates, and the exchange value of the currency has no basis in logic, and has been the direct cause of booms and busts, and of chronic economic turmoil and instability down the centuries. The practice stems from the private creation and volume control of money, and the inability of governments to prevent the machinations of the private money manufacturers.

To manage the affairs of a nation efficiently, the fiscal, trade and monetary policies must be under one control—under the control of government. There can be no other satisfactory way. Divided control in these vital fields can only perpetuate the disorders of alternate periods of monetary stringency and inflation; of always too much to mass unemployment, and the necessity for ever increasing welfare. The private creation of money, and the economic power and control that are inherent in such a monopoly, must end.

The purpose of foreign trade

It should be understood that the purpose of international trade is to provide a wider variety of goods for all peoples, particularly the goods and services needed for economic development, and desired in a continuing effort to enhance the standard of living.

We should understand that nations do not make a profit on such trade except to the extent that there are cost advantages in exchanging goods where proximity to markets and special skills in production are important factors. We should understand that any equitable foreign trade, over and above that which provides needs and wants, is only profitable to the importers and exporters, and

that such profits come out of everyone's pocket. Unnecessary foreign trade will be at the expense of national development, much of it just catering to the whims and fancies of the affluent, to the neglect of the needy. What a nation imports for all its people is the vital and most important purpose of international trade.

22

The people of any nation who allow their natural resources to be depleted, and their primary and other products to be exported in exchange for imports of goods not needed to develop their country, and to enhance the standard of living of all citizens on an equitable basis, are squandering the birthright of their children, catering to the extravagances of the few, and neglecting the needs of the many.

The natural resources of a nation belong to all the people, yet the reward of initiative must be allowed to the developers—private or public, national, regional or local—in a dual public and private enterprise economy.

A country does not exchange its products for money. The only money it has is its own money which is a claim on its own goods, and on the goods received in exchange from other countries. If it produces too many things, and engages in too many activities that are of little value or interest to many of its citizens, or exports too much of its production for imports of too much goods and services that are of little value or interest to many of its citizens, then too much of that country's money is of little value to many of its citizens—too much money circulating in the wrong channels, not enough money circulating in activities which first provide the basic needs of all citizens.

SHOULD GOLD BE SCRAPPED? Excerpts from an address to the Empire Club, Toronto, Feb. 25, 1965, by Prof. Harry J. Johnson, Chicago University, one of a group of thirty-two monetary experts now examining monetary gold.

"The history of money is essentially a history of the gradual substitution of credit money for commodity money in response to the interaction of scarcity of the latter, and ingenuity in devising the former. The economics involved ensure that a return to the gold standard (ratio) would be a practical impossibility.

"Tying the international monetary system to a produced commodity—especially a mineral—as the basic money, inevitably entails exposing the system to erratic changes in the stock of money resulting from the vagaries of technical change and new discoveries in the industry producing the monetary commodity. These erratic changes can and should be avoided by deliberate monetary management, and the cost of producing (monetary) gold can be escaped by resorting to credit money.

"Since reform cannot move in the direction of increasing the role of gold, it must move in the direction of decreasing and altering the role of gold so as to minimize the dangers that its presence imposes on the system. The logical end of that process is the eventual scrapping of gold as an international money, and replacement of it by some international monetary system based entirely on credit (money)."

(International Clearing House IDEA was publicized in 1934.)

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If I Were Prime Minister

If I were Prime Minister, I would speak to the nation and say: My fellow citizens, I bring you hope of a better life; I bring you assurance of peace and contentment, of progress and prosperity, if you will have it so. We have made a breakthrough in the war on poverty. We have learned that where there are materials available, and plenty of arable land, there is no reason why all able workers should not enjoy full, gainful employment.

We have learned that our needs and wants in a bountiful land only cost work, not money, and that it is the money that costs too much work. We have learned that the private creation of money has been the root cause of most of our economic and social problems, and we have learned how we can correct the errors we have been making in administering our monetary system.

We have learned that we have developed a dual public and private enterprise economy, and that these enterprises must be financed on different bases. We have learned how simply this can be done. We have learned that the public enterprise sector of our economy does not need to borrow money at interest from the private enterprise sector to finance public works and housing, none of which is any part of our private enterprise structure. This will mean that every family can have a modern or modernized home, and adequate public services for it.

We are going to put first needs first in our planning, through a system of directional monetization. No longer will private banks be allowed to create money and direct its issuance into any activity, in which they see an interest profit, regardless of the basic needs of all citizens.

This new idea of financing will be explained to you in daily talks, transcripts of which will be mailed to you. I urge each and every one to take this opportunity, the first you have ever had, to study and learn the truth about the nature and purpose of money.

Your government will make the change from private bank created money to the new Dual Economy Money System as soon as it feels that the majority of citizens understand fully the benefits to be realized, and have given us a mandate so to do by a referendum to be held in due time, hopefully in a few weeks. Please pursue your study of this new idea of financing with the assurance of your government that it can be put into operation without adversely affecting private enterprise, and with gain for everyone.

Tune in at this time tomorrow and hear a talk on how the private money lenders' scheme for manipulating the interest rate has kept us and our forebears in economic turmoil down the centuries, and how economic stability will be maintained by amortizing the bases of our money supply under the Dual Economy Money System.

24

WHAT WAS SAID by great leaders about private financial domination, but who didn't know how to put an end to it.

By Thomas Jefferson: "I believe the banking institutions are more dangerous to our liberties than standing armies. Already they have raised up a monied

aristocracy that has set the government at defiance. The issuing power should be taken from the banks and restored to the people to whom it properly belongs."

By John Adams: "All the perplexities, confusion and distress in America arise, not from defects in their constitution or confederation; not from want of honor or virtue, so much as from downright ignorance of the nature of coin, credit and circulation."

By Abraham Lincoln: "I have two great enemies—the Southern Army in front of me, and the Financial Institutions in the rear. Of the two, the one behind is my greatest foe. The Government should create, issue and circulate all the currency required to satisfy the spending power of the Government and the buying power of consumers. The privilege of creating and issuing money is not only the supreme prerogative of Government, it is the Government's greatest creative opportunity. The people can and will be furnished with a currency as safe as their own country. Money will cease to be master and become the servant of the people. Democracy will rise superior to the money power."

By W. L. Mackenzie King: "Once a nation parts with the control of its currency and credit, it matters not who makes the nation's laws. Usury, once in control, will wreck any nation. Until the control of the issue of currency and credit is restored to Government, and recognized as its most conspicuous and sacred responsibility, all talk of The Sovereignty of Parliament and Democracy is idle and futile."

What was said by bankers

By Marriner J. Eccles, Chairman of United States Federal Reserve Board: "The banks can create and destroy money; bank credit is money. It is money we do most of our business with, not with that currency which we usually think of as money."

By international banker Meyer Amschel Rothschild: "Let me issue the money of a nation and I care not who makes its laws."

By Graham Towers, Governor of Bank of Canada: "That is the banking business (creating money), just the same way that a steel plant makes steel. Now, if Parliament wants to change the form of operating the banking system, then certainly that is within the power of Parliament."

Mr. Chairman; I have given you a digest—an outline of my analysis of our economic and social problems, and of my proposals for economic betterment.

There may be twenty million questions to be answered, but I suspect that millions of citizens are asking the same questions, and I believe they want answers.

What I have represented to you is not only important to the people of Canada; it is important to all the world. It is important to the solution of the race problem in the United States, in Africa and elsewhere. It is important to the settlement of the Vietnam war. It is important to the strained situation existing in the Middle East. It is important to the narrowing, and the final elimination of the cleavage between communism and capitalism. It is important to the peace and prosperity of the world, and Canada has an unique opportunity to demonstrate that fact.

I had a letter from a Boston Banker who I met on the train going to Bretton Woods, and to whom I gave a copy of Scientific Money. He wrote in part, "Wouldn't it be grand to try out your plan in some of the emerging nations which seem to think that a loan from the U.S.A. is the only way to get going."

Yes, Loans, Loans, Loans: a job for money before there shall be jobs for men. Is money a means of production? No, it is a witness, evidence, a record of production. As electricity is generated simultaneously with the use of power, so money can be created and issued as a certificate, as a claim on goods as they are produced. So doing is the first responsibility of National Governments.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

Copies and complete sets are available to the public by subscription to the Queen's Printer. Cost varies according to Committees.

Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-Seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 36

TUESDAY, JANUARY 17, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.

Bill C-222, An Act respecting Banks and Banking.

Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

Representing the Canadian Federation of Agriculture: David Kirk, Executive Secretary. *Representing CUNA International Inc.:* Messrs. Robert J. Ingram; A. R. Glen; W. Moxon; A. W. Wagar; and L. R. Tendler.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25472—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Addison,
Basford,
Cameron (*Nanaimo-Cowichan-The-Islands*),
Cashin,
Chrétien,
Clermont,
Coates,
Comtois,
Flemming,
Fulton,
Gilbert,
Irvine,
Lambert,
Lamontagne,
Latulippe,
Leboe,
Lind,
McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Munro,
Valade,
Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, January 17, 1967.
(73)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.10 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Clermont, Gray, Lambert, Leboe, Lind, More (*Regina City*), Wahn—(9).

Also present: Mr. Whelan.

In attendance: Messrs. David Kirk, Executive Secretary, Canadian Federation of Agriculture; C. F. Elderkin, Special, Adviser, Department of Finance; and Miss M. R. Prentis, research assistant.

The Committee resumed consideration of the banking legislation.

The Chairman introduced the witness, Mr. Kirk, who read his brief and was questioned. In accordance with the resolution passed at the meeting of October 13, 1966, the Canadian Federation of Agriculture brief is attached as *Appendix II*.

The questioning having been concluded, the Chairman thanked the witness, who then withdrew.

At 12.55 p.m. the Committee adjourned until 3.45 p.m. this day.

AFTERNOON SITTING
(74)

The Committee resumed at 3.55 p.m., the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Clermont, Comtois, Gray, Lambert, Leboe, Lind, More (*Regina City*)—(9).

Also present: Mr. Haidasz.

In attendance: Messrs. Robert J. Ingram, Executive Director, CUNA International Inc.; A. R. Glen, President CUNA International Inc.; W. Moxon, President, National Association, Canadian Credit Unions; A. W. Wagar, President, Canadian Co-operative Credit Society; L. R. Tendler, Vice-President, Canadian Credit Union Society; C. F. Elderkin, Special Adviser, Department of Finance; Mr. Denis Baribeau and Miss M. R. Prentis, research assistants.

25472—1½

The Chairman introduced the witnesses, and, at his request, Mr. Ingram explained the purpose and organization of CUNA International Inc. and read the brief. In accordance with the resolution passed at the Meeting of October 13, 1966, the brief is attached as *Appendix JJ*.

The witnesses were questioned concerning the recommendations put forward in their brief.

In the course of the questioning Mr. Wagar read from a letter he had written to the Superintendent of Insurance concerning discussions held regarding amendments to the Co-operative Credit Society Act.

Ordered,—That copies of Mr. Wagar's letter be distributed to members of the Committee.

Mr. Ingram tabled three copies of a publication entiteld *International Credit Union Yearbook 1966* and agreed to provide additional copies for distribution to the members.

The questioning having been concluded, the Chairman thanked the witnesses, who then withdrew.

At 6.25 p.m. the Committee adjourned until Thursday, January 19, 1967, at 11.00 a.m.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, January 17, 1966.

The CHAIRMAN: Gentlemen, I think we are in a position to start our meeting.

Our witness this morning is Mr. David Kirk, the Executive Secretary of the Canadian Federation of Agriculture.

Before we start, and I had not mentioned this to the Clerk, but it just occurred to me that I had neglected to ask her to send out some notices for a Steering Committee meeting this week. As some members of the Steering Committee are here perhaps we should decide right now when to have this meeting and then our Clerk can telephone the balance of the members. What time do you suggest?

An hon. MEMBER: Ten o'clock Thursday?

The CHAIRMAN: I have a meeting myself on Thursday morning. Could we meet for supper, perhaps, or do you want to have a meeting right after we adjourn at 6 o'clock?

Mr. WAHN: I think that is satisfactory to me, Mr. Chairman, as I am tied up for lunch.

The CHAIRMAN: Let us think about it during this morning's hearing and when we adjourn at one o'clock we will figure out something for a mutually convenient time.

As I said, Mr. Kirk is the Executive Secretary of the Canadian Federation of Agriculture. Even though we do not ordinarily permit the witness to read his brief in its entirety, Mr. Kirk's brief is very short and I think it is just as simple to ask him to read it. It is only a few pages. I think this would be just as easy as asking him to attempt to summarize an already limited presentation.

Mr. Kirk, if you please.

Mr. DAVID KIRK (*Executive Secretary, Canadian Federation of Agriculture*): Thank you, Mr. Chairman. I should say that normally my president and perhaps other members of our board and executive would be here with me, but our annual meeting is next week and this is the time of year when there is an incredible accumulation of farm organization meetings across the country and that is the reason for my being the only one here today.

The CHAIRMAN: We just took that as a mark of your own distinction!

Mr. KIRK: I wanted to explain that it is not that, you see. (Mr. Kirk then read the brief—see appendix II.)

The CHAIRMAN: Thank you, Mr. Kirk. Gentlemen, I think you will agree that Mr. Kirk's brief falls into three sections. First, the views on clause 88(5); second, the views on levels of interest rates and, finally, the views on interest

charge disclosure. I therefore suggest to the Committee that we proceed to consider Mr. Kirk's brief in that order and I would ask the members to indicate to me if they wish to ask questions firstly, with respect to clause 88(5). I recognize first Mr. Clermont, followed by Mr. Lambert and Mr. Leboe.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, in its brief, the Federation suggests that this ceiling should be raised from $5,000 to $10,000. Is the Agricultural Prices Stabilization Board under the jurisdiction of the provinces? For instance, in the Province of Ontario, a producer can ask for payment for his merchandise after fifteen days.

(*English*)

Mr. KIRK: Under the Agricultural Products Board, sir?

Mr. CLERMONT: I think it is the marketing board. I met most of the marketing board under the provincial jurisdiction and it is my understanding that in Ontario a producer may request payment for his products after two weeks.

Mr. KIRK: I am not saying that this is not so, but I had not been aware of a legal provision through the marketing boards requiring payment. Perhaps that does exist but I was not aware of it.

Mr. CLERMONT: Because in your brief you make two requests; that three months is too short and you suggest a six months' period and that the amount of $5,000 is not high enough, it should go as high as $10,000. I do not know if I am right or wrong, but it is my understanding, that most of the marketing boards are under provincial jurisdiction, and in the case of Ontario the producer can ask for payment after two weeks for the goods sold. If such is the case, why the six months?

Mr. KIRK: I must plead ignorance on this, although I should point out that on this question of the marketing board regulations I frankly do not know. Mind you, not all products are under marketing boards. I must also say I would be surprised if there is in the negotiating type of board that is very widespread in Ontario any proper legal protection involved. Many of these boards simply negotiate a price and sometimes arbitrate it. I was not aware of any provision for repayment in the board regulations. I am not saying there is not, there may be.

Mr. CLERMONT: What is the reason you would like the cattle protected under clause 88, subclause (5)?

Mr. KIRK: Cattle?

Mr. CLERMONT: I understand that now only perishable goods are covered under clause 88, subclause (5).

Mr. KIRK: Only perishable crops, yes.

The point is that you can have bankruptcies of processors of animal products, and there have been bankruptcies in poultry and in livestock. Our point is simply that the principle should be extended to those cases.

Mr. CLERMONT: I understand that the federation would be satisfied if subclause (5) of clause 88 read the same as (a) and (b) of subclause (1) of clause 88, which covers more ground?

Mr. KIRK: Yes, that is right. It says "direct products of the soil", or something like that.

The CHAIRMAN: You want to make this parallel to that wording?

Mr. KIRK: Yes, I think that would be a satisfactory way of doing it.

Mr. CLERMONT: When the banking association was before this Committee they were asked, if my recollection is correct, if they might hesitate to grant loans, even if the limit was $5,000, in some cases, especially in the small loans category, but if the ceiling is increased from $5,000 to $10,000 it might be difficult for some individuals to obtain loans from the banks?

The CHAIRMAN: The individual manufacturer or processor?

Mr. CLERMONT: Yes.

Mr. KIRK: Well, I think the attitude of our people on this has been that if the prospective credit position of the firm is so bad that the bank needs this comprehensive access to the security before there is any provision for any farmers, that it is not a very good case for lending in the first place. I think their view is that they should have this protection and they are not particularly interested in the bank being enabled to make loans to what may be evidently poor risks.

Mr. CLERMONT: If banks are advancing or loaning money under clause 88 it may also mean that they are not satisfied with other guarantees offered by the prospective borrowers.

Mr. KIRK: Yes, it may be.

Mr. CLERMONT: I have no more questions.

Mr. LAMBERT: Mr. Chairman, arising out of the last answer we were given, I find it extraordinary that the witness should feel that any security given under clause 88 is only to customers who are poor risks. I may have gotten the wrong impression from the witness', answer, but I think he will recognize that there are different categories of borrowers. Does the witness have any appreciation how much lending is done under clause 88?

Mr. KIRK: Well, my impression is that it is very extensive.

Mr. LAMBERT: All right. As a result of the proposed amendment to clause 88 (5), and the further amendments that you propose, do you not think with all the inhibitions that are being placed against clause 88, that it will pretty well dry it up? There is such a thing as killing the goose.

Mr. KIRK: We do not see why this is so. Our view is that a primary purpose of the credit under clause 88 surely is to enable the company to pay its suppliers.

Mr. LAMBERT: Do you not think that clause 88 is more designed to provide them with working capital, and that you take security only on the commodities that they are processing and you finance them through the period of processing?

Mr. KIRK: But presumably the need for working capital, under normal circumstances, is to pay the farmer for the product that he delivers. What do you decide to use the working capital for if you do not use it for this?

Mr. LAMBERT: There are wages and we also hope that the initial producer is going to get paid as well, but if the processor is not able to obtain his financing in

this particular field under clause 88, where on earth is he going to find his financing and what good is it for a producer to have cattle or poultry or other farm commodities to sell if he cannot sell them. He might as well go and do something else. I am concerned about this matter of trying to place so many inhibitions against this type of financing. I agree there have been some difficulties with regard to some processors going broke, but there is also the question of going after an increase in the bonding requirements in the case of drovers. We had one bad example in Alberta, and that was a case where a concern had half a million dollars invested in cattle with only a $10,000 bond. Of course, this was nonsense. Those things are being taken care of now.

The CHAIRMAN: Have the cattle raisers been reimbursed in the Alberta case?

Mr. LAMBERT: There has been a partial reimbursement by the provincial government on an ex gratia basis, but ex gratia payments are not a course of conduct that can be recommended. However, I am very concerned about this attitude towards clause 88. I think that clause 88 is going to be dried up in the future. As a matter of fact, I am a little concerned about the present plans in regard to it, and I am not too sure that the federal government has really thought this one out as to its own priorities for things like unemployment insurance deductions, deductions for Canada Pension Plan and deductions for income tax where it has priority claims. I do not think that the consent of the federal government has been obtained in this regard.

Mr. KIRK: Well, I think you would agree, sir, it is inherent in our memorandum, in respect to our recommendations, that it should also go into the Bankruptcy Act. Our position is that the peculiarly vulnerable position of the producer as an individual marketing a product that represents his livelihood for the year should be, as a matter of policy, protected.

Mr. LAMBERT: He is like any other creditor; he is a supplier, of supplies. Surely that man is entitled to the same type of consideration.

The CHAIRMAN: Is there any other category of supplier who supplies, as the farmer does, the entire fruit of his year's labour to one person?

Mr. KIRK: Well, the employee of the plant who is also given this priority is in the same position; his livelihood is dependent upon what that plant pays him, and so is the farmer. This, I think, is not the general position with respect to creditors at such plants, is it?

Mr. LAMBERT: The farmer does not sell all his cattle at one time to the one packer. I will agree that the man who is raising field tomatoes or field beans, for instance in this particular area I think they are vulnerable, but I am not too sure that this is the answer. I realize that you have a case there. You cannot hold a perishable product like tomatoes, you cannot hold beans, you cannot hold these other certain types of field crops, but with regard to cattle, hogs, and so forth, they do not all come on the market at the same time.

The CHAIRMAN: Are there any further comments or questions?

Mr. LAMBERT: This is the point. I would like to know if the witness and the people who put this brief together have thought about this point; that by extending the exemptions per producer and by extending the number of prod-

ucts, that clause 88 will just become so many words in the act in so far as the agricultural industry is concerned. There may not be any financing for them at all.

Mr. KIRK: Of course, our people have been aware that this case was made and this problem has been raised. If I understand correctly, their attitude is that they feel they are in a particularly vulnerable position, not only with respect to clause 88 but that generally in the case of bankruptcy this protection should be given, and their position is that they think the economy of processing and marketing food products is not, in fact, going to collapse under these conditions through lack of credit. That is their view. They think that credit will be forthcoming for sound firms.

Mr. LAMBERT: For sound firms, but then there are categories of credit ratings, not only among processors but among producers, which are not.

The CHAIRMAN: The banks told us that they do not use a credit rating system. I find this incredible but if my memory does not fail me they suggested that.

Mr. LAMBERT: That they do not want to use what, Mr. Chairman? Credit ratings?

The CHAIRMAN: Yes.

Mr. LAMBERT: Well, certainly they do; any time they make a distinction in an interest rate as between 5½ per cent and 6 per cent they are giving you a credit rating.

The CHAIRMAN: I think I asked them one time whether they rate credit in the same manner that retail firms rate people who come and want to buy on credit from them. They do not use that system. I found it rather incredible that they made that suggestion. Perhaps I misunderstood them.

Mr. KIRK: Again going back to the discussions that we have had in our organization about this, I think there has been a recognition that these things we are asking for may well have the kind of impact you are talking about on some firms, and I think their view is that they are willing to see that change in the structure of the situation develop.

Mr. LAMBERT: Then the consequential result of that would be that the processing industry would fall into the hands of the big chaps, the fellows who received their financing and who are sound, and any man who is trying to make a go of it during the early years has got to get some of this more marginal financing or he might as well stay out of the business. I do not think the farmers would be particularly anxious to say, well, we will concentrate our food processing in the hands of just the big ones who already have their financing established and who are no credit risk.

Mr. KIRK: You recognize that there may be some firms, under these circumstances, which would have difficulty getting credit. I think that our people, quite frankly, are skeptical that these provisions we are asking for would in fact result in such a lack of credit that the whole business will be forced, as you put it, into the hands of a few very large firms. I do not think they think that this will happen; but there are those who are skeptical of the proposition. I do not pretend, however to have analysis of, or information about, the practices of

banks and the whole credit system. I understand that the points you are making have been made before. I am assuming that there are people who are not impressed with this argument.

Mr. LAMBERT: I suggest to you that you are going to drive the banks, in the more marginal cases, into taking other forms of security in which you would not have a ghost of a chance. Take chattel mortgages. What priorities would you have under a chattel mortgage?

Mr. KIRK: We note this possibility in our brief. There is also protection to Labour in the Bankruptcy Act, more broadly applicable, and we think that it should be there for farmers, similarly.

Mr. LAMBERT: You may be making your representations with regard to the Bankruptcy Act, but within the Bank Act. This is what concerns me. To knock over a mosquito you are using a sledge-hammer.

Mr. KIRK: But you catch a great many other things, too.

Mr. LEBOE: Mr. Chairman, I would like to ask the witness to what extent the Canadian Federation of Agriculture has consulted with the financial institutions, and particularly the banks from which they draw their credit resources, in connection with the representations they are making here today?

Mr. KIRK: We are aware, of course, of the representations and opinions that have been expressed by the banks about this matter, but we have not entered into direct consultation with the banks on this section.

Mr. LEBOE: Do you not think that the point that was made by Mr. Lambert about the redirection of security is going to be of paramount importance in the representations you are making here. Surely those providing credit are going to be very loth to play second fiddle in any case whether it is for perishable goods or any other type. If they can redirect their security in such a way as to eliminate this, banks, because they are responsible institutions and are responsible to shareholders, in order to do a good job will certainly do everything they can to protect every dollar of credit that they provide. Would you not agree?

Mr. KIRK: Yes; I think it is their business to do so. I agree.

Mr. LEBOE: They will search out ways and means which will actually, it would seem to me, defeat the very purpose of your representations. It seems to me that in setting up the security for a processor, for instance, they are going to have to set aside $5,000 right off the bat—I think the bankers call it "below the line"—wherever this provision applies.

The CHAIRMAN: Not if the farmer has already been paid.

Mr. LEBOE: We are talking about protection where the farmer has not been paid.

The CHAIRMAN: That is the point.

Mr. KIRK: You are talking about the processor?

Mr. LEBOE: I am talking about the processor. The processor is going to ask for credit, and if he is dealing in a number of accounts he has the provision there that the farmer will have priority. In other words, for every account that he feels might reach the $5,000 level, the bank will have to set aside, in looking at the

credit rating of the processor, $5,000 because it does not know whether or not it will get it back if the processor gets into trouble.

Mr. LAMBERT: Mr. Chairman, it is more than that. It is $5,000 per producer.

Mr. LEBOE: That is what I mean; $5,000 per producer.

Mr. KIRK: I think it is true to say that in some cases what this has caused concern among farmers is the feeling among some producers concerned that the banks have not looked closely enough at the credit position of the firm and that the protection they have under this section leads them into a situation where excessive credit is granted at the expense of the farmer. This is a view that has been expressed by some farmers.

Mr. LEBOE: In other words, you are saying that the farmers felt that the banks should be the sifting element and that they should say whether or not these people should be put out of business sooner or later. I do not think this is really the bankers' responsibility, is it? Surely it cannot be the bankers' responsibility to say whether or not this or that person should be put out of business. They are looking at it from their point of view in getting their money. Now they will set aside $5,000 for every producer who supplies to the processor in the credit rating.

I think that covers the points I wanted to make, Mr. Chairman.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands):* I wonder if you can give the Committee any statistical information—if your organization has compiled any—regarding the number of processors who have had financial failures entailing the banks' availing themselves of the provisions of section 88? How frequent has this action been taken?

Mr. KIRK: I have some records of individual bankruptcies, sir, but I do not have over-all statistical evidence of the number of times this has occurred. We have cases and lists of losses and that kind of thing, but we do not have a comprehensive, statistical compilation.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands):* Do you have an idea of how large a factor they are in the general picture of bank financing of food processors?

Mr. KIRK: No, but I would not expect it to be a very large percentage when cast against the whole of the agricultural marketing—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I, too, think that is true. Have you any estimates which would enable us to see how serious is the suggestion that Mr. Lambert has made, that these provisions will tend to dry up the credit. What has the banks' experience been?

Mr. KIRK: Our people feel that it should not happen at all, and therefore it is not a question of assessing the percentage, so to speak. I realize that the percentage may be relevant if you look at it from Mr. Lambert's point of view. Then it becomes relevant. From the viewpoint that my people have been taking it is not relevant.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I think you understand why I considered that it might be relevant, in the light of the argument Mr. Lambert has made.

Mr. LAMBERT: But is it not quite an irrelevant argument, though, because if the banks do the financing under section 88 and everything goes right, this is not a case history. The only incidence of difficulty is when there has been a failure and section 88 security has been involved, and the farmers have not received full returns as a result of this security. That is the only relevant information.

The CHAIRMAN: I think Mr. Cameron's point is that if the banks have found that 99 per cent of the cases are successful and they do not have recourse to the extreme security provisions of section 88, then it should not make any difference what has been added.

Mr. Cameron (*Nanaimo-Cowichan-The Islands*): My point was that if the incidence of having to invoke section 88 is very low then the banks have no cause to be reluctant to finance processors.

The CHAIRMAN: That is what they call credit rating.

Mr. LAMBERT: I do not agree with your argument at all. They finance them. They have financed them, period, under section 88.

Mr. WAHN: I am not sure that I understand your argument. As I understand section 88, it gives the bank an effective floating charge over the inventory of the processor. Is it your point that it might be quite just for the bank to have such a floating charge over what is essentially the property of the processor, namely, inventory that he has bought and paid for, but that perhaps it is not entirely just that the banks should get security over part of the inventory that really does not belong to the processor but has been delivered to the processor by a farmer-producer?

Mr. KIRK: Yes. Our people feel that he should be getting credit in order to pay the farmer.

Mr. WAHN: I just want to be clear that I understand your point. Let us take a very simple case. For example, a processor may not have any inventory on hand on a particular day, and, he receives $5,000 worth of produce from a farmer. The section 8 security provisions immediately attach to the produce even though the farmer has not been paid for it. Is it your position that the bank should not rely upon the farmers to provide the underlying security for a bank loan?

Mr. KIRK: That is right.

Mr. WHELAN: If I may interject, these are assets that do not belong to the processor. They still belong to the farmer-producer but he cannot identify them because they are in a can.

Mr. WAHN: For example, if it were feasible for all the farmer-producers to sell their products to the processor under some sort of title-retention or conditional sale agreement whereby they retained the property until it was paid for, the bank would not get prior security over the asset. This would obviously be a very involved and difficult scheme to work out when you are dealing with farm produce.

As I understand your argument, you feel that although it is perfectly legitimate for the bank to have security over a processor's inventory, which, in effect, belongs to the processor and for which he has paid, you feel that it is unjust that he should have security over—

Mr. KIRK: For example, if a firm has no inventory on hand, but has been able to complete its business operations up to that point, such as processing the product and disposing of it, then its financial position is such that, having done all that without any inventory, it is close to a bankrupt position. The farmers feel that a plant is following a very questionable procedure if it continues to acquire produce without paying for it and then, perhaps, two or three weeks later it goes bankrupt and the produce is then made available to the bank to make up for the losses suffered by the firm. The farmers do not think this is sound.

Mr. WAHN: In your view, Mr. Kirk, and in the view of the associations you represent, it would be unsound procedure, for a bank to rely, in making a loan, upon inventory supplied by farmers and for which the processor has not paid. You feel that, before extending credit, the bank should satisfy itself that the processor has sufficient assets of its own to carry on business in an economical fashion?

Mr. KIRK: That is right. Rightly or wrongly, our people feel that section 88, without this priority provision for farmers, has in some cases been a means by which banks have accumulated assets under conditions where the assets were needed because a firm was in trouble.

Mr. WAHN: Are you suggesting that banks on occasion have gone so far as to keep a processor in business until they have accumulated—

Mr. KIRK: I am not making a charge. I am saying that a number of our people have felt that way. I am merely reporting a view.

Mr. WAHN: And you feel it is important that that view be dissipated?

Mr. KIRK: I feel that it is important that that view be dissipated, yes.

Mr. WAHN: Do you feel, then, Mr. Kirk, that there are cases where farmers can deliver to only one processor, or, at least, to a limited number of them? Does it happen very often that in a particular community where a farmer may be delivering his produce would there be only one packer, for example?

Mr. KIRK: Yes; there are many locations where there is only one packer readily available with a desirable place to which a man may want to ship. For hogs and cattle I suppose there really are alternatives, but for some other products there are no real alternatives. In fact, there is, in advance, a contractual relationship between the plant and the farmer over quite a wide range of products. This is certainly true of most canning crops, and of poultry, and it can be true—and will, perhaps, in the future become increasingly true—of hogs. This is the integration aspect, where you are getting an increasing tie-up between the processor and the producer.

Mr. WAHN: Are you saying that there are a number of cases where, in actual practice, as we do business nowadays, the farmer has no alternative but to deliver his crop to one processor or, at any rate, to a limited number of them, and therefore, that he cannot really spread his risk?

Mr. KIRK: That is right; where he has no satisfactory alternative or contractual obligation but to deliver to a particular processor.

Mr. LEBOE: I have a supplementary question, Mr. Chairman, along Mr. Wahn's line of questioning.

Does the witness not feel that it is going too far to ask the banks to be the police in the situation which you outlined, of the possibility of their acquiring assets after they feel that the processor is in trouble?

All through my life I have been confronted by people who wanted their money immediately when I got something from them. Either I paid or I did not get the goods. This is always the prerogative of the person who is selling.

I would also like him to elaborate a little more on the contractual arrangement and where this request that be is making would fit in under one?

Mr. KIRK: To produce a product on speculation—that is, without knowing whether it will be taken up—is an unsatisfactory procedure these days. In general, no one likes to produce, for example, tomatoes in any quantity for canning without having some kind of undertaking that he has a market for them, because there is a very high expense there and if there were no market he would be in trouble. These contractual arrangements are made with plants.

Mr. LEBOE: How does this request that you are making apply in such a case? It seems to me that if a person enters into a contract there is a delivery arrangement, there is a price arrangement, and there is also a payment arrangement. I would think that there would be. Therefore, there are other avenues for protection where the famer can do his own policing, because he has entered into a contract; and if he has entered into one in 1966, for delivery in 1967, he has lots of time to look over the situation and find out whether or not the operation is very sound, instead of leaving the banks to police it.

Mr. KIRK: Let us say that a producer is in the business of producing broilers. If I understand it correctly in this day and age, the broiler plant and the producer need to operate on a systematic, known basis. They do not just sit around with their plant and take whatever product may happen to arrive. You have to schedule the deliveries over a period, and all this has to be arranged ahead of time. The producer has to plan and start his production ahead of time, and that is where his market is. He is in a very poor position to be able to say to this plant: "I have to have my money today." If the plant says: "I have not got it today," be cannot then say: "I will not deliver to you," because he can deliver no other place. That is the arrangement. He cannot just take these broilers, which must be marketed within a very short and precise time period, to somebody else. That somebody else will say: "We have our killing lines all scheduled and the product coming in. We cannot handle your product." Am I talking to your point?

Mr. LEBOE: Yes, to a degree; but it does seem to me that we are missing out on the point that the individual farmer, with a contractual arrangement under these circumstances, could well have already obtained from the producer—this is the other side of the coin—considerable credit from the processor. The producer, in connection with his contractual arrangements, may already have done this.

Mr. KIRK: He may have, indeed.

Mr. LEBOE: It seems to me that this would evolve as a general practice out of the situation that you have described. I am asking whether this happens.

Mr. KIRK: Yes; credit is extended like this very often, of course.

The CHAIRMAN: It depends on the crop.

Mr. KIRK: It depends on the crop, and it depends on the man and what the contract is. There are many kinds of contracts. This could happen, of course.

Mr. LEBOE: We have the coin reversed. Now the banker is in the dark about what actually happens; so that we have it both ways.

The CHAIRMAN: I now recognize Mr. Whelan, whom we have the honour of having with us this morning. He is the very distinguished Chairman of the Agriculture Committee, and has taken a particular interest in this amendment for some years.

Mr. WHELAN: First of all, Mr. Chairman, I probably should be appearing before the Committee as a witness.

I might say that I am a little bit alarmed at all the evidence that was presented before the former banking and commerce committee. It is all there to be read by any members of the present Committee who were not members of the committee at that time. Certainly the bankers were discussed in great detail then, and I would only like to say about the banking institution in Canada what has been said many times before this Committee, that it is outmoded and outdated; and that the protection that they have under section 88 fits these descriptions perfectly.

Mr. Kirk, do you not think the protection that the bankers enjoy under section 88 is similar to my saying to you: "You can do whatever you want on this earth, but you are going to go to Heaven anyway"?

Mr. KIRK: Well, yes.

Mr. WHELAN: I am only sorry that Mr. McLean from Blacks Harbour, New Brunswick, the member from Charlotte, is not here, because he could give us evidence to the effect that for many years he borrowed money in the United States because he did not have to borrow it under any type of regulation such as section 88, that he was finally in a position where the banks begged him for the business in Canada, and that he now borrows it without using section 88.

The main question of concern here is: Whose product is this, and why has anyone else got the right to use this product as their asset—can borrow on it for a liability, and so on—when they have never paid for it?

I have had instances brought to my attention at the moment, Mr. Chairman, in my own county, where farmers are just being paid—and not being paid in full—for products that they delivered last September. We have had four or five new small processing factories started, and the banks are helping them, but since this amendment and the injustices that are being done under it have been brought to the attention of the people of Canada the banks have been stricter on lending these people money. This is all to the good of the industry, so far as that is concerned, because some of these people are not good for the producer, or for the other processor, or for the consumer either. There are one or two in my area that I hope are put out of business so that I will not get any more letters asking me to make representations that they be paid.

I think, Mr. Kirk, that you would agree that practically every province has different legislation to protect their primary producers, whether of perishable crops or otherwise. This is why some kind of protection must be provided federally.

Mr. LAMBERT: May I ask Mr. Whelan one particular question? Whose commodity is the fertilizer that the farmer has bought and put on his farm? Whose product is the gasoline that he has bought and has got in his farm, though he may not have paid for it?

Mr. WHELAN: You can be sure that if he loses his whole tomato crop, or his whole fruit crop, or his broilers, or his crop of calves, the bank is going to get its money if the buyer of that product goes broke. It may not lend that farmer any money, but he certainly is going to have to pay for that gasoline, because he does not buy it from the people who supply him the contract, or anything else.

Mr. LAMBERT: No; I am asking you how it is that people are able to use goods that they have not paid for? This is the point, you see. I think one of the difficulties is the question of legal ownership, and this may be a fine line.

Mr. WHELAN: You are pointing out one of the main things in the case of a person who does go bankrupt. He is buying products from a producer who may be solely producing food. He has a contract with this processor, and he goes broke. He buys his gasoline from his local cooperative, or from some farm suppliers; and he buys his fertilizer. He has to pay for that. He may have to mortgage his holdings.

The bank is not going to lend him any money because we know how they act in these instances. They get it doubly. If they are successful in borrowing money from the banks the banks get their money on the product that they seize on the processor, and the farmer has to borrow that money from the banks again so that he can pay the supplier. The banks actually reap a little bit of benefit, in general, because that farmer would not have to borrow if the processor did not go broke.

The CHAIRMAN: Tell me, Mr. Whelan, are you aware of any oil company, or any fertilizer company, that sells all their products for a year to a single farmer?

Mr. WHELAN: I know of none, and I think it is a fact that there would be none, Mr. Chairman.

Mr. LAMBERT: It is a question of possession. The statement is made that use is made of goods that are not owned. The point I raise is this: When the farmer delivers his crop of tomatoes to the processor does he retain ownership of those tomatoes, or does he normally, by delivering them under an agreed price, pass title to them to the processor, and do they become the processor's? They are no longer the farmer's. He happens not to be paid. It is the same when the fertilizer sales outlet or the gasoline sales outlet delivers gas or fertilizer to a farmer or anyone else on a credit account. The farmer or the purchaser becomes the owner of the goods, even though he may not have paid for them.

The CHAIRMAN: I think Mr. Lambert has a point so far as the straight legal position is concerned.

Mr. WHELAN: I would point out one thing: this gasoline or fertilizer goes no farther than the farmer's place of business, whereas the primary producer's product goes into the processor's plant and is distributed all over the nation, and is often sold and consumed, and the primary producer is not paid for it. The gasoline and fertilizer have one destination, which is the primary producer's place of business—his farm.

The CHAIRMAN: Is not a more useful distinction than legal title the fact that in many cases the farmer's entire year's product is sold to one producer?

Mr. WHELAN: That is correct. This is where the great injustice is, that all his work, all his bills for his gasoline, fertilizer and everything are in that one crop and he has no protection. I should also point out that the evidence was clear when the Committee discussed this amendment, or Bill No. C-5, as I think it was called at that time. One of the marketing associations in Ontario wrote to one of the largest banking institutions in this country and asked about a processor. They said he was in good financial condition. He went broke about six weeks afterwards, and he had accumulated nearly 100 per cent more assets than he ever had before.

Mr. CLERMONT: On a point of order, and with due respect to Mr. Whelan, I thought we were studying the brief of the Confederation of Agriculture?

The CHAIRMAN: I think that is right. However, we have never been too strict about whether a member attending Committee should phrase his remarks in the form of questions or in the form of comment.

We have a unique opportunity here, because if I am not mistaken those things have changed since Sunday. Mr. Whelan is a working farmer who specializes in raising cash crops for processors.

Mr. WHELAN: For the income tax department.

Mr. LAMBERT: They are probably holding one another's hands.

The CHAIRMAN: Mr. Clermont, I think your point is well taken. Unless Mr. Whelan wishes to appear as a witness, perhaps we should ask him to make his comments brief if he does not propose to make them in the form of questions to Mr. Kirk.

Mr. LEBOE: Perhaps I can help by saying that almost all of the small saw mill operators throughout the whole of Canada are in exactly the same position. Once the wholesale lumber company, or whoever it is, purchases the lumber, the banks are continually supplying section 88 credit on the lumber inventory. But that individual saw mill man has no recourse whatsoever once he loses possession of that lumber. Once the lumber crosses the provincial boundary the forest service of British Columbia has no jurisdiction to collect any money.

I am not a lawyer, and if we are talking legally I am one of the fortunate ones because I can talk nonsense without being criticized, but it seems to me that if we are going to work on the basis of establishing ownership then we have to go right across the nation and apply it in all these primary occupations. It will be a precedent, and there is a very, very broad field. I think perhaps we have gone far enough.

The CHAIRMAN: I think Mr. Lambert's point is valid. I think, if I may speak from the point of view of law, that in a narrow, technical sense title does pass in these situations where actual title may be reimbursement for debt.

If I may say this to Mr. Whelan, I wonder if he is actually basing his point of view, and that of the federation, in the most favourable way, if he is basing on title rather than on the right to be paid for production. You are actually interested in being paid, not in title.

I think Mr. Lambert may have put forward quite a valid point in suggesting that you are basing your argument on title to the goods rather than perhaps on the moral sense.

Mr. LAMBERT: I do not disagree with the moral obligation to pay. We have a moral right to be paid.

Mr. WHELAN: Mr. Chairman, if I may comment on what Mr. Leboe has said—

The CHAIRMAN: You are putting a question mark at the end of your comment?

Mr. WHELAN: There is a big difference between a piece of wood and a tomato, a peach, an apple, a chicken, or anything else. A piece of lumber will not spoil. It is not perishable at all.

Mr. LEBOE: I might say, Mr. Chairman, in answer to the suggestion made, that once that producer loses his identity and loses control of that piece of wood it is just as perishable as any tomato.

Mr. WHELAN: No, it is not. It is much easier to identify, too.

Mr. LEBOE: It does not do any good to identify it.

The CHAIRMAN: Mr. Leboe is suggesting that if we take a toothpick-making machine we would perhaps feel that there is not so much difference between a stick of wood and a tomato going through a tomato juice-making machine.

Mr. WHELAN: But a toothpick would last a lot longer.

The CHAIRMAN: Are there any further questions?

Mr. WHELAN: Mr. Chairman, I would merely ask that, before your Committee makes any decisions, they read the proceedings of a couple of years ago on this very subject.

I would like to have the opportunity of appearing before the Committee as a witness, if possible.

The CHAIRMAN: Actually our schedule of witnesses is made up, but any member has the right to attend—

Mr. WHELAN: Mr. Chairman, I cannot attend and be challenged on making statements and act as a questioner of the witnesses, too.

The CHAIRMAN: I would suggest that we should perhaps note the request of Mr. Whelan and have the steering committee consider it. As you know, on Thursday the only business before us is consideration of a private bill for the incorporation of a life insurance company, and it may be that that will not take the time usually required by witnesses presenting briefs on the Bank Act. Perhaps if you hold yourself available on Thursday and have your remarks in order the Committee, on the recommendations of the steering committee, may be willing to hear your further comments on this very important question.

Mr. LAMBERT: Would your objective, which is the right of repayment and the guarantee of repayment, not be better met by the processor's having to post a bond as does a cattle drover who is purchasing cattle?

Mr. KIRK: Well, bonding provisions, of course, are—

Mr. LAMBERT: A bonding provision would certainly police the questionable operator.

The CHAIRMAN: May I ask you a question, Mr. Lambert? Would this not, in effect, put the decision of what processors are going to operate in the hands of the bonding company instead of, say, the bank?

Mr. LAMBERT: The witnesss are trying to put the burden on the shoulders of the banks. This might do so, in the case of those people who, as suggested by Mr. Whelan, should be out of business. I am not too sure that he is particularly worried about how they are kept out of business so long as the producers are protected from them.

If there is a requirement that you have to furnish a bond to guarantee the purchase price of the commodities then I think the producers are equally well protected.

The CHAIRMAN: I think, perhaps, we should invite Mr. Kirk to make any comments he may have on Mr. Lambert's suggestion about bonding. Perhaps the federation has some views on this, and, if so, I think we should hear them.

Mr. KIRK: We have no objection to bonding provisions, which are applicable in some products, particularly in livestock dealerships and so on. Our point is that we see absolutely nothing unreasonable about doing this in the first place, and we think we should do it.

I do not accept the suggestion that we should abandon this in favour of a province-by-province effort to change the bonding sense of it.

Mr. MORE (*Regina City*): Mr. Kirk, is not what you are asking that if the bank makes a mistake in judgment in granting credit they have to pay for it, to the benefit of all others concerned in the operation?

Mr. KIRK: We are saying that the principle which has been established for many, many years in both the Bankruptcy Act and section 88, of the special vulnerability of the wage earner, for example, is equally applicable to the farmer.

Mr. MORE (*Regina City*): I would agree with regard to perishable crops. They have to be delivered to a processor or they are lost. It seems to me that that is not unreasonable. However, you get into broiler production and livestock, which are not perishable to the same degree, by any means—you can question whether broiler operations, in general, are farm operations, for that matter—it seems to me that they are a sophisticated business today in the light of the production process. Your suggestion to extend this beyond perishable goods raises some doubt in my mind about whether it is reasonable.

Mr. KIRK: Sir, I really fail to see the significance of this distinction because he is a producer of livestock, or poultry, or even of grain that is non-perishable, beans for pork and beans, for example, are delivered in a dry state. Nevertheless the position of the producer is precisely the same in all those cases. This product is taken by the plant; it is made into a marketable product, either in cans or in some other form; and it represents the producer's livelihood. I must say that I do not see the validity of narrowing this to the aspect of perishable crops only.

If I understand it rightly, one of the intents in doing so was simply to limit the applicability of this new provision. There may be an opinion which we do not

share. The further you can limit it the better it is for, perhaps, the reasons that Senator Lambert has stated.

The CHAIRMAN: To avoid some puzzlement on the part of those reading these minutes across Canada, may I say that Mr. Lambert is a distinguished former minister of the crown and Speaker of the House, and therefore, he is a member of the Queen's Privy Council; but I do not think he has as yet been summoned to the Senate.

Mr. KIRK: I am sorry.

The CHAIRMAN: If he had been, I do not think we would have the benefit of his observations and questions because this is a committee of the house and not a joint committee, which is as it should be, if I may say so.

Mr. KIRK: My apologies.

The CHAIRMAN: You do not need to apologize for calling Mr. Lambert a Senator. It is just a question of—

An hon. MEMBER: He just looks old enough to be a Senator!

Mr. LIND: May I ask Mr. Kirk a question?

The CHAIRMAN: I will recognize you as soon as Mr. More finishes. I really just interrupted because I wanted to stop the continued use of "Senator", to the puzzlement of others across the country.

Mr. KIRK: My apologies, sir.

Mr. MORE *(Regina City)*: I just have one other question, Mr. Kirk.

Mr. Whelan has indicated that in his area there are processors that he wishes would go out of business. This suggests that there must be alternatives to these processors available to the people of that district. Why would a producer continue to patronize a processor whose record is so bad?

Mr. KIRK: Of course, it is perhaps inherent in the situation that the producer does not know that their records are so bad.

Mr. MORE *(Regina City)*: Mr. Whelan knows because of the complaints of producers, he says.

The CHAIRMAN: This is after the fact.

Mr. KIRK: You do not necessarily know. I agree that if a producer had an alternative, and if he knew that this man was going to go bankrupt the day after he delivered, then he perhaps would not deliver; but in many cases, as I have pointed out, even if he recognized that the risks were great, and had come to know that they were great, he still might have no alternative.

I agree that if, the year before, when he was contracting, he understood this, he would presumably hesitate to contract. The position is that he does not know, or he knows too late.

Mr. LIND: I would like to ask the witness, Mr. Kirk, a couple of questions. First of all, Section 88(5) of the act covers perishable products of the farms. Are not the products contracted for by the individual farmer with the producing cannery, or is there not a contract drawn up to take the whole crop for the year?

Mr. KIRK: Very often, not always.

Mr. LIND: Not always. The method of payment concerns me a bit. When the farmer delivers this product to the plant is he paid partially immediately or is there any payment made or any advance made on fertilizers? Sometimes these processors buy the fertilizer in advance to put on the farm. Is this not true?

Mr. KIRK: You mean—

Mr. LIND: On the contract.

Mr. KIRK: Yes, sometimes they do; that is right.

Mr. LIND: Is there not a partial payment made on initial delivery?

Mr. KIRK: Well, my understanding is that practices vary; sometimes the product can be delivered in sort of the flush of the season and the payment is not made on delivery, and then if payment turns out to be delayed and there are difficulties, it is too late from the farmers' point of view to do anything about it.

Mr. LIND: When it is a one crop product and a perishable product for the year I can see that. But now we are coming to whether you want to include livestock, poultry and milk. These are products where the whole year's crop is not delivered at once, is it?

Mr. KIRK: No, no.

Mr. LIND: Usually in the case of livestock it is a cash deal. The drover buys it and pays for it before he lifts it from the farm and takes it in. Is this not the usual practice?

Mr. KIRK: Well, that is a very common practice.

Mr. LIND: It is the most common practice in my information. Well, then, why would you like to expand this to include livestock because, farmers do not usually sell out all their livestock at one time in the year but usually it is a continuous process.

Mr. KIRK: Well, I would think that normally the shipper of livestock would not get into as acute a deficit position, a creditor position, in that not as much money would be owing to him or would accumulate; but certainly the settlement for livestock, for hogs, for example, is not made immediately. It has to be slaughtered and graded before he even knows what he is to be paid. Then settlement is made later. Now, I agree that under normal procedures the amount owing to him by the plant would not accumulate in the quantities it would, perhaps, in canning crops. I agree with that, but it certainly can exist in significant amounts.

Mr. LIND: My experience has been that people selling hogs sell them and usually they get their cheque the following week. All hogs do not mature for the market at the same time; it is a continuous process. If a person was marketing 100 hogs they do not all mature the same week so he ships them over three or four weeks and he would have an indication then whether the packers were going to pay him or not.

Mr. KIRK: Well, as I say—

Mr. LIND: There is not the same risk involved; that is what I am getting at.

Mr. KIRK: Well—

Mr. LIND: There is not the same risk in the livestock and the poultry and broilers. They run five crops a year with these broilers.

Mr. KIRK: Yes.

Mr. LIND: Is that not so?

Mr. KIRK: Yes, one of those crops can amount to—

Mr. LIND: Yes, I realize one of the crops, but it is not like the person with the tomato crop. The whole year's perishable item can be gone in two or three weeks. This is my question: why should these be included? Now, milk is paid for 12 times a year, is it not?

Mr. KIRK: Yes.

Mr. LIND: Well, then, there is only a one-twelfth risk there. You see it is the risk involved.

Mr. KIRK: Well, I think that needs breaking down. I do not see why they should not be included from the point of view of protection on the amount that is involved, in fact. I would agree, as we recognize in our submission, that perhaps the lengthening of this period might not be as significant in some products.

Mr. LIND: Is it any more risky for the farmer, in the case of livestock, poultry and milk, than it is for the fertilizer dealer who supplies this to the farmer on credit? Who is taking the bigger risk? Livestock, poultry and milk are not an entire year's production that goes on sale at once. It is spread out over a twelve-month period.

Mr. KIRK: Well, take the case of broilers. Suppose you did deliver five times a year?

Mr. LIND: Yes.

Mr. KIRK: With the margin on broilers that can represent all of your net for the entire year.

Mr. LIND: I realize that it can but it is not your entire year's stock, though?

Mr. KIRK: No, but it is your entire year's livelihood.

Mr. LIND: Yes, but you go back to Mr. Leboe's question here. The same thing applies to the small sawmill operator. He can ship at one time, all his year's production. Now, we are not trying to get a special clause into the act to protect him under Section 88. What about the bank that advances money; they need this protection, too or they will not advance this money?

Mr. KIRK: Well, on that point I believe in our federation submission on earlier subjects it was recognized that a similar situation could exist for the small woodlot operator, for example, or a fisherman. I certainly would not take the position that, given a comparable problem, there should not be comparable action taken except that fishermen are not my particular business, that is all.

Mr. LIND: Well, you agree though there is not as great a risk for a shipper of livestock, poultry or milk that there is for the shipper of perishable crops such as tomatoes?

Mr. KIRK: Yes, I agree with that.

Mr. LIND: And this section of the act was brought in and Bill No. C-5 for protection in a particular instance, was it not?

Mr. KIRK: That is right, but I do not agree the risk is insignificant or unimportant. That is what I do not agree with.

Mr. LIND: Well, risk at any time is not insignificant. It is there but everybody must judge the risk and if we do take away all judgment with respect to a risk are we not doing away with our free enterprise system?

Mr. KIRK: Three months wages is not a total year's risk either but that is the provision in the clause and it is considered significant. My point is that one fifth of a year's delivery of poultry is, from the point of view of income, livelihood, more significant, a heavier risk than three month's wages even. It can represent the full net for the year.

Mr. LIND: Other than that the fellow who works for wages has to depend on them to keep his family together; whereas the fellow who is delivering the poultry has a profit angle in there too that is over and above what his costs are?

Mr. KIRK: I am saying that the net profit, if you like, from his poultry operation, just as with the wage earner with his wages, is what he must have to live. The deliveries at one time can represent a very large proportion of that profit and the loss of it. His income position is jeopardized just as much and just as truly as in the case of the wage earner.

Mr. LIND: Well, you can say the same for every general storekeeper, every merchant, every businessman across Canada, can you not?

Mr. KIRK: Yes, you could.

Mr. LIND: The same principle applies, does it not? But the problem here is that these producers need credit to operate and they need credit from the banks for working capital. If we restrict them too much the bank will not be prepared to take the risk; is that not right?

Mr. KIRK: That is right. But, I think the storekeeper does not normally have all his eggs in one basket from the point of view of whom he is extending credit to, for example, which I presume would be his risk. He has many creditors, and I do not quite see the parallel there.

Mr. LIND: What I am comparing here, of course, is the inclusion of livestock, poultry and milk.

Mr. KIRK: Yes; I understand, and I agree if a man delivers milk 12 times a year that his risk, probably, is not as great as the tomato producer who delivers his whole crop in a week. There is just no arguing that point, sir, I agree with it. But, I still think the risks are significant and worth protecting the farmer from in these other cases.

Mr. LIND: What I wanted to get was your viewpoint about protecting all people who are taking a similar risk. Would you include all people or just the farmer?

Mr. KIRK: As I said, we do think the position of the farmer is, not unique, but it has special characteristics. I am not prepared to argue that if similarly special characteristics can be shown to exist say, in fisheries, nevertheless it should not be done for them because they are not farmers. That would not be my position.

The CHAIRMAN: I think perhaps we would want to leave that to the group representing the fisheries industry.

Mr. KIRK: That is right.

Mr. LIND: If you were the banker now and you were loaning the money and you found out that this provision was in Section 88, would you be as anxious to take the risk that maybe you would otherwise?

Mr. KIRK: I am not a banker, sir. The point I made is that the people I represent, and I must say I share their view, are simply sceptical of the proposition, if that is what you are getting at, that these provisions we are asking for would hurt the farmer and the industry because of the restriction of credit it would create. We are just plain sceptical of that. We do not think that would happen.

Mr. LIND: You do not believe that the banker loaning money to this processor will look into the fact that he has to guarantee or take second place to the extent of $5,000 per producer?

Mr. KIRK: I am not saying the banker will not pay attention to that; do not misunderstand me. As we pointed out in our brief, it appears, again without being an expert, that the provisions of the bill make it possible to take types of mortgages outside of Section 88 that also cover these products. That is why we are suggesting that Section 88 is not going to do the whole job. But, we think we should go ahead with it on that section and do the whole job under the Bankruptcy Act.

The CHAIRMAN: Are there any further questions on this topic, Mr. Lind?

Mr. LIND: Not on this topic. I have questions on a later portion of the brief.

The CHAIRMAN: Yes. If there are no further questions on this topic perhaps we could move on to the views of the federation on interest rates. Mr. Lind is this the area you wish to cover?

Mr. LIND: Yes, I just want to know who you are referring to when you want the true interest put out on all types of loans. Are you referring to the banks only or do you want to get into finance companies and loan companies?

Mr. KIRK: Finance companies, department stores, acceptance companies, everybody that engages in transactions that involve the extension of credit. That is what we think should be done in a broad policy.

Mr. LIND: Even on these short term chattel mortgages where drovers are financing stock on farms, and so on?

Mr. KIRK: Yes, I would think so. Our point is that when you get into transactions involving credit the man who is purchasing this credit should know what price he is paying for it.

Mr. LIND: Yes, but I am getting at the common practice of drovers putting cattle on the farm for a certain percentage of the gain, and so on. That should be put down in simple interest form too, should it?

Mr. KIRK: If it is a contract that involves the sharing of the price on an agreed basis that is something more than extension of credit. That is a joint undertaking to share the returns on the enterprise, is it not?

Mr. LIND: I thought when you entered into a contract with a finance company that it was a joint proposition too? It is quite a common practice for a

farmer starting to have cattle supplied to him by some outside interest. This is why I wondered if you wanted that included in the disclosure on this thing brought forward?

Mr. KIRK: If the contract is of such a nature that the farmer is not clear on what the undertaking is—I am not sure what the provisions of the contract are. You say a sharing of the returns?

Mr. LIND: Yes. They hope that the cattle will gain in value or weight, or something during the year, which is the same. There is a common interest charge on their money.

Mr. KIRK: I do not know exactly the nature of the transaction you are speaking of. If the undertaking to share the returns is related to what the price of the cattle will be, then that is sharing in the enterprise in another sense.

Mr. LIND: You know of the practice, do you not? Cattle are put on the farm, perhaps in the fall of the year, and they are fed during the winter and so much on the gain. Other times they are put in and the farmer is allowed, if they are milk cows, to take the cheque off the milk for the year for feeding them and then in the spring of the year, when the cattle have gained weight, or are in better condition they are sold. The drover takes a share of the profit. Now, whether it is a surcharge or interest on his money, or what it is, I think it should be disclosed, the same as finance companies, should it not? This is quite a common practice, I understand.

Mr. KIRK: Where there is an agreement that the returns depend upon what some future price will be, then you can, in advance, determine in terms of an interest rate what the farmer is paying the drover on his money. I would say just offhand that you could not do that. But in the transactions we are speaking of the terms being charged are known and where it is known then it should be expressed in these terms.

The CHAIRMAN: Mr. Clermont followed by Mr. Lambert.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, on page 4 of the French brief, you say it is very important "that the cost of agricultural credit should be kept at reasonable levels, and its availability ensured". What do you consider a reasonable level? What rate of interest? Does your Federation have any suggestions concerning the rate? "A reasonable level" is rather vague, as far as expressions go.

(*English*)

Mr. KIRK: Some of our member organizations vary in their view of this. As you know, in Quebec, for example, the Union Catholique de Cultivateurs would say a reasonable rate was something like that charged by their provincial loan board which is pretty low, 2½ per cent, or something like that.

Mr. CLERMONT: It is.

Mr. KIRK: And they have reasons for believing that they should get credit on that basis, as public policy, for stimulating agricultural improvement. But that is a subsidized program. There is an element of subsidy, I suppose, in some of the loaning of the Farm Credit Corporation. But, on a more national basis, I

would say if you are talking about a reasonable rate, probably 5 per cent would be considered reasonable.

(*Translation*)

Mr. CLERMONT: What is the rate presently charged by the Farm Credit Corporation?

(*English*)

Mr. KIRK: The Farm Credit Corporation?

Mr. CLERMONT: Yes.

Mr. KIRK: It is 5 per cent on some of its credit and I think it is a little more on another portion. There are two rates.

(*Translation*)

Mr. CLERMONT: The term loans. The long-term loan is at 5 per cent? In the Farm Credit Corporation, the federal Farm Credit Corporation? On page 5 of the French brief, Mr. Kirk, the Federation says: "The chase to maintain agricultural credit charge at moderate levels, through government policy...." One must admit that "The principle of ensuring the availability of agricultural credit by government action of keeping down the cost of such credit, should be adhered to, and it may well be, that new and bolder policies are needed". What do you understand by this expression, "new and bolder"?

(*English*)

Mr. KIRK: I will be perfectly frank about it, I hope. As I pointed out in the brief, our organization did not see its way clear to opposing this 6 per cent ceiling retention. I think we were acting responsibly. We had a hard time on this, I think. It is a difficult question, as I think you will agree.

Now, there is the Farm Improvement Loans Act, for example, and there is this guarantee provision on the 5 per cent interest rate under that act. Similarly, the position of the federation right along has been that there should be no increase in that rate, right? Now, if the general level of bank interest rates goes up, then I think there might be increasing difficulties of the availability of this credit under farm improvement loans at 5 per cent. That raises the question —that is intermediate credit—as a matter of agricultural policy, whether or not action should not be taken to ensure that this credit stays available at 5 per cent. It might be that would involve some subsidization to make it viable under conditions of higher bank interest rates.

Mr. CLERMONT: Thank you, Mr. Chairman.

Mr. LAMBERT: First of all, I would think you would agree that at the present time the rate of 5 per cent under the Farm Credit Corporation loans is long term and involves a public subsidy, because the government is not able to get its money at that 5 per cent rate. My other point has to do with the statement on page 7 of your brief with regard to interest charge disclosures. You would agree with the proposal that all bank loan charges, interest rate, and so on, be expressed as a simple annual rate of interest?

Mr. KIRK: That is right.

Mr. LAMBERT: Well, I do not know how you can tell me how to compute a simple annual rate of interest on a demand loan which involves some ancillary charges, because a demand loan may be for six months or it may be for eight months or nine months, but the term has not been expressed beforehand and therefore how can you, at the initial part of the contract express it as a simple annul rate of interest? There is a little mechanical difficulty here.

Mr. KIRK: On this point, sir, our policy is that we have always said that you cannot just state this in legislation, that this should be done, and leave it at that. You must have a way of applying it and that way will involve making rules for the game, to deal with problems like this. What we are saying, for example, in the case you make, is that it might be necessary to establish a rule that these finance charges and the interest rate on whatever basis it is on a demand loan, were that demand loan to stay in force for a year, this would be the interest rate. You would have to do something to get it straight?

Mr. LAMBERT: I am just asking for your explanation. In the event that a demand loan be for a period of one year the annual interest rate would be this under these circumstances?

Mr. KIRK: Yes, I agree you cannot measure uncertainties and imponderables. It cannot be done.

Mr. MORE (*Regina City*): Mr. Kirk, if I understand your representation regarding interest, with regard to banking, it is that the market-place decides, but the other decisions for what you call a reasonable rate of interest are political and should be done by other means?

Mr. KIRK: That is right; they are matters of public policy.

The CHAIRMAN: Are there any further questions of Mr. Kirk on the federation's views on interest rates and disclosure? If not, I think we should thank Mr. Kirk for his very useful presentation this morning. This afternoon our witnesses will represent CUNA International who will be the spokesman for the Caisse Populaire and the Credit Union. I declare this meeting recessed until 3.45 p.m.

AFTERNOON SITTING

The CHAIRMAN: Gentlemen, I think we are in a position to resume our meeting. Our witnesses this afternoon represent CUNA International Incorporated. Appearing on behalf of this organization is Mr. Robert J. Ingram, the Executive Director of CUNA International Incorporated. When I introduce the delegation I would ask them to identify themselves so we will know who they are. First we have Mr. Ingram, as I have already said; Mr. A. R. Glen, President of CUNA International Incorporated; Mr. W. Moxon, President of the Credit Union National Association; Mr. A. W. Wagar, President, Canadian Co-operative Credit Society; Mr. L. R. Tendler, Vice-President of the Canadian Co-operative Credit Society and who is also the manager of the Saskatchewan Co-operative Credit Society.

As the delegation knows, is is ordinarily our custom to have the briefs presented in summary fashion rather than having them read in their entirety, but again I suggest to the Committee that as the submission before us today is

very short—less than four complete pages—that I think it would be just as time-saving to have Mr. Ingram, who intends to present the brief, read it in its entirety. However, before he reads it I would invite him—because I think it would be useful for the record—to tell us briefly, with respect to CUNA International Incorporated, just what it is, what it does and who it speaks for.

Mr. ROBERT J. Ingram (*Executive Director of CUNA International Incorporated*): Thank you very much, Mr. Chairman and gentlemen. By way of introduction and to add some clarification to the introductory remarks of your Chairman and also to clarify in the minds of the Committee who these different organizations are and the reason for their existence, CUNA International, as the name implies, is a world-wide organization made up of state, provincial, country-wide or nation-wide credit union leagues, as we call them. On the other hand, the National Association of Canadian Credit Unions is a purely Canadian association, whose members consist of the various provincial leagues of credit unions and the central credit type organizations that serve that particular membership in that province. The Canadan Co-operative Credit Society is a third tier in the structure of the credit union movement. It is a Canadian federal central credit union, whose members are made up of the provincial central credit unions together with certain co-operative organizations who transact their business on an interprovincial basis. The Canadian Co-operative Credit Society is a peculiar organization in one sense in that it is organized under the Co-operative Credit Associations Act, which is a federal act.

These, Mr. Chairman, by way of a very brief introduction, are the different types of organizations or the component parts of the organized movement in Canada. The Canadian Co-operative Credit Society, as far as the credit unions are concerned, has in its membership four provincial central credit societies. I should make it clear to the committee today that we are not speaking for the Desjardins federation at Levis, Quebec. Perhaps some of the committee members, if not all of them, are quite aware of the functions and the operations of that organization. We have a very close working liaison with them and they, I think, on the whole are very sympathetic toward and in general agreement with the brief which we have presented to you. On the other hand, I want to make it very clear to the committee that we are in no way speaking for that particular organization. Our submission is as follows: (*See Appendix JJ*)

The CHAIRMAN: Thank you, Mr. Ingram. May I suggest to the Committee that it seems to me that the brief itself can easily be divided into a number of topics which, in turn, include the points that CUNA International made to the previous Minister of Finance when the Porter Commission Report came out. It seems to me that the first whole paragraph on page 2, with reference to federal jurisdiction over credit unions, should be the initial topic. The next paragraph appears to constitute a separate topic; it deals with the interest rate ceiling. The following paragraph seems to constitute a topic with respect to the disclosure of interest rates, and I think that together with that topic we could take the question of trust companies, and so on, in the consumer loan field. The next topic could be the matter of the links of the credit union and caisse populaire movement with the clearing system and the improvement in general of it, and finally as a topic we might have the comments of the witness on that part of the brief which deals with the method of incorporation of banks. After we have ex-

hausted any discussion we may have on these topics then, of course, it is open to the members to question the witness on any other aspect of the legislation which are relevant and on which they consider a contribution could be made. I have already told Mr. Ingram that the other people with him are free to deal with any questions that are posed. I now invite the members of the Committee to pose their questions firstly on the views of CUNA with respect to what you might call federal regulation of credit unions and caisse populaires.

Mr. LAMBERT: Mr. Chairman, I wonder if the witness would agree that related banking practices are, by the constitution of the B.N.A. Act, reserved to the exclusive jurisdiction of the government of Canada?

Mr. INGRAM: Yes, I would think so.

Mr. LAMBERT: Under those circumstances is it not a further assumption that anybody wishing to engage in banking or banking practices would come under a federal unbrella of legislation?

Mr. INGRAM: Yes, but I think one of the major problems, of course—and this will probably come up during our ensuing discussion—is, first of all, the definition of what constitutes banking.

Mr. LAMBERT: What constitutes banking and banking practices. I put it to you that banking is definable as banking practices.

Mr. INGRAM: It may very well be, but to my limited knowledge of the so-called banking industry I have not come across any legislation which clearly defines banking as such.

Mr. LAMBERT: I agree with you there is no legal definition set out, but possibly you are aware of the statement of the Minister of Finance in October to the effect that now is the time perhaps, to have a serious look at the definition of banking, and I am asking for elucidation in this regard.

You make the point at page 2, item No. (4), that provincial jurisdiction should be safeguarded, and this is presumably on the basis that caisse populaires and credit unions are organized, although not incorporated, under provincial statutes and therefore—

Mr. INGRAM: They are incorporated, sir.

Mr. LAMBERT: All right, they are incorporated or organized, and therefore from that point on they come under provincial jurisdiction. I think you will agree with me that broadcasting companies and aircraft operating companies may be, and usually are, incorporated by provincial charters, but that is where the provincial jurisdiction ceases. As soon as they step into an exclusive federal field they are subject to federal regulation. I now come back to the original point I made to you that banking and banking practices were under the exclusive constitution of federal jurisdiction. I find it, therefore, rather intriguing that the argument should be made that provincial jurisdiction must be safeguarded. Jurisdiction over what?

Mr. INGRAM: Jurisdiction over the operations of credit unions and the services they provide for their members.

Mr. LAMBERT: But if it is banking and banking practices, where is the provincial jurisdiction?

Mr. INGRAM: Perhaps this is one of the areas of disagreement as to whether or not credit unions are in the banking business.

Mr. LAMBERT: If you can show me how some of the operations of the central caisses in this city, and in some of the adjoining cities in Quebec, are any different from most of the banks, then, sir, I will have grave difficulty in following you.

Mr. INGRAM: It seems to me, sir, that this is a matter the federal authorities will have to discuss with the provincial authorities. At the moment we are under provincial jurisdiction. Our relationships in the province from which I come have been good, sympathetic relationships. We have worked closely with our provincial government to safeguard the interests of our members in terms of their investments in the credit union. Once the federal and provincial governments have come to a decision as to where the respective jurisdictions begin and end, then I think we will have an observation to make.

Mr. LAMBERT: My point is that gradually as the years have gone by the operations of credit unions and other near-bank organizations have crept more and more into the field, and since there was no destination and no, shall we say, prohibition in the Bank Act, that they have entered into the field by default.

Mr. INGRAM: Mr. Chairman, to the extent that the Canadian Co-Operative Credit Society exists under federal legislation, the Co-Operative Credit Associations Act, whereby it gets its authority, and the provincial centrals, which are members of the Canadian Society, by becoming registered under that same legislation, this is the extent to which they are now supervised federally.

Mr. LAMBERT: What is the extent of the supervision?

Mr. INGRAM: It includes an annual inspection of each of the members by the office of the federal Superintendent of Insurance.

Mr. LAMBERT: By the department. All right, that is fine.

Mr. INGRAM: Plus a liquidity requirement, as set out in the act.

Mr. LAMBERT: I am interested in, shall we say, the hierarchy of the credit unions in Canada as defined by the witness. Is there a form of reserve between members of centrals of the central Canadian body? What is the equivalent of a federation for the Canadian body? I think you called it the National Association of Credit Unions. What is the relationship between it and its members?

Mr. W. MOXON *(President, Credit Union National Association)*: The Credit Union National Association is strictly a service organization. It does not participate in the financial operations nor has it any funds in the sense of shares or deposits in any of the credit unions in Canada. It is a service organization designed to promote credit unions, to engage in educational activity for credit union officers, to provide a forum for discussion of new services and matters of this nature.

Mr. LAMBERT: Would it be fair to say that it is a parallel to the Canadian Bankers' Association?

Mr. MOXON: Oh, no.

Mr. LAMBERT: I mean vis-à-vis its members. I may be facetious but the wording seemed to rather parallel—

The CHAIRMAN: The record cannot show the expression on the witness' face.

Mr. LAMBERT: There is no such financial relationship, therefore, that if a member credit union found itself in difficulty for one reason or another it might have recourse to the national association as a lender of last resort or reserve?

Mr. MOXON: No, there is not.

Mr. LAMBERT: What provisions do you have for lender of last resort or reserve in the event that there is some press or rush on a particular credit union?

Mr. L. R. TENDLER (*Vice-President, Canadian Co-operative Credit Society*): Mr. Chairman, can we go back to the provincial level for a moment?

Mr. LAMBERT: Yes, whatever it is.

Mr. TENDLER: I come from Saskatchewan, so as far as the credit union movement is concerned I will refer to the Saskatchewan operation.

In Saskatchewan, in addition to the central credit union or the Co-operative Union of Saskatchewan, as it is known, we have a mutual aid fund which is set up under provincial act and to which five board members are appointed; one from the government, one by the Saskatchewan co-operative credit society and the other three by the Credit Union League of Saskatchewan. This board of directors administers a fund which accumulates and it is based on a percentage of the net earnings of each credit union each year. It is somewhere in excess of a million and a half dollars at the present time. Other provinces have similar programs, whether they call them reserve boards, mutual aid funds, stabilization reserves, or what have you. As mentioned, this is one area of protection for the credit union that might get into difficulty.

The other is a strong, healthy central, which we have in Saskatchewan, as they have in most other provinces. This is the organization to which credit unions come when they desire to borrow funds. We can think of the time when funds became a little tight over the period of almost the last two years and some credit unions found it necessary to borrow temporarily. The central cut off their loaning operations until some of the funds were repaid and they could meet the demands from their members, but it was nothing serious.

Mr. LAMBERT: These are the two sources of reserves, you might say.

Mr. TENDLER: That is right.

Mr. WAGAR: Except, Mr. Chairman, the mutual aid fund is not really a lender of last resort. The credit unions do not borrow from that fund except when they are in real difficulty in terms of bad debts, I suppose.

Mr. TENDLER: I assumed that Mr. Lambert had gone into this area too. Maybe I read something in there which I should not have. I should mention that a long time ago a couple of credit unions in our province did get into a little difficulty, but as a result of this mutual aid fund no credit union member in Saskatchewan has ever lost a cent that he invested in the credit union. Does this help answer the question?

Mr. LAMBERT: Oh yes. Does this apply pretty well across the country in all provinces where the credit unions operate?

Mr. TENDLER: I will let Mr. Ingram answer. He has a better knowledge about all across Canada. I am well versed in Saskatchewan, although I have some knowledge of the others.

Mr. R. J. INGRAM (*Executive Director, CUNA International Inc.*): Mr. Chairman, the provincial leagues all have their own central credit unions or central credit societies. All but two have some form of stabilization fund, or the popular term today is deposit insurance.

An hon. MEMBER: Which two do not have this?

Mr. INGRAM: The two who do not have it at the present time are Newfoundland and New Brunswick, but all of the others do.

Mr. MORE: How are these funds derived? Is there an assessment on each individual credit union?

Mr. A. R. GLEN (*President, CUNA International Inc.*): In British Columbia there is an assessment upon the assets of the credit union. They are carried on the books of the individual credit union as an asset, if you follow me, and each year an assessment is made. The law provides that the stabilization fund can accumulate until it reaches 1 per cent of the total assets of all of the credit unions of British Columbia. They have been accumulating this fund by a series of assessments over the years. I think we are about on the last one to get to the 1 per cent level. At that point we may stop to look at it to see whether it needs to be increased or decreased, whatever the case may be.

Mr. LAMBERT: My last question, Mr. Chairman, refers to the paragraph which reads:

> First of all, we compliment the government on its wisdom in not including credit union and caisse populaire centrals under the Bank Act,

Now we have the pertinent words:

> an impractical and

And here is a much stronger word:

> inequitable recommendation of the Porter Commission.

You make those statements and I wish to ask why.

Mr. INGRAM: How much time do we have, Mr. Chairman?

Mr. LAMBERT: Well, all right. The word "impractical" is not overly strong but "inequitable" is fairly strong language. You must have cogent reasons for these conclusions.

Mr. GLEN: Well, Mr. Lambert, I will take the first bite at this apple. The situation refers to the reserve requirements that the Porter Commission recommended. These comments are found in the other presentation that we made. We put it this way:

> The Commission's proposal that every central should hold on deposit with the Bank of Canada up to 8 per cent of the liabilities of its members to their respective members, rather than 8 per cent of its own liabilities, is manifestly unfair in relation to its proposals for other banking institutions.

Our arithmetic indicated that we, as compared to other financial institutions, would be required to keep with the Bank of Canada roughly twice the reserves that were required under this formula. That is where we—

The CHAIRMAN: Then you go on to mention two other points of enlargement on that. Perhaps you should read those as well. I think it would help strengthen your argument.

Mr. GLEN: Yes:

> The Commission does not propose any of these should hold reserves in the Bank of Canada with respect to the liabilities of their customers—only with respect to their own liabilities.

The CHAIRMAN: It is with respect to existing banking institutions?

Mr. GLEN: Yes.

> It would be intolerable to compel centrals to provide cash reserves against the liabilities of their members when they have no control over the volume of deposits these autonomous organizations make with them.

We felt, Mr. Lambert, that the commission had not properly understood the relationship of the individual credit union to its central. We are not a branch system. The commission appeared to have totalled up the assets of all the credit unions and then totalled up the assets of the central and put the two together and said, "Now, you will maintain your reserves on that total." This gives the effect of doubling the reserves because the credit unions are keeping their surplus funds in the central, and these fluctuate from time to time. Central's own liabilities are adifferent thing.

Mr. LAMBERT: If the Commission's recommendation had been that reserve deposits with the Bank of Canada would be on the basis of the members' deposits with the centrals, then that would have been much more equitable, I take it, from a reserve point of view?

Mr. GLEN: Yes, that is right.

Mr. LAMBERT: Were there any other reasons why you should not come under the Bank Act as to inspection or otherwise was deemed to be impractical?

Mr. INGRAM: The other point that I am sure we made was the very sticky constitutional issue where the credit unions are totally under provincial incorporation and provincial supervision, and the Porter Commission had made recommendation of a type that at that time and even now we are not willing to live with in terms of coming under federal legislation and federal supervision. The centrals, as Mr. Wagar pointed out earlier, already come under federal legislation. It is a different act, of course, it is not the Bank Act. This we could live with, provided there are some changes made in that act which will allow them to do the things that they were originally hoping to do.

Mr. LAMBERT: I am rather intrigued about this provincial supervision. After all, a broadcasting company or an aircraft operating company has to file an annual return. It has certain provincial jurisdiction under the Companies act of those provinces, but outside of that its entire operations are supervised. For example, an aircraft operating company cannot buy an aircraft, it cannot take it off the ground, it cannot put a radio in it, it cannot do a thing without the

consent of the Department of Transport. We have not heard them cry that since they have been incorporated and, from a company's point of view, supervised by the provincial government, that the federal government has no jurisdiction.

Mr. INGRAM: I should point out, then, that credit unions are subject to certain federal requirements at the present time. Corporation returns are one example. The Corporations and Labour Unions Returns Act is another. But by and large the credit union movement's experience with provincial jurisdiction up to at least this point in history has been a very highly satisfactory one. This is one of the reasons we are a little reluctant to suggest any changes unless we know what the changes are.

Mr. LAMBERT: I suggest there may be a bill right now on the Order Paper, Bill C-221, dealing with pension plans, which also may bring you under federal examination by the Superintendent of Insurance for a pension plan for your employees.

Mr. GLEN: How would it do that?

Mr. LAMBERT: I am speaking from memory, and subject to correction, but I have a sneaking suspicion that you are in there.

Mr. INGRAM: Well, as employers.

Mr. LAMBERT: Employers versus employees, and any pension plans you may have.

Mr. INGRAM: And involvement with the Canada Pension Plan?

Mr. LAMBERT: No, straight pension plans. It is a surprising document, but there it is.

Mr. WAGAR: Mr. Chairman and Mr. Lambert, I do not know that your comparison between air transport and credit unions has any real significance. We may be up in the air at times but I do not think that we are endangering life and limb, and so on, which I suppose an aircraft out of control might be.

The CHAIRMAN: But I do not think Mr. Lambert's point can be overlooked, which is that while aircraft operating firms, like yourselves, are set up by the exercise of a provincial authority, their operations are regulated by the federal government because the operations in one aspect or another are deemed to come under federal jurisdiction.

Mr. LAMBERT: Under the constitution.

The CHAIRMAN: Under the constitution. I think that is Mr. Lambert's point, and in that sense the members of the Committee may feel that there is, in fact, a parallel between the aircraft situation—

Mr. LAMBERT: And a broadcasting company.

The CHAIRMAN: —and a broadcasting company.

Mr. INGRAM: Except that I might make this distinction, that credit unions are completely restricted to operating within a very clearly defined local sphere of membership.

Mr. LAMBERT: So is a broadcasting company and so is a small charter aircraft company.

Mr. INGRAM: Are they confined provincially?

Mr. LAMBERT: Oh, yes. They may operate sometimes just out of the one little local airport.

Mr. INGRAM: But then, sir, do they not have a sort of privileged position in that field, so they do not object if there is some debate about whether they can take off because they do not have a radio? In our case, if we were an air line, we would prefer to go to our own provincial government to get the permission rather than wait to go through Ottawa. It is a long way to come, sir.

Mr. MOXON: I think the other aspect, Mr. Chairman, is the fact that, shall I say, the constitution had defined air transport as definitely coming within the jurisdiction of the federal government. Now, historically credit unions have been formed under the jurisdiction of the provincial government.

The CHAIRMAN: On the contrary, there is no reference whatsoever to air transport in the B.N.A. Act, but there is a reference to banking, interest and currency.

Mr. GLEN: Perhaps we should reverse positions and take the air lines.

Mr. LAMBERT: Thank you, Mr. Chairman.

(Translation)

The CHAIRMAN: I would now ask Mr. Clermont to ask his questions, followed by Mr. Cameron.

Mr. CLERMONT: I have not followed the line of questioning. Should the first question deal with provincial and federal jurisdictions? Then I understood we would deal with the rate of interest, the clearing system, banking, corporation financing and then proceed to general discussion.

The CHAIRMAN: First of all the questions will deal with the subject of jurisdiction.

Mr. CLERMONT: On the question of jurisdiction I will waive my turn, but I would like to ask a question of the CUNA International representative. Although the brief mentions the Caisses Populaires many times, I think I understand that today they are not appearing on behalf of the Caisses Populaires.

The CHAIRMAN: It might be a good idea to have an understanding in that respect.

(English)

Could you perhaps enlarge on this a bit? Is the caisse populaire movement found amongst the membership of CUNA International?

Mr. INGRAM: Yes. There are several caisse populaire federations, leagues or associations, again organized on a provincial basis, scattered throughout every province of Canada in addition to Quebec. That is why in our brief and in our submission we listed some of the organizations identified with this submission where there are other caisse populaire groups in other provinces—

Mr. CLERMONT: Outside of Quebec.

Mr. INGRAM: Outside of Quebec. That is right, sir.

(Translation)

Mr. CLERMONT: Therefore, in the field of jurisdiction, I waive my turn Mr. Chairman; I will come back regarding the rights of interest.

The CHAIRMAN: I think we will deal with the other subjects shortly.

(*English*)

Mr. Cameron, I will give you the floor now.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Ingram, I am not quite sure whether I should address my question to you or to Mr. Tendler. I wanted to get more particulars from you as to the source of the funds that are held in the mutual aid fund to which you referred and in the credit unions centrals to which either you or one of the others referred. Do the contributions to these funds bear some relationship to the total assets?

Mr. TENDLER: Mr. Chairman and Mr. Cameron, shall we take the mutual aid fund which we have in Saskatchewan first? Someone else can cover the British Columbia operation.

In Saskatchewan credit unions contribute an amount equal to 5 per cent of their net income—this is after paying operating expenses, interest on deposits, et cetera—which is paid into what we refer to as the mutual aid fund. This fund is administered by the board of directors, as I previously mentioned, and I would suggest that there would probably be no relationship of total assets to that fund unless the total assets stabilized, and then over a period of time there would be a relationship. As to the funds in the central in Saskatchewan, the Saskatchewan Co-operative Credit Society, again there is no special relationship between its assets and the assets of the credit union movement. Historically the credit unions have used it as their central credit union and have invested their surplus funds in this central. While it was invested on a short term basis, it has stayed there for many years, in addition to what you refer to as the demand deposit account. Our assets are in the neighbourhood of $75 million at this time, which is about one-quarter of the total credit union assets in the province of Saskatchewan.

Mr. MOXON: Mr. Cameron, as far as the mutual aid fund in B.C. is concerned, or as we call it, the reserve fund, the credit unions pay one-fifth of one per cent of their assets per year until the total of the fund reaches one per cent of the total assets of the credit unions in B.C. I think, as far as the B.C. central is concerned, the operation is parallel to the Saskatchewan Co-operative Credit Society.

Mr. GLEN: I might add, Mr. Cameron, if I may, that in British Columbia the individual credit unions in addition are required to keep liquidity reserves. Our liquidity reserves run between a minimum of 8 per cent and a maximum of 12 per cent of the share capital, which constitutes the majority of the funds of most of the credit unions, and 25 per cent of what we could call demand deposits —that is anything withdrawable in less than a year—and taking these two sums together they represent, in the average credit union, a form of liquidity reserve backed up by the borrowing power from the central. In the case of extreme dislocation, the phasing out of an industry or an economic dislocation in a particular area, then the reserve fund which Mr. Moxon mentioned comes into the picture. The reserve fund may assist either by purchasing the assets in order to liquidate, by making a grant in aid or by making a loan at a predetermined or negotiated rate of interest. It may guarantee the position of the credit union until matters have stabilized. It has enough flexibility to enter into most situations. Of

course, with respect to the defalcation situation, this is covered by a bond which has been developed by the credit union movement and the bonding requirements are written into the provincial act. According to the size of the credit union they must carry this type of position bond, fidelity, burglary, hold-up, and all the rest of it. This is roughly the protective pattern we have developed.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Is it true of all the individual credit unions in B.C. that they maintain 25 per cent of their demand deposit liabilities?

Mr. INGRAM: Yes, that is correct.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Is that pretty well true throughout the country?

Mr. INGRAM: That is fairly standard across Canada. There are some slight variations and they may be as low as 15 per cent, but the general pattern is similar to that which Mr. Glen said applied to B.C.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): By the way, is this 25 per cent a provincial legislative requirement?

Mr. INGRAM: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Now, this brings me to my next question. In view of this very large reserve requirement under provincial law, I must say I find it difficult to understand why you should be so anxious that provincial jurisdiction should be safeguarded, and not be prepared to examine the possibility of having your organization attached to the reserve system in Canada with much more modest reserve requirements.

Mr. GLEN: Mr. Cameron, it is our understanding that whatever these modest reserve requirements might be with the Bank of Canada, they are contributed free to the Bank of Canada, whereas our present reserves at least earn us something. In my own credit union our liquidity reserves are kept above the statutory minimums for reasons of the local economy. We invest these reserves in the manner permitted by the provincial legislation, which is in government obligations, having regard, of course, for the maturities, and so on. Thus we maximize the use of our reserves; at least we are getting some earnings on them. Further than that, it is a matter of policy to invest those reserves, if we are going into government issues, in the issues of our own government and of our own community because we feel that the money has been contributed, in the first place, by the people of our credit union and it should be kept at work, as far as possible, in their interest in their own area. We say that the contribution of a sizeable amount to a reserve that pays us nothing is something that causes us some concern.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): What is the position of the funds that you subscribe to the central organization which, I gather, form an additional reserve of one per cent of your assets? Are those earning assets, too?

Mr. GLEN: It depends on the activity of the fund. The fund itself, of course, invests the total amount—the unrequired portion, at least—and the fund is valued at the end of each year and each credit union is notified whether its share of the fund which is carried on our books has increased in value or decreased.

However, this is not taken into the income of the credit union, it merely shows that we have gained or lost in an asset, as the case may be.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): So as far as the individual credit union is concerned this is a dead reserve?

Mr. GLEN: That part of it, yes. We contribute this because we want to be in a position to assist other credit unions that may get into difficulty. We recognize the responsibility on the part of all of us to protect each other, to protect the member and the amount he may have invested in the credit union, and this antedates deposit insurance by quite some time. We are constantly working to improve this system and to make it more effective in the job it has to do.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Have you ever given any consideration to the possibility, if the credit unions continue to expand at the rate they have done in recent years, that it might become necessary for them to be attached to the reserve system of the country in order that the central bank authorities could have proper control of the total money supply?

Mr. GLEN: We have examined that situation. At the moment we have reached no conclusions. I think, as responsible people elected to operate credit unions and their central organizations, that we always have to be on the alert to safeguard our operations. When the danger signals appear, then we would, I think, take corrective action, but just how we would do this would depend on the circumstances at the time.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I wonder if you could tell me something about the nature and extent of the provincial supervision of the credit unions?

Mr. GLEN: I can only speak for British Columbia.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes. We can ask someone else for the others.

Mr. GLEN: This is a department of the attorney general. I believe they now have eight inspectors. We are inspected annually. We pay a fee for the inspection service. We receive very detailed reports on the results of the inspection. We are required within 60 days to satisfy the inspection department that the areas which have been found to require correction have been corrected. I think the reports eventually find their way into the attorney general's department, and through our provincial organization we work very closely with the inspection staff. This is the job of the league, which is a sort of fraternal association, you might say, and it is constantly visiting the credit unions and talking to the directors and managers to seek out any evidences they may find that things could perhaps be operated on a better basis and if, in the final analysis, they feel there should be some remedial action taken, then their policy is to call upon the inspection department to make a special inspection.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Perhaps you cannot answer the next question I am going to ask you. Have you any means of knowing how the inspection of credit unions by the provincial authorities compares with the type of inspection they make of other financial institutions in the province?

Mr. GLEN: No, I have no means of knowing.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I wonder if you, Mr. Ingram, could tell me about the inspection service in the province of Ontario. Is it similar to that described by Mr. Glen?

Mr. INGRAM: Yes. However, there are certain clear differences. First of all, on a broad Canadian pattern, the inspections are not necessarily carried out by the provincial government. For example, in Quebec the provincial authorities have delegated those duties to the federations themselves. They offer a grant, for example, to the Caisse Populaire movement at Levis to police themselves. The same thing with the other leagues and federations in Quebec. In Prince Edward Island, the same situation prevails where the government allocates those duties to the credit union movement itself to do on their behalf. In Ontario, the situation is very similar to what Mr. Glen has just stated applies to B.C., with an additional exception, however, that the provincial league itself self-polices the credit unions there. In other words, their own inspection service has been developed over the years as a result of experience and is in addition to that provided by the provincial government in that province.

Mr. GLEN: Could I add one other item of information. Under British Columbia provincial law when a credit union reaches a certain level of assets it has been required to have an external audit by a chartered accountant or other professionally qualified person; and that auditor must certify as to the soundness of the operation. This is something which many professional people are rather reluctant to do, and we have found that the external audit under those terms is a much more searching one than it used to be when this was not a requirement.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): In the light of difficulties that some other financial institutions have encountered in the Province of Ontario, Mr. Ingram, would it be correct to suggest that there is a much more rigorous inspection of credit unions by the provincial authorities than there are for other financial institutions?

Mr. INGRAM: I can only speak for the credit unions.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well, can I put it this way. Is it possible for a credit union in Ontario to get into the sort of financial difficulties as, shall we say, the Prudential company, under the terms of provincial inspection of credit unions?

Mr. INGRAM: It is certainly possible. I do not think there is a financial institution anywhere that cannot get into difficulties under a certain set of circumstances. But we are rather comfortable, I think, in feeling that through the kinds of safeguards we have built into the movement, such as inspection and adequate bonding programs and stabilization programs, to the best of our knowledge we have reduced this risk to a very bare minimum.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): My final question would revert again to the suggestion I made to Mr. Glen just now. Can you see any means by which the credit union movement could, perhaps, be reorganized to overcome the difficulties Mr. Glen was speaking of earlier in answer to Mr. Lambert of bringing them under the Bank Act on an equitable basis?

The CHAIRMAN: Perhaps you might add this further part to your question: or some other federal legislation?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, some other federal legislation, not necessarily the Bank Act; some other federal legislation dealing with financial and banking operations. I gather that the difficulty, and I can see the difficulty, is the nature of the organization as it is now established. Have you given any thought to any possible means of reorganization?

Mr. INGRAM: There are two possibilities we have mentioned, although we have not got into either one of them to any specific depth at this time. One is the improvement of the Co-operative Credit Associations Act or the possibility some time in the future of a co-operative bank. Either of these, I think, is a rather remote answer to your question, Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): What type of amendments would you propose to the Co-operative Credit Associations Act?

Mr. INGRAM: I think Mr. Wagar is the best man to answer that one.

Mr. A. W. WAGAR (*President, Canadian Co-operative Credit Society*): Well, Mr. Chairman and Mr. Cameron, not only what type of amendment would we proposed but we have already proposed several. In summary, there are about 10 or 11 suggestions on amendments. This was prepared and presented to the Superintendent of Insurance in Ottawa as proposals for amendments to the Co-operative Credit Associations Act.

The CHAIRMAN: That is Chapter 28 of the statutes of 1952-53.

Mr. WAGAR: That is the one, yes.

The CHAIRMAN: What is the date of your proposals?

Mr. WAGAR: August 17, 1965, and mind you this has been going on for ten years and we finally got some form of agreement, at least, between the office of the Superintendent of Insurance and ourselves that this kind of approach would be considered. One of the requirements of the present legislation is that in order to add a member, or in order for any other provincial central credit society to become a member of the Canadian Co-operative Credit Society, requires an act of the parliament of Canada and we suggested that there be an amendment that other centrals might become members of the society with approval of the Governor in Council rather than by an act of parliament. The second suggestion is on sources of borrowed money. At the present time the Canadian Co-operative Credit Society has only two sources of borrowed money. One is from its own membership and secondly from the chartered banks. They can borrow from these two sources and we have suggested that the Canadian society should at least be given similar powers to the provincial credit societies who can now go into the money market and borrow funds from other than their members or the chartered banks. We would like this power to borrow money from other sources extended.

At the present time loans in excess of 10 per cent of shares and deposits to any one member cannot be made. This is the limit. We have suggested that that be increased, provided that the term does not exceed one year and provided that two thirds of the directors approve the loan that it should be able to lend to one member more than 10 per cent of its present shares and deposits.

We also suggested, while we were not particularly looking at this field as a field that we might go into, that the Canadian Co-operative Credit Society

should be allowed to take a first mortgage on real property in terms of security for a loan, not in terms of going out and providing mortgages but as further security to a loan to a member.

The liquidity reserves—and I do not know how long you want me to take on this. Maybe the best thing, as a matter of fact, would be to read this. There is about a half a page here.

The CHAIRMAN: If you could summarize the main points, I think actually that is what Mr. Cameron had in mind. I was going to suggest that perhaps you make a copy of this available to our Clerk who would have it reproduced and circulated to the members for more detailed study.

Mr. WAGAR: Very well.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You can do that now.

The CHAIRMAN: I beg your pardon?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You can do that now, if you like, Mr. Chairman rather than have Mr. Wagar read these things out. I was interested to know what the amendments would be.

Mr. WAGAR: One is with respect to liquidity reserves of our provincial centrals, and another one is that 25 per cent of the liquidity reserves required now for provincial centrals should be allowed to be included in their liquidity if it were on deposit with the Canadian society. Present deposits of the Canadian society do not count as liquidity reserves for provincial centrals who are members.

There is no amendment required for investment powers. With respect to borrowing limits, we asked for the borrowing powers to be 15 times capital, guaranteed fund and surplus rather than the present 10 times. This is in line with the Trust and Loan Companies Act dealing with the same point.

With respect to clearing facilities—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): We are coming to that.

Mr. WAGAR: —we are coming to that. That is one of the points, and that members of provincial centrals might be allowed to borrow from one another. We are not sure that this cannot be done now. But at least there is nothing specific saying it can be done. That about covers the recommendations we have provided.

The CHAIRMAN: I suggest it would be helpful for our study of this matter if we had a copy of this presentation and you could arrange with the Clerk to give her a copy to have it reproduced. I think that is the best way to deal with it further. Do you have any further questions on the topic of federal and/or provincial jurisdiction?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Just one question before we move on. How many centrals are now in the Association?

Mr. WAGAR: There are four.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): There are four. Which are four?

Mr. WAGAR: British Columbia, Saskatchewan, Manitoba and Ontario.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Thank you.

The CHAIRMAN: Are their further questions from members on the topic of jurisdiction? Perhaps I might just clarify something with respect to Ontario, what exactly is the name of the central, the title?

Mr. WAGAR: Ontario Co-operative Credit Society.

The CHAIRMAN: And its funds come from the deposits made to it by its members who are credit unions. I gather also on occasions that it—

Mr. WAGAR: And some co-operatives.

The CHAIRMAN: —would borrow from the banks?

Mr. WAGAR: Yes, and the money market.

The CHAIRMAN: And the money market; I gather it also keeps its own funds on deposit with the chartered banks?

Mr. WAGAR: That is right.

The CHAIRMAN: Now, exactly what service does the federally incorporated co-operative credit society perform for its constituent members, particularly the centrals?

Mr. WAGAR: The intention at incorporation, of course, was that the Canadian central would act as a central for provincial credit societies, for the movement of funds between provinces where there might be excess funds in one provincial central that could be used in another provincial central, and that these funds could be deposited with the Canadian Co-operative Credit Society so in that sense it takes deposits from its members and it can make loans to its members.

The CHAIRMAN: That is being carried on at this time?

Mr. WAGAR: That is right, but to a very limited degree right at the moment.

The CHAIRMAN: Why is that?

Mr. WAGAR: The tight money situation made it so that in the last year, at least, most of our provincial centrals were in a borrowing position and had no funds to deposit in the Canadian Co-operative Credit Society and one of the reasons why we asked for amendments was to allow us to raise funds through some sources other than our own members.

The CHAIRMAN: Are you called in for consultation from time to time by the Bank of Canada?

Mr. WAGAR: No; by the Superintendent of Insurance from time to time.

The CHAIRMAN: But with respect to matters of monetary policy, monetary expansion, restraints and so on, are you not in formal consultation from time to time?

Mr. WAGAR: No, we are not.

The CHAIRMAN: You are not and yet I note in your brief that you indicate you have 4.3 million members and have accumulated $2 billions in savings which indicates some impact on the monetary situation of the country. Do you feel that the operations of the central bank through the chartered banking system affects your operation, or do you feel you might be in a position to operate outside of impetus given by the central banks with respect to monetary expansion and contraction? Maybe I made my question too long.

Mr. WAGAR: I know what you mean. I think the money situation generally, as far as the Canadian Co-operative Credit Society certainly is concerned, is that in terms of money tightening the Canadian Co-operative Credit Society will certainly notice the effect whether the Bank of Canada imposes that on the Canadian Co-operative Credit Society or not. Now, this certainly is one of the things that has affected us in the last year.

The CHAIRMAN: How will it notice the effect?

Mr. WAGAR: How will it notice it, because it will not get deposits from its members.

Mr. GLEN: I might say, Mr. Chairman, as an example of what happens in a local credit union, usually it arranges its line of credit with its central and in our case the central merely advised us: "we are sorry but your line of credit has just been chopped right back and you will have to exist on your own resources."

The CHAIRMAN: Perhaps I am going over something that may be evident to members but why would the central be chopping back the line of credit?

Mr. GLEN: Because their lines of credit are getting tight, too.

An hon. MEMBER: From the chartered banks.

Mr. WAGAR: From the chartered banks, yes.

The CHAIRMAN: So, in a sense if the central bank operates through the chartered banks with respect to monetary control you are, indirectly, affected even though you are not, in so far as consultation is concerned, in direct contact.

Mr. INGRAM: I think what you are getting at is that we are responsive, perhaps not as quickly as the chartered banks themselves but we certainly are responsive directly or indirectly to monetary fiscal policy established by the Bank of Canada.

The CHAIRMAN: Do you feel it would be helpful to you if you were in direct contact with respect to consultation with the Bank of Canada?

Mr. GLEN: What do you mean by "consultation"? About what?

The CHAIRMAN: Well, the same thing that the Bank of Canada talks with the banks about.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, would you allow me a supplementary question.

The CHAIRMAN: Yes, certainly.

Mr. CLERMONT: With regard to the figure mentioned in the brief, 4,300,000 members, 21 percent of the population, and 2½ million in deposits. Are these figures only for the 9 provinces or do they include the province of Quebec?

(*English*)

Mr. INGRAM: It would include the province of Quebec sir.

Mr. CLERMONT: Thank you, because I understand the Caisse Populaire in Quebec have about $1½ billion of deposits.

Mr. INGRAM: I think that is right.

Mr. CLERMONT: Thank you.

Mr. GLEN: We have observed that on a number of occasions, sir.

Mr. CLERMONT: It would be different if it were for only for nine provinces instead of ten; it would be $4 billion instead of $2½ billion.

The CHAIRMAN: You mentioned the Co-operative Credit Societies Act and the changes you have asked the federal government for. Could you summarize for us your aims in seeking these changes, what you want to achieve aside from administrative efficiency. What do you want to achieve over-all by having these changes made? What are you looking for?

Mr. WAGAR: First and foremost I suppose is to provide a better service to our members. As you can appreciate, when one of our members gains the statute of the Saskatchewan Co-operative Credit Society with assets of $75 million and others not as large but certainly large, that many times the provincial centrals are able to get locally a service that otherwise the Canadian Co-operative Credit Society might provide if it had access to funds that it has not in its present operation.

The CHAIRMAN: In other words, you want to improve the ability of the Canadian Co-operative Credit Union Society to act as a specialized lender of last resort to the credit union movement in a national way?

Mr. WAGAR: Right.

Mr. LEBOE: Mr. Chairman, I wonder if I might ask a question in connection with raising of funds other than from the members? Do you not think you are now then moving into the real business of banking and loan companies when you move into that area? At the present time you do borrow from the banks, I believe; the various credit unions do borrow from the chartered banks and that sort of thing, in the way of obtaining funds? But, you are speaking here, I believe, of raising money on a more or less permanent basis in the way of debentures or stocks or something else; is that right?

Mr. WAGAR: Well, not necessarily on a permanent basis, no. It would be more or less in terms of raising short term funds to provide loans to our central members. We can borrow from the banks now but the provincial centrals now operate in the money market and borrow funds from that source.

Mr. LEBOE: I understood you to say that you wanted to have permission to raise other funds?

Mr. WAGAR: From other than chartered banks and members, that is correct.

Mr. LEBOE: Well, are you not really getting into the banking business when you do this?

Mr. WAGAR: Partly, I suppose, if that is part of the definition of the banking business, yes.

Mr. LEBOE: I think you can rest assured that very shortly there has to be a definition of banking and when that happens certainly this will be one of the points I think would be brought into play in that connection.

Mr. INGRAM: I am not so sure, sir, that the function of borrowing funds by any kind of financial institution, or company for that matter, constitutes part of a banking business. I, personally, am not willing to accept that definition.

The CHAIRMAN: Perhaps we can get to the other point on this topic which I wanted to clarify. You said that as far as you are concerned credit unions are not in the banking business. Perhaps you could tell the Committee how and why?

Mr. WAGAR: Savings and loans.

The CHAIRMAN: Perhaps you could illustrate your point of view as to how you differ, really, from the banks. Now, we accept the fact, as you say in your presentation to the Minister of Finance, you do not turn over your deposits as quickly as banks. We are accepting that and we are accepting the fact that everybody who keeps deposits with you is also an owner.

Mr. INGRAM: That is the difference.

The CHAIRMAN: Yes, I know but in so far as what you actually do for those who are owners, you take money from them which is payable more or less on demand; you offer checking facilities; you make loans. In that regard how do you differ from banks? And I say this without derogation to the valuable role as a movement but I am interested just from the point of view of helping our inquiry.

Mr. GLEN: Well, not all credit unions, of course, offer a negotiable order system. In fact, the great majority of them do not. We in the lending end by and large can only lend what our members put in plus what we are able to scrape up from other sources. But, as I understand it, we cannot create credit.

The CHAIRMAN: You mean you lend out only dollar for dollar what is deposited?

Mr. GLEN: That is right.

The CHAIRMAN: In all cases?

Mr. GLEN: Unless we can borrow some money and then we will use that temporarily.

The CHAIRMAN: Well, why have you been telling us all about keeping reserves?

Mr. INGRAM: We are not completely restricted to the lending of our own members' funds. We do borrow from outside sources but I would say there are several, what we call banking services, that are not available to credit unions. For example, travellers cheques, foreign exchange, letters of credit, government deposits and so on.

The CHAIRMAN: You would like to have government deposits?

Mr. INGRAM: Have you got any?

The CHAIRMAN: If I may say, to some members of the Committee you mentioned what seemed to be peripheral aspects but when it comes to taking money on deposit over the counter and keeping it and loaning it out and making use of cheques, in many cases, how do you differ from a bank?

Mr. INGRAM: These are not cheques; we are not allowed to call them cheques; they are negotiable orders.

The CHAIRMAN: No matter what you call them, I am a member of a credit union in Windsor and I have a passbook and if I want to make a deposit, as far as I am concerned as a member, you talk about shares, I make deposits or withdrawals and I think I can write a cheque. I can get a loan and I wonder if to me

or to many other members of this particular credit union we really feel we are that much different as far as services are concerned. I am not talking about the spirit or the feeling of ownership.

Mr. WAGAR: It is a similar kind of service but no more so than trust companies or many other organizations that do a similar type of thing.

Mr. LEBOE: Mr. Chairman, I wonder if I might ask a question at this point with respect to one of the remarks made in connection with loaning out nothing more than is taken in. Are you saying that the creation of a deposit by making a loan does not enter into your calculation of those deposits which you have on hand at all?

Mr. GLEN: We are required in our provincial legislation in British Columbia to deduct that, when making up our financial statement, from our asset picture and liability picture.

Mr. LEBOE: The note?

Mr. GLEN: We make a type of loan to buy shares in the credit union. This is done because of an insurance we carry on the savings and on the loans of a member and that is a service that is given to encourage the regular savings on the part of members, but these do not figure into the shares or deposits of the credit union. Only the paid up portion does.

Mr. LEBOE: In other words, what you are saying is that if I went in and borrowed $10,000 from a credit union and I left a compensating discount in the form of shares out of that loan, it would not form part of the loanable assets of the credit union?

Mr. GLEN: That is correct; that is right.

Mr. LAMBERT: Do you net an account of an ordinary member, say, a member in good standing who has proper shares and gets a loan of say $5,000 for an addition to his house and during the course of payment out he also puts in other deposits of savings of his? Do you net out his account?

Mr. GLEN: Not individually, no.

Mr. W. MOXON (*President, CUNA International Inc.*): The only time the netting is done is in the total assets of your credit union, and this is only done when you have borrowed the money to purchase shares. So you borrowed the money and turned around and deposited right into your share account.

Mr. LAMBERT: I see. So therefore what Mr. Leboe was saying was in essence correct, that you do create deposits by way of loans to members?

Mr. WAGAR: Mr. Lambert, I think, you raised a good point when you asked about borrowing $5,000 to make an addition to your house, or for whatever purpose, loans are made on the basis that most of the loans—I do not know what percentage it would be—most of the dollars that are borrowed from a credit union eventually leave the credit union to pay for the improvements on the house or whatever the loan was made for. In fact, the deposit may be there for a very short term, if it is transferred immediately and put through as a loan, but if not the funds are advanced out of the loan to pay for outside services of some kind.

Mr. LEBOE: Mr. Chairman, if there was a residue at all would that residue be taken into consideration on the amount of money you could loan out? Suppose there was a total residue under the circumstances that have been outlined, would it affect the credit union's ability to make loans to other people or would it be, as it were, in a rest account which could not be touched because it was part of a loan?

Mr. WAGAR: In most cases, I would suggest that if a member comes in and asks for a loan of $1,000 and it eventually turns out that he does not need the $1,000 he does not take the loan and in fact, therefore, nothing happens.

Mr. LEBOE: You are getting into the mechanics and I am trying to get at the principle involved here as to what would take place because I think we must be interested in the principle of the operation. If there was a considerable residue that did not actually leave the bank, I might, for instance, change my mind about a thing and there is some time before I pay the loan off, because of other circumstances, I may have invested my money somewhere else, I come back again to this point. I am wanting to know whether or not this amount of residue would affect your ability, in the total assets of the credit union, to loan out money?

Mr. WAGAR: It would count as a deposit, yes.

Mr. LEBOE: This was the point I wanted to make, yes, in principle, not in actual fact.

The CHAIRMAN: It is clear that at the present time there is no uniform Canada-wide standard of inspection or method of inspection?

Mr. WAGAR: Correct.

The CHAIRMAN: That is correct. You already have begun to develop an experience of dealing with the one instrumentality of the federal government through the co-operative societies act, so that at some point your movement must have felt it would be advisable or advantageous to have a central approach to regulation and maintenance of standards, because I gather this act could not have come on the books unless you people had something to do with it.

Mr. INGRAM: A central approach to service, not to regulation; the central approach was to try to serve our centrals interprovincially.

The CHAIRMAN: But part of this act involves inspection and supervision by the Superintendent of Insurance, a federal official.

Mr. INGRAM: That was a condition.

The CHAIRMAN: But you were willing to accept it and I gather have not found it onerous or unhelpful.

Mr. INGRAM: Well, we have because we are asking for changes in that legislation to make it work the way we want it to work.

The CHAIRMAN: Well, but not the concept of the Superintendent of Insurance being involved; it is a question of experience under the act leading you to ask for changes which seem to be well founded, as a matter of fact.

(*Translation*)

Now since we have finished with this item we can pass to the rate of interest.

(*English*)

Mr. MORE (*Regina City*): Mr. Chairman, I do not want to interrupt the trend of the discussion, but according to the evidence here, you borrow from banks and show rates from 5 to 6 per cent in your borrowings. In these arrangements for borrowing from banks are you required to keep a compensating balance and to pay a service charge on your account other then the 6 per cent?

Mr. TENDLER: Yes Mr. More. In 1965, in addition to paying the 6 per cent, a portion of the line of credit which was in use, we were asked to make a deposit equal to 10 per cent of the total credit, whether we used it or not.

Mr. MORE (*Regina City*): The first time this request was made to you was in 1965?

Mr. TENDLER: It was in 1966, as far as the Saskatchewan Society is concerned, and 1965 as it applied to Manitoba and Ontario.

The CHAIRMAN: Was this request related in any way to services regarding the handling of your account? Was this what they told you?

Mr. TENDLER: I am glad you did say "tell" because there was nothing in writing. It was suggested that the increased cost of funds, which we could not argue because the cost of money had gone up, was the primary reason for this approach.

Mr. MORE (*Regina City*): But prior to 1965 the bank handled your loans and your account without these ancillary charges?

Mr. TENDLER: Without compensating balances.

Mr. INGRAM: But this did not mean that the rates were the same across Canada.

The CHAIRMAN: The rates of compensating balance?

Mr. INGRAM: No, the rates of interest charged by the banks to the centrals or the credit unions for borrowings. These were flexible.

Mr. MORE (*Regina City*): Well they might be flexible, but in this statement of your borrowings there does not seem to be any great flexibility because your modal rate, which I presume is the average rate, shows 6 per cent throughout for all areas.

The CHAIRMAN: You should identify the book as the International Credit Union Year Book for 1966.

Mr. MORE (*Regina City*): It does not show any flexibility of variation whatsoever; it shows 6 per cent straight through.

Mr. INGRAM: As the modal rate?

Mr. MORE (*Regina City*): Yes.

The CHAIRMAN: Well I think in statistical language "modal" means, and I am subject to correction, the one that is found most frequently.

Mr. MORE (*Regina City*): Or average?

Mr. INGRAM: No, it is the most common.

The CHAIRMAN: It is not the arithmetic average; it is the most popular and most common.

Mr. MORE (*Regina City*): In other words, you are reporting on your borrowings, and you do not show the true cost of money.

Mr. TENDLER: I do not know all the background based on those statistics Mr. Ingram, because they are prepared by the research man; I do know what was charged to us. We have been getting what they call, the prime rate, by the chartered banks, which was five and three quarters until late 1965: it then went to 6 per cent, and the 6 per cent rate has been maintained. Now that was the cost of our borrowing.

The CHAIRMAN: This heading on page 33 is actually a summary. The use of the word "modal" would be an indication I presume that there are other rates as well.

Mr. INGRAM: And this is for 1965, Mr. Chairman. It is a 1966 year book but the statistics and figures are for 1965 unless otherwise indicated.

Mr. MORE (*Regina City*): I have just looked at it. I see a variation of from 4½ to 6 per cent in American bank loans to credit societies, but there is no variation whatsoever in the Canadian loans according to the report.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have a supplementary question.

The CHAIRMAN: I think we have been a bit unfair to cut in on Mr. Clermont, because we have ventured into the question of interest rates and so on. I actually thought, in recognizing Mr. More that we were discussing the question of jurisdiction.

Mr. MORE (*Regina City*): I told you I did not want to interrupt but you allowed my question.

The CHAIRMAN: I am not being critical of you; it is my own error because I thought that it was a relevant matter.

Mr. CLERMONT: I have no objection, Mr. Chairman, if Mr. More wants to continue his line of questioning.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Could I ask a supplementary question?

The CHAIRMAN: Certainly.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You spoke of the demand for compensating balances beginning, I think you said, in 1966 in Saskatchewan. Was there any change then in the banks policy with regard to charges for clearing your members' cheques?

Mr. TENDLER: No.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Did they still continue to make the charges?

Mr. TENDLER: The same charge applies. We operate under a schedule which we refer to as schedule B.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The reason I asked was that there was some suggestion that compensating balances was going to take the place of cheque charges.

Mr. LEBOE: I have a supplementary on compensating balances. Do you encourage your customers that are making loans to have compensating balances, the same as the banks do, to offset this.

Mr. TENDLER: No; we reviewed this situation, and maybe we comply a little with another topic that is coming up here, divulging the proper interest rate. We have increased the interest rate to our members, but have forgotten entirely about compensating balances. We will, say, charge 6½ rather than a 6 per cent rate, assuming that the one half of one per cent will come close to compensating for the compensating balance we in turn must keep.

The CHAIRMAN: In other words, do you consider the compensating balance the bank imposes upon you as being no different than an increase in the interest rate for borrowing the money.

Mr. TENDLER: This is correct.

The CHAIRMAN: In other words, you have matched that by increasing the interest rates charged your customers.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It is translated into interest rates.

Mr. TENDLER: Well we have taken the other approach, increasing the interest rate rather than playing round with compensating balances.

The CHAIRMAN: You consider that the same thing.

Mr. TENDLER: The net results are the same.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Have you found it difficult equating an increase in the interest rate with the compensating balance?

Mr. TENDLER: We have had no difficulty in equating it from our point of view. Now what our members will say in 1967 will be something else. At this point I have heard no complaints.

Mr. MORE (*Regina City*): You say you increased your interest rates from 6 to 6½ or whatever it might have been. This is due to the increased cost of money; you had to do this. The banks are under a ceiling and when they were faced up with the same situation that you were faced up with, they had to resort to compensating balances. They probably will put up this argument.

Mr. TENDLER: I agree with your statement to this point, but had we not been faced with compensating balances, I would suggest to you, Mr. More, that we would have carried on with our 6 per cent rate—and I speak only for the Saskatchewan organization.

Mr. MORE (*Regina City*): Thank you.

The CHAIRMAN: Mr. Lind?

Mr. LIND: Do you have any other source of funds; I am thinking of the short-term money market, for instance.

Mr. TENDLER: We in the society utilize our investment portfolio and place it with investment dealers in Toronto, who raise money from the market. But it is secured by investment; in other words, by dollars we have used to purchase government bonds.

Mr. LIND: But you do go into the short-term money market.

Mr. TENDLER: We go into the short-term money market on a secured basis. It is not just on our paper; it is on a secured basis. We have pretty hefty liquidity

requirements. Five per cent of our deposit must be maintained by way of cash on hand, in transit, or on deposit in the chartered banks; and a further 15 per cent of our deposit can be maintained in certain government securities—that is the government of Canada, the province and certain municipal securities.

Mr. LIND: And I note you carry an extra reserve of 5 per cent.

Mr. TENDLER: So we have a minimum of 5 per cent in cash, in transit, in the bank, plus a minimum of 15 per cent in these others; or if the cash portion is in excess of 5 per cent we can reduce the portion of unencumbered bonds. By the way, these must be unencumbered too.

Mr. MORE (*Regina City*): Do you invest in short-term chartered bank notes?

Mr. TENDLER: In Saskatchewan we do; I do not think too many other provinces do. Our situation is peculiar because our credit union members are primarily in the rural agricultural area. We have one or two things in which some of the people here I think are interested: one is the amount of grain sold in the first week of January, and another is the wheat board payment which is to start being distributed today, and they affect our operation quite considerably.

The CHAIRMAN: As a Canadian representative from Saskatchewan, do your banking connections, sir, indicate to you under what circumstances they might stop asking you for compensating balance?

Mr. TENDLER: No.

The CHAIRMAN: Did they indicate they would ever stop?

Mr. TENDLER: No, there was no discussion on whether it might stop.

The CHAIRMAN: Did they relate it to a freeing of the bank interest rate in any way.

Mr. TENDLER: No. As I recall, I did ask "when the new act comes into being, and if the interest rates will be as set out in the proposed act, will this in turn mean that we will pay 6½ or 6.66 or 7 per cent and forget about the compensating balances." And I did not get a yes or no answer, that this will be dependent upon circumstances.

The CHAIRMAN: That is very interesting. What about the other gentlemen here; have they faced this compensating balances situation?

Mr. MOXON: In British Columbia, the British Columbia Central Credit Union does have to maintain balances in the chartered banks.

The CHAIRMAN: Is this something recent?

Mr. GLEN: I believe so, although I cannot speak accurately.

The CHAIRMAN: In the past two years?

Mr. GLEN: Yes.

The CHAIRMAN: And all you gentlemen agree?

Mr. INGRAM: It is pretty well standard.

The CHAIRMAN: Have your banking connections indicated to any of you when you might stop being called upon to maintain these balances?

Mr. GLEN: No.

Mr. CLERMONT: Mr. Chairman, I have a supplementary. On that compensating balance question, Mr. Chairman, are you required to have a compensating balance only on loans, or is it required for your ordinary accounts, checking and so on?

Mr. TENDLER: I will have to refer to Saskatchewan because I am much more knowledgeable on that respect.

Mr. CLERMONT: That is all right.

Mr. TENDLER: The compensating balance we were asked to carry with the bank related to the total approved line of credit, whether we used any or all of it. Suppose, as an example, we had a $5 million line of credit; we were asked for a $500,000 compensating balance.

Mr. CLERMONT: But you are aware that although some companies or individuals do not borrow money from the banks they issue so many cheques on their accounts that it is an unprofitable proposition for the banks, and these people are obliged to have a compensating balance and to pay a services charge as well.

Mr. TENDLER: May I say that in addition to the compensating balance, we have to meet our clearings, which are quite considerable; and we must pay charges on items we deposit in the bank as well as items we receive from the bank. So compensating balances has not in any way, shape or form affected the charges we pay for the use of the clearing system, as controlled by the chartered banks.

Mr. MOXON: Mr. Chairman, in British Columbia it is a fact that the British Columbia Central Credit Union is required to maintain free balances in various branches of the chartered banks throughout the province with regard to the clearance of orders through these various branches.

The CHAIRMAN: And over and above that, have you been called upon to have additional free balances over the past two years?

Mr. GLEN: I am not from the Central of the bank but I have heard from them that they are required to do the same thing as Saskatchewan is required to do.

Mr. TENDLER: I can speak for the Manitoba Co-operative Credit Society and the Ontario Co-operative Credit Society, and I know for sure that they have had to put up these compensating balances before we were approached for them. I am not too sure of the British Columbia situation; however, theirs is a little different in that they carry 70 bank accounts throughout the province of British Columbia in the name of the British Columbia Central whereas in the other three provinces that I know of, we carry our accounts with the main branches of the various chartered banks in Regina, Winnipeg or Toronto.

Mr. LIND: I have a supplementary Mr. Chairman. What rate of interest are you charged on this compensating balance?

Mr. TENDLER: I think I see what you are getting at.

Mr. LIND: Does this not vary a bit?

Mr. TENDLER: Let me clarify this. Let us assume that we have this $5 million line of credit; in order to put the $500,000 compensating balance, we would pay 6

per cent on the $500,000 which we in turn would deposit in there with no return to us. Is this the question you wanted answered?

Mr. LIND: They gave you the $5 million line of credit and $500,000 was set aside as a compensating balance.

Mr. TENDLER: We get the use of $4.5 million maximum.

Mr. LIND: Yes. And what do you pay?

Mr. TENDLER: Six per cent on 5 million; or, let me make it worse: we could borrow $600,000 and get the use of $100,000 and pay the interest on $600,000. The $500,000 would be sitting idle—compensating balance.

Mr. CLERMONT: You are not getting any interest on the $500,000?

Mr. MORE (*Regina City*): But you would not be required to keep $500,000, would you, if you did not set up a $5 million line of credit?

Mr. TENDLER: Oh no, if we did not.

Mr. MORE (*Regina City*): If you set it up and only used $100,000, there is something wrong with your request for credit, surely.

Mr. TENDLER: Not necessarily. May I again refer to my previous comments on the fluctuation in our operations. In Saskatchewan we will see millions of dollars through our office in the next four weeks, but from July to December the drain is entirely the other way, and this may be the peak period for requiring bank credit. And it is arranged on an annual basis.

Mr. MORE (*Regina City*): I realize that, but bank assets are limited too; if they are going to take care of a customer they have to have an understanding.

Mr. TENDLER: We recognize that.

Mr. LEBOE: I think you are going a little far to say $100,000—

Mr. TENDLER: I was using the ridiculous—if you want to use that word —exchange as opposed to the other side of the coin.

(*Translation*)

Mr. CLERMONT: What rate of interest do you charge on your loans to persons who require loans?

(*English*)

Mr. INGRAM: The provincial statutes set a maximum limit of one per cent a month on the unpaid balance; these are personal loans to credit union members by members. This is a true effective rate of interest of 12 per cent per annum.

Mr. CLERMONT: I understand now. I was wondering whether you were obliged to pay 6 per cent to the bank plus a compensating balance. I am sure you are charging more than 6 per cent to your customers. In your brief you mention that if the present ceiling is removed by Bill No. C-222, clause 91(3), it will increase your cost. As a borrower or as a credit union organization, in what manner will it increase your cost?

Mr. MOXON: Mr. Chairman, it would increase the cost of the credit unions because, in the instance of having to borrow money from the chartered banks,

our central credit unions would then have to charge more money to the credit unions in return.

Mr. CLERMONT: Do you think that Parliament should give the privilege to the banks to charge one per cent per month to their customers like you have under provincial jurisdiction?

Mr. INGRAM: Through you, Mr. Chairman, if we continue in that same paragraph you will see that we have suggested that the current 6 per cent ceiling is a rather mythical one anyway.

Mr. CLERMONT: I know.

Mr. INGRAM: What we are really suggesting is: Let us not kid ourselves; there is no ceiling any more to that extent. We are not prepared at this point to suggest that a maximum ceiling be imposed on any financial institution.

Mr. CLERMONT: No doubt you are familiar with Bill No. C-222?

Mr. INGRAM: Yes, sir.

Mr. CLERMONT: I refer to clause 91(3). If Parliament adopted that bill tomorrow—which would not be the case—with a possible ceiling of, say, 7¼ per cent, how would your organization react to such a rate?

Mr. GLEN: I would say that we would be unhappy. I think that we would be looking for other sources of funds that might be obtainable at a lesser rate. This source of funds is mainly from our own members. We only use our borrowing power to take care of fluctuations in demand, and to the extent that we can avoid borrowing I think this is what we would do.

Mr. CLERMONT: What rate of interest are you paying on your savings deposits?

Mr. GLEN: The most common rate where I come from is 4 per cent.

Mr. CLERMONT: And is that an average throughout Canada, or would there be a different rate for different provinces?

Mr. GLEN: There are different rates for different provinces and for different credit unions. The dividend is declared after the end of the business year, when we see what there is to divide. In recent years the amounts across Canada have been generally at a low of 4 per cent and a high of 5 per cent. There are some fluctuations either way. You will find some credit unions in my province paying 3 or 3¼ per cent, depending upon their experience for that year.

(*Translation*)

The CHAIRMAN: We will combine questions with regard to the entry of the Trust companies and the question of loans to consumers and also the matter of disclosure of rates of interest. Do you have any questions on this topic?

(*English*)

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Probably the Chairman or Mr. Lambert will answer this question. Have you ever enquired under what constitutional authority a provincial legislature sets interest rates? I was under the impression that this was reserved for the federal Parliament.

The CHAIRMAN: I will leave that one with Mr. Lambert.

Mr. LAMBERT: I do not know. Whether they put these limits in the general legislation at the request of the credit unions, I have no idea.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Would you admit it is rather a dubious constitutional point?

Mr. LAMBERT: At first blush it presents somewhat of a paradox.

The CHAIRMAN: I caution Mr. Lambert on his very extreme language.

Are there any other questions on the matter of interest rates, including entry of trust companies into the consumer loans field, disclosure of interest rates and other charges involved in borrowing?

Mr. LAMBERT: On the question of disclosure, how do you arrive at a full disclosure? You were present when I placed my questions to the Federation of Agriculture witness asking how one arrives at a definitive simple annual rate of interest on a demand loan, except on a theoretical one year's indebtedness?

Mr. GLEN: This is the way it is done. My credit union does not make demand loans, so that solves that problem. But you have, as I say, to use a definitive basis on an annual term. We have been in the habit of calculating for the member; we will tell him that the cost of this loan will never exceed 12 per cent per annum, but if he wants to know what it is going to cost him in terms of dollars we calculate this for him, provide him with a table and add in whatever other incidental charges there might have been.

We believe in full disclosure; we are in support of full disclosure, and we have tried to practice this in our relationships with our own members for many years. Although there are times when it is difficult, we can set outer limits on it. As far as we are concerned, we prefer that he know the dollar amount. If I had the say in writing the legislation on disclosure it would be on the basis of dollar cost rather than an interest rate per annum, because my experience has been that the dollar cost is something the individual understands. He does not understand all these terms related to interest rates.

Mr. LAMBERT: It is my own view, too, provided there is a full dollar disclosure, that this is what the person is interested in, and the matter of actual interest rate in figures per annum is somewhat academic.

Mr. GLEN: I agree.

(*Translation*)

The CHAIRMAN: Mr. Chrétien you have indicated that you have a question with regard to the rates of interest?

Mr. CHRÉTIEN: I have a question for one of the members. I would like to know, if throughout the years, there have been any contestations with regard to the validity of credit unions receiving deposits and the granting of loans from these deposits? You are not aware of this?

(*English*)

The CHAIRMAN: Are you aware of any cases in the courts in which the right of credit unions to receive deposits, to pay them out and so on, have been called in question?

Mr. GLEN: I am not personally aware of it, sir, no.

Mr. TENDLER: There actually is one in Saskatchewan, but it is with respect to loans, I think.

Mr. CHRÉTIEN: What has been the result of that? Is it still before the court?

Mr. TENDLER: It is in the process of being heard.

Mr. CHRÉTIEN: What is the line of argument of those who contest the right?

The CHAIRMAN: Perhaps it would be somewhat unfair to ask these gentlemen.

Mr. TENDLER: I had a board meeting at that time and did not take the opportunity to sit in at the session. I do not know enough of the details to make an intelligent comment.

Mr. MOXON: Mr. Chairman, I know a little bit about it. As I understand it, the credit union sued for the collection of a loan. The member challenged the right ot the credit union because it was his contention that the credit union was performing a banking function which was ultra vires of the provincial government to pass an act permitting it. I believe this is the case before the court. I do not know anything about any of the argument on either side.

Mr. CHRÉTIEN: And you do not know the result of that trial yet?

Mr. MOXON: No. I understand the court has reserved decision.

Mr. LEBOE: Mr. Chairman, there is a subsection (2), "Creation of Multiple Credit" down near the bottom of page 2 of the submission.

The CHAIRMAN: You are referring to the submission to the Minister of Finance on the Porter commission?

Mr. LEBOE: Yes. I will read the statement that was made here regarding the creation of credit in paragraph (2), lines 4 and 5:

> . . . distinct advantage accrues to the banks because of their greater power of multiple-credit creation.

I understood a while ago from the evidence that there was no power of multiple-credit creation as far as the credit unions were concerned. Here you have the phrase "greater power", which indicates that the power of multiple-credit creation does exist in the credit unions.

Mr. WAGAR: Mr. Chairman, as you suggested before, to the extent that a member actually takes a loan and leaves some of it on deposit, the money does, in fact, get back and can be lent out again by the credit union; but the chances are considerably less of the dollar bills lent to a member arriving back in that same credit union. It might arrive in some other credit union, but it is more likely to arrive in a chartered bank.

Mr. LEBOE: Thank you very much.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: I notice that in this paragraph you refer to your institutions as banking institutions.

Mr. TENDLER: I think he is playing on the word "other".

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: "Other" banking institutions, particularly Caisse Populaire and credit unions.

Mr. MORE (*Regina City*): You could not use the word "finance" there.

Mr. GLEN: Mr. Cameron, we have since replaced our legal counsel.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Then you are no longer a banking institution—

Mr. GLEN: He thinks so, but we do not.

The CHAIRMAN: Could we pass on now to the views of the CUNA International on the clearing system.

Mr. LIND: I have one supplementary question on interest rates. Do you charge this 1 per cent a month at the first of the month, or at the last of the month?

Mr. GLEN: At the last of the month. If a loan is taken out on a particular day, 30 days later we calculate the interest when he pays.

Mr. LIND: You do not calculate the day it is taken out?

Mr. GLEN: No, when he pays. You will have a member take a loan on a particular day and he may be in three or four days later and make a payment on it; at that time an interest calculation is made only for the three or four days.

The CHAIRMAN: We will now move on to the clearing system. I recognize Mr. Lambert first, followed by Mr. Clermont.

Mr. LAMBERT: I have heard comments here and there that there is some difficulty with member credit unions in their handling of items that are sent to them for collection by the chartered banks, and that sometimes it may take up to a month before the credit union will return the item as dishonoured. This creates some friction, I gather, because there is a disregard of the recourse endorsements. What is the standard practice with regard to credit unions in the handling of items that are likely to be dishonoured and returned as non-payable?

Mr. TENDLER: Mr. Chairman, we could have numerous instances of that, and let me relate one or two possibilities. The credit unions as a group in Saskatchewan, provide a negotiable order service, and they have agreed that they will have their items cleared through what we call schedule B or the central clearing system. In other words, they come through the vehicle of the chartered banks to the main branch of those chartered banks in Regina and to our office; they are disbursed and they go back. In the event there are returns, they go back too. There are, throughout Canada, some credit unions which have not agreed to this program. I am thinking of Manitoba and Alberta; I am not sure what the situation is in British Columbia, but I think most of them there are on the central program. They may have an arrangement with the local bank. If some of the orders which are negotiated do not have the proper imprinting on them, the bank that negotiates them in Ontario or Quebec, look at it and say: "We cannot clear this in the normal manner; we will have to send it for collection." Now this is still no reason or no excuse for inefficiencies—and this is what you are getting at—in not either certifying or settling for that item immediately or returning it. I cannot explain whether it is a matter of transportation or whether the treasurer went on holidays, did not have a replacement and closed his door for a week, but these are all possibilities—and I appreciate what you are getting at. In Saskatchewan I do not think this situation should arise.

We have had the odd instance where rather than clearing it through the normal channels, for certain reasons, the bank may want to send that in for collection; and if there is any delay in Saskatchewan, the banks will communicate with our office—we have a personal relationship with the treasurers of these credit unions—and we will be as stiff as we can with these. However, they are autonomous organizations and we have no mandatory powers over them.

Mr. LAMBERT: Thank you.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, in their brief the group asked that the system of compensating balance be changed invoking the Porter Commission recommendations and I think that the Porter Commission suggests that the system of compensation be done through the Bank of Canada. Would this be your opinion?

The CHAIRMAN: Mr. Clermont, what is the French translation of the English expression "clearing house"?

Mr. CLERMONT: Clearing house.

(*English*)

The CHAIRMAN: I think there was some difficulty with the translation of the woods "clearing house". I think we should be in agreement on the term.

Mr. GLEN: Is he asking whether we are in support of the contention that the clearing should be done or handled by the Bank of Canada?

The CHAIRMAN: Yes.

Mr. CLERMONT: Mr. Chairman, I will use the sample which was sent to me by the Royal Bank—and I am not giving publicity to the Royal Bank; the translation for "clearing house" is "chambre de compensation".

(*Translation*)

The CHAIRMAN: I do not question your expression, I think your expression was correct. I think the interpreter gave it another sense and perhaps this gave difficulty to our English speaking witnesses.

(*English*)

Would you care to comment, gentlemen?

Mr. WAGAR: If I understand the question properly it is "Do we agree that the Bank of Canada, as suggested by the Porter Commission, should control the clearance facilities?" If that is the question, our answer to that is "yes".

Mr. CLERMONT: How can credit unions come under that when you have a provincial charter?

Mr. WAGAR: One of the suggestions we have made is that if it seemed that the Bank of Canada should handle the clearing facilities, the Canadian Co-operative Credit Society would be prepared to be registered under the Bank Act so that through it, the clearing facilities can be provided to provincial centrals and the credit union movement.

Mr. CLERMONT: But when the Governor of the Bank of Canada was here as a witness, he was asked if the Bank of Canada had the facilities to look after

clearing house compensation. We were told that the Bank of Canada did not have the facilities for such a system.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But we were not told, Mr. Clermont, that the Bank of Canada could not be vested with such a system.

Mr. CLERMONT: I did not understand that.

Mr. WAGAR: We could show them how it is done.

Mr. CLERMONT: I do not say the Bank of Canada cannot do it. If Parliament decides they should they will have to organize themselves.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Their existing facilities do not do this.

Mr. WAGAR: They have not existing facilities, and I do not think there is any question about that.

Mr. CLERMONT: But would you be willing to register under a federal act?

Mr. WAGAR: We have said that the Canadian Co-Operative Credit Society would be prepared to register in order to have access to this facility, if this is the way it is done.

Mr. CLERMONT: How do you clear your cheques at the present time?

Mr. WAGAR: By the Canadian Co-Operative Credit Society?

Mr. CLERMONT: No. How do you clear your cheques now?

Mr. TENDLER: If I understand the question correctly, you asked how we handle our clearing of the members' negotiable orders and the bank cheques now. Let me again use our example. The credit unions throughout Saskatchewan in their day to day transactions receive many items from their members for deposit account or by way of exchange for cash, and this may include government items, grain tickets, cream tickets or items drawn on the various chartered banks. I can give you more detail in a moment. Very few of those items can be deposited to local banks. The balance must be mailed into their Central—our office—for credit to their account. We in turn segregate them by the various banks into four categories within each bank, and government items separate as to paper, card checks and so forth; they are taken to the various banks and deposited to our credit. As an example, we will use the Toronto-Dominion Bank. In its various branches throughout Canada it has negotiated a number of Saskatchewan credit union negotiable orders. These have been funnelled through the Toronto-Dominion Bank branch systems to the main office of the T.D. in Regina, and they are charged to our account daily. We pick them up, take them to our office, process them, distribute them to the 200 and some odd credit unions, and they go out in the mail to these credit unions. In most of the cases they get to their offices the next day; they are processed, and if there are any returns they follow the reverse process.

Mr. CLERMONT: What charges do you levy?

Mr. TENDLER: For negotiable orders, the items drawn by credit union members, we pay the bank 5 cents each and we in turn recover from the credit unions—in our case it is 5 cents each and in some cases some centrals charge more. On certain bank items that we deposit in the chartered banks, there is no

charge. On other items it is 2½ cents an item, on other items it is the exchange factor of 1/10 of 1 per cent, plus 5 cents an item of the total that go into the category, and on the other items it is 1/16 of 1 per cent minimum.

Mr. CLERMONT: Mr. Chairman, the same paragraph of the brief is against bank charges on out of town cheques.

Mr. TENDLER: I am not sure I understand.

Mr. CLERMONT: The Porter report—

Mr. TENDLER: Well, these are exchange charges which we pass on and on which there is no earnings through the credit union movement—that is, once the currency is paid out from within the credit union movement there is no revenue or no offsetting revenue for the handling of same; and vice versa, there is no revenue. The revenue is all going one way and we in the movement are not getting any of it. We are paying for the items which we receive from the bank and we are paying to deposit bank items.

Mr. CLERMONT: But it seems that you would like the out of town cheques to be cashed without charge.

Mr. TENDLER: Without charge or exchange, whatever you may call it. I think we mentionned we are in agreement with this proposal which was made by the Porter Commission.

The CHAIRMAN: If I could interrupt for a moment, we should decide whether or not we want to try and complete our consideration of this very important and interesting brief now without adjourning, or whether we should come back this evening at 8 o'clock. We may feel that we are on the home stretch and may wish to continue sitting for a period rather than having a session tonight. On the other hand, there are some travel arrangements which you gentlemen have to make and perhaps we could take a moment we see what we want to do. Would you prefer sitting now?

Some hon. MEMBERS: Agreed.

Mr. TENDLER: It does not matter to us.

The CHAIRMAN: I suppose you gentlemen would not mind that too much either. We may be on the home stretch. This is a very important presentation and we want to give it all the time necessary to consider it properly. We will continue sitting. Are there any other questions on the clearing house system?

I would like to clarify one or two points myself. At the moment, with respect to the regulations, charges and limitations involved in the clearing house system, you have no voice whatsoever in the decisions?

Mr. TENDLER: That is right.

The CHAIRMAN: You are just told what you are going to have to put up with?

Mr. TENDLER: We were presented with a schedule of charges, which I referred to as schedule B; this was presented across Canada to the various credit union organizations and these are the charges which will be made.

The CHAIRMAN: You are not represented in any executive which is in charge of managing the clearing system?

Mr. TENDLER: No.

The CHAIRMAN: Would you know to what extent the charges imposed upon you by the chartered banks for clearing represent only the cost of the services rendered, or to what extent they may include a profit in addition to the cost?

Mr. TENDLER: No, Mr. Chairman, we have no way of knowing. We said we would be interested in paying our share of the cost; if it is more that is fine, and if it is less that is fine.

The CHAIRMAN: Have you asked them?

Mr. TENDLER: Not recently.

Mr. INGRAM: The question was certainly asked originally and the chartered banks indicated that this was simply a recovery of their own costs.

The CHAIRMAN: Did you ask them to show you figures?

Mr. INGRAM: Yes, but these were not available.

The CHAIRMAN: Do you mean it was not available in general, or they would not show them to you?

Mr. LENDLER: Well, they were not available.

Mr. INGRAM: They just made this report available.

The CHAIRMAN: To whom?

Mr. INGRAM: Well, to our group, or our delegation, that has met with officials of the Canadian Bankers' Association at that time.

The CHAIRMAN: Have you any reason to believe that these same figures were not available to the bankers as well? Do they have this information?

Mr. INGRAM: I would suspect they had to; otherwise I would find some difficulty in figuring out how they arrived at the cost figures.

The CHAIRMAN: Yes. Now one further point: obviously in this clearing system you handle bank items for the banks, in a sense, but they do not allow you anything for that.

Mr. TENDLER: No, we pay to deposit some of these things.

The CHAIRMAN: You pay the banks for doing them a service.

Mr. TENDLER: Let me use an example. I think many of you know that many items—especially by major clients of the bank—have what they call "crossed at par" a negotiable amount charge at any branch of the such and such bank in Canada. When we deposit these items in Regina and they have gone on to any point outside Regina, or to a branch other than the main branch of that bank in Regina, we pay 2½ cents on each item.

The CHAIRMAN: That is very gracious of the banks—I say that ironically. Now, I notice in your brief you actually make an alternate proposal to having the clearing system operated through the Bank of Canada. You suggest that you be given direct membership in the clearing system through the Canadian Bankers' Association Act; none of the other members of the Committee has, as yet, asked you about this. Perhaps you could comment on what you really have in mind by that.

Mr. TENDLER: We assumed from what we could read in the Porter Commission recommendations, that there was an alternative, either the Bank of

Canada, or—if I may use the word—the co-operative type of clearing system, in which you have paid your portion of the cost for the use you make of it. If this were permissible by registering with the Canadian Bankers' Association Act, and if it was agreeable to all parties, this might be another way of doing the same thing.

Mr. MORE (*Regina City*): Gentlemen, you referred to schedule "B"; is this a special schedule that is presented to you, or is this the same schedule required of near banks in their clearing?

Mr. TENDLER: No, I would have to say it differs; the Caisse Populaires have a different one than we do.

Mr. MORE (*Regina City*): And trust companies?

Mr. TENDLER: This one says: "Clearing privileges, credit unions including Caisse Populaires outside the province of Quebec centralized clearing plan." It does not say anything about trust companies, so I would have to assume that the trust company one—

Mr. MORE (*Regina City*): Is different.

Mr. TENDLER: It could be the same, but the heading here does not say that.

Mr. MORE (*Regina City*): And you have no access to any knowledge of what they pay?

Mr. TENDLER: No.

Mr. MORE (*Regina City*): Nor the schedule they operate on?

Mr. TENDLER: No, not at this point.

Mr. MORE (*Regina City*): As far as you are concerned, this is an arbitrary schedule that is presented to you—an ultimatum—that you have no choice about.

Mr. TENDLER: If we want to use the vehicle, we pay the price. We have seen the Caisse Populaire schedule but not the trust company schedule that you referred to.

Mr. MORE (*Regina City*): What difference is there?

Mr. TENDLER: They got a few concessions that we did not.

Mr. MORE (*Regina City*): Why?

Mr. TENDLER: Primarily because they are dealing only with the provincial bank, is that not it? They carry on deposit with—

Mr. MORE (*Regina City*): And some are in Quebec.

Mr. TENDLER: Yes, there are one or two chartered banks operating in the province of Quebec that we do not have in western Canada. It seems to me that the Caisse Populaire—as I understand it, and I am subject to correction here—carry a fairly substantial deposit with one of the banks and utilize, primarily, the services of that bank; others may clear to it, but I would not want to be involved in the details here.

Mr. MORE (*Regina City*): You do not have the opportunity then to deal with one bank and obtain a better schedule through doing that?

Mr. TENDLER: No.

The CHAIRMAN: Are there any further questions relating to the credit union movement and the clearance system? If not, we will move on to the views of CUNA International on the incorporation of banks. Are there any questions on that? Mr. Cameron?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, I was wondering if Mr. Ingram could give us some ideas on how the organization thinks the suggested co-operative banking be organized?

Mr. INGRAM: Mr. Chairman, that is a rather difficult question to answer, because the movement, as such, has not really delved into the problems involved in the organization or the incorporation of a co-operative banking system. We are disturbed, however, by the lack of a provision for such a co-operative bank; particularly with respect to the governmental structure.

The CHAIRMAN: What do you mean by that?

Mr. INGRAM: Well, as I interpret Bill No. C-222, and particularly Section 10, or at least one of the sections, it would make it very difficult—if not impossible—for the organization of a chartered bank on other than on a joint stock basis. As a credit union movement, we are very much concerned that the directorships or the directors of such a bank would be credit unions or credit union centrals rather than individuals, as spelled out in this particular bill. If anyone else wants to add any comments to it—

Mr. WAGAR: You have pointed out one section. The other section, which, I believe, is Section 18. Section 10 is the provisional directors Section ans Section 18 deals with the qualifications, if you will, of the directors other than provisional directors. It definitely lays down that the individual must own the share in his own right, and so on. We see no reason why a corporation, or a co-operative, or a credit central, should not be able to hold shares and elect a representative to the board of a co-operative bank. Probably the qualifications of such a director might be that he is an officer or director of a member organization.

When Bob mentioned the governmental structure, I believe he was referring really to the principle of one member, one vote, rather than one share, one vote, and I think that is important to the credit union movement. The other one is that there is no provision—at least I could not find it—for a patronage refund, a patronage refund of loan interest, if you will. The only provision, as I see it, for paying out the surpluses or the net income of such an organization is through dividends on shares; and a co-operative bank might well want to pay patronage refunds. These, I would say, are the three main areas of concern.

There are ways of doing it, I think—and one that has been discussed a little bit—other than putting these provisions in the Bank Act, and that would be to put a provision in the Bank Act that the Governor in Council might establish rules under which a co-operative bank might be incorporated. These rules would be subject to the approval of parliament, and thereby allow for incorporation of a co-operative bank. This would mean that at least you would not have to wait for 10 years for the Bank Act to be amended for such an organization to come into existence.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Have you heard of the legislation this Committee passed not long ago for the credit unions of Nova

Scotia with regard to the establishment of the mortgage company which, as I recall it, is owned by the various credit unions?

Mr. WAGAR: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The leagues, as I believe they are known—

Mr. WAGAR: Are you referring to the Nova Scotia Credit Union League?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, the Nova Scotia Credit Union League, but I gather that the shareholders were going to be the various credit union organizations in the province. Do you think this might provide some sort of pattern for the type of co-operative banks you are thinking of?

Mr. WAGAR: It could, but I presume that the organization to which you refer is incorporated on a joint stock basis; is that correct?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, it is.

Mr. WAGAR: And one share, one vote?

The CHAIRMAN: Well, Mr. Cameron's point, and I think you should consider it, is that the Nova Scotia—in fact, maritime people—seem to feel they have found a formula for harmonizing the joint stock approach with the credit union approach.

Mr. INGRAM: This is a savings and loan organization interested in the mortgage field as such, not in the broade spectrum of what a co-operative bank might be doing at some time in the future.

The CHAIRMAN: I would say, sir, that Mr. Cameron's point is still valid with respect to the technique of organization and creation procedure.

Mr. WAGAR: I am not saying, Mr. Chairman, or Mr. Cameron, the co-operatives have not been formed on a joint stock basis; but it requires, of course, internal machinery to make it operate as a co-operative. I am not saying there could not be ways and means found of organizing a structure and providing a democratic structure of some kind, but it certainly is a round about way of trying to get a co-operative organized, in my humble opinion.

Mr. GLEN: Because of our background, Mr. Cameron, in co-operative organizations, I think you will understand it is natural on our part to want to build into a corporation of this nature the principles that we believe in, namely, the one member, one vote, rather than the one share, one vote, the principle of the patronage refund; these are the things that we consider to be—if I may say this—our way of life in financial affairs.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But when you have the shareholdings, in effect—we have questioned the people before us on this point—confined to a number of co-operative organizations, your principle of one man, one vote is still valid.

Mr. GLEN: Yes, exactly.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Then it is merely a legal, technical method of organizing this new institution.

Mr. WAGAR: Right; I think there is one real fly in the ointment though, and that is, the ownership—I believe a minimum was 3,000 shares or $3,000, I do not know which—

An hon. MEMBER: It is $3,000.

Mr. WAGAR: —to qualify as a director, this seems to me to be—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, there would have to be some provision to deal with that.

Mr. WAGAR: I do not have $3,000.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That would eliminate you as a director.

Mr. GLEN: And my credit union, yes.

The CHAIRMAN: Perhaps you should go to the credit union.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): My credit is not that good at the moment.

Mr. GLEN: Do they know you too well there?

The CHAIRMAN: There is another alternative, and that is that there would be nothing to prevent the parliament of Canada from passing a special act incorporating a co-operative bank to which would be applied the provisions of the Bank Act in so far as they are relevant; it would not be necessary to wait 10 years. I just throw that out as a further possibility. If parliament—because of various factors—does not feel it is possible to work out a system for a co-operative bank within the existing scheme, there would be nothing to prevent your organization from coming forward with a proposal for a special act for a co-operative bank.

Mr. GLEN: I just wanted to make a comment and, of course, this is a new approach that we have not thought of—

The CHAIRMAN: This is part of the service of the Finance Committee.

Mr. GLEN: My observation was that if there was provision in the Bank Act, as has been suggested, where the Governor in Council may establish such rules, at least this gives us an entrée into the government to come and sit down and to do this. If there were no other entrée, we could be knocking on doors all over Ottawa and get no one who was willing to sit down with us.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not think there would be any difficulty in finding a member in the House of Commons who would be prepared to introduce a bill for you.

The CHAIRMAN: Certainly we, as members of this Committee, would be most interested in hearing, and most concerned if we found you did not have the access that should be given to a group of your stature by any of the officials of the government. If you should have any problems of this nature, I hope you will bring them to our attention forthwith.

Mr. WAGAR: Mr. Chairman, it is interesting to me, and knowledge new to me, that a bank can be incorporated in Canada without reference to an act respecting banks and banking.

The CHAIRMAN: Parliament, within its constitutional jurisdiction, is supreme.

Mr. WAGAR: Very good.

The CHAIRMAN: If it wanted to call a credit union a bank, or vice versa, it could do so.

Mr. WAGAR: Do they do this?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes.

The CHAIRMAN: Whatever the merits.

An hon. MEMBER: I think I would argue that, with due respect, sir.

Mr. MORE (*Regina City*): You might find the minister has some grave objections to your members supporting such a move.

The CHAIRMAN: Well, we will have to deal with that when he comes.

Mr. MORE (*Regina City*): With respect to what seems to me the extension of credit unions into the banking field, really into a true bank, as banks now exist, and bearing in mind the restriction the new act is placing on present banks and the size of the empire they might build, would there not be similar thoughts of restrictions on the empire the co-operatives might build in this financial field? What is your reasoning about this? We are going to require banks to divest themselves of some of their present operations, if the present bill is accepted.

Mr. GLEN: Mr. Chairman, might I comment in a sort of perspective, if I may? We have organized—and I speak now of those of us who have been interested in the credit union movement over the past 20 or 30 years—many thousands of credit unions most of which are very, very small in terms of their number of members, in terms of their total assets and in terms of the volume of business they do. Energetic groups will enlarge the services and the membership within the definition of their bond of association, and to that extent they do become relatively large compared to the smaller ones. But to apply a blanket type of restriction or regulation to all credit unions that because they are credit unions they must come under, for instance, the banking law would certainly inhibit the very small groups.

I point out to you that while this is not relevant to Canada, we are very actively engaged in establishing these self-help sort of organizations in other countries of the world, and they would simply never get off the ground if they had to begin by performing in the manner required by a type of legislation that is designed to regulate very large financial institutions. It is the flexibility of the situation that concerns me, personally, and we have many credit unions that are just really nothing more than small loan clubs or small savings and loan clubs where the officers, the chief financial executive or the treasurer, whatever you call them, are serving without pay.

Of course, over the years you begin to build a series of circumstances because of regulation and requirement, and so on, that sooner or later makes it impossible to perform this service. This is not a direct answer to your question but I maintain, sir, that we are not engaged in the business of building an empire. The credit unions we form are individual, autonomous organizations. There are times when we might wish otherwise because of some of the things

they do but they are on their own; they do not chose to associate with the rest of us, and that is their affair. But by and large all of the credit unions feel the need to band together to provide certain services and protections for themselves, but this is not in the interest of creating an empire in the sense that an industrialist or a company looks at its total potential and says, let us go, simply for the sake of getting big for bigness' sake.

We have credit unions in British Columbia that have not changed their financial position in quite a number of years. Quite a number of them have become smaller in terms of membership and assets. They feel they will provide the service the members are prepared to use and if they are not prepared to us it, then, of course, the organization will decline.

Mr. MORE (*Regina City*): I think it is an indirect answer and I am not going to argue philosophy because that was not my purpose. I am just saying that in the present situation and through the proposals that are placed before us, there are restrictions embedded and they are presumably to provide more competition in the various financial fields.

Mr. WAGAR: Mr. Chairman, I would like to make one comment to Mr. More on this. It seems to me that when Mr. More suggests that this is one organization developing an empire, this is where there is some argument, I think. Co-operatives and credit unions are autonomous organizations. The Saskatchewan Co-operative Credit Society is an autonomous organization, as is B.C. central, as is the Ontario Co-operative Credit Society and the Canadian Co-operative Credit Society. They are autonomous organizations and in that sense I am sure it is not the intention of this Committee to recommend that no 25 or 30 organizations can get together and organize a bank.

Mr. MORE (*Regina City*): I think, perhaps, "empire" might have been the wrong word, Mr. Wagar. That was not the point I was getting at; I was getting, more or less, at the present limits we want to place on the control of any one group in the financial field and how it would apply to your field. It was a theoretical question, perhaps.

Mr. WAGAR: I think I agree with you; we agree with your restrictions that no organization should own more than 10 per cent of the shares, of a bank, and so on.

The CHAIRMAN: There is just one point here. I gather from what has been said all along here in answer to different members, that your principal objection with regard to a federal activity in the area of credit unions is with respect of being brought into the present or future existing scheme having to do with chartered banks. In other words, in your brief presented to us today and in your submission to the Minister of Finance and the Porter Commission, your concern appears to be, to a large degree, with respect to the possibility that you will be called upon to meet a scheme of regulation and operation that is evolved with regard to our present system of chartered banks. Am I right in that?

Mr. GLEN: This is generally the case since it exhibits, I think, a rather natural fear on our part.

The CHAIRMAN: Yes.

Mr. GLEN: We are not structured for it.

The CHAIRMAN: No. I would, therefore, also gather that if proposals were made for a quite separate scheme specifically tailored to the concept and philosophy of the credit union movement, but under federal jurisdiction, you might look upon it differently?

Mr. GLEN: It is an area in which we are tremendously interested.

The CHAIRMAN: I have one final point I want to ask you about. Have you had a chance to look at the government's proposals on deposit insurance and, if so, can you tell us whether ot not you feel, if credit unions were eligible, that this scheme would be helpful to them?

Mr. GLEN: We have not had a chance to really look at the government's proposal because they have just been introduced and we do not know too much about it.

The CHAIRMAN: We are all in the same boat.

Mr. INGRAM: In general, we kind of unofficially discussed the whole question of deposit insurance but not the government's proposals. I think, as we mentioned earlier, the movement as such has already gone on record as stating that we have our own built in safeguards through our provincial stabilization funds and mutual aid funds—whatever the term is called—and this is tantamount, we feel, to what is now being proposed as deposit insurance. We have already taken this protective measure to build in this safeguard for depositors, shareholders and the members of credit unions, by developing this stabilization plan.

The CHAIRMAN: Do you have any further comments, Mr. Glen?

Mr. GLEN: I really was just going to echo Mr. Ingram. We are concerned with the protection of the funds of our members and we think we have made a start in this field but it is by no means the end of the trail. We intend to continue to improve it. If there are things in the federal legislative proposal which do not presently apply to the credit unions, themselves, I think we would take a long look at incorporating those in our own plan. We feel we can run a pretty fair shop in this respect.

Mr. MORE (*Regina City*): Your position is similar to that of chartered banks. They do not need it, they say.

Mr. GLEN: I will not speak for the chartered banks.

Mr. MORE (*Regina City*): You take the position that you are dealing with this problem and that you do not need this federal umbrella?

Mr. HAIDASZ: Mr. Chairman, is a local credit union protected if one of the loans given out goes sour? How is this arranged?

Mr. MOXON: Each credit union in B.C. has to set up a proportion of its net earnings each year into a reserve fund to cover any possible loans that are uncollectible. This is a special reserve.

Mr. GLEN: We have to put 20 per cent of our net earnings aside; the ceiling is that when this reserve equals 5 per cent of the loans outstanding, then we do not necessarily have to increase it. At the end of each year we must value all our loans on a delinquency basis, if you want to put it that way. For example, if a payment has not been received for three months on the loan, then we must set aside 10 per cent of the amount of that loan in a special reserve, and so on, if the

loan is 12 months in arrears and we are still trying to collect, we must reserve the whole 100 per cent.

Mr. HAIDASZ: Are your figures on the amounts of your reserve funds available to the provincial authorities?

Mr. GLEN: Yes, it is reported on our financial statements.

Mr. INGRAM: But these are not the stabilization fund reserves we are talking about.

Mr. GLEN: No, that is a separate reserve, again.

The CHAIRMAN: Are there any further questions or comments? If not, I think, that on behalf of all of us, I would like to thank the witnesses who appeared before us today for their most useful and interesting presentation. This is an area we have looked forward to exploring for some weeks and I think it has been very helpful in our deliberations.

Mr. GLEN: Mr. Chairman, may I thank you and the members of the Committee for allowing us to appear. I must confess that when I sat on this chair I was as nervous as a cow with a buck toothed calf, but thanks to your Chairmanship and the members of the Committee, we felt quite at home with you here. Thank you, again.

The CHAIRMAN: The meeting will now adjourn until next Thursday at 11 o'clock.

APPENDIX II

SUBMISSION

by the

CANADIAN FEDERATION OF AGRICULTURE

to the

STANDING COMMITTEE ON FINANCE, TRADE AND ECONOMIC AFFAIRS

of the

HOUSE OF COMMONS

Mr. Chairman and Committee Members:

This opportunity for the Canadian Federation of Agriculture to make representations to your committee is very much appreciated. It will be a matter of satisfaction to you that this submission will in truth be a very short one. It divides itself into two parts:

(1) Recommendations with respect to the Section 88(5) Provisions for Priority of Rights to Farmers in Case of Bankruptcy.

(2) Some general comments on interest rates, and upon provisions for their disclosure.

Section 88(5):

Section 88(5) provides that in case of bankruptcy growers of perishable products shall have priority over the banks as creditors (after the wages of employees) where security was taken by the bank under this section.

The Canadian Federation of Agriculture, of course, welcomes very much the direction of policy being adopted with respect to farmers in this clause. It does, however, feel that the provisions made are inadequate in some respects and would recommend strongly that changes be made to rectify them. The first problem concerns the agricultural products covered. It is quite clear that livestock products and livestock would not be covered. From some of the discussion in the proceedings of the committee on October 27th, it would appear that there is some impression that no requests have been made for a broader coverage by farmers. This is not so. In its representations to the Standing Committee on Banking and Commerce of the House of Commons in 1963, in connection with Bill C-5 which was introduced by Mr. Whelan, it was quite clear from the representations made, and the examples of bankruptcies given, that it was the desire of farmers in Canada that additional protection in case of bankruptcy should be given to producers of livestock, poultry and milk as well as to growers of crops. We particularly cited the case of the Visco Poultry Packing (1957) Limited of British Columbia, and the case of Les Abbatoirs Richelieu Inc., as well as a number of examples of bankruptcies of canneries.

We do not really see any valid reason why this protection should be limited to growers of perishable crops and not extended to producers of livestock,

poultry and livestock and poultry products, and also to growers of crops that might not be designated as perishable. If there has been an opinion that the limitation was acceptable because nobody else was interested in this protection, we would hasten to correct this misconception.

The second reservation that we have about this section is the provision that the protection shall apply only to deliveries of products made during the three month period preceding the making of a receiving order on assignment under the Bankruptcy Act. While it is true that in the case of wages, the failure to make payment over a three month period would quite surely reflect a very serious state of affairs to which the wage earner by that time would be alerted, the picture is not so simple with respect to farmers. In their case payment can be delayed for a considerable period, and often the reasons given for such delay may seem quite plausible to the individual farmer. It is not impossible that some type of contractual arrangements would involve delays in payment for the working out of the details of the contract.

What we are suggesting is that a longer period be provided in the case of the producer of agricultural products, to take account of these clear differences in the situation of the wage earner and of the farmer.

Our third reservation with respect to this section relates to the limitation of $5,000. as the maximum amount that may represent a priority claim to any one producer. It must be recognized that $5,000. worth of product represents, for the farmer, no protection to his net income position at all if he should happen, as may well be the case, to have delivered considerably more than this amount. The majority of what the farmer receives for his product he must pay out again as expense, and in this day and age $5,000. of product by no means represents an adequate level of production if a man is trying to make a living from that production. Admittedly, some products, such as milk, amy be produced and marketed with regularity over the various seasons but, for crops particularly, and for some livestock, deliveries representing a whole year's work, or perhaps a half year's work, may easily be made within a relatively short period.

We therefore strongly recommend that this $5,000. limit be increased substantially—at least to $10,000. and to something more than this—unless there is some very cogent reason why this should not be done.

The final reservation we have about this section is that the protection to producers is limited to claims for money owing by a manufacturer. We do not know precisely what the definition of a manufacturer is, but we do know that the bank may lend money under this section not only to manufacturers but to wholesale purchasers or shippers or dealers in products of agriculture. We would very strongly recommend that the provisions of Section 88(5) be extended to include all such classes of persons. We do not see why this should not be so.

We have not in this section attempted to review all the arguments why a priority of claim should be provided for under Section 88. We take it that the principle is accepted. This we very much appreciate and we will not take the time of the committee with reviewing arguments that most members will have heard before, and with which they have signified their agreement.

We would make only one other observation, although it is not perhaps directly relevant to the bill which you are now considering. This is that the provisions of the Bankruptcy Act also need to be amended to give similar

priority of creditors' rates, after those of labour, to farmers who have delivered agricultural products to the bankrupt farm. It is clear that adequate protection in all cases of bankruptcy may not be provided by the provisions of Section 88.

It should be kept in mind that there is a real likelihood that the extended authority to the banks to take security of property on loans, which is proposed in the bill before you, will make it possible for banks to avoid the use of Section 88 if they wish to do so, and nullify the protection to the farmer that Section 88 provides. This makes it all the more important that amendments be made also to the Bankruptcy Act to give priority position to farmer creditors at as early a date as possible.

Interest Rates:

The Canadian Federation of Agriculture, of course, recognizes that the Bank Act is a very important piece of legislation for the economy and the people of this country. It is also in an area of subject matter that is highly technical and difficult and an organization such as ours is not inclined to make strong representations on the various aspects of the legislation unless it has a very specific and well defined position to take. We therefore have no further recommandations for amendments to the bill, except with reference to the true interest rate disclosure, a matter on which we will touch later.

It would be fair to say, however, that the Canadian Federation of Agriculture views with definite regret the likelihood that the interest rate ceiling of 6 per cent on bank loans will be abandoned. It is glad to see that some limitation remains on the maximum rate of interest that may be charged, pending such time as a reduction in interest rates in the market signals clearly that high interest rates have not become a permanent feature of the Canadian monetary scene.

In not actively opposing, now and in the recent past, modification of the interest rate ceiling provisions of the Bank Act, the Federation of Agriculture has been frankly in a quandary. It does not like the rising level of interest rates that is a feature of our economy at the present time and believes it should be a definite goal of national policy that such rates should not become a permanent feature of our economic life. At the same time, without being experts in the matter, we are aware that the issues here are complex and that it is by no means self evident that a rigid adherence to the present interest rates ceiling on bank loans is in the best interests of the economy for the consumers of credit in this country including the farmer. We are therefore refraining from opposing the present amendments regarding interest rates, and sincerely hope that the wise course is being followed.

Having said this, however, we would wish to emphasize that we strongly believe that it is very much in the interests not only of the farmers but also of the economy and the consumer of food products, that the cost of agricultural credit should be kept at reasonable levels, and its availability ensured. We continue to be faced in Canada with a rapidly changing agricultural technology, and a rapid structural adjustment in agriculture, that involves, for the farmer, continuing new investment of capital. At the same time returns to agricultural production remain at the best moderate and more typically low.

Particularly in the face of the prospect of rising world food needs, it is very much in the interests of the people of this country that all necessary steps be taken to ensure that the process of agricultural adjustment and productivity improvement not be hindered by credit difficulties. The case to maintain agricultural credit charges at moderate levels, through government policy, is recognized in practice in Canada in the Farm Credit Corporation, Farm Improvement Loans Policy, and in special policies on a number of provinces. The principle of ensuring the availability of agricultural credit by government action, and of keeping down the cost of such credit, should be adhered to, and it may well be, especially in the fields of intermediate and short term credit, that new and bolder policies are needed. All this, however, though closely related to your present concerns, is not the direct business of this committee and we will leave the matter at that.

The other, and final subject on which we want to touch, is that of interest charges disclosure. We understand that it is the intention that an amendment be introduced to the present bill providing for the clear disclosure, in the case of all bank loans, of the finance charges expressed in terms of a simple annual rate of interest. The Canadian Federation of Agriculture, of course, welcomes this policy intention, but it would like to make it clear that inclusion of such a provision in the Bank Act does not in our view dispose of the need for legislative action in this field. Finance charges disclosure legislation, applicable to all transactions involving the extension of credit, is needed and should be introduced at the earliest possible date.

January 6, 1967.

APPENDIX JJ

SUBMISSION

of

CUNA International Inc.

On Bill C-222, An Act Respecting Banks and Banking

Recently, representatives of the credit union and caisse populaire movements in Canada met to discuss the contents of Bill C-222, an Act respecting Banks and Banking, introduced in the House of Commons July 7, 1966.

Although the proposed bill does not specifically mention credit unions as such, there are certain proposals of deep concern to the movement, which we would like to comment on, and respectfully submit to the Committee for it's consideration.

When the former Minister of Finance, Mr. W. Gordon, introduced a similar bill in 1965, we were fortunate enough to appear before him with a brief, outlining our position and reaction to certain aspects of the Report of the Royal Commission on Banking and Finance. No doubt the Committee is aware of the contents of that particular brief but we are taking the liberty of enclosing an additional copy for your convenience.

In essence, the credit union movement at that time concluded as follows:

(1) The inclusion of credit union and caisse centrals under the Bank Act, as proposed by the Commission, would be impractical and inequitable.

(2) Equitable clearing facilities should be provided.

(3) The Cooperative Credit Associations Act should be continued and its legislation liberalized.

(4) Provincial jurisdiction should be safeguarded.

After thorough analysis of Bill C-222, and your comments relative to it, we would make the following observations:

First of all, we compliment the government on it's wisdom in not including credit union and caisse populaire centrals under the Bank Act, an impractical and inequitable recommendation of the Porter Commission.

We are not opposed to the proposal to adjust and eventually lift the interest rate ceiling currently imposed on chartered banks, although such an amendment will unquestionably result in higher costs for credit unions and caisses populaires. We are of the opinion that the current ceiling is a somewhat mythical one, and one which in fact has no substance whatever. Through a system of discounts, service charges, compensating balances, etc. the effective rate charged in many instances is substantially higher than the legal 6 per cent rate.

The credit union movement, however, is very strongly in favor of legislation which would make it mandatory for all lenders, including the chartered banks, to disclose fully and publicly, all charges incidental to the making of loans, both in terms of total dollars, and expressed as a percentum per annum. Similar

legislation has been enacted in the Province of Nova Scotia, and we firmly believe that the Canadian public has an inherent right to "shop" intelligently for credit in the same way as they shop for other merchandise.

Similarly, we have no objection to the desire of certain trust companies to enter the consumer loan field. Any change or improvement in the overall financial system which, through flexibility, competition and better service, will be in the best interests of the Canadian public, is highly desirable. Similar disclosure legislation should of course also apply to those companies as well.

On the other hand, we are disappointed that the bill does not contain any provisions for improving the clearing system. The Porter Report strongly advocated removal of the banks' monopoly of the system, and statutory prohibition on charges for negotiation of out-of-town cheques. We heartily concur with this recommendation.

If all financial institutions are to form part of a "more competitive and flexible" financial system on a sound and equitable basis, then it is logical to expect that these institutions should be granted access to direct membership in the clearing system through the Canadian Bankers' Association Act, rather than the current practice of having to obtain this service directly from the chartered banks, subject to regulations, charges and limitations imposed by the banks themselves.

Likewise, we are disappointed that the bill does not make any provision for the incorporation of banks on other than a joint stock basis. Although the movement has no plans for formation of any type of cooperative bank at the present time, it is not outside the realm of possibility before the next revision of the Bank Act is due, and we are of the opinion that such a provision should be readily available.

The credit unions and caisses populaires in Canada now serve more than 4.3 million members, over 21 per cent of the total Canadian population, and have accumulated nearly 2½ billion dollars of savings. They serve their members as non-profit service organizations, and play a vital and essential role in the economy and growth of Canada as a whole.

CUNA International, Inc.
Toronto, Ontario

October 1966

SUBMISSION

TO THE MINISTER OF FINANCE

ON THE REPORT OF THE ROYAL COMMISSION ON BANKING AND FINANCE

The Report of the Royal Commission on Banking and Finance contains some recommendations of particular interest and concern to the credit union movement. While we appreciate the efforts of the Commission to protect the interests of the credit union movement, we believe the implementation of certain of its recommendations could have a serious effect on the operations of our credit unions, caisses populaires and their centrals. Since this was obviously not the Commission's intention—as the final paragraph of Chapter IX makes clear—we offer these comments on the Report's recommendations, and the problems they could create.

The Commission recommended that credit union and caisse populaire centrals should be related to the banking system, specifying

(1) that all credit unions and caisses should be required—preferably by provincial law—to be members of a central;

(2) that all centrals be required to incorporate or register under the Bank Act; and

(3) that centrals be required to maintain deposits with the Bank of Canada on the basis of the consolidated statements of their member credit unions or caisses.

We believe compulsory membership might undermine the constitutional validity of the provincially-incorporated credit unions and caisses. Compulsory membership would neither alter the character of credit unions and caisses as separate legal and financial entities, nor empower the centrals to compel their member credit unions and caisses to maintain deposits with them.

This is contrary to the whole concept of autonomous local organization pursuant to which credit unions and caisses have developed, and we question whether it is practical to implement recommendations which are dependent upon the agreement of ten provinces.

Were registration or reincorporation of centrals under the Bank Act required, our minority position vis-à-vis the chartered banks might enforce upon us conformity with concepts and practices that will not take into account the distinctive philosophy and techniques of the credit union movement which distinguish it from profit-oriented institutions. For this reason, it would be difficult to make provision in the Bank Act (as proposed by the Commission) to assure continuance of the co-operative type of structure and control characteristic of credit unions and their centrals.

We believe the Commission overlooked some factors with respect to the advantageous position of the chartered banks in their approach to the regulation of banking.

(1) Chartered banks have the considerable advantage of acting as bankers for governments. This advantage tends to compensate the chartered banks for loss of earnings on interest-free deposits with the Bank of Canada.

(2) While bank-deposit expansion causes an outflow of funds to "other institutions in proportion to their success...in attracting holders of their liabilities" (p. 111, col. 1), a distinct advantage accrues to the banks because of their greater power of multiple-credit creation. The Canadian banking system is composed of a small number of large banks, the majority of which operate a large branch system throughout the country. Other banking institutions, particularly the caisses and credit unions, are minute in comparison with these banks. In this situation there is a significant probability that any bank borrower and some of his payees will be customers of the same bank. To the extent that this occurs, the loss of cash by a bank making loans is less than the volume of its loans, and multiple-credit creation becomes possible. Little or no possibility for multiple-credit creation exists for the caisses and credit unions because of their small size and the nature of their membership. We do not claim that multiple-credit creation by individual banks takes place on a large scale. However, we do claim that its existence is significant and gives the individual banks an advantage over the caisses and credit unions because it enables them to create a somewhat larger volume of income-earning loans for each dollar of new cash deposits received by them.

In support of this contention we have in hand an economic analysis prepared by Professor Milton F. Bauer of the University of Alberta. We would be pleased to submit this document on request.

(3) Centrals were established not only to preserve the liquidity of the locals (as emphasized by the Commission) but also to help the locals meet periods of peak member demands for loans. This is more markedly true among credit unions than caisses. The Report states that centrals "in view of their position as specialized banks to the co-operative movement...should be limited to issuing liabilities to credit unions, other co-operatives and public bodies specified in the legislation." (p. 170)

If the Commission meant centrals should take deposits and share capital from members only, the movement would certainly agree, as this is one of the fundamental tenets of all credit union legislation in Canada.

If, however, the Commission intended the phrase "issuing liabilities" to extend to borrowed money, we would strenuously object. This interpretation would thwart credit union development and cripple present operations. There was clear evidence before the Commission that central credit unions do borrow from banks and from the money market to maximize the pooling of their own funds, and should be at liberty to borrow from any source.

We submit there is no reason given elsewhere in the Report for such a restriction of the powers of centrals, and no such restriction is proposed with regard to other institutions.

The Commission's proposal that every central should hold on deposit with the Bank of Canada up to 8 per cent of the liabilities of its members to their respective members, rather than 8 per cent of its own liabilities, is manifestly unfair in relation to its proposals for other banking institutions. The commission does not propose any of these should hold reserves in the Bank of Canada with respect to the liabilities of their customers—only with respect to their own liabilities.

It would be intolerable to compel centrals to provide cash reserves against the liabilities of their members when they have no control over the volume of deposits these autonomous organizations make with them.

(5) This unfair treatment is magnified by the Commission's concept of true notice deposits. The Commission recognized that from a legal point of view all shares and deposits of credit unions and caisses are subject to legal restrictions as to notice, but observed that such notice is not in fact implemented except in emergencies. It seemingly regarded the situation from an economist's point of view: if the depositor feels he can get his money on demand, his deposit is equivalent to near money.

By this measuring rod, the Commission treats both shares and deposits of credit unions and caisses as demand deposits requiring an 8 per cent deposit on the aggregate amount with the Bank of Canada.

The Commission notes (p. 160) that shares of caisses turn over only once in 15 years and deposits 2½ times per year. Practically all the caisses' liabilities to members are deposits, and are chequeable, but obviously a substantial part of these deposits is not so used. Only 12 per cent of the liabilities of credit unions are in the form of deposits, which turn over 15 to 40 times a year; the balance is in shares, which turn over only once every two years. Shares, the Commission notes, "are not generally used by members as a close substitute for chequing accounts." (p. 160)

By comparison, chartered bank savings accounts turn over 1½ times a year, and current accounts 68 times a year. (p. 117)

Recognition should be given to the fact that credit unions and caisses serve people who are almost all workers and primary producers in the low and middle income groups, and their credit union share and caisse deposits represent mostly long-term savings. While members hope to save this money, it must be readily available if emergencies arise.

We further believe the Commission misunderstood some of the realities of credit union organization.

(1) The Commission recognized that credit unions and caisses are creatures of provincial legislatures, and recommended that those governments should take full responsibility for their soundness. The Commission nevertheless has sought to add to the liquidity of credit unions and caisses by imposing unusual obligations on centrals. These recommendations in our opinion would render centrals impotent to carry out their functions even as a source of liquidity to locals.

Provisions for the liquidity of credit unions and caisses differ widely in every province. The substantial difference in the caisses populaires in Quebec is pointed out in the Report on page 159:

> Moreover, only one-half of their funds is invested in loans to members and most of these are conventional residential mortgages. The average term of these loans is thus a good deal longer than those of credit unions, a high proportion of which are paid off within a year or two. The rapid repayment of their loans provides credit unions with a steady inflow of cash which contributes to their aggregate liquidity, while the caisses with longer-term loans and a somewhat more conservative tradition lend less to members and carry much larger and more liquid security portfolios, either directly or through their centrals.

Cash holdings of credit unions are described on page 393 as "undesirably low", a statement that does not take into consideration the cash flow of credit unions as a contribution to liquidity. However, the Report notes on page 394,

> The cash which institutions are required to hold (with the Bank of Canada) will enable them to meet moderate daily swings in settlements within the averaging period, but will not contribute beyond this to the liquidity of their assets.

Obviously, a locked-in deposit with the Bank of Canada will do little to provide additional cash liquidity for credit unions. Supplying cash for such a deposit and providing additional cash liquidity would be a heavy and unfair burden for the movement.

(2) With respect to taxation of reserves, we submit that the Commission did not take full cognizance of the dissimilarity between profit-oriented institutions and the nonprofit-oriented credit unions and caisses. The operations of credit unions and caisses are not intended to produce profit to the corporate body. Shares are constantly redeemed on the basis of the amount paid up thereon; they are not traded on the market, and therefore can have no increase in value by reason of reserves of the credit union. The reserves which are retained are only those which legislation and experience require to be kept to assure that the exact amount of money which the member has contributed to the pool of funds may at any time be returned to him. No member can reasonably anticipate that he will receive a gain on his investment. In some provinces, the legislation clearly prevents any gain to the members even on liquidation.

(3) Having regard to the wide acceptance of orders drawn on a number of different types of financial institutions, we believe it to be in the public interest that clearing facilities on a nonprofit basis should be made available to all such institutions by suitable statutory provision to assure equitable treatment.

Certain centrals already come under the Co-operative Credit Associations Act on a voluntary basis. Appropriate amendments to that act are desirable to bring it in line with legislation governing other financial institutions and to facilitate interchanging of funds between provinces. This would not infringe on the concept that credit unions, caisses and centrals should be voluntary organizations subject to local autonomy under provincial jurisdiction.

The validity of credit union legislation by the provinces rests on the double aspect theory of law. We strongly urge that any definition of banking—expressed or implied—in the Bank Act should be carefully framed so as not to undermine the constitutional validity of provincial credit union statutes.

For the reasons stated above, we respectfully submit:

(1) The inclusion of credit union and caisse centrals under the Bank Act, as proposed by the Commission, would be impractical and inequitable.

(2) Equitable clearing facilities should be provided.

(3) The Co-operative Credit Associations Act should be continued and the legislation liberalized.

(4) Provincial jurisdiction should be safeguarded.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-Seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 37

THURSDAY, JANUARY 19, 1967

Respecting

BILL S-25

An Act to incorporate The North West Life Assurance Company of Canada.

WITNESSES:

Mr. George Perley-Robertson, Q.C., Parliamentary Agent; Messrs. Peter Ropchan and Arthur W. Putz, North West Life Assurance Company, Vancouver, British Columbia; Mr. R. Humphrys, Superintendent of Insurance.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25560—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Addison,
Basford,
Cameron (*Nanaimo-Cowichan-The Islands*),
Cashin,
Chrétien,
Clermont,
Coates,
Comtois,
Flemming,
Fulton,
Gilbert,
Irvine,
Lambert,
Lamontagne,
Latulippe,
Leboe,
Lind,
McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Munro,
Valade,
Wahn—(25).

Hugh R. Stewart,
Acting Clerk of the Committee.

ORDER OF REFERENCE

THURSDAY, December 8, 1966.

Ordered,—That Bill S-25, An Act to incorporate The North West Life Assurance Company of Canada, be referred to the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

25560—1½

REPORT TO THE HOUSE

JANUARY 27, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

EIGHTEENTH REPORT

Your Committee has considered Bill S-25, An Act to incorporate The North West Life Assurance Company of Canada, and has agreed to report it without amendment.

Respectfully submitted,

HERB GRAY,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, January 19, 1967.
(75)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:05 a.m. this day. The Chairman, Mr. Gray, presided.

Members present: Messrs. Basford, Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Comtois, Gray, Irvine, Laflamme, Lambert, Latulippe, Leboe, Monteith, More (*Regina City*) and Mr. Wahn—(13).

In attendance: Messrs. George Perley-Robertson, Q.C. and A. deLobe Panet, Parliamentary Agents; Messrs. Peter Ropchan and Arthur W. Putz, North West Life Assurance Company, Vancouver, British Columbia; and Mr. R. Humphrys, Superintendent of Insurance.

The Committee proceeded to consideration of Bill S-25, An Act to incorporate The North West Life Assurance Company of Canada.

On the preamble

Mr. Basford, sponsor of the Bill, introduced the Parliamentary Agents and the Witnesses. Mr. Perley-Robertson explained the purpose of the Bill. Mr. Humphrys answered questions concerning the form of the bill and the proposed Company. He assured the Committee that the requirements of his Department had been met.

Messrs. Ropchan, Putz, Perley-Robertson and Humphrys were questioned and the Preamble was carried.

Clauses 1 to 9 inclusive and the Title were severally carried.

The Bill was carried without amendment.

Ordered,—That the Chairman report the Bill without amendment.

At 11:55 a.m. the Committee adjourned until Tuesday, January 24th at 11:00 a.m.

Hugh R. Stewart,
Acting Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, January 19, 1967.

The CHAIRMAN: Gentlemen, I see a quorum. The meeting is called to order. Our business this morning is to consider Bill S-25, an act to incorporate the North West Life Assurance Company of Canada. I should say at the outset that I understand the supporters of the government have been called to a special caucus at noon and if we do not finish our considerations by that time—I am not saying we should—we will have to adjourn our meeting and continue this afternoon unless, by some chance, we have a quorum made up of members of the other group. If that is the case, I will invite one of the other members to take the Chair.

Now, we first have with us this morning Mr. Ron Basford, the sponsor of this bill, together with the parliamentary agent for the bill and some of the officials of the company in question. I would ask Mr. Basford to introduce those present in the usual way.

Mr. BASFORD: Mr. Chairman and gentlemen, I would like to introduce the parliamentary agent for this company, Mr. George Perley-Robertson of Ottawa, who I am sure is familiar to all of you. After introducing him I would like to be excused. This morning I am chairman of the meeting of the prices committee. It is my day to be chairman and I have excused myself from that committee. However, I should return and I would appreciate the indulgence of this committee to be allowed to leave the proceedings in Mr. Perley-Robertson's hands and go back to the prices committee.

The CHAIRMAN: Yes. Thank you very much, Mr. Basford. You have performed the customary function. I do not know what else an agent has to do on these occasions. If there is anything else we will call you back. Now, Mr. Perley-Robertson, you do not have to stand, you may remain seated, and we will now ask you to present the details of this bill.

Mr. George PERLEY-ROBERTSON, Q.C. (*Parliamentary Agent, Ottawa*): Bill S-25 is a bill to incorporate The North West Life Assurance Company of Canada, the French name of the company being La Compagnie d'Assurance Vie North West du Canada. The purpose of the new company will be to acquire the rights and properties of North West Life Assurance Company, which was incorporated by private act in British Columbia in 1956. That company in turn acquired the business of North West Mutual Life Assurance Company, which was incorporated in British Columbia in 1951. The life insurance of the provincial company in force at the end of 1966 was $66,500,000. It carries on business in British Columbia and under licence in Alberta. The provincial company has 58 fulltime agents. It is principally in the life insurance business, but it also handles some personal accident and sickness insurance. The provincial company has 300,145 issued shares and 660 shareholders. The president of the provincial company, Mr.

Peter Ropchan, is present as well as Mr. Arthur Putz, the secretary-treasurer. The Superintendent of Insurance is also here.

The CHAIRMAN: He is not working for the company?

Mr. PERLEY-ROBERTSON: No, but if you are going to ask him questions.

The CHAIRMAN: Oh, yes, in due course.

Mr. PERLEY-ROBERTSON: But the two officers of the company are here to answer any questions.

The CHAIRMAN: Thank you.

Mr. MONTEITH: I was just wondering if Mr. Perley-Robertson could give us again the amount of stock outstanding. You mentioned 660 shareholders.

Mr. PERLEY-ROBERTSON: Three hundred thousand, one hundred and forty-five shares.

Mr. CLERMONT: And the number of shareholders?

Mr. PERLEY-ROBERTSON: Six hundred and sixty.

Mr. CLERMONT: That is the provincial company?

Mr. PERLEY-ROBERTSON: That is the provincial company that this company will be acquiring.

The CHAIRMAN: Now, Mr. Humphrys, if you would advance to the witness table. What comments do you have for us about this proposed application?

Mr. R. HUMPHRYS (*Superintendent of Insurance*): Mr. Chairman and gentlemen, this bill is in a form similar to that which has been before Parliament and this committee on many occasions in the past where a provincial company desires to achieve the status of a federally-incorporated company. The procedure has been, as in this case, to incorporate a new company by special act and to grant power to that new company under the act to take over the assets and liabilities and business of the provincial company. The bill, therefore, is in the usual form for that purpose.

I call your attention to one or two points in it. This new company will have an authorized capital of $1 million and the bill provides that the new federal company is not to commence business until $600,000 of the capital stock has been subscribed and paid. This is approximately the amount of capital stock that is subscribed and paid in the provincial company, so in the take-over of the provincial company by the federal company the capitalization will be up to that level.

You may think it odd when you look at clause 4, which reads:

> The amount to be subscribed and fully paid before the provisional directors may call a general meeting of the shareholders shall be two thousand two hundred and fifty dollars.

However, that is only a technical point. It means that the provisional directors, by subscribing for $250 worth of stock each in the new federal company, can then organize the federal company sufficiently to enter into an agreement with the provincial company, but no business will start until the amalgamation has been completed and an adequate capital is in hand.

This act cannot come into force until notice has been given by the Superintendent of Insurance in the Canada *Gazette*, and such notice is not given until we are satisfied that the act has been placed before the shareholders of the provincial company and until we are satisfied that the provincial company will cease business on the implementation of the agreement.

We have had examiners look into the company's books and records. The company has recently been expanding fairly rapidly. It is still in a position where it is suffering losses year by year, but we believe the trend is in the right direction and with the resources now in the company, provided it follows a careful path as far as the future is concerned, it has enough capital and surplus resources to permit it to develop its business and proceed to a profit-making position without danger of loss to the policyholders.

The CHAIRMAN: Now, Mr. Humphrys, are you able to tell us if the group that wishes this incorporation have met all the requirements of your department for that purpose?

Mr. HUMPHRYS: Yes, Mr. Chairman.

The CHAIRMAN: Can you tell us whether or not you have found anything adverse about the background and/or character of either the proposed incorporators or any of the others who are connected with the the management or control of this company?

Mr. HUMPHRYS: We have investigated such matters carefully, Mr. Chairman, and we have no reason to be critical of any of the persons who are involved in this incorporation. We believe their background, as we have determined it, is not objectionable in any respect.

The CHAIRMAN: Yes, Mr. Lambert?

Mr. LAMBERT: I have a supplementary in connection with the persons immediately following. Could you tell us whether the persons proposed as the provisional directors are all directors of the provincially-incorporated company or is there a branching out of the personnel?

Mr. HUMPHRYS: They are all directors of the existing company.

Mr. LAMBERT: They are all directors?

Mr. HUMPHRYS: Yes.

The CHAIRMAN: We are now, of course, on the preamble and we will begin our questioning.

(*Translation*)

First of all I give the floor to Mr. Clermont, followed by Mr. Wahn.

(*English*)

Mr. CLERMONT: What do you mean by the preamble, Mr. Chairman?

The CHAIRMAN: I was just saying that as a matter of form. Ordinarily our questioning—

Mr. CLERMONT: May we ask questions generally?

The CHAIRMAN: Oh yes.

Mr. CLERMONT: Mr. Chairman, I will ask my question in French.

(*Translation*)

I see that one of the directors is Mr. E. M. Gunderson. Has Mr. Gunderson any relationship with Mr. Gunderson who was provisional director of the group which came here to request a charter for the Bank of British Columbia?

(*English*)

Mr. PERLEY-ROBERTSON: He is one and the same person.

An hon. MEMBER: He has Mr. Basford on his side this time.

The CHAIRMAN: You could say, therefore, that those interested in this group might be called more eclectic than some of the others.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, what is the capital of the Provincial company?

(*English*)

Mr. Peter ROPCHAN (*President, North West Life Assurance Co.*): The authorized capital is 500,000 shares divided into $2 par value, which is $1 million in capital.

(*Translation*)

Mr. CLERMONT: What are the assets and liabilities of the Provincial company and the net assets?

(*English*)

Mr. ROPCHAN: I am trying to relate the figures as they relate to the year end of 1966. We just took our figures off recently. I was not up to date with them. Our liabilities amount to $1.8 million and we have $3 million in assets. Our capital and surplus amount to $1.2 million.

(*Translation*)

Mr. CLERMONT: I think Mr. Robertson mentioned that the turnover was $56 million, is that right?

(*English*)

Mr. ROPCHAN: $66.5 million.

(*Translation*)

Mr. CLERMONT: What is the sum which represents health insurance and personal accident insurance?

(*English*)

Mr. ROPCHAN: The figures of business in force do not relate to sickness and accident. That is life insurance business in force, including ordinary and group.

(*Translation*)

Mr. CLERMONT: Do you have the sum of the re-purchase for life insurance which the policy holder has as assets?

(*English*)

Mr. ROPCHAN: I wonder if you would be kind enough to repeat that question? I am afraid I did not get it.

(*Translation*)

Mr. CLERMONT: Would you have the figure representing the cash value of insurance policies?

(*English*)

I mean the cash value of life insurance policies.

Mr. ROPCHAN: We could give you the figures of the reserves required for the business in force.

Mr. CLERMONT: That will be all right.

The CHAIRMAN: Would that be similar, Mr. Humphrys?

Mr. HUMPHRYS: The actuarial reserves for the business in force must be at least equal to the cash surrender values. They may be higher but they may not be less. So, by knowing the figure for the actuarial reserves you would know approximately the cash surrender value.

Mr. CLERMONT: What is that figure?

Mr. ROPCHAN: That figure amounts to $1,444,103.

Mr. CLERMONT: Which will represent the cash value?

Mr. HUMPHRYS: Probably more than the cash values, yes.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, Clause 8 says that the Act must be approved "by a resolution adopted by at least two-thirds of the votes of the shareholders of the Provincial Company present." Mr. Humphrys, does this mean only shareholders actually present at the meeting or those that might be represented by proxy?

(*English*)

Mr. HUMPHRYS: It includes those present or represented by proxy.

Mr. CLERMONT: I ask this because clause 8 says "present", but according to you it is either by proxy or personally.

Mr. HUMPHRYS: The bill, as I have it before me, indicates at the top of page 3, "present or represented by proxy".

Mr. CLERMONT: Yes, I am sorry. It is all right. Thank you, Mr. Chairman.

Mr. WAHN: Mr. Chairman, could the witness tell me who will be the shareholders of the federal company? Who will own and control the new federal company?

Mr. ROPCHAN: The same shareholders that are in the provincial company.

Mr. WAHN: Who are they, essentially?

Mr. ROPCHAN: There are 660 of them in number.

Mr. WAHN: Is there any large, controlling shareholder?

Mr. ROPCHAN: The largest is about 40,000 shares, out of 300,000 outstanding.

Mr. WAHN: Which company is that?

Mr. ROPCHAN: It is not a company, it is an individual.

Mr. WAHN: Who is it?

Mr. ROPCHAN: It is Mr. Libin in Calgary.

Mr. WAHN: Mr. Libin?

Mr. ROPCHAN: In Calgary.

Mr. WAHN: The company is not a mutual company, it is a shareholding company?

Mr. ROPCHAN: Shareholding.

Mr. WAHN: Is Mr. Libin a Canadian?

Mr. ROPCHAN: Yes, he is.

Mr. WAHN: Are the shareholders essentially Canadian shareholders?

Mr. ROPCHAN: Yes, they are.

Mr. WAHN: And the directors will be Canadian?

Mr. ROPCHAN: Yes, they will be.

Mr. WAHN: And the officers?

Mr. ROPCHAN: They are.

Mr. WAHN: Under clause 7 the company is going to acquire the assets and liabilities of the provincial company. What price will it pay? Will it be in cash or will it be a share purchase or exchange, or just how will that be done?

Mr. ROPCHAN: It will be a share transfer. The company will transfer all its assets and liabilities to the federal company for an equal number of shares in the federal company. The status will remain the same when the whole company is transferred.

Mr. WAHN: What will be the selling price?

Mr. PERLEY-ROBERTSON: It is just a straight exchange of shares, Mr. Wahn.

Mr. HUMPHRYS: May I answer that?

The CHAIRMAN: Mr. Humphrys?

Mr. HUMPHRYS: It will be a transaction, Mr. Wahn, that has the sole effect of moving all the assets and liabilities of the provincial company into the federal company. The shareholders of the provincial company will become shareholders of the federal company in exactly the same proportions, so there will be no gain or loss to anyone in the transaction. The whole matter is a legal procedure for changing the corporate status of the company without changing the respective rights of the shareholders.

Mr. WAHN: My reason for asking is that clause 5(1) states:

> The Company shall not commence any business of insurance until six hundred thousand dollars of the capital stock have been subscribed...

That, presumably, is to ensure that there is capital available to meet any potential claims that might be made against the company. Whether that would be any protection or not would depend upon the nature of the agreement under which the federal company acquired the outstanding assets and liabilities of the provincial company. For example, I gather that the net value of the provincial company is $1.2 million, which is the amount of the capital and the surplus.

Then, to the extent that the price paid was greater than $1.2, you would be encroaching upon the $600,000 worth of capital which is required under clause 5.

Mr. HUMPHRYS: There will be no price paid, Mr. Wahn. The procedure contemplated here would be that the federal company would issue capital stock in exactly the same amount and number of shares as is outstanding in the provincial company. These shares of the capital stock of the federal company amounting to $600,000 would be handed to the provincial company and the provincial company would hand to the federal company all of its assets and liabilities; all its securities, cash and business in force. So, the situation would then be that the federal company has capital outstanding of $600,000. Its assets are exactly the same as the assets of the provincial company. Its liabilities are equal to the liabilities of the provincial company and the provincial company is left with its only asset this $600,000 in shares of the federal company and its only liability an equal amount to its shareholders. It then winds up and hands these shares to its own shareholders, so all the shareholders of the provincial company then become shareholders of the federal company and the federal company then presents a balance sheet which is identical to that of the provincial company. So there is no payment of dollars by the federal company to provincial company or to its shareholders.

Mr. WAHN: Just to make it clear in my own mind, what is the outstanding capital of the provincial company now, not the authorized capital.

Mr. ROPCHAN: The issued capital?

Mr. WAHN: The issued capital, yes.

Mr. ROPCHAN: $600,000.

Mr. WAHN: $600,000?

Mr. ROPCHAN: $600,000, right, $600,290.

Mr. WAHN: So the shares of the federal company are $10 par value shares?

An hon. MEMBER: No, $2.

Mr. WAHN: Well, clause 3 states:

> The capital stock of the Company shall be one million dollars divided into shares of ten dollars each.

Mr. ROPCHAN: The first action to be taken, Mr. Humphrys, would be that we would have to split those five for one to create the same par value shares in the federal company to enable us to transfer an equal number of shares right across. If we split them five for one it would then bring down the par value of the shares in the federal company to $2, as it now exists in the provincial company.

Mr. WAHN: What is the purpose of that?

Mr. ROPCHAN: I think it is part of the requirement of the act that they be $10.

Mr. PERLEY-ROBERTSON: Under the form in the act we have to have it this way, $10 par value.

Mr. LAMBERT: Mr. Chairman, it makes little difference, actually, whether they are $10 or $2. The person who is going to be holding 20 shares in the

provincial company will get four shares in the federal company, but there will still be the $600,000 of capital stock and it will, indeed, be subscribed.

Mr. WAHN: There is nothing in this bill that talks about a split of the stock.

Mr. LAMBERT: There is no need to.

Mr. PERLEY-ROBERTSON: Actually there is no need to, but to enable the shareholders to understand the transaction, in the opinion of the directors it could be better to split, thereby restoring the present shareholders to the same position and number of shares and par value of shares as they have in the provincial company.

Mr. WAHN: Well, I just want to have it clear. Mr. Humphrys, is it essential under the act that when a company is incorporated it should have $10 par value shares rather than, say $2 par value shares?

Mr. HUMPHRYS: Section 5(4) of the Canadian and British Insurance Companies Act, which governs these companies, reads:

> The capital stock of the company shall be divided into shares of one hundred dollars each, or if the special Act so provides, into shares of five dollars each or any multiple thereof, but not exceeding one hundred dollars each.

So in order to be within that provision of the general act it must be between $5 and $100.

Mr. WAHN: You are circumventing that provision if immediately thereafter you permit them to split their shares into shares of $2 par value each.

Mr. HUMPHRYS: There is provision in the law for subdivision of the par value of shares. That was put in by amendment in 1965. It reads:

> Notwithstanding anything contained in its Act of incorporation or in this Act, if the subscribed stock of a company is fully paid, the company may, by a by-law made by the directors and confirmed by at least two-thirds of the votes cast at a general meeting of the shareholders . . . divide the capital stock of the company into shares of one dollar each or any multiple thereof but not exceeding one hundred dollars each.

It goes on to say that where the capital stock of a life insurance company:

> . . .is divided into shares the par value of which is less than five dollars each, a holder of the shares shall have.....the number of votes that equals the product obtained by dividing the total par value of all his shares. . . by five.

This means that if you had a $10 par value and split to $1 you would not get ten votes, you would only get two votes. The reason for that restriction was to prevent a splitting of stock in order to multiply the votes of the shareholders to such an extent that they might outbalance the votes of the participating policyholders because under a life insurance company the participating policyholders also have voting rights. So, in 1965 Parliament amended the law to permit the par value to be split down to $1, but they put this stipulation in to prevent multiplying the voting power of shareholders unduly for that purpose.

Mr. WAHN: Am I correct in thinking, Mr. Humphrys, that the holder of one of these original $10 par value shares, when it is split into five shares, would have two votes?

Mr. HUMPHRYS: Yes.

Mr. CLERMONT: It would be all of the same proportion.

Mr. HUMPHRYS: Yes. In fact, you would create a situation where you would have fractional votes if you had less than ten shares.

Mr. WAHN: How would that stock be affected under the act, just by by-law?

Mr. HUMPHRYS: By by-law of the directors approved at a special general meeting.

Mr. WAHN: No amending special act would be required?

Mr. HUMPHRYS: No.

Mr. WAHN: Well, in your view, Mr. Humphrys, is this procedure in accordance with what is contemplated by the statute?

Mr. HUMPHRYS: Yes. I do not regard it as being contrary to the intention of the statute.

Mr. WAHN: Will the shares of the federal company, which are issued to acquire the business of the provincial company, be $10 shares? In other words, will they be issued before or after the split?

Mr. HUMPHRYS: I think it could be done either way, Mr. Wahn. They could be issued at $10 par and you might have to give fractional shares if you did it that way. Then at a split the shares of the new par value could be handed out in exchange for the fractions. The alternative would be to split first into $2 and then exchange share for share.

Mr. WAHN: So, they could not split before that issue. They could not split, could they, before that happens? Is it not true, Mr. Humphrys, that under the statute only fully paid shares may be split?

Mr. HUMPHRYS: That is correct, sir.

Mr. WAHN: If that is so I presume they would have to issue the shares at $10 as payment for the business of the provincial company and then split? Am I not right?

Mr. HUMPHRYS: I think that would be right.

Mr. WAHN: Well then, if that is so there are 300,000 shares at $2 each of the provincial company now outstanding, right?

Mr. HUMPHRYS: Right.

Mr. WAHN: Am I right in thinking, then, that you will issue 60,000 $10 shares of the federal company in full payment for the business and assets of the provincial company?

Mr. ROPCHAN: Yes.

The CHAIRMAN: Have you any further questions, Mr. Wahn?

Mr. WAHN: Well, what happens, Mr. Humphrys, to the surplus of the provincial company? You have $1.2 million in net assets of which $600,000 is capital, over into the federal company?

Mr. HUMPHRYS: It becomes a surplus of the federal company. I think I could make it clear if we considered that the assets of the provincial company were $3 million, its capital $600,000, its liabilities $1.8 million and its surplus would be $1.2 million. Now, the federal company would issue $600,000 of capital stock and it would receive the $3 million of assets. So, its balance sheet would show assets of $3 million; it would show the $600,000 of its own capital that it issued as a liability to its own shareholders and then it would take over the $1.8 million liability to the policyholders that become policyholders of the federal company. The difference between the $3 million assets it has taken over, the $600,000 capital that has been issued and the $1.8 million liabilities to the policyholders is the $1.2 million surplus.

Mr. WAHN: I have one final question, Mr. Chairman. I think you mentioned the liabilities were $1.8 million and there were actuarial reserves to cover the cash surrender value of $1.4 million. Am I right in thinking that the $1.4 million forms part of the $1.8 million worth of liabilities?

Mr. ROPCHAN: That is right.

Mr. WAHN: That is all, Mr. Chairman.

Mr. LAFLAMME: Mr. Chairman, I do not know if I understood Mr. Humphrys correctly in his first statement. This company has been in operation for the last ten years?

Mr. HUMPHRYS: Yes. Its history, in a sense, goes back much further than that because it had its origin in an assessment club that was operating in British Columbia back in the 1920's. It became a mutual life insurance company in 1951 and it became a stock company in 1956, so it has been operating in its present form for ten years.

Mr. LAFLAMME: For ten years.

Mr. HUMPHRYS: The new management took over in about 1961.

Mr. LAFLAMME: In 1961. Did I understand you correctly when you stated that the company suffered losses for the past years?

Mr. HUMPHRYS: That is correct, sir.

Mr. LAFLAMME: Could you elaborate a little more on that? What are the reasons for the losses and what is the degree of those losses?

Mr. HUMPHRYS: The reason is that the company was not very active until the new ownership took over. At that time more capital was put into it and it began to expand and do a certain additional volume of business. In a life insurance company when it is new and small and when it begins to expand, the expenses of putting new business on the books are quite heavy. So, the balance sheet shows a loss for the early years, until the volume of business becomes great enough that the premium income will begin to support the overhead expenses and the expenses of writing new business. So, you get the balance sheet effect of an operating loss for some initial period and it is therefore necessary to be sure that there is enough capital and enough surplus in the company at the outset to provide the resources to carry it through the initial period of expansion. It must carefully control its rate of expansion to see that it does not run its safety margins too low. Therefore so there is care taken to provide adequate protection and adequate safety margins for the policyholders.

Mr. LAFLAMME: But were the losses suffered more by what we call accident insurance or life insurance?

Mr. HUMPHRYS: I do not know whether Mr. Putz would have the figures split between the underwriting losses on the life insurance operation and the underwriting losses on the accident and sickness.

Mr. A. PUTZ (*Secretary-treasurer, North West Life Assurance Co.*): I can tell you that the accident and sickness business represents a very small portion of our business. We do a very nominal amount of this. For example, in 1966, out of some $813,000 of premium income, only $11,000 was attributable to sickness and accident insurance, so that the substantial portion of our business is life insurance.

Mr. HUMPHRYS: In 1965 the company suffered an underwriting loss, namely a decrease in its surplus margins of $218,000. In 1966 the underwriting loss was $145,000. So, the situation is improving. The company raised more capital in 1966 and it now appears to us in the department that the company will be able to put itself into a profitable position within the capacity of its capital and surplus, provided it does not launch any program of unduly rapid expansion.

Mr. LAFLAMME: Thank you, Mr. Chairman.

Mr. IRVINE: Mr. Chairman, first of all I would like to ask if the head office of this company is located in Vancouver?

Mr. ROPCHAN: That is right.

Mr. IRVINE: It says, according to clause 6, that the head office shall remain in the city of Vancouver.

Mr. PERLEY-ROBINSON: Excuse me, sir. It says "shall be in the city of Vancouver".

Mr. IRVINE: Yes, shall be in the city of Vancouver. Then I would assume from this that they are operating now as a company under a charter from the province of British Columbia, is that right? In essence, all they wish to do is to transfer from a provincial charter to a federal charter, is this right?

Mr. ROPCHAN: Right.

Mr. IRVINE: Now, I would like to ask this question: why? What are the advantages and what is the purpose? There must be a purpose for this.

Mr. ROPCHAN: The purpose, purely and simply is that we have been in existence since 1951, we have progressed slowly but in a fairly healthy manner and we look forward to the day when we can expand beyond the existing borders, that is, the provinces of British Columbia and Alberta. In order to enable us to do this it seems essential that we obtain a federal charter. Furthermore, as a young, growing company it is our desire to come under federal jurisdiction for supervisory purposes because of the technical competence of the superintendent of federal companies.

Mr. IRVINE: Now, you mention operations in British Columbia and Alberta. Are you also chartered under the province of Alberta?

Mr. ROPCHAN: No, we are not. We are registered as an extraprovincial company in Alberta.

Mr. IRVINE: Fine, yes. Thank you, Mr. Chairman.

(*Translation*)

Mr. LATULIPPE: We said, did we not, that the company was a specifically Canadian company?

The CHAIRMAN: In which way?

Mr. LATULIPPE: Is it a solely Canadian company? There are no interests in it held elsewhere than in Canada?

(*English*)

Mr. ROPCHAN: There are some shareholders who are resident in the United States.

Mr. PERLEY-ROBINSON: Well, 98.08 per cent of the shareholders are in Canada and .76 per cent in the United States and 1.07 per cent in Great Britain.

Mr. CLERMONT: 98 per cent?

Mr. PERLEY-ROBINSON: 98.08 per cent are in Canada.

Mr. CLERMONT: And 7 per cent in the United States?

Mr. PERLEY-ROBINSON: .76 per cent in the United States.

(*Translation*)

Mr. LATULIPPE: The profits and the investments will be exclusively made in Canada? Will the re-investment be solely in Canada?

(*English*)

Mr. ROPCHAN: At the present moment it is exclusively in Canada. This depends on opportunities, but it is intended that it will be solely in Canada.

(*Translation*)

Mr. LATULIPPE: In regard to certain regions, let us say, you are going to get an "X" amount of insurance in a given region. In return, do you intend to invest in that region?

(*English*)

Mr. ROPCHAN: If it is economically sound for the company to do so, that would be the case. It depends. After all, the company seeks the highest return it can find for the benefit of its policyholders, to enable it to pay dividends to its policyholders. Hence, we would invest not by locale but by industry and the return that is available. However, as the company expands it is only reasonable to assume that it will find investments in locales in which it operates.

(*Translation*)

Mr. LATULIPPE: I know several insurance companies which sell insurance policies, get capital from different regions. The region might be economically good to get capital from, but when it comes to re-investing this is no longer the case and these regions remain backward, yet they pay their capital into the insurance companies but do not benefit in return. They do not develop as they should. It seems to me that it would be logical that if an insurance company gets a certain amount of capital from a given region it should benefit from re-investment by the company.

(*English*)

Mr. ROPCHAN: The investment requirement of the company is actually laid down by the insurance act. Therefore, when we invest we must buy only those securities that are approved for life insurance companies. Now, it may be that certain areas have certain offerings, and if they conform with the requirements of the life insurance act, then there would be no reason to believe that any company would not buy these. If they are not approved—so often there are local issues that are not—it is beyond our ability to invest in those because of the act.

(*Translation*)

Mr. LATULIPPE: In consequence, I would have no objection to the incorporation of new companies, but it does seem to me that I should have an assurance that there will be possibilities, if you are getting capital out of a given area, for that area to be able to benefit from re-investments by the company incorporated, and that the company be exclusively Canadian and all benefits and re-investments be made in Canada. With this point of view in mind, I have no objection to the incorporation of this new company because I think it is a good idea to develop companies of this nature.

The CHAIRMAN: Any other questions?

Mr. IRVINE: I have a supplementary question, Mr. Chairman. The statement was made a moment or two ago, I believe, that 98.8 per cent of these shareholders—

Mr. ROPCHAN: 98.08.

Mr. IRVINE: — were in Canada. That is rather ambiguous. Are they residents of Canada? Are they temporarily in Canada?

Mr. ROPCHAN: They are residents of Canada.

Mr. IRVINE: And as far as you know they are Canadian citizens?

Mr. ROPCHAN: Yes, they are.

Mr. MORE (*Regina City*): Is that of individuals or of the value of the shares?

Mr. ROPCHAN: It is individual shareholders by shareholdings.

Mr. PUTZ: That is the number by shareholdings.

Mr. MORE (*Regina City*): In other words, 98 per cent of the 300,000 shares are owned by Canadian residents.

Mr. IRVINE: Mr. Chairman, may I ask another brief question? Perhaps the Superintendent of Insurance would like to answer this, but I am concerned about this liability factor of, I believe, $1,800,000. Is it not the custom to re-insure a certain percentage of the policyholders for the protection of the company? Am I right in this? If so, to what extent do you re-insure?

Mr. HUMPHRYS: I do not think I could give you any specific ratio. Each company must set its own retention limits, to use the technical phrase, having in mind its size and its capital and surplus. A small company would not want to retain a very large amount of risk on any one life. Now, perhaps Mr. Ropchan can indicate what the retention limits are at the present time.

Mr. ROPCHAN: The retention limit of the provincial company is $15,000. We re-insure the excess.

Mr. IRVINE: Of individuals?

Mr. ROPCHAN: For life.

Mr. IRVINE: Of individual policies?

Mr. ROPCHAN: Right.

Mr. IRVINE: Is that right?

Mr. ROPCHAN: Yes.

Mr. HUMPHRYS: So they would not be liable to pay more than $15,000 on any one life.

Mr. IRVINE: Now, may I ask of that $1,800,000, approximately how much would be re-insured?

Mr. ROPCHAN: When you are speaking of dollars, of the $66,500,000 that we have in force, approximately $22 million of it is re-insured.

Mr. IRVINE: Thank you, Mr. Chairman.

Mr. MONTEITH: Just as a supplementary, do you have re-insurance placed with you by other companies?

Mr. ROPCHAN: Yes, we do.

The CHAIRMAN: Now, if I may ask a brief question with respect to the name. Have you carried out a process of checking on the possibility of confusion on the part of the public with companies that have a similar name?

Mr. HUMPHRYS: We had a search made, Mr. Chairman, by the Department of the Registrar-General. The title North West or Northwestern has been a fairly popular phrase in company names. We examined the list and we did not think that there were any companies on the list, in fields of endeavour closely related to this company, to cause any confusion.

The CHAIRMAN: If you have no further questions, I will call the preamble. Shall the preamble carry?

Preamble agreed to.

Clauses 1 to 9 inclusive agreed to.

Title agreed to.

Bill carried without amendment.

The CHAIRMAN: Shall I report the bill without amendment

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Well, gentlemen, that completes the business for our meeting today. I will excuse our witnesses and I declare our meeting adjourned. Our next meeting will be Tuesday morning, January 24, when we will have the opportunity to hear from the Mercantile Bank of Canada.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 38

TUESDAY, JANUARY 24, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.

Bill C-222, An Act respecting Banks and Banking.

Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

Representing The Mercantile Bank of Canada: Messrs. Robert P. MacFadden, President; James S. Rockefeller, Chairman; Stewart B. Clifford, Executive Vice-President and General Manager; André Bachand and Kenneth B. Palmer, Q.C., Directors; and Henry Harfield, Counsel to First National City Bank.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25562—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Basford,	Davis,[1]	Lind,
Cameron (*Nanaimo-Cowichan-The Islands*),	Flemming,	Macaluso,[2]
Cashin,	Fulton,	McLean (*Charlotte*),
Chrétien,	Gilbert,	Monteith,
Clermont,	Irvine,	More (*Regina City*),
Coates,	Lambert,	Munro,
Comtois,	Latulippe,	Valade,
	Leboe,	Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

[1] Replaced Mr. Lamontagne, January 20, 1967.

[2] Replaced Mr. Addison, January 20, 1967.

ORDER OF REFERENCE

FRIDAY, January 20, 1967.

Ordered,—That the names of Messrs. Davis and Macaluso be substituted for those of Messrs. Lamontagne and Addison on the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

25562—1½

MINUTES OF PROCEEDINGS

TUESDAY, January 24, 1967.
(76)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:10 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Basford, Cameron (*Nanaimo-Cowichan-The Islands*), Cashin, Chrétien, Clermont, Davis, Flemming, Gilbert, Gray, Irvine, Laflamme, Lambert, Latulippe, Lind, Macaluso, Monteith, Munro, Wahn—(18).

Also present: Messrs. Andras, Cameron (*High Park*), Cowan, Johnston, Nowlan, O'Keefe, Stanbury, Thompson, Wahn, Whelan, Yanakis.

In attendance: Messrs. Robert P. MacFadden, President, The Mercantile Bank of Canada and Vice-President, First National City Bank; James Stillman Rockefeller, Chairman, The Mercantile Bank of Canada and Chairman, First National City Bank; Stewart B. Clifford, Executive Vice-President and General Manager, The Mercantile Bank of Canada; André Bachand and Kenneth B. Palmer, Q.C., Directors, The Mercantile Bank of Canada; Henry Harfield, counsel to First National City Bank; C. F. Elderkin, Special Adviser, Department of Finance; Denis Baribeau and Miss M. R. Prentis, research assistants.

The Committee resumed consideration of the banking legislation.

The Chairman introduced the witnesses and Messrs. Palmer and MacFadden made opening statements. In accordance with the resolution passed at the meeting of October 13, 1966, the brief of The Mercantile Bank of Canada is attached as *Appendix KK*.

In the course of his statement Mr. Palmer tabled the following documents:

(a) Memorandum of Agreement between the Rotterdamsche Bank N. V. and the International Banking Corp. (I.B.C.) a subsidiary of First National City Bank;

(b) Resolution adopted at a special meeting of the Board of Directors, International Banking Corporation, July 16, 1963;

(c) Telegram dated July 16, 1963 from First National City Bank to Rotterdamsche Bank.

On motion of Mr. Monteith, seconded by Mr. Wahn,

Resolved,—That the documents tabled by Mr. Palmer be distributed to the members of the Committee and included in the Minutes of Proceedings and Evidence. (*See Appendix LL*).

The witnesses were questioned, and, the questioning continuing, the Committee adjourned at 12:55 p.m. until 3:45 p.m. this day.

AFTERNOON SITTING
(77)

The Committee resumed at 3:45 p.m., the Chairman, Mr. Gray, presiding.

Members present: Messrs. Basford, Cameron (*Nanaimo-Cowichan-The Islands*), Cashin, Chrétien, Clermont, Davis, Flemming, Gilbert, Gray, Irvine, Laflamme, Lambert, Latulippe, Lind, Macaluso, Monteith, Munro, Wahn—(18).

Also present: Messrs, Cowan, Forrestall, Grégoire, Johnston, Keays, Langlois (*Mégantic*), Mackasey, Nowlan, Régimbal, Thompson.

In attendance: The same as at the morning sitting.

Questioning of the witnesses was continued.

During their testimony Mr. Rockefeller and Mr. MacFadden tabled copies of memoranda they had written following a meeting with Mr. Walter Gordon, the then Minister of Finance, on July 18, 1963.

On motion of Mr. Basford, seconded by Mr. Monteith,

Resolved,—That the memoranda of Messrs. Rockefeller and MacFadden be distributed to the members of the Committee and included in the Minutes of Proceedings and Evidence. (*See Appendix MM*).

The questioning continuing, at 6:00 p.m. the Committee adjourned until 8:00 p.m. this day.

EVENING SITTING
(78)

The Committee resumed at 8:30 p.m., the Chairman, Mr. Gray, presiding.

Members present: Messrs. Basford, Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Clermont, Davis, Flemming, Gilbert, Gray, Irvine, Laflamme, Lambert, Latulippe, Lind, McLean (*Charlotte*), Monteith, Munro, Wahn—(17).

Also present: Messrs. Andras, Cowan, Grégoire, Groos, Johnston, Kindt, Mackasey, Otto, Peters, Thompson, Whelan.

In attendance: The same as at the morning and afternoon sittings, except Mr. Baribeau.

Questioning of the witnesses was continued, and concluded.

The Chairman thanked the witnesses for appearing before the Committee, and they then withdrew.

At 10:55 p.m. the Committee adjourned until 11:00 a.m., Thursday, January 26, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

Extract from Minutes of Proceedings, Thursday, January 26, 1967.

On motion of Mr. Clermont, seconded by Mr. Cameron (*Nanaimo-Cowichan-The Islands*),

Resolved,—That copies of a memorandum by Robert P. MacFadden, President, the Mercantile Bank of Canada, filed with the Chairman at the meeting of January 24th, be distributed to the members of the Committee and included in the Minutes of Proceedings and Evidence. (*See Appendix NN, Issue No. 38*).

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, January 24, 1967.

The CHAIRMAN: I now declare formally open this meeting of the standing committee of the House of Commons on finance, trade and economic affairs.

Gentlemen, we are resuming our consideration of the proposed banking legislation. Our agenda this morning is to hear a brief presented on behalf of the Mercantile Bank of Canada.

With us this morning we have Mr. Robert P. MacFadden, President of the Mercantile Bank of Canada and Vice-President of the First National City Bank. As I introduce these gentlemen, perhaps they would incline their heads to indicate to the members of the Committee who they are. First, Mr. MacFadden, then to his right, Mr. James Stillman Rockefeller, Chairman of the First National City Bank of New York and Chairman of the Mercantile Bank of Canada. Then we have Mr. Stewart B. Clifford, Executive Vice-President and General Manager of the Mercantile Bank of Canada. Then we have Mr. André Bachand, Director of the Mercantile Bank of Canada, and Mr. Kenneth B. Palmer, Q.C., Director of the Mercantile Bank of Canada.

I understand that Mr. Palmer and Mr. MacFadden are going to present the brief. I have explained to them our procedure, that they are to present a brief summary of the document they have presented to us, following which they and their colleagues will be open to questions on the issues raised in the brief, firstly; following which, if time permits, any other issues that the members of the Committee deem relevant to the subject matter under consideration. Mr. Palmer and Mr. MacFadden, you may proceed.

Mr. KENNETH B. PALMER, Q.C. (*Director, The Mercantile Bank of Canada*): Mr. Chairman, and gentlemen, although I am general counsel of the Mercantile Bank of Canada, I am speaking to you today rather as a Canadian director of the bank. The submission of the bank which has been filed with your Committee clearly sets out the reasons why we object to clause 75 (2) (g) of Bill No. C-222.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, I wonder if I might ask the witness to take the microphone a little closer. It is very difficult to hear him.

Mr. PALMER: As is generally known, we object because the provision is retroactive and discriminatory. I do not propose to recapitulate the arguments that have been advanced in the brief. But I would like to emphasize one point—the acquisition of Mercantile Bank by First National City Bank was not a "foreign take-over." The Mercantile Bank was incorporated, by parliament, with the full knowledge that it would be foreign owned. What has happened was simply a transfer of ownership from one foreign owner (Dutch interests) to another (United States interests).

No one disputes the proposition—certainly I do not—that it is desirable that the control of Canadian banking should remain in Canadian hands, but when we speak of "the control of Canadian banking" what do we mean? Surely our thinking should not be confused or distorted by the fact that one small Canadian bank—whose assets represent less than one per cent of the total assets of all Canadian banks—is under United States control, a control that was acquired at a time when there were not restrictions against such an acquisition. As a matter of fact, there are no restrictions today.

I would hope that your Committee will view this matter in what I think is the proper perspective and will realize that no dire consequences would ensue if section 75 (2) (g) were retained for the future but there were included in it something in the nature of a "cut-off date" so that it would not apply to the one small Canadian bank to which, on the present wording, it does apply.

I do not, of course, ignore the publicity that has been given to a certain discussion that took place in Ottawa on July 18, 1963, with the then Minister of Finance, but I submit that it really should not matter who said what to whom at that interview. The facts of the matter are, and, with your permission, Mr. Chairman, I am now tabling copies of the relevant documents—

The CHAIRMAN: To what documents do you refer, Mr. Palmer?

Mr. PALMER: I will come to that in just a moment.

The CHAIRMAN: Well, I think that before you table them we will hear what the documents are and decide whether we wish to receive them.

Mr. PALMER: Very well. The documents are the following:

1. A copy of a Memorandum of Agreement dated June 26, 1963, between Rotterdamsche Bank of the Netherlands and International Banking Corporation, providing for the sale and purchase of all the shares of the Mercantile Bank of Canada.

As I say, that agreement is dated June 26, 1963.

The CHAIRMAN: For the record, sir, what or who is the International Banking Corporation?

Mr. PALMER: A wholly owned subsidiary of First National City Bank of New York.

The CHAIRMAN: Order. One minute, please. Somebody is walking around in the back of the room, and I have already issued instructions to the representatives of our witnesses that nothing is to be distributed in a way that would interrupt our meeting. If we do not have some compliance with orderly directions with respect to order, I will have to ask the people in question to be excluded.

Mr. CLERMONT: Mr. Chairman, on a point of order, why is this supplement being distributed to the press or to others before they are distributed to members of this Committee?

The CHAIRMAN: That is a very good point.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Absolutely. We want an explanation of that, Mr. Chairman.

The CHAIRMAN: I presume you are not asking me for the explanation.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I suggest that they all be recalled right now.

The CHAIRMAN: Would you mind asking your associates to recall these documents, sir?

Mr. BASFORD: Mr. Chairman, I rise on a point of order, and move that the documents be tabled and be made a part of the record.

The CHAIRMAN: If I may say so before accepting your motion—I do not want to think that we would get sidetracked on a procedural issue—the matter is really quite simple. First, we hear what the document and any annexed documents are and then the members take a brief look at them and then I will receive your motion. If that is done I think there will be no problem. I raise the matter of distribution more from the point of view of disrupting the witness' presentation because of noise and so on. It made it difficult for me to hear; I do not know about the other members present. Would you proceed, Mr. Palmer?

Mr. PALMER: I should say, Mr. Chairman, I had not known that the distribution was taking place at the moment.

The CHAIRMAN: Well, I can say that I specifically mentioned to one of your associates—not necessarily on the banking side, but one of your advisers—before the meeting began that nothing was to be distributed to the audience during the meeting with a view to not having it interrupted, as much for the witnesses' benefit as for anyone else's. Would you proceed, sir?

Mr. PALMER: The second document that I propose to table, is a copy of a resolution passed by the board of directors of the International Banking Corporation on July 16, 1963, approving the purchase of all shares of the Mercantile Bank of Canada on the basis set forth in a memorandum of agreement.

The CHAIRMAN: What is the date?

Mr. PALMER: The date is July 16, 1963; the agreement was June 26, 1963.

The CHAIRMAN: Would you describe the document?

Mr. PALMER: A copy of the resolution passed by the directors of International Banking Corporation.

The CHAIRMAN: Yes, sir, and the other documents?

Mr. PALMER: There is ony one other, a copy of a cable sent by Walter Wriston, vice president of International Banking Corporation; he is also executive, vice president of First National City Bank. The cable is addressed to Dr. C. F. Karsten, managing director of Rotterdamsche Bank in the Netherlands, dated July 16, 1963, and reads as follows:

> Our board acted affirmatively on bank and trust company today. Rockefeller Moquette visit Ottawa Thursday next and domestic banks will be informed by personal visits on Monday Tuesday next.

The CHAIRMAN: Before you proceed, Mr. Palmer, I will ask the clerk to distribute copies of these documents to the members so they will have a chance to glance at them while you are finishing your presentation. When you and your associate have finished your initial presentation, I will hear from the Committee if they wish to have them formally tabled. Will you proceed, Miss Ballantine, to distribute the documents.

Mr. PALMER: May I continue?

The CHAIRMAN: Go ahead.

Mr. PALMER: As I was saying, just before I referred to the documents, they do show that prior to the July 18, 1963 discussion, the First National City Bank—through a wholly owned subsidiary—had made a firm commitment to purchase the Mercantile Bank. At that time—and I want to emphasize this again—no approval for consent by the Canadian government or any governmental agency in Canada was required.

There is one further point that I think I have to mention, namely the intervention of the United States State Department, which has been given a great deal of publicity. But I venture to suggest to your Committee, Mr. Chairman, that here again the issues have become confused. I am quite sure that, in your minds, and in the minds of a large section of the public, the intervention of the United States State Department has done the Mercantile Bank no good. But let us look at the matter, for a moment, in this way. Suppose the situation were reversed and some foreign country was proposing to enact discriminatory legislation aimed solely at an established Canadian bank or other established Canadian business operating within its borders. Would you not, would I not, expect the Canadian government to do exactly what, in this case, the United States government has done? As a matter of fact, in several instances, the Canadian government has done just that.

But I submit that all that is really beside the point. I would hope that your Committee will look upon this matter simply as one involving a Canadian bank, established and operating in Canada for some thirteen years, incorporated by parliament with the full knowledge that it would be foreign-owned, and one that has done, and wants to continue to do, something constructive in Canada. I would not be a director if I did not feel that this is the case.

Thank you, Mr. Chairman.

The CHAIRMAN: I understand, Mr. MacFadden, that you have some brief supplementary remarks?

Mr. ROBERT P. MACFADDEN (*President, The Mercantile Bank of Canada and Vice-President, First National City Bank*): Yes, Mr. Chairman, with your permission.

One of the principal reasons why we welcome this opportunity to appear today before this Committee is that this is, literally, the first opportunity The Mercantile Bank of Canada has had to present publicly its views on Paragraph 75 (2) (g) of Bill No. C-222.

A great many views have been expressed in the past few months, but none by The Mercantile Bank of Canada. In conformity with Canadian parliamentary tradition, we have refrained until today from telling our own story as to the effect of Paragraph 75 (2) (g) upon The Mercantile Bank both in principle and in practice. We shall, to the extent we are able to, state them forthrightly today.

Our submission to your Committee recounts the history of The Mercantile Bank, describing its transfer of ownership from the Dutch, to whom the charter was granted, to First National City Bank, who owns it today.

Our submission also attempts to sketch the role that The Mercantile Bank plays in the Canadian financial community to dispel the myth that The Mercantile Bank is here to serve only United States interests.

When The Mercantile Bank of Canada obtained its charter in 1953 it was wholly owned by National Handelsbank of Holland. Mercantile branches were opened in Montreal, Vancouver and Toronto. In 1960, National Handelsbank was acquired by Rotterdamsche Bank N.V. of Rotterdam which decided to withdraw from Canada. Thus, First National City Bank had the opportunity to purchase the shares of Mercantile. Since then four additional Mercantile branches have been opened.

First National City Bank, incorporated in 1812, is a major factor in retail banking in the greater metropolitan area of New York City, in national banking across the continental United States and for United States corporations and correspondent banks, and internationally through 197 branches and affiliates in 60 countries. For nearly 100 years, First National City Bank has been an active lender to developing natural resource industries in Canada, as well as to major Canadian companies doing a broad business outside of Canada.

While The Mercantile Bank of Canada emphasizes banking service for business, including corporation financial services and international services, it also provides a full range of retail banking facilities at all of its branch locations.

May I respectfully call your attention now to two practical aspects of Paragraph 75 (2) (g) which you and other members of the Committee may wish to have in mind during our discussion.

The first is that establishing a ratio between total liabilities, including all capital accounts to authorized capital is, to say the least, unique and without precedent in banking regulations or practice internationally. Most countries requiring a capital ratio relate capital account to deposits. It is a fact that authorized capital in Canada bears no relationship to total liabilities, these ratios exclusive of The Mercantile Bank, varying from 28 to 1 to 70 to 1. It is, therefore, quite clear that banks in Canada do not relate liabilities to authorized capital, but rather to the total of the shareholders' equity. To compound the unfairness of Clause 75 (2) (g), we are being required to include our capital accounts, which are equity funds, in our total liabilities and to say that the total of deposits and equity funds and other liabilities must not exceed 20 times authorized capital. In Canada, while not spelled out in legislation, the traditional relationship between deposits from the public and shareholders' equity is approximately 20 to 1.

The second problem is how we can control the amount of money which our customers or others from around the world deposit with us. Corporate and correspondent bank customers frequently deposit large sums with us without prior warning to us. Thus, they can unwittingly put us in violation of the law. We find no safeguard in Bill No. C-222 to protect us against such contingencies.

The rest of our submission to you, gentlemen, probably needs no emphasis from me at this time, except that I would like to call attention to the fact that more than 86 per cent of our borrowers are companies that are wholly Canadian owned or Canadian controlled. Only something under 9 per cent of our borrowers are United States owned companies. Less than a quarter of our outstanding loans are to United States customers. I am sure you gentlemen have heard, as

we have, the claim that the growth of The Mercantile Bank must be limited because we allegedly have some power to require United States owned companies operating in Canada to do business with us. The record shows that if indeed we have this mystical power we have not exercised it very well. Of course, anyone familiar with the operations of modern business corporations knows that when they go abroad, be they Canadian companies going to the United States, or United States companies coming here, they usually deal with local banks.

To summarize, the First National City Bank, through its subsidiary, had a binding and enforceable contract to acquire the shares of The Mercantile Bank from the Dutch owners prior to the time Mr. Rockefeller and I called on the then Minister of Finance. To penalize us in 1967, for an action we took in 1963, when we were legally entitled to do so is retroactive legislation.

The terms of Paragraph 75(2)(g) can apply only to The Mercantile Bank. This is discriminatory legislation. Foreign ownership of Canadian banks is adequately circumscribed elsewhere in Bill C-222.

Compliance with Paragraph 75(2)(g) is impractical and beyond the control of The Mercantile. This is punitive legislation.

Finally, The Mercantile has demonstrated that it serves Canadian interests well and has done nothing that would justify the kind of treatment Paragraph 75(2)(g) would accord it. Thank you, Mr. Chairman.

The CHAIRMAN: Now, gentleman, you have had an opportunity to take a look at the documents which have been circulated and which were referred to by Mr. Palmer. Is the Committee willing to have me accept a motion that they be tabled and form part of our record?

Mr. MONTEITH: I so move.

Mr. WAHN: I second the motion.

Motion agreed to.

The CHAIRMAN: Now, gentlemen, our usual approach is for myself, as Chairman, to suggest to the Committee the order in which we will discuss topics raised by our witnesses. I have looked over the brief, and it would seem to me that it falls into certain natural sections.

Firstly, I would suggest that the statement of facts can be taken together with paragraph B, retroactivity, as one topic with paragraph A and C "discrimination and punitiveness" taken together as another topic; followed by something that is not marked as a paragraph but is the second paragraph of page 9, which seems to raise a specific area of discussion of Canadian government control over banks such as the Mercantile. For the sake of convenience I will refer to it as paragraph E. Finally, paragraph D, the growth opportunities for Canadian business at home and abroad, which our witnesses suggest may be enhanced by their firm's operation.

Is my suggestion clear to the Committee? Are we in agreement that we will proceed in this order?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Now, I have a further question to Mr. MacFadden before going on to recognize members who wish to pose questions. Have your summary,

and that of Mr. Palmer, been reproduced in a way that they can be distributed forthwith to the Committee; or—putting it more bluntly—are those materials in the press kits of your public relations adviser?

Mr. MACFADDEN: They are available for distribution to the Committee.

The CHAIRMAN: Perhaps you might ask someone to circulate them and while this is being done, I will ask the members of signify to me in the usual way in what order they would like to be heard. I see Mr. Laflamme, Mr. Monteith, Mr. Cameron, Mr. Clermont, Mr. Wahn, Mr. Munro, Mr. Chrétien, Mr. Lind, Mr. Flemming.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, would you see that those are distributed to the Committee before the press gets them.

The CHAIRMAN: Order. Yes. My purpose in not recognizing members of the Committee immediately to pose questions was because it occurred to me that while the witnesses were making their initial presentation these copies might have been reproduced for the use of others and I thought the Committee should have an equal opportunity to see them while they pose their questions. I would ask those in the audience to take their seats so that we may continue with our hearing in the orderly fashion we have attempted to follow in the past.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I would like a copy of the presentation. None was distributed to this side.

The CHAIRMAN: That is right.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Let us speak to these public relations men from across the line and tell them we do not approve of this.

The CHAIRMAN: Order. I would ask that distribution not be made in the audience until the members receive copies of these documents. Hand out the whole kit. I am informed that these are included in a handy press kit, and I think we shall just circulate them around to the members to assist them in their deliberations. Both Mr. Palmer's introductory remarks and Mr. MacFadden's introductory remarks are included in the brown envelope which I have instructed the clerk to distribute at this time. Has everyone had a chance to locate the documents in question?

(*Translation*)

To begin I yield the floor to Mr. Laflamme. Mr. Laflamme are you ready to begin with your questions?

(*English*)

Mr. LAFLAMME: Mr. Palmer, in Paragraph 2 of your summary you state that these articles apply only to the Mercantile Bank and you talk about the question of retroactivity. You knew in 1963 that all the charters for the banks were issued for ten years.

Mr. PALMER: Ordinarily, or in the normal course, they would come up for review in 1964.

Mr. LAFLAMME: They would come up for review in 1964.

Mr. PALMER: Yes.

Mr. LAFLAMME: Did you examine the bill where Canadian owned banks have to sell or get rid of some of the shares they may own in trust companies and other financial institutions?

Mr. PALMER: You mean in this present bill?

Mr. LAFLAMME: And down to 10 percent.

Mr. PALMER: Yes.

Mr. LAFLAMME: While clause 75 (2) (g) is going to allow you to keep up to 25 per cent of your block of shares? Do you think it would be either retroactivity or discrimination when the Canadian owned banks have to reduce to 10 per cent while you stay at 25 per cent.

Mr. PALMER: With all respect, those apply to different situations. The other banks are affected by the restriction on ownership of other companies, yes, but Mercantile is the only bank which would be governed by this 20 times authorized capital formula.

Mr. LAFLAMME: Yes; but did you ever ask the Canadian government to increase your authorized capital?

Mr. PALMER: No; we have not, as yet.

Mr. LAFLAMME: Thank you, Mr. Chairman.

The CHAIRMAN: Now I recognize Mr. Monteith.

Mr. MONTEITH: I have not entertained any questions as yet.

The CHAIRMAN: Oh, I am sorry. Mr. Cameron.

Mr. MONTEITH: I would like to be down for later.

Mr. CAMERON (*Nanaïmo-Cowichan-The Islands*): I would like to direct a question to Mr. Rockefeller, if I may, as the head of the First National City Bank of New York. I presume, Mr. Rockefeller, you wish to come into Canada with your operations in order to participate in the operations of the Canadian economy, to make money, shall we say, from the Canadian economy, and I am not criticizing you for that. Is this your purpose? Could you tell me in what way this differs from the position of a Canadian who goes to the United States and wishes to remain a Canadian, even as you wish to remain an American, but wishes to make some money by employment and finds himself heaved over the border back into Canada by the F.B.I.?

An hon. MEMBER: Or the R.C.M.P.?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No, no. This is the other way. They are throwing us back in here. Is this not the same type of thing?

Mr. J. S. ROCKEFELLER (*Chairman, The Mercantile Bank of Canada and Chairman, First National City Bank*): I have a little difficulty in following you, Mr. Cameron.

Mr. CAMERON (*Nanaïmo-Cowichan-The Islands*): But you do have restrictions in your country, quite severe restrictions, much more severe restrictions on the operations of Canadian citizens in the United States than we have on the operations of American citizens in Canada. This is notorious, it is very well known.

Mr. ROCKEFELLER: I will not argue it with you, I am very familiar with it.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Could you tell me this, Mr. Rockefeller? Do you know of any way in which a Canadian bank could enter the business of banking in the United States with the same privileges that you have come here to demand from the Canadian parliament?

Mr. ROCKEFELLER: I am most familiar with the New York situation. The Canadian banks operating in New York have more privileges than the state banks or the national banks operating in New York. They have more, not less.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That is not exactly the answer to my question, Mr. Rockefeller. As I am sure you are aware, what you are asking for is the usual powers and privileges of a Canadian chartered bank which is, to operate throughout the whole country, to establish as many branches as you want to. Can you tell me, is it possible for a Canadian bank to receive that sort of treatment in the United States under existing American legislation?

Mr. ROCKEFELLER: Yes; they have to get permission of the authorities to do so, just as we would in our own country.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Permission from what authorities?

Mr. ROCKEFELLER: The Comptroller of the Currency, the State Banking Superintendent, and the Federal Reserve Board, and the F.D.I.C. probably.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Are you telling me, Mr. Rockefeller, that these federal agencies have the power to authorize a Canadian bank to operate in the state which prohibits foreign banks from operating in it?

Mr. ROCKEFELLER: Just a minute. Have the federal authorities what—?

Mr. CAMERON (*Nanaïmo-Cowichan-The Islands*): Have the federal authorities the power to permit a Canadian bank to operate in a state of the American union which prohibits foreign banking?

Mr. ROCKEFELLER: I did not know there were any such states. I do not pretend to be a lawyer. I am just a banker. We have a lawyer here. May I ask him?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes.

Mr. ROCKEFELLER: Mr. Harfield, are you here?

Mr. HARFIELD (*Counsel, First National City Bank*): Well, answering your question, Mr. Cameron, as best I can, the present law in the United States leaves to each of the states the right to accept or not to accept bank establishments, and in a sense, leaves to each of the states the same right with respect to banks organized in the United States. There is in prospect, and it has been introduced in congress, federal legislation which would apply on a national basis and which probably would override any state limitations.

I am not aware of any particular prohibitions by a particular state against any doing business. Certainly, so far as I know, there is no restriction on the ownership of locally incorporated banks. That is to say, if a Canadian group, or a Canadian bank, chose to seek a charter, whether a national charter or a state charter, there would be no restrictions on their ownership itself or on the bank ownership itself in any state.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): We have had evidence before the Committee that there are states of the American union which do prohibit foreign owned banks to operate.

The CHAIRMAN: Mr. Cameron, I think perhaps, first, it would be useful if the person who has just spoken would identify himself, and secondly, if he will draw up a chair. Now, I think for the record you should identify yourself, sir.

Mr. HARFIELD: My name is Henry Harfield. I am a lawyer.

The CHAIRMAN: From where?

Mr. HARFIELD: From New York; I am not admitted to practice in Canada.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Our lawyers will see to that.

The CHAIRMAN: We have a lot of lawyers here who are not admitted to practice. They do not start out that way but after the years, certain expertise develops in these parliamentary circles. Are you affiliated with a firm or are you a sole practitioner?

Mr. HARFIELD: No, I am a member of the firm of Sherman and Stirling.

The CHAIRMAN: Mr. Harfield, if I may just intrude for a moment, are you familiar with the report made by Dr. Zwick of the United States before the Joint Economic Committee—

Mr. HARFIELD: Yes, I am. I have read that.

The CHAIRMAN: —of the United States Congress. Well, sir, in the light of your last question I would like to direct you to footnote 2 at the bottom of page 1 of the Zwick memorandum which reads as follows:

> In at least one instance non-United States residents have obtained a charter to establish a subsidiary national bank in the United States. In accordance with the provisions of the National Banking Act, all the directors of this bank are United States citizens and the lending limits are governed by the equity capital invested in the subsidiary by the foreign owners. Because of these and other provisions in the act which was originally intended to apply to domestic bank applicants, virtually all foreigners regard the establishment of a subsidiary national bank as an unattractive instrumentality for entering the American market.

Mr. HARFIELD: Do you wish me to comment on that, sir?

The CHAIRMAN: Yes.

Mr. MACALUSO: Mr. Chairman, on a point or order. I believe the Chair had asked Mr. Laflamme to question, and unless Mr. Laflamme is finished, I do not know why the Chair—

The CHAIRMAN: Mr. Macaluso, if you do not mind, please, actually we had moved on to Mr. Cameron, and you have just lately come on to the Committee and perhaps you are not familiar with the procedure we have followed.

Mr. MACALUSO: I would like to find out what it is, Mr. Chairman.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I gave the Chairman permission to intervene with a question of his own. He asked me for permission.

Mr. MACALUSO: I said Mr. Cameron, however, I did not hear whether he had said anything before that.

The CHAIRMAN: I suggest that we shall not have interruptions which are not based on a knowledge of the detailed method we have worked out for eliciting information from our witnesses. Perhaps members who have just come on to the Committee will consult with their colleagues to see whether or not they are noticing something which is not ordinarily found by the Committee.

Mr. MACALUSO: Mr. Chairman, I do not intend to sit here and take that from the Chair. I will say very frankly that I meant Mr. Cameron and not Mr. Laflamme, but at the same time it seems odd to me that a procedure is set out under which the Chair is doing all the questioning and the members are sitting here who have raised their hands in order. I understand the procedure of the parliamentary committees has been that the Chair waits until the other members are completely finished.

The CHAIRMAN: I have not as yet begun asking all the questions. It is obvious from your comments that it will not be necessary.

Mr. MACALUSO: I trust that if I can—

The CHAIRMAN: Mr. Macaluso, I might say that at the very least you will accord me the same respect that you expected from others on the transportation committee when you were presiding.

Mr. MACALUSO: They asked questions before the Chair did, Mr. Chairman.

Mr. HARFIELD: Let me start with a direct reference to the Zwick report. The National Bank Act in the United States provides for the organization of banks under federal charter. This parallels the system by which each of the 50 states may charter their own banks. We call this in the United States the dual system of banking. A prospective investor, therefore, has an option whether he chooses the federal system which results in his having a national bank or whether he elects to have a charter under one of the 50 states. The Zwick comment was directed to national banks. The National Bank Act requires that the directors of a national bank be citizens of the United States. It imposes no restrictions on ownership of stock in a national bank so that so far as the federal law in the United States is concerned, a foreign bank or group of foreign individuals may own, and some of them do, all the stock of a national bank. They must, it is true, elect as their representatives and as the ones who manage and have the responsibility for running the bank, United States citizens. This has to do with the composition of the board and not with the ownership of the bank.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have a further question. Under the National Bank Act, is it possible for a bank to operate a branch banking system throughout the United States in the same way a Canadian chartered bank can operate throughout Canada?

Mr. HARFIELD: No, sir, not under the present law.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It is not possible to get the same privileges that you people are asking for here in Canada?

Mr. HARFIELD: It is possible to get the same privileges that are available under American law. We do not have quite the scope that you have in Canada

with respect to the country-wide system of banking. We are still somewhat more fragmented in this regard. It is possible however to obtain exactly what any American group can obtain in the United States.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But that is all?

Mr. HARFIELD: Yes, that is all.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): We have had some reference made to the meeting that was held with the former minister of finance the hon. Walter Gordon on July 18, 1963 and which was attended, I believe, by Mr. Rockefeller, Mr. Elderkin, Mr. Bryce—

Mr. HARFIELD: And Mr. MacFadden.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): And Mr. MacFadden, too. I have before me a sworn statement by the Inspector General of Banking.

The CHAIRMAN: Mr. Cameron, I think I should intrude here. I do not think it is a sworn statement. I think it is a memorandum prepared by Mr. Elderkin.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, a memorandum prepared by Mr. Elderkin in which he quotes you, Mr. Rockefeller, as saying this.

> Mr. Rockefeller said that the National City had made an arrangement with the shareholders of Mercantile to acquire the shares of the latter bank but that no firm commitment had been made.

Could you comment on that?

Mr. ROCKEFELLER: Yes, I am very glad to indeed. When Mr. MacFadden and I returned to New York after that same meeting I dictated a memorandum—I do not know what compelled me to do it—outlining my recollections, and Mr. MacFadden did the same thing with regard to his recollections. We did this completely independent of each other. It was very clear in my mind, and I think I was doing the talking at that point, that we had made a contract with the Dutch people. However it is obvious that I did not get that message across to the Canadian people present. Let us say, there was a breakdown in communications. I think the best answer is that the facts speak for themselves. The contract had been made and has been introduced as evidence. Those are the facts. It is obvious that as I was talking they did not understand me. I did not get the message across, which I unfortunately regret.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Rockefeller, can you tell me the purpose of your visit to Ottawa? Was it to interview the Canadian authorities?

Mr. ROCKEFELLER: Yes, ordinary courtesy, to inform them what we were doing. We were not required to do this, but we did so out of ordinary courtesy.

Mr. BASFORD: Surely your agreement of June 26 required you to do so.

Mr. ROCKEFELLER: I do not want to get into an argument with you, but I do not think we had to. It was courtesy to do so.

Mr. BASFORD: The fifth line of your agreement requires you to do so.

The CHAIRMAN: Order, please. It is our custom not to accept supplementaries in the course of questioning unless the questioner yields.

Mr. BASFORD: My apologies, Mr. Chairman.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You can deal with Mr. Basford later. You say you had come as a matter of courtesy.

Mr. ROCKEFELLER: Yes, what we considered as a matter of courtesy.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I find that a little difficult to understand, Mr. Rockefeller. You must have been aware, or your advisers must have been aware, of the growing debate that was going on in Canada at that time of the whole question of foreign ownership. You surely must have been aware that the minister of finance at that time, Mr. Gordon, had very strong views on the subject and had written a book about it. It seems a little difficult to believe that you did not think you would meet some opposition in Canada.

Mr. ROCKEFELLER: May I comment, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. ROCKEFELLER: I do not intend to speak for Canadians, but my impression was that back in 1963, when we made this visit, this question had not reached the stage of heat or publicity that it has today. I had never heard that Mr. Gordon had written a book until he told me so at that meeting. My apologies to Mr. Gordon, but I do not read every book that is published. I would have no way of knowing whether Mr. Gordon was speaking for Mr. Gordon or whether Mr. Gordon was speaking for you, gentlemen, or the parliament or the Prime Minister. I did not know for whom he was speaking.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Are you not aware, Mr. Rockefeller, that a member of the Canadian cabinet speaks for the government when he speaks?

Mr. LAMBERT: When does he deliver a budget in his office?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not quite get that comment, but surely when you were contemplating entering the Canadian scene you and your advisers would have made yourselves fully acquainted with the state of public opinion in Canada as well as the economic state of affairs in Canada.

Mr. ROCKEFELLER: We made ourselves familiar with the state of the law to the best of our ability. We consulted Canadian counsel as well as our own counsel.

Mr. LAFLAMME: May I ask a supplementary question at this point. Before seeing Mr. Gordon, had you met anyone else here?

Mr. ROCKEFELLER: No. Mr. MacFadden called—I had seen that Mr. MacFadden had called on Mr. Rasminsky and, of course, I have seen Mr. Rasminsky at bankers' meetings, and world bank meetings, and things like that.

Mr. LAFLAMME: Did you, in fact, Mr. MacFadden, meet Mr. Rasminsky four or five weeks before you met Mr. Gordon?

Mr. MACFADDEN: At my request. I communicated with Mr. Rasminsky and asked for an appointment with him in order to talk privately and this I did on the 20th of June, as I recollect. As soon as we knew that the Dutch owners of the Mercantile Bank intented to sell their shares we had to know whether or not it would be lawful for us to buy them. We ascertained that it was perfectly lawful under Canadian law for us to buy this stock and that no permission of any

Canadian government authority was required. I am advised that that is still an accurate statement of the law. In the context we had to assume that the views of individuals with regard to the proposed transaction, however highly placed they might be, were expressions of personal attitudes. In fairness to Mr. Rasminsky, he at no time suggested—

Mr. LAFLAMME: On a point of order, Mr. Chairman. I think the witness is reading his answer. I did not tell him that I would be asking this question.

The CHAIRMAN: It probably shows how Mr. MacFadden became a vice-president of the National City Bank. I think that under those circumstances he should be able to give the answer he has in mind. If it goes well beyond the ambit of your question, then you can make the appropriate comment.

Mr. MACFADDEN: At no time did Mr. Rasminsky suggest that the proposed acquisition was in violation of the Canadian law.

The CHAIRMAN: Did he advise you to see the minister of finance?

Mr. MACFADDEN: He recommended that I report the progress of negotiations to him and eventually to the minister of finance. The commitment to purchase was made on June 26, and signed in Rotterdam on that date. On July 2, following the July 1 holiday, I communicated this fact to Mr. Rasminsky and subsequently to the minister of finance in the company of Mr. Rockefeller.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You had not met, Mr. MacFadden, with the minister of finance before July 18?

Mr. MACFADDEN: No, I had never met the minister of finance.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Did Mr. Rasminsky not suggest that it might be advisable to see him before you proceeded?

Mr. MACFADDEN: As I say, he asked me to keep him informed of the negotiations and he suggested that we return to see him when the deal was firm, and I told him that we would return to see him when the deal was firm and it was at that time. I would suggest that we see the minister.

Mr. LAFLAMME: Did Mr. Rasminsky tell you to see Mr. Gordon before doing anything else?

Mr. MACFADDEN: This took place almost four years ago and it is a little difficult to recollect the wordings of the private conversation with the governor. In reply to his question I said that we would certainly keep him informed and that we would return when we had a firm deal. At that point the negotiations were proceeding rather rapidly and within six days we reached an agreement with the Dutch.

Mr. LAFLAMME: How did it happen then that five or six weeks passed before you saw Mr. Gordon. You are saying that the negotiations were going ahead rapidly, but at the time you saw Mr. Gordon you intimated to him that there were no firm commitments.

Mr. MACFADDEN: As Mr. Rockefeller tried to explain, this agreement, having been signed in Rotterdam on the 26th, and the agreement having been brought back to us in New York, when we did call on the minister of finance through the appointment arranged by Mr. Rasminsky we went to see him with the knowl-

edge that we were committed. As Mr. Rockefeller pointed out, during the course of conversation we apparently did not make this fact clear.

Mr. LAFLAMME: Why not?

Mr. MACFADDEN: That is a question I cannot answer. We apparently did not make it clear.

The CHAIRMAN: When did the United States Federal authorities give approval to this transaction?

Mr. CLERMONT: Mr. Chairman, with due respect to the Chair, you refused a supplementary to Mr. Basford before.

The CHAIRMAN: Oh no, I did not refuse a supplementary.

Mr. CLERMONT: Certainly you did.

The CHAIRMAN: He asked several questions and they were answered.

Mr. CLERMONT: Up until now the Chairman and the Vice-Chairman have asked supplementary questions. I did not hear Mr. Cameron yield to either you or Mr. Laflamme.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes I did, Mr. Clermont.

Mr. CLERMONT: But you did not do it very loudly.

The CHAIRMAN: Mr. Cameron, have you finished?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have finished for the time being, Mr. Chairman.

The CHAIRMAN: I think Mr. Bachand was to supplement the answer to this last question.

(*Translation*)

Mr. BACHAND (*Director, the Mercantile Bank of Canada*): Mr. Chairman, I am a Director of the Mercantile Bank since March, 1963. I would like to say, as a matter of fact, that for some months the owners of the shares, the Dutch, were trying to find purchasers for their shares. Never, at any time, did either the Governor of the Bank of Canada, or the Minister of Finance, ask the Dutch not to sell to this or that purchaser, or ask the Americans not to buy, when they found out that negotiations were afoot.

(*English*)

Never, never were the Dutch told to sell to this one or that one, and never were the Americans told not to buy or not to purchase.

The CHAIRMAN: Were you in Mr. Gordon's office?

Mr. BACHAND: I was not in Mr. Gordon's office, but I want to say, Mr. Chairman, that until the time of the negotiations, in all fairness, that the law stood as it is, and as it still stands; and I believe that there are some Canadians who believe in the supremacy of parliament, that the law is the law unless it is changed by an act of parliament—

An hon. MEMBER: That is what we are discussing now.

Mr. BACHAND: Yes, but it was not changed at the time, Mr. Chairman, and I wanted to make that point.

The CHAIRMAN: Have you a question, Mr. Cameron?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No, I have finished for now; I have questions on the other issues later.

The CHAIRMAN: I recognize Mr. Munro followed by Mr. Clermont. We are dealing with the issue of retroactivity.

Mr. MUNRO: Mr. Chairman, I think this aspect of the retroactivity is one that seems to be bothering most of us, and it seems to be bothering the gentlemen that are before us this morning. In a preface to my question, it would be my impression that if a Minister of the Crown advised you, Mr. Rockefeller, and your associates, when you were with him, I believe on July 18th, 1963, that the Canadian Government would not look favourably upon your acquisition, then this considerably weakens your argument with respect to retroactivity. You are served, in fact, with an intention on the part of the Canadian government to take all necessary legal actions to prevent this type of dealing. But, we come back to that conversation, which took place on July 18th, and Mr. Cameron asked some questions about it. You indicated—Mr. MacFadden did also—that apparently there was a break down in communications and you did not get through to Mr. Gordon that a firm deal had been made by you. Is that a correct statement of yours?

Mr. ROCKEFELLER: It must be, yes.

Mr. MUNRO: Well, I think it has been established, certainly to my satisfaction, that a memorandum was prepared by Mr. Elderkin, who was also present at the meeting I believe, Mr. Bryce, the then Deputy Minister of Finance, of the conversation of what took place at your meeting. It was shown to Mr. Gordon and there was a consensus between them that this was the sum and substance of your meeting. So that it would appear that you failed to communicate also with Mr. Bryce and Mr. Elderkin as well as Mr. Gordon. You failed to get through to them that a firm deal had been made.

Mr. ROCKEFELLER: That is a reasonable assumption on the basis of what they say.

Mr. MUNRO: Do you not think it seems somewhat strange that three gentlemen, who I believe the same day took a memorandum of your discussion, hold the firm opinion, substantiated in a memorandum written on the same day, from my understanding of it, that in fact you had stated that no firm deal had been made; and fact that you had gone on to say, to paraphrase, if you like, Mr. Gordon's comments too, that if you proceeded you proceeded at your own peril.

Mr. ROCKEFELLER: I put those words in his mouth.

Mr. MUNRO: You put those words in his mouth. Did you say that?

Mr. ROCKEFELLER: Yes, I remember saying those words, and he nodded his head and said yes. He did not use those words; I used those words. I remember very well.

Mr. MUNRO: Well that is a rather peculiar statement for you to make, to say "If we proceed, we proceed at our own peril"; yet today you say that you had already proceeded and had a firm commitment.

Mr. ROCKEFELLER: May I make a comment?

The CHAIRMAN: Mr. Rockefeller.

Mr. ROCKEFELLER: A few minutes before that the Minister of Finance at that time made the statement that the charters of the Canadian Banks came up for renewal every 10 years, and that the next go-around a renewal under these circumstances might not be allowed. That is the context of the "do it at your peril" business, as I recall it.

Mr. MUNRO: You are suggesting then that the Canadian government would indicate approval of your activities and then wait to get you at a later time on the renewal. Is that what you are suggesting?

Mr. ROCKEFELLER: There was no question of our legal right to act at that time. Mr. Gordon never raised that point. He did raise the the point that when the charter came up for renewal he might recommend that it not be renewed. He is leaving us out on the end of a limb.

Mr. MUNRO: Mr. Rockefeller, if I may continue, I still fail to see how your comment "if we proceed we proceed at our own peril" would fit into that context, having already proceeded and already having had a firm deal. Would it not be a superfluous remark in that context?

Mr. ROCKEFELLER: Remember, this was a conversation. This was not a document being prepared for legal scrutiny. We never thought we would be back here arguing. This was a recollection—I mean this was an informal document of recollection. It was not prepared by a lawyer; it was prepared by me, a bank clerk.

Mr. MUNRO: Well I would like to be a bank clerk like you, Mr. Rockefeller.

The CHAIRMAN: Perhaps you will tell him how you did it.

Mr. MUNRO: Mr. Rockefeller, another aspect of this bothers me a little bit. In answer to Mr. Cameron you suggested that you were not aware that Mr. Gordon had written a book.

Mr. ROCKEFELLER: Please convey my apologies.

Mr. MUNRO: I certainly will. I believe your official capacity with the National City Bank is the Chairman of—

Mr. ROCKEFELLER: Chairman, period. We simplified it.

Mr. MUNRO: All right. Prior to this discussion and prior to your meeting with Walter Gordon, I think perhaps the height of the discussion on the question of foreign ownership took place in Canada. Previous to this time, a very contentious budget was introduced.

An hon. MEMBER: Most of which was drawn off.

Mr. MUNRO: —yes, some of which provisions dealt with foreign ownership. Mr. Gordon was the Minister of Finance at the time. As chairman of the National City Bank of New York, and presumably having some eye to the financial situation in Canada, were you completely unaware of the provisions of this proposal in Mr. Gordon's budget?

Mr. ROCKEFELLER: Believe me or not, I was; I was completely ignorant. Now I am sure our Canadian counsel and Mr. MacFadden, who has handled our Canadian business for years and years prior to this purchase, were familiar with it; I was not.

Mr. MUNRO: Did Mr. MacFadden, if I may word this loosely, as your representative or man in Canada, at any time fill you in and give you any background on the Canadian scene prior to your meeting with Mr. Gordon. Did you not discuss his views at all?

Mr. ROCKEFELLER: Well, basically, we at the bank in New York had been looking for a possibility of coming to Canada because we are believers and had been for a long long time in your country, and we had been exploring ways of doing banking business in Canada just the way we do in many other places. And undoubtedly—I do not remember it—the man whose judgment on whom we would rely very very heavily was Mr. MacFadden because he is the one most familiar with our Canadian business. He has been running our Canadian business for—How many years?—10, 15 years?

Mr. MACFADDEN: 20 years.

Mr. ROCKEFELLER: 20 years.

Mr. MUNRO: It just seems a little incomprehensible to me that you would not be advised of the view of Mr. Gordon, the Minister of Finance.

Mr. ROCKEFELLER: I am sure we were. I was not, but I am sure the others were.

Mr. MUNRO: It seems incomprehensible that you had not been advised prior to your meeting with Mr. Gordon. But I accept that as the case.

Mr. ROCKEFELLER: When I came up I was told Mr. Gordon was an accountant.

Mr. MUNRO: Is that all?

Mr. ROCKEFELLER: About all, yes; that he came out of an accounting firm as an accountant.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): And you are a bank clerk?

Mr. ROCKEFELLER: Yes. I was told he was a very nice gentleman. I have a brother who knows him well, he has been fishing with him, or something.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I ask a supplementary question of Mr. MacFadden?

The CHAIRMAN: Certainly.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. MacFadden, you told us that you have been handling the National City Bank's business in Canada for 20 years.

Mr. MACFADDEN: Since 1945.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I presume you keep a fairly close eye on Canadian political developments. Were you not aware that the election in 1963 was fought, in very large measure on the question of foreign ownership? In fact, this was the cry with which Mr. Gordon—

Mr. MONTEITH: We were blamed for being anti American in 1963.

The CHAIRMAN: Mr. Cameron is putting forth in this question his assessment of the situation which we may or may not agree with.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Certainly I was under the impression that everybody else in Canada knew that Mr. Gordon was making his bid for power in the Liberal Party on the basis of opposition to continued expansion of foreign ownership in Canada. As a candidate in that election I had no doubts about that. Seriously, did you not appreciate the seriousness of this question on the political scene?

Mr. MACFADDEN: Well having spent part of my time travelling about this fine country and having more friends in Canada than—I thought I had more friends here—than I have in the United States, I believe that I consider myself reasonably well-informed on the atmosphere in the various provinces and in the federal government.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well then did you advise your superiors in New York of the dangers of the course of action they were taking?

Mr. MACFADDEN: I did not anticipate the dangers that have ensued. Let me come back to the comment that Mr. Rockefeller made—and I thought he made it fairly clearly—that we were legally committed under an enforceable contract and that we voluntarily came to see the two individuals in the Canadian government who are highly placed. We voluntarily came to let them know what we were doing. We have nothing to hide, and we like to tell our friends what we are doing before they hear about it from gossip, rumours or someone else. This bank was for sale; people were bidding for this bank, and we bought it.

The CHAIRMAN: Are you finished, Mr. Munro?

Mr. MACALUSO: Mr. Chairman, may I ask a supplementary on this?

The CHAIRMAN: That is up to Mr. Munro.

Mr. MUNRO: Yes, one.

Mr. MACALUSO: I would like to go back to Mr. Basfords' supplementary on line 5 of the memorandum or the agreement of June 26, 1963.

The CHAIRMAN: Is this your supplementary or Mr. Basford's?

Mr. MACALUSO: It is my supplementary. I quote:

> Subject to the approval of our Boards of Directors and of all the governmental authorities concerned, . . .

Who did the parties envisage as being the governmental authorities, which government?

Mr. MACFADDEN: This memorandum of agreement was written in Rotterdam, not by a lawyer but with the full knowledge at the time that these words were concerned with two governmental authorities whose subsequent approval would be required.

Mr. MACALUSO: Which governmental authorities, Mr. MacFadden?

Mr. MACFADDEN: The Central Bank of the Netherlands—the Nederlandsche Bank—under their exchange control to permit the Dutch owners to sell these shares.

Mr. MACALUSO: All the parties had in mind was that it was the United States government—

Mr. MACFADDEN: The Federal Tariff Board and the Central Bank of the Netherlands.

Mr. MACALUSO: Whether this was prepared by a lawyer or not really does not matter; you signed the agreement.

The CHAIRMAN: I might remind the Committee that we ordinarily give members approximately 20 minutes for each period of questions. Naturally there are many people asking questions and, as I say, we have developed the practice of letting members, in their period of questions, decide on whether or not to permit supplementaries.

Mr. MACALUSO: I thank Mr. Munro for my one question.

Mr. MUNRO: I would like to carry on. I understood Mr. MacFadden to say, through you, Mr. Chairman, that he met with the Governor of the Bank of Canada sometime prior to his meeting with Mr. Gordon, at which time Mr. Rockefeller was along. I believe you said it was sometime in June.

Mr. MACFADDEN: That is correct.

Mr. MUNRO: About a month previous?

Mr. MACFADDEN: June 20, about a month previous yes.

Mr. MUNRO: And that would be prior to what you considered a firm deal at the time you met with Mr. Gordon?

Mr. MACFADDEN: That is correct.

Mr. MUNRO: That would be prior to the deal being firmed up. And I believe Mr. Cameron or some other member of the Committee asked you whether the Governor of the Bank of Canada had suggested that you should see the Minister of Finance and discuss the matter with him.

Mr. MACFADDEN: He did make that suggestion.

Mr. MUNRO: Did he suggest to you why you should do that?

Mr. MACFADDEN: I cannot quote Mr. Rasminsky at this point. As I said a few minutes ago, my visit to the governor was at my request for a private interview to inform him that this bank was for sale, that we knew it was for sale and that we were negotiating to buy it.

Mr. MUNRO: Mr. MacFadden, at the time you saw the Governor of the Bank of Canada, you were certainly aware of the then Minister of Finance's view on the question of foreign ownership, were you not?

Mr. MACFADDEN: That is a rather broad term.

Mr. MONTEITH: It could be the minister pulled out most of what went in the budget.

Mr. MUNRO: Did you have any knowledge at all as to whether he looked favourably upon foreign ownership of Canadian interests?

Mr. MACFADDEN: I was well aware of—although I was living in London for the five years when the Commission report of 1957 was published and obviously I was busy on other matters at the time, but I was aware in general of Mr. Gordon's economic views.

Mr. MUNRO: Would it be reasonable for you to expect that he might not look too favourably upon this when you went to see him at a subsequent time?

Mr. MACFADDEN: I should say that I was completely taken aback and quite dismayed at his perception to our substitution for the Dutch as owners of a Canadian charter bank.

Mr. MUNRO: At any rate, after seeing Mr. Rasminsky, the Governor of the Bank of Canada, and after hearing his suggestion to see the Minister of Finance, prior to seeing him you went out and made a firm deal. Is that not what you are saying?

Mr. MACFADDEN: I did not make the deal.

Mr. MUNRO: Your interests made the deal.

Mr. MACFADDEN: That is right. The negotiations moved very quickly.

Mr. MUNRO: Prior to seeing the then Minister of Finance?

Mr. MACFADDEN: That is correct.

The CHAIRMAN: And after you saw the Governor of the Bank of Canada?

Mr. MACFADDEN: That is right.

Mr. MUNRO: So actually the only purpose, as Mr. Rockefeller said, in seeing the Minister of Finance sort of after the fact, was because it was a matter of courtesy? Was that the sense in which Mr. Rasminsky suggested that you see the Minister of Finance?

Mr. MACFADDEN: I cannot interpret what Mr. Rasminsky had in his mind; all I can say is that my impression from the meeting was that he wished to be kept informed and to come back to him when the deal was firm. It told him when the deal was firm I would come back to him and see the Minister of Finance at that time. It was not possible to see the Minister on July 2; we could not arrange an appointment with him until July 18.

Mr. MUNRO: I think that is all, Mr. Chairman.

(*Translation*)

The CHAIRMAN: I now give the floor to our colleague, Mr. Clermont.

Mr. CLERMONT: To one question put by Mr. Cameron to Mr. Rockefeller, the answer was that the Canadian Bank agencies in the State of New York have more privileges than the American Banks. In what respect, Mr. Rockefeller?

Mr. ROCKEFELLER: I understand French, sir.

(*English*)

Mr. CLERMONT: It is quite all right if you reply in English.

Mr. ROCKEFELLER: If you will excuse me, I will reply in English.

The big Canadian banks in New York City operate there as agencies at their choice. They are not subject to the reserve requirements that we are subject to. For every deposit we take, we have to keep a certain percentage with the federal reserve bank. The Canadian agencies are not subject to that. There are many regulations of the Federal Reserve Board: the amount on what you can pay interest and things like that, to which they are not subject.

(*Translation*)

Mr. CLERMONT: Do the Canadian bank agencies in the State of New York have the right to solicit deposits from New York State residents?

Mr. ROCKEFELLER: Not in the State of New York, but, I think, in the other states and foreign deposits also.

Mr. CLERMONT: In the Memorandum of Agreement submitted to the Committee one reads: "subject to the approval of our Boards of Directors, etc.". When did your bank obtain authority from the Federal Reserve Bank to conclude such a transaction?

(*English*)

Mr. ROCKEFELLER: Whenever we go into a new country, that is subject to their approval. As in this case, we make the arrangements and then they have the right of veto; they could veto it.

Mr. CLERMONT: You are not obliged to get their approval before?

Mr. ROCKEFELLER: No, but the contract as such was subject to that and if they said no, we would not be obligated to the Dutch. That was a question someone else raised in the contract.

Incidentally, if I may amplify on this—and tell me if I am out of order: I was in on all the negotiations between our people who are in Rotterdam and our people who are in New York; every time there was a phone call I was informed, if I was not one of the parties to the phone call. That was the intent of that document which Mr. Richardson was talking to me about; it was with the Dutch authorities and the Federal authorities. We did not know there was a Canadian problem; we were not thinking of the Canadian part.

(*Translation*)

The CHAIRMAN: Mr. Clermont, if you will allow me, I would like to ask a question of Mr. Rockefeller.

(*English*)

I would like to know the date on which a consent was obtained firstly from the Dutch Central Bank and secondly from the United States Federal Reserve Authorities to this transaction being completed.

Mr. ROCKEFELLER: I have no knowledge whatsoever even if any Dutch authority was required. I do not have the date of the Federal Reserve approval, but I am sure we have it in our files. Do you have it there?

Mr. MACFADDEN: It was August 29, 1963.

The CHAIRMAN: August 29, 1963.

Mr. MACFADDEN: That is the date of the Federal Reserve approval.

The CHAIRMAN: That is 1½ months after the Gordon meeting?

Mr. MACFADDEN: That is right.

The CHAIRMAN: Not 1½ months but 1 month and 10 days.

Mr. ROCKEFELLER: That answers your question because if we had to have prior approval we would have been breaking the law, which we do not try to do.

(*Translation*)

Mr. CLERMONT: Mr. Rockefeller, had your bank shown an interest in carrying on banking transactions in Canada, in another way than applying to the Canadian Parliament for a charter.

Mr. ROCKEFELLER: For five years, for ten years we had been attempting, we asked questions about whether we could obtain a charter.

Mr. CLERMONT: Did you not show some interest, Mr. Rockefeller, in your bank setting up in Canada as a branch only.

Mr. ROCKEFELLER: If we had our choice, we would prefer to have a branch, it is much simpler.

(*English*)

Mr. CLERMONT: Mr. Rockefeller, can a group of non-residents or a foreign bank obtain a charter for a national bank in your country?

Mr. ROCKEFELLER: May I ask Mr. Harfield.

Mr. CLERMONT: Certainly.

Mr. ROCKEFELLER: He says "yes" and they have.

Mr. CLERMONT: How many?

Mr. HARFIELD: I cannot give you the statistics on it, Mr. Chairman. I know of at least one or two in New York and I believe that there are others which are based in other states.

Mr. CLERMONT: According to Mr. Zwick's report, which appeared in the *National Banking Review* it states:

> The first is that no foreigner can obtain a charter for a national bank by virtue of the restrictions imposed on ownership and control of a national bank by the law.

How many states prohibit foreign banking within their borders?

Mr. HARFIELD: How many states in the United States?

Mr. CLERMONT: Yes.

Mr. HARFIELD: I am not aware of any states which have an actual prohibition. There are a number of states which do not accept, through an absence of any permission to come in, the branches or perhaps even agencies of foreign banks. I am not aware of any which exclude foreign ownership of stock.

Mr. CLERMONT: Again I will quote from Mr. Zwick's report, in which you do not seem to have much confidence:

> At present eight states specifically prohibit foreign branch banking.

The names are Connecticut, Delaware, Illinois, Minnesota, New Jersey, Rhode Island, Texas and Vermont.

Mr. HARFIELD: I will not deny that. As I said earlier, I am not admitted to practice in Canada and I should add as a supplementary answer that I am not admitted to practice except in the State of New York, so I will therefore accept Mr. Zwick's interpretation of the laws of the other states. I am quite certain, however, that so far as the National Bank Act is concerned, and whether or not

other foreign banks own the stock, there are national banks which are foreign owned, and the reluctance perhaps of some of the foreign banks to have as subsidiaries in the United States, a national bank is not that there is any legal restriction, but that they are required to have as directors of that subsidiary United States citizens instead of their own people. I believe that is what Professor Zwick says in his report: that there were complications, but there were not any prohibitions.

Mr. CLERMONT: Does the United States have a policy for a national bank; if so, would you describe to this Committee what is the policy of a national bank in the United States?

Mr. ROCKEFELLER: Are you talking about our banks in our own country?

Mr. CLERMONT: Yes.

Mr. ROCKEFELLER: A national bank is one that operates under a charter of the Federal Government isued by the control of the currency in Washington.

Mr. CLERMONT: Mr. Rockefeller, I am sorry; I am speaking about non-residents or foreign banks. Does your country have a national policy for foreign banks to operate as a banking institution in the United States on a national basis. I am not speaking about states because, if my information is correct, most of the foreign banks in the United States are in the state of New York and in the state of California.

Mr. ROCKEFELLER: I think you are correct.

Mr. CLERMONT: Especially in New York City and San Francisco.

Mr. ROCKEFELLER: You are correct. I do not think our federal authorities would permit a foreign bank to operate in 50 states because they do not allow the banks of their own country to do that. They allow foreign banks the same privileges, but not further privileges.

Mr. CLERMONT: I understand, Mr. Rockefeller, that at least 40 states in your country have no banking regulations in respect of foreign banks.

Mr. ROCKEFELLER: I am not familiar with the laws, I will defer to lawyers when we come to that again.

(Translation)

Mr. CLERMONT: The Mercantile Bank of Canada, in its brief claims that clause 75 (2) (g), discriminates only against its bank, but what do they think of the Western Bank which received a charter from the Canadian Parliament last fall and which has more than 50 percent of its shares in the hands of one person or one group of associated persons. Would not this new bank also, if the Canadian Parliament adopts Bill C-222 and Clause 75 (2) (g), have to submit to the same legislation?

Mr. ROCKEFELLER: I thought the question was being addressed to you Mr. Chairman. Was I wrong? We are talking about the Canadian Bank Act.

The CHAIRMAN: Although I would be happy to answer that question, I think some of the other members of the committee would prefer that you do it, sir.

Mr. LAMBERT: Mr. Chairman, how can the witness answer in respect of a legal obligation of the Bank of Western Canada under the new proposed act.

The CHAIRMAN: Although I think there is something to that, there is a more serious objection that might be raised to the question; and while I think it could be phrased in a way that would be in order particularly if Mr. Rockefeller asked some of his professional advisers to deal with it, I think the committee agreed to deal firstly with the submissions of the Mercantile people, that the proposed law is retroactive, and that after exhausting our questions on that subject we would move on to their views regarding the proposals being discriminatory. Now it is true that I have permitted a certain latitude.

Mr. CLERMONT: Mr. Chairman, on a point of order, if clause 75 (2) (g) is retroactive for the Mercantile Bank of Canada, it will also be retroactive for the Bank of Western Canada; then why should he be allowed to make a comparison between the two when this gentleman claims that they are the only ones discriminated against.

The CHAIRMAN: I think, Mr. Clermont, that you have, in the same question, covered two separate topics, although in quite a clever fashion—and I compliment you for the way you have done it. I think that in so far as you wish to ask at this time whether or not the proposals with respect to the Mercantile Bank are not retroactive and so on, this is in line with the order of business we agreed upon at the opening of the meeting. If we are going into detailed questioning on the issue of possible discrimination, then I think we are going to a topic which we should reserve for later consideration during these particular hearings. Perhaps you gentlemen may attempt to answer Mr. Clermont's question in the spirit in which he has posed it, which fits in with our agenda.

Mr. ROCKEFELLER: Can I call on Mr. Clifford; he knows more about the Bank of Western Canada than I do.

Mr. STEWART B. CLIFFORD (*Executive Vice President and General Manager, The Mercantile Bank of Canada*): Mr. Clermont, I think you have an interesting point. Our contention is that clause 75(2)(g) applies to us and to us alone, as far as retroactivity is concerned. In the case of the Bank of Western Canada, the intentions of the government were clearly known prior to the time that they obtained their charter. In other words it is prospect—looking forward and not looking back, and this is another of our arguments.

Mr. LAMBERT: Mr. Chairman, may I say that the provisions and restrictions in the charter of the Bank of Western Canada were introduced at the direct request of this committee, and then under section 57 the Treasury Board was empowered to defer this limitation on share ownership for ten years. They are operating quite legally under their own charter and under the act as it now exists.

Mr. CLERMONT: Mr. Chairman, I did not know that Mr. Lambert was appearing for the bank as a witness.

Mr. LAMBERT: Mr. Chairman, I would like to make a comment, just the same as Mr. Clermont did, on the nature of the law.

Mr. MACALUSO: Mr.Chairman, I would like to know what right Mr. Lambert has over Mr. Basford as far as intervening is concerned.

Mr. CHAIRMAN: Since Mr. Clermont is usually quite prompt to bring to our attention derogations from our rights as members and did not intervene, I

assumed, perhaps wrongly and if so I apologize, that he was accepting this as subsidiary comment. I think that your point is well taken, Mr. Macaluso, and we should return the floor to our colleague, Mr. Clermont, so he can continue with his questions.

Mr. CLERMONT: Mr. Chairman, would this be a proper time to ask the officials of the Mercantile Bank what their assets and so on were or will I have to wait for another time? For instance, Mr. Chairman, I would like to ask what the assets of the Mercantile Bank were on June 26, 1963. If this question is not allowed at the moment I will ask it later.

The CHAIRMAN: I think that your question is relevant to the issue of retroactivity.

Mr. CLIFFORD: Any figures you want are absolutely available to you.

The CHAIRMAN: You should be careful about that.

Mr. CLIFFORD: We operate on the basis that anything we do we are prepared to see on the front page of the New York *Times*. That is the way we conduct our affairs. Sooner or later it happens.

Mr. LAMBERT: Mr. Chairman, Mr. Clermont, on the point of order, if that is the case, could we have the figures that have been omitted from the memorandum of agreement.

The CHAIRMAN: It is the custom of this committee not to discuss points of order from those who are merely attending and not in the position of regular members. However, it may well be that another member may raise this question in due course.

Do you have the figures, Mr. Clifford?

Mr. CLIFFORD: What was the date, Mr. Clermont?

Mr. CLERMONT: What were the total assets of the Mercantile Bank on June 26, 1963.

Mr. CLIFFORD: I can give you June 30.

Mr. CLERMONT: All right.

Mr. CLIFFORD: $83,937,000. At the year-end, September 30, it was $125,449,000.

Mr. CLERMONT: What was the figure . On October 31, 1964?

Mr. CLIFFORD: Here again, I will have to give you September 30, 1964; $124,852,000.

Mr. CLERMONT: I understand that on October 31, 1965 they were $222 million.

Mr. CLIFFORD: Yes, that is right.

Mr. CLERMONT: And on October 31, 1966 $224.5 million.

Mr. CLIFFORD: That is right.

Mr. CLERMONT: And what was the paid up capital of the Mercantile Bank on June 26, 1963?

Mr. CLIFFORD: It was $4 million capital paid in and $1 million rest account.

Mr. CLERMONT: Four million capital and one million reserve?

Mr. CLIFFORD: Rest account.

Mr. CLERMONT: I understand it is now $10 million.

Mr. CLIFFORD: Eight million paid in and $2 million rest account.

Mr. CLERMONT: Two million is rest account?

Mr. CLIFFORD: Right.

Mr. CLERMONT: Thank you, Mr. Chairman.

The CHAIRMAN: Mr. Clermont, would you mind if we just repeat those dates. Your first question related to June 26, 1963.

Mr. CLERMONT: Right, the date that the agreement is supposed to have been signed.

The CHAIRMAN: And they provide a figure at June 30, of $83 million. Did you give a figure for October 31, 1964.

Mr. CLERMONT: One hundred and twenty four million.

The CHAIRMAN: Do you have a figure for, let us say, May 31, 1965?

Mr. CLIFFORD: Or June 30, it was $171,424,000.

The CHAIRMAN: And the capital.

Mr. CLIFFORD; At that time it was $8 million paid in, $2 million rest account.

The CHAIRMAN: Thank you. The next name on my list is Mr. Wahn.

Mr. WAHN: Mr. Chairman, I would agree completely with what Mr. Palmer said in his opening statement, namely that generally I am not too concerned who said what to whom at that particular meeting with Mr. Gordon. But in fairness to Mr. Rasminsky I would like to ask a supplementary question with regard to what he has stated to have said to Mr. MacFadden.

I can quite understand how at that meeting with Mr. Rasminsky, he might well have intended to say to you Mr. MacFadden, to keep in touch with him as your plans further developed, and when they developed further to come back to him or to Mr. Gordon. I find it very difficult to believe that he intended to tell you or to advise you to go out and firm up an irrevocable deal and only after you had firmed up an irrevocable deal, to come back and talk to Mr. Gordon about it. I would just like to clear that this was not what you meant to imply and that you were not proceeding in accordance with Mr. Rasminsky's advice when you deferred your visit to Mr. Gordon until after you had firmed up an irrevocable deal. I find it very difficult to believe that Mr. Rasminsky would give anyone that advice.

Mr. MACFADDEN: I think that is a correct statement, Mr. Wahn. As I recall it, the suggestion that Mr. Rasminsky did make to me was to come back and keep him informed as to the negotiations; I cannot remember his exact words, but the inference was to come back to see him again and report and to seek the views of the Minister. My response to that was that I would do so when we had a firm deal. Now if I may just digress one moment. When a buyer and a seller are in the process of negotiating the terms of a deal, the seller to sell and the

buyer to buy, obviously when you leave the negotiating table, that must be recorded and signed by the parties concerned, subject to subsequent ratification where necessary. If we leave the negotiating table without committing ourselves, the deal is gone and we have no opportunity.

Mr. WAHN: I would like to put this further question to Mr. MacFadden, Mr. Chairman. Mr. Palmer has indicated that he was aware of course that for many, many years we have had in Canada decennial revision of the Bank Act. We consider this a very valuable feature of our banking system; I do not know whether or not you have it in the United States.

Mr. MACFADDEN: We do not, no. I do not know any other country where there is a decennial revision.

Mr. WAHN: In your submission, Mr. MacFadden, you indicated that you felt that clause 75(2)(g) was unfair because it was retroactive and in effect was changing the rules in the middle of the game. In the banking game, for many, many years before First National City became interested in Canada, we in Canada have adopted the policy of thoroughly reviewing the rules of the banking game every ten years. You were aware of that fact as well as Mr. Palmer.

Mr. MACFADDEN: Certainly.

Mr. WAHN: You knew that we were going to review thoroughly and if necessary or desirable change the rules of the game at the next decennial revision.

Mr. MACFADDEN: I would like to make one comment here. I think, Mr. Wahn, you might recall that the charter which was granted by parliament in 1953 to the Mercantile, to the Dutch interest, was about a year or more just before the revision of the Bank Act in 1954.

Mr. WAHN: Yes.

Mr. MACFADDEN: And the Bank Act revisions in 1954 did not deny the continuance of charters.

Mr. WAHN: No.

Mr. MACFADDEN: Obviously we had no supposition or no way of having any feeling, in respect of a legally-chartered bank operating within the laws of Canada and in business here for 10 or 12 years, as long as their behavior was correct that the charter would not be legal because of the change of ownership.

Mr. WAHN: Yes, I can understand that. But notwithstanding that fact, you came into Canada, and in Canada, for a very lengthy period of time, we have reserved the right to review the rules of the banking game every 10 years. The next review was in 1964.

Mr. MACFADDEN: It just so happened the Dutch made up their minds to sell the bank early in the fall of 1962; that just happens to have been decided before the revision of the Bank Act.

Mr. WAHN: Yes. You completed the deal for the acquisition of Mercantile then in 1963.

Mr. MACFADDEN: That is correct.

Mr. WAHN: So if I can follow your own metaphor through, you bought the Mercantile ball team in the ninth inning, as it were.

Mr. MACFADDEN: That is correct, but we did not expect to strike out.

Mr. BASFORD: I wonder if I might be allowed a supplementary question. As I understand it, Mr. MacFadden, you told Mr. Wahn that you never for a moment thought that your charter would not be renewed at the decennial revision.

Mr. MACFADDEN: That is correct.

Mr. BASFORD: I understood Mr. Rockefeller to explain earlier this morning that his words "they proceeded at their own peril" referred to the possibility that the charter would not be renewed at the revision.

Mr. MACFADDEN: That is correct.

Mr. BASFORD: Well, you have just said it was never in your mind that it would not be renewed.

Mr. ROCKEFELLER: Will you gentlemen let me answer that one?

The CHAIRMAN: Definitely.

Mr. ROCKEFELLER: We are talking about two different points in time.

Mr. BASFORD: It seems to me we are talking about the same thing.

Mr. ROCKEFELLER: Yes. Well, when we bought the bank Mr. MacFadden and the rest of us had every expectation that on good behavior, like everywhere else once you had a license it continued and the renewals were pretty much automatic, referring to parliament. It was only subsequently, in our conversation with Mr. Gordon, that there was the first intimation that the rug might be pulled out from under our feet. There was a time lapse there. There is no conflict; there is a time lapse—two different sets of circumstances at two different times.

Mr. BASFORD: Two weeks apart.

Mr. ROCKEFELLER: Yes. It was really a shocker. You were there and you, being a Canadian, expected it; but it was a shock to us when that statement was made.

Mr. BASFORD: Which statement?

Mr. ROCKFELLER: That the charter might not be renewed; however, the words were not that blunt.

Mr. WAHN: Mr. Chairman, the point that I am trying to elicit is simply this: Historically in Canada we have reserved the right to change the rules of the banking game every 10 years—

The CHAIRMAN: We have changed them from time to time.

Mr. WAHN: —and we have in fact changed them. I think there are arguments both ways as to whether the particular change we are now contemplating which, in effect, says that no one—no resident no non-resident—shall own more than 25 per cent of the shares of a chartered bank. That is the general policy behind the proposed revision.

An hon. MEMBER: Ten per cent.

Mr. WAHN: Well, whatever the percentage may be. There are arguments as to whether that is sound, and I think it is the purpose of this Committee to go into those arguments; but surely no one questions the right of Canada as a

sovereign state in accordance with decennial reviews which has carried on for years and years, to review the rules governing the operation of chartered banks in Canada every 10 years. Under that interpretation it seems to me that the position of Canadians would be that National City bought into Mercantile in the ninth inning—they bought the ball team in 1963—knowing the rules of the game were going to be revised in 1964. From my point of view, I find it absolutely impossible, disregarding completely what was said in conversations with Mr. Gordon and Mr. Rasminsky—and I think arguments of that sort tend to generate heat rather than to diffuse light. I think we should concentrate on what I think is the basic principle, namely, the right of the Canadian parliament as a sovereign legislature to review the rules of the banking game—and it insists upon this very jealously—which has enabled us to avoid a lot of detailed regulation of banking activities which might otherwise be required.

So, National City bought into Mercantile in the ninth inning and was entitled to one further inning of play under the old rules. Actually, Mr. MacFadden, is it not true that you not only completed your ball game but in addition, due to the dilatory nature of our proceedings, you have had two actual innings of play—

Mr. MACFADDEN: I hope you are not blaming that—

Mr. WAHN: —under those rules. I, as a Committee member, find it extremely difficult to understand how anyone could allege, with fairness, that this legislation is retroactive. I can see why you could say that it is undesirable; but that is another question.

Mr. MACFADDEN: Mr. Wahn, since this fringes on the legal side I am just going to ask Mr. Palmer who, I think, is more familiar with Canadian law than I to comment further. I might say that in the ninth inning there were about five other banks standing in line to buy that bank, and we were not going to lose it.

Mr. PALMER: Mr. Chairman, might I comment on Mr. Wahn's remarks?

The CHAIRMAN: Yes.

Mr. PALMER: My only comment would be that the decennial revision of the Bank Act—which we all knew about in prospect—always has applied to every bank, not to one bank alone and that is the point that we are objecting to.

Mr. WAHN: Mr. Chairman, if I may intervene there, that takes us into the next question: whether the change is discriminatory. To the extent that Mr. Palmer has now abandoned the allegation of retroactivity, I am quite happy—and I think he has.

Mr. PALMER: No, I have not, Mr. Chairman and Mr. Wahn, but you made such a point in referring to the fact that the Bank Act is reviewed and revised every 10 years, that I felt that while I am impinging on the next phase of the discussion, I did want to interject the remark that the decennial revision is a general revision that applies to all banks. That is my only point in speaking now.

The CHAIRMAN: You have no other comment in reply to the specific point raised by Mr. Wahn?

Mr. PALMER: About abandoning the retroactivity argument? No, I am not abandoning it.

Mr. WAHN: Mr. Chairman, my remarks were directed solely toward the retroactivity argument. I have some questions with regard to the discriminatory allegation, but they will come later.

The CHAIRMAN: It is now 12.55 p.m. and so as not to interrupt what I am sure will be a very useful exchange of questions, I suggest that the Committee agree that we recess at this point until 3.45.

This Committee stands adjourned.

AFTERNOON SITTING

The CHAIRMAN: Gentlemen, I think we are in a position to resume our meeting. When we recessed for lunch I believe Mr. Wahn had the floor. Had you completed your questioning, Mr. Wahn?

Mr. WAHN: I had no other questions with regard to retroactivity.

The CHAIRMAN: The next name on my list is Mr. Chrétien, followed by Mr. Lind and Mr. Flemming. I will recognize Mr. Chrétien at this time.

(*Translation*)

Mr. CHRÉTIEN: Mr. Chairman, I would like to direct one or two questions to Mr. Rockefeller. I notice that you emphasize in your brief that this legislation would have a retroactive effect against the Mercantile Bank because the owners were American.

I would like to mention that the present legislation is forcing Canadian banks to sell the shares they have in trust companies when their interests are over 10 percent of the total stock. Is this not the same way of proceeding as in the case of the Mercantile Bank?

(*English*)

Mr. ROCKEFELLER: I was just trying to follow the translation.

Mr. CHRÉTIEN: I just want to ask you if you agree that the principle in the present bill that is being applied to the Mercantile is the same as is being applied to Canadian banks in that asking them to sell their shares in trust companies. Do you agree that it is about the same thing? Do you agree that it is usual?

Mr. ROCKEFELLER: I am not familiar with the trust company matter. I have been primarily interested in the Mercantile matter. When you come to the Mercantile matter, our position is only that we should be treated in just the same way that the Canadian banks are treated. If you treat them one way, treat us the same way because we are a Canadian bank.

(*Translation*)

Mr. CHRÉTIEN: Why is it so unpleasant for you to be obliged to sell 75 percent of your shares? After all the publicity surrounding the present dispute, do you not agree that there are not many Canadians who are not aware of the Mercantile Bank of Canada and that 25 percent of this institution which has become suddenly famous, is certainly worth more than 100 percent of a small bank which was unknown in 1963?

(*English*)

Mr. ROCKEFELLER: My answer to that question is that at this point we do not have anything that we could sell to anyone at any price?

Mr. CHRÉTIEN: Why?

Mr. ROCKEFELLER: Because an axe is over our heads.

The CHAIRMAN: What kind of axe?

Mr. ROCKEFELLER: We do not know if we are going to be in business.

Mr. CHRÉTIEN: If you sell 75 per cent of your shares you will still be in a good position and you are better known now that you were a few years ago.

Mr. ROCKEFELLER: Yes; I am sure of that.

The CHAIRMAN: One of the courtesies of the finance committee.

(*Translation*)

Mr. CHRÉTIEN: Do you not agree, Mr. Rockefeller, that imposing these restrictions on the Mercantile Bank, we are doing justice to the other American banks who would like to do business with Canada in the future and on the same footing as the Mercantile Bank.

(*English*)

You said this morning that there were five banks interested in coming to Canada.

Mr. ROCKEFELLER: I did not say that. It may be true.

Mr. CHRÉTIEN: Somebody said that.

Mr. ROCKEFELLER: I did not say that.

The CHAIRMAN: I believe it was Mr. MacFadden.

Mr. CHRÉTIEN: Was it Mr. MacFadden? Well, then I have a question for Mr. MacFadden. The former minister of finance informed the House of Commons, on June 14, 1965, that Mr. MacFadden and Mr. Moquette, who was then President of Mercantile, had called on him about ten days after the meeting of July 18, 1963, to inform him that the purchase deal had been completed. How does this fit in with the testimony given this morning that the purchase had been completed prior to July 18, 1963? If the purchase had been completed before July 18, what was the reason for a second meeting?

Mr. MACFADDEN: The reason for the second meeting was to advise the Minister that we had appreciated his time and his views but that we felt that we had to honour our commitment to our Dutch friends and we would conclude the transaction.

Mr. CHRÉTIEN: It was not completed before, then?

Mr. MACFADDEN: In our testimony this morning we tabled in the Committee the binding contractual agreement which was entered into with the Dutch in Rotterdam on June 26, 1963. We were not able to arrange an appointment with the Minister prior to July 18. The reason for coming back at the first convenient opportunity was to inform the Minister of our obligations to honour our commitment.

Mr. CHRÉTIEN: You had not informed him at the first meeting that the commitment was completed.

Mr. MACFADDEN: We thought we had, but there was a misunderstanding in communication. That was why we mentioned it this morning.

Mr. CHRÉTIEN: Why did you come back if you had that in mind?

Mr. MACFADDEN: Of course, the contractual agreement with the Dutch of June 26 was a binding and an enforceable agreement in court and we could not avoid completing our commitment.

The CHAIRMAN: What was the date of the second meeting that Mr. Chrétien referred to?

Mr. MACFADDEN: July 29, if my memory is correct.

The CHAIRMAN: That is—

Mr. MACFADDEN: That is 11 days after the first meeting.

The CHAIRMAN: That is a month before you received federal reserve approval.

Mr. MACFADDEN: That is correct. July 29 was the date of the second meeting and I was accompanied by Mr. Moquette.

The CHAIRMAN: If Mr. Chrétien will permit me, I would like to suggest—

Mr. MONTEITH: Apparently he permitted you last time; I gather he would again.

Mr. CHRÉTIEN: I wil permit you retroactively.

The CHAIRMAN: And in a non-discriminatory fashion and non-punitive, too.

At the time of the second meeting, since you have told us you had not received federal reserve approval, you could not have enforced that agreement with the Dutch, according to the terms of the agreement itself?

Mr. MACFADDEN: That is a legal question and like Mr. Rockefeller I am employed by a bank and I am not a lawyer. May I ask Mr. Harfield to answer that question?

Mr. HARFIELD: It could have been enforced.

Mr. ROCKEFELLER: The Dutch could have enforced it against us.

The CHAIRMAN: What was the date of the Dutch approval?

Mr. ROCKEFELLER: When did they sign the contract?

The CHAIRMAN: When did the Dutch central bank approve?

Mr. MACFADDEN: We do not know the date of that but obviously they had the approval, otherwise they could not have sold the bank.

The CHAIRMAN: But when did they get it?

Mr. MACFADDEN: I do not know. We were told they had it but I do not recall—

The CHAIRMAN: When was this deal closed, the formal exchange of shares, and so on?

Mr. MACFADDEN: September 30, 1963.

The CHAIRMAN: So that they could have received approval after the second meeting and any time up to September 30, 1963. Is that not right?

Mr. MACFADDEN: I am afraid you would have to ask the Dutch.

Mr. ROCKEFELLER: I think it is a fair assumption.

The CHAIRMAN: So it is quite possible that at the time of the second meeting this agreement would not have been enforceable in any court, either in Canada, the United States or Holland.

Mr. MACFADDEN: Our counsel advise us that it was legally enforceable.

The CHAIRMAN: Let us hear the counsel.

Mr. HARFIELD: Yes; I regarded that as a final agreement and I understood that approval by the Dutch had been given, although I am free to say I cannot tell you today when that approval was given, or who told me that it had been given.

The CHAIRMAN: Would you not agree, sir, that this agreement on its face is "subject to the approval of our boards of directors and of all the governmental authorities concerned"?

Mr. PALMER: There are only two.

The CHAIRMAN: There are only two. Until the approval of the two government authorities concerned were obtained, then the agreement would not have been put in the position to be fully executed.

Mr. PALMER: I do not entirely agree with that, Mr. Chairman. The ratification or approval by governmental authorities, when given, would relate back to the time of the signing of the contract, and the contract could have been enforced against one party without necessarily being enforceable against the other party.

The CHAIRMAN: When?

Mr. PALMER: I do not know.

Mr. MONTEITH: Might I ask a supplementary?

Mr. CHRÉTIEN: Yes, I am almost the Chairman.

Mr. MONTEITH: Would it not be reasonable to assume that both parties had made their application to the Dutch Government and to the Federal Reserve Board some time prior to the granting of such approval?

Mr. ROCKEFELLER: Yes; in our case in the United States, it takes the federal six weeks to two months to approve.

Mr. MONTEITH: So your application for approval had gone in some considerable time before?

Mr. ROCKEFELLER: Yes; that can be determined, but we do not happen to have the date with us. That can be determined because that is an official document that is filed in Washington. If it is desired, we can easily determine that date.

The CHAIRMAN: Mr. Palmer, are you suggesting to the Committee that before the approval of the Federal Reserve Board had been obtained, even though the application had been made, this agreement could have been enforced in the courts?

Mr. PALMER: By whom?

The CHAIRMAN: Tell us, either way.

Mr. PALMER: I would say yes, it could have been enforced.

The CHAIRMAN: By whom?

Mr. PALMER: By the Dutch.

The CHAIRMAN: Even if they had not obtained the approval of their own central bank?

Mr. PALMER: I should say, Mr. Chairman, that this agreement is not a Canadian contract. It is between a United States corporation and a Dutch corporation so, I think, I will have to bow to Mr. Harfield, to follow Mr. Rockefeller's pattern. The subject matter was Canadian—shares of a Canadian bank—but it was between two foreign entities.

Mr. ROCKEFELLER: Regardless of the legality of the contract, or its enforceability, we had consummated a deal with our Dutch friends and had committed ourselves to buy the shares and they sell them to us. It is not the practice of the management of the First National City Bank to welsh on a contract.

The CHAIRMAN: Even though you are forbidden by a law of your own country to go on with the contract?

Mr. ROCKEFELLER: We are not forbidden.

The CHAIRMAN: You did not know that at the time.

Mr. ROCKEFELLER: No, we did not know.

Mr. CHRÉTIEN: Was the second meeting you had with the Minister of Finance in July, 1963, another courtesy call? Why were there two courtesy calls in the same month if you felt you had no obligation to him?

Mr. MACFADDEN: I would say that second call was a matter of information to the Minister.

Mr. CHRÉTIEN: The first one was a courtesy call and the second one was to impart information. I have no more questions.

Mr. ROCKEFELLER: Mr. Chairman, on the question you raised, if the Federal Reserve Board had disapproved this, we could not have gone ahead with the contract. We could not have executed and exchanged cash for shares. They had the power of veto. I do not think there is any question about that.

The CHAIRMAN: On August 29 you did not know whether the power would be exercised?

Mr. ROCKEFELLER: No, we may have had verbal say so, but the official document was whatever Mr. Harfield said when we received the official approval.

The CHAIRMAN: Thank you.
I will call on Mr. Lind followed by Mr. Flemming.

Mr. LIND: Mr. MacFadden, when you first visited the Governor of the Bank of Canada in what capacity were you working then? Were you working for Mercantile or were you working for the First National City Bank?

Mr. MACFADDEN: I was an officer of the First National City Bank.

Mr. LIND: Then you were working under the Board of Directors of the Citibank?

Mr. MACFADDEN: That is correct.

Mr. LIND: At that time, when you received the opinion of the Governor of the Bank of Canada and discussed the change in ownership of Mercantile, did you report that conversation back to your Board of Governors or the board of Citibank?

Mr. MACFADDEN: I reported it to Mr. Rockefeller and to Mr. Wriston my two senior colleagues.

Mr. LIND: On being advised by Mr. Rasminsky that you should interview the Minister of Finance, you now say that you consulted or informed Mr. Rockefeller of this decision. When did you endeavour to see the Minister of Finance?

Mr. MACFADDEN: Just as soon as we possibly could, following my advice back to Mr. Rasminsky that we had concluded our deal with the Dutch.

Mr. LIND: You are sure you had concluded your deal with the Dutch at that time?

Mr. MACFADDEN: On June 26, in Rotterdam, the agreement was signed which was tabled this morning.

Mr. LIND: But Mr. Rasminsky advised you to see the Minister of Finance before that time, did he not?

Mr. MACFADDEN: Yes, it is my recollection that it was suggested that we keep him informed of the negotiations and to come back and see him at a later date and at the same time it would be wise to see the Minister.

Mr. LIND: Then the board went ahead and consummated the deal with the Dutch without bothering to make it a point of visiting the Minister of Finance beforehand?

Mr. MACFADDEN: As I said earlier, the negotiations were moving rather rapidly and it was just not feasible, within the few days that elapsed between the 20th and 26th of June, to try and see the Minister.

Mr. LIND: If you did not feel it was advisable to see the Minister, you cannot very well say that he was discriminating against you in any way, can you?

The CHAIRMAN: Mr. Lind, I think in all fairness to our witnesses, they have been asked to direct their replies at this stage toward the issue of retroactivity. Also, in fairness to the other members of the Committee, whom I precluded from asking questions on the issue of discrimination, perhaps you might want to rephrase your question.

Mr. LIND: In all fairness to the Minister of Finance, Mr. MacFadden, you did not make too great an effort to see him before July 18?

Mr. MACFADDEN: We made a great effort to see him immediately following July 2 but it was not possible to arrange a meeting until the 18th.

Mr. LIND: I would like to ask Mr. Rockefeller a question. He was most helpful in giving us figures this morning about the growth of the Mercantile Bank from its start in 1953; the assets were $83 million in 1963. Is that correct?

Mr. ROCKEFELLER: Those are the figures that Mr. Cliffort reported to you and that is my recollection of the figures.

Mr. LIND: By September 30, 1965, they had increased to some $222 million. Is that correct?

Mr. ROCKEFELLER: That is correct, sir.

Mr. LIND: I think you made the statement, Mr. Rockefeller, that you did not mind revealing any figures to this Committee.

Mr. ROCKEFELLER: No, I do not. That is true.

Mr. LIND: Mr. Rockefeller, would you then reveal the dollar amount of losses for each year, 1962, 1963, 1964 and 1965?

Mr. ROCKEFELLER: We will, if the proper people want it.

The CHAIRMAN: I think Mr. Lind is a proper person to have this information.

Mr. LIND: That is me, I am a member of the Committee and I have asked for it.

Mr. ROCKEFELLER: All right, we will get them for you. I do not know what they are.

Mr. LIND: You would not want to give them out now? You do not have them with you?

The CHAIRMAN: Again, in fairness to both the witness and the other members of the Committee, unless you can relate your question at this stage to the issue of retroactivity, perhaps I might ask you to hold it off until a later stage.

Mr. ROCKEFELLER: The information is available to you if you want to have it. It is not being withheld from you.

Mr. LIND: I would request those figures, if I may have them; I would like to see them for comparison purposes.

I have one further question. Bill No. C-222 does not prevent you from renewing your charter under this new Bank Act, does it?

Mr. ROCKEFELLER: It has not until now.

Mr. LIND: You are not being prevented from renewing your charter under Bill No. C-222?

Mr. ROCKEFELLER: That is correct.

Mr. LIND: Thank you.

The CHAIRMAN: I think I can repeat what Mr. Rockefeller has asked me. He has no objection to giving the loss figures to the Committee for their private study of the points raised by the Mercantile Bank and the Bank Act in general, but I suppose he has some concern about the exchange of competitive information.

Mr. ROCKEFELLER: Yes, we do not give this to our competitors or to the general public. If you need the figures for making your judgments you are welcome to them.

Mr. LIND: I am going on the statement you made this morning, Mr. Rockefeller.

Mr. ROCKEFELLER: That is all right; we will stick by our statement.

Mr. LIND: That is fine, thanks.

The CHAIRMAN: I think we will reserve the final disposition of this until we get to a further stage in our proceedings.

I would like to recognize at this point, if you are finished Mr. Lind, Mr. Flemming, followed by Mr. Lambert, Mr. Monteith, Mr. Basford, Mr. Gilbert and then Mr. Thompson. If you gentlemen being of the same party, wish to go in a different order from that which I have outlined, and agree amongst yourselves otherwise, certainly I have no objection.

Mr. FLEMMING: Mr. Chairman, my question is to Mr. Palmer. In the course of Mr. Palmer's remarks this morning he stated that he was appearing primarily as a Canadian citizen rather than as a general counsel for the Mercantile Bank. In that category, I am impressed by what he has to say—about what any Canadian citizen has to say—in connection with the problems before the Committee, I would like to ask Mr. Palmer this question. He mentioned his concern, as a citizen, in connection with both the question of discrimination and retroactivity. While I acknowlege, Mr. Chairman, your admonition that we should confine ourselves to retroactivity, yet I am going to ask Mr. Palmer if he would mind giving the Committee his opinion of the relative importance of those two features, as a Canadian citizen, because that is the approach which he made in his remarks.

The CHAIRMAN: Mr. Flemming, perhaps you could do this in two stages. First, on retroactivity and then when we enter formally into the area of discrimination, which will be a major topic, perhaps he can address himself to that phase in a broader way than he might want to do at present. He might be a bit inhibited by my constant admonition about sticking to the issue of retroactivity.

Mr. FLEMMING: I dont mind.

Mr. PALMER: Mr. Chairman and Mr. Flemming, I am a little inhibited because this morning when I touched on the subject of discrimination in answer to a question from my friend, Mr. Wahn, he accused me of abandoning the ground of retroactivity. I am not abandoning either one.

I do not think you can really separate the two, in answer to your question. I do not place one on any higher degree of importance than the other. Was that your question?

Mr. FLEMMING: I was interested in your opinion of the relative importance of the two, but I might pose another question. My question deals with your statement that you hoped the Committee would view the matter in what you think this is the proper perspective and that clause 75(2)(g), if it were retained for the future, would include in it something of the nature of a cut-off date. I think this has something to do with retroactivity and, perhaps, you would like to elaborate.

Mr. PALMER: I think I would have no objection, and I do not think my colleagues would have any objection, if clause 75(2)(g) were made to speak from that date in September, 1964, when the then Minister of Finance made what I think was his first published or public statement regarding foreign ownership, and his wishes and intentions in the field of legislation dealing with

foreign ownership. That would preserve the Mercantile Bank from this retroactive application of clause 75(2)(g). It would apply to any new foreigners coming in, but it would allow us to continue to operate with the same freedom that is accorded to the other Canadian banks. I would like to emphasize the point that this is really an appearance by the Mercantile Bank of Canada, which is a Canadian bank, and of necessity the issues of foreign ownership, who is First National, when did they make a deal, and so on, become mingled with the other concept, but we are here as a Canadian bank asking for the same treatment which other banks receive.

Mr. FLEMMING: Mr. Palmer, have you any reason to think that the objectionable features which are included in the bill which we are studying would not have been included had the ownership of Mercantile remained where it was?

Mr. PALMER: I am not competent to answer that question, Mr. Flemming, because I really do not know. All I can say is that the Mercantile Bank had a foreign owner for some ten years, and the foreign owner was not interfered with by the government or by parliament or by any legislation whatsoever. It is perhaps reasonable to assume that if the Dutch had remained as owners this clause would not have appeared, but I do not know, I cannot express an opinion on the matter.

Mr. FLEMMING: Mr. Palmer, I presume that you consider clause 75(2)(g) to be unjust; otherwise you would obviously not be asking for its removal.

Mr. MACFADDEN: Mr. Flemming, Mr. Bachand, one of our directors, was a director of the bank in March of 1963 and for several months during the Dutch ownership. With your permission, sir, may Mr. Bachand add a few comments?

Mr. FLEMMING: I would be pleased if he would.

Mr. BACHAND: We had reasons to assume that it would not have applied to other people because of the tradition in the Canadian parliament. Whenever we had a case for exempting the Americans we did so. For instance, in the case of Time magazines and Reader's Digest we made an exception for the Americans and you will remember at that time Senator Hayden said that if you have a business that is established in Canada and is carrying on an operation in Canada, and has done so for some time, you are then going to change the ground rules to such an extent that that business may be put on terms under which it would have difficulty in carrying on such business in Canada. It is a bad principle to create the atmosphere abroad that at any moment when it suits our purpose, or the view of those who have authority, we can change the ground rules. The same thing was done with respect to the Broadcasting Act. Those Radio stations that were owned by foreigners were not treated retroactively, but they kept their licences. We did the same thing with respect to trust companies and insurance companies. We made an exception for the Americans. We let them stay. We did not make it retroactive.

Mr. CHRÉTIEN: There is no question of asking you to abandon your charter.

Mr. BACHAND: I am glad to hear that.

Mr. FLEMMING: This is my concluding question. I presume that you, in the light of the information which this gentleman has just given us, would consider that there has been a degree of suggested discrimination on account of a change in ownership?

Mr. PALMER: Yes, I would have to agree with that.

Mr. FLEMMING: That is all, Mr. Chairman.

Mr. LAMBERT: In your conversation with Mr. Raminsky on June 20 were any of the provisions of the then recent budget discussed with him as they might apply to the change of ownership or the sale of the Mercantile Bank interests to yourselves?

Mr. MACFADDEN: I do not recall any discussion of the budget. However, I have the very distinct impression that it was made quite clear by Mr. Rasminsky that our acquisition of the shares was not in violation of any Canadian law.

Mr. LAMBERT: I think you were quite well aware of what was proposed with regard to corporate holdings at the time. In the budget of June 13 Mr. Gordon had proposed that there be a 30 per cent take-over tax. This would not have applied to the Mercantile Bank because it was not a Canadian-owned corporation and it was not a public company.

Mr. MACFADDEN: That was my understanding.

Mr. LAMBERT: Yes. There was also Mr. Gordon's statement to the effect that they were going to discuss this with the provinces. In order to refresh your memory and that of the committee, at page 1006 of *Hansard* of June 13 the Minister is quoted as stating:

> It will be noted that this measure applies only to the shares of listed public companies. Measures are under consideration, and may be discussed with the provinces at an appropriate time, which will apply to all Canadian companies including private companies.

The Mercantile Bank is in the nature of a privately held company. Was any application of this budgetary intention discussed with Mr. Rasminsky?

Mr. MACFADDEN: Not to my recollection.

Mr. LAMBERT: Was it discussed about a month later with Mr. Gordon?

Mr. MACFADDEN: I do not recall any discussion on that point.

Mr. LAMBERT: Of course, you are aware that on June 19, six days after delivering the budget, Mr. Gordon withdrew all his budgetary proposals with regard to take-over tax and then subsequently, during the month of July, there were more and more items of that budget which seemed to disappear. Was it just during your verbal conversation that you discussed this proposed acquisition with Mr. Raminsky?

Mr. MACFADDEN: Yes, that is correct.

Mr. LAMBERT: How was he advised on July 2? Was it by letter or memorandum, or by word of mouth?

Mr. MACFADDEN: It was by telephone.

Mr. LAMBERT: Subsequently on July 18 was that communication mentioned at all in the interview that you or your associates had with Mr. Gordon, Mr. Bryce and Mr. Elderkin?

Mr. MACFADDEN: I recall no discussion of the conversation with Mr. Rasminsky.

Mr. LAMBERT: This is the point I am trying to make: was Mr. Gordon advised that you had notified Mr. Rasminsky that a contract had been executed?

Mr. MACFADDEN: I could not answer that because I was not—

Mr. LAMBERT: Oh, you were not present at that interview with Mr. Gordon?

Mr. MACFADDEN: Yes, I was present.

The CHAIRMAN: Mr. Lambert, let me see if I misunderstand this. The Rasminsky meeting was June—

Mr. LAMBERT: Well, let us get the witnesses, Mr. Chairman. The Rasminsky meeting was on June 20.

Mr. MACFADDEN: Yes.

Mr. LAMBERT: I am referring now to the July 18 meeting with the Minister, A meeting which was arranged at the request of the National City Bank and Mercantile Bank principals.

Mr. MACFADDEN: Yes. We advised the governor that Mr. Rockefeller and I would like to come up and see him and tell him of our plans, having advised him that we had a firm deal. It was not possible to see him immediately because of intervening vacations. It was not possible to get an appointment with the Minister until July 18, and this was arranged on July 16 by Mr. Rasminsky and reconfirmed to the Minister by me.

Mr. LAMBERT: At that meeting was any reference made to your communication—and I say "your" in that generic sense—to Mr. Rasminsky of July 2?

Mr. MACFADDEN: Not that I recall.

Mr. BACHAND: I may say I find that a little odd.

Mr. ROCKEFELLER: Perhaps I can clarify this. When we went to see Mr. Gordon he knew what it was all about. There was some question about whether we had made ourselves clear on whether the contract had been signed, but he knew we were coming to discuss the situation of the Mercantile Bank. Mr. Rasminsky had told him that. I do not know just how much he told him and what he told him, but Mr. Gordon knew what it was all about and he said that Mr. Rasminsky had spoken to him about this subject.

Mr. LAMBERT: Fine, we will get that information from the other people rather than by hearsay. Mr. Bachand rather overtook me on the comment I was going to make that at this time I found it rather odd that the Minister of Finance felt that he could Canadianize two very well known American publications, but that he felt he could not Canadianize an American-owned bank. I can assure you I intend to find out why there is a distinction.

Mr. MONTEITH: As we are discussing retroactivity at the moment, Mr. Chairman, I will try to lay out the context of the various meetings. First of all, the meeting of June 20 was with Mr. Rasminsky.

Mr. MACFADDEN: That is correct, at my request.

Mr. MONTEITH: Yes, at your request. This was to ask his advice concerning the legality of the move you were contemplating.

Mr. MACFADDEN: That entered into it, yes, but the primary reason for my visit was to inform Mr. Rasminsky that we—the First National National City

Bank—at that time had made the decision that we wished to have direct representation in Canada. We knew that the Mercantile Bank was for sale and we wanted him to hear directly from us, obviously on an off the record basis because negotiations between businesses are very sensitive and very confidential, that we were negotiating the purchase of this bank. In my conversations with Mr. Rasminsky I certainly had no question in my mind but that it was quite clear this was not a violation of any law of Canada at that time.

Mr. MONTEITH: Nor is it in violation of any law as of today.

Mr. MACFADDEN: Yes.

Mr. CLERMONT: Why did an official of the National City Bank go to see the Governor of the Bank of Canada rather than the Inspector General of Banks, who has the duty of supervision over the chartered banks?

Mr. MACFADDEN: Perhaps the purpose, Mr. Clermont, in going to Mr. Rasminsky was because he is the governor and the guide of monetary policy as it affects the banks, and I felt it was quite proper to go to him first.

Mr. CLERMONT: Thank you.

Mr. MONTEITH: Following this meeting with Mr. Rasminsky, as I think you intimated, things moved rather quickly and the agreement was signed on June 26 in Rotterdam. Mr. Rasminsky was notified of the completion of the deal by telephone on July 2.

Mr. MACFADDEN That is correct.

Mr. MONTEITH: You, at that time—or almost immediately following—attempted to get in touch with the Minister to make an appointment, which you finally succeeded in doing on July 18.

Mr. MACFADDEN: That is correct.

Mr. MONTEITH: Now, there was a subsequent meeting with the Minister which was discussed just a moment ago; what date was that?

Mr. MACFADDEN: July 29, 11 days later.

Mr. MONTEITH: Again, what transpired at that meeting?

Mr. MACFADDEN: I was accompanied at that meeting by Mr. Moquette, who was then the president of the Mercantile Bank of Canada.

Mr. MONTEITH: Yes.

Mr. MACFADDEN: We were joined at the meeting by Mr. Elderkin—my friend the inspector general here—and by Mr. Robert Bryce. The purpose of the meeting was to advise the Minister that we appreciated the time that he had given us and that we appreciated his view, but that we felt we had to honour our commitment to our Dutch friends.

Mr. MONTEITH: I think it was some time in September, 1964—it was mentioned a moment ago—that as far as you know the first public statement was made by the Minister of Finance of his intentions in this respect.

Mr. MACFADDEN: That was September 22, 1964.

Mr. MONTEITH: Yes. So your claim of retroactivity really goes back a year and 3 months, or thereabouts, in that you did complete your deal, and if there

were any foundation for the Minister's statement, which was not made public until September, 1964 as a matter of government policy, then as a consequence there is retroactivity in respect to this?

Mr. MACFADDEN: That is part of our contention.

Mr. MONTEITH: What other contentions do you have as to the matter of retroactivity?

Mr. MACFADDEN: In examining the subsequent legislation following Minister Gordon's announcement in the house on the evening of September 22, 1964, as I recall, he indicated to the house that the government would introduce legislation in the house with respect to acquiring control of companies in the financial community, mentioning life insurance companies, trust companies and loan companies, and that the legislation would be retroactive to midnight of that date. That is my recollection.

Mr. MONTEITH: That was midnight of September 22?

Mr. MACFADDEN: Of 1964, yes. He further added, as I recall from the *Hansard* record, that subsequent similar legislation would also be introduced in connection with the revision of the Bank Act. Now, in the subsequent legislation on this question of retroactivity, the foreign shareholdings of insurance companies, trust companies and loan companies that were in existence as of that date were not disturbed and not made retroactive. There are insurance companies and trust companies in Canada which are either majority-owned or wholly-owned by United States or other foreign interests, and those were not disturbed. On the question of the banks, as I interpret proposed Bill No. C-222 there is no retroactive attempt in the "50" clauses to force the liquidation of foreign holdings in banks as of that date, so that is not retroactive. The retroactive feature appears in this one small clause, which is retroactive when applied to the Mercantile Bank alone.

Mr. MONTEITH: Thank you.

The CHAIRMAN: I would like to recognize Mr. Basford, followed by Mr. Thompson and Mr. Davis.

Mr. BASFORD: I have just a few short questions, Mr. Chairman. Mr. Rockefeller mentioned this morning after his meetings with the Minister on July 18 that both he and Mr. MacFadden made memorandums of their discussions. I wonder if we could have copies of those memorandums?

Mr. ROCKEFELLER: Like everything else, yes, indeed.

Mr. BASFORD: They will be tabled with the Committee?

Mr. ROCKEFELLER: That is up to you gentlemen and the Chairman.

Mr. BASFORD: I would move, Mr. Chairman, that they be produced and tabled.

The CHAIRMAN: Any discussion on this motion?

Mr. CLERMONT: How many days after the July 18 meeting was the memorandum prepared?

Mr. ROCKEFELLER: The time?

Mr. CLERMONT: Yes, how many days after the July 18 meeting?

Mr. ROCKEFELLER: Either the same day or the next day, I forget which. That was the first thing I did when I got back to the office in New York.

Mr. CLERMONT: Did you have a rough trip from Montreal to New York?

Mr. ROCKEFELLER: It was a beautiful day and it was very smooth. I remember that it was a nice day. The Canadian Guards were playing out here in front.

Mr. CLERMONT: Mr. Chairman, I will second that motion on the ground that—

Mr. MONTEITH: I have already seconded it.

Mr. CLERMONT: All the papers will have it and this will give us a chance to look at it and to ask questions about it.

Mr. MACFADDEN: The papers do not have those memorandums.

Mr. CLERMONT: No.

The CHAIRMAN: Any further discussion on this motion? All those in favour of the motion that the Rockefeller memorandum be produced for the Committee?

An hon. MEMBER: And Mr. MacFadden's.

The CHAIRMAN: And Mr. MacFadden's.

Motion agreed to.

Mr. BASFORD: Do I have the chair, Mr. Chairman—rather, do I have the floor?

The CHAIRMAN: Well, I know as joint chairman of the special Committee on consumer credit you are quite used to having the chair, and I understand you occupy that post very competently. However, at this stage rather than having the chair I would say you have the floor.

Mr. BASFORD: Well, the chair and the clerk seemed somewhat preoccupied and I wondered if you wanted me to proceed.

The CHAIRMAN: I am just arranging for the distribution of this memorandum, but I would like you to proceed.

Mr. BASFORD: Thank you. How many times was this transaction, that is, the purchase of Mercantile by Citibank, dealt with by the board of directors of either Citibank or I.B.C.?

Mr. ROCKEFELLER: My recollection is that it was once. The management of the bank went to the board recommending it and the board approved it.

Mr. BASFORD: On July 16.

Mr. ROCKEFELLER: Whenever the papers say.

Mr. BASFORD: Yes. When was that directors' meeting arranged?

Mr. ROCKEFELLER: Our directors' meetings are regularly scheduled. The directors' meetings of the bank are held the first and third Tuesdays of every month; the board meetings of the I.B.C. are scheduled quarterly, or when anything else comes up. The business of I.B.C. is not as active as a bank, and therefore does not meet as regularly.

Mr. BASFORD: Well, the meeting on July 16 was a special meeting with the board, and I am wondering when it was arranged.

Mr. ROCKEFELLER: We can produce the minute book for you if you want it. We will find out. We can make a telephone call. It would be in the records of the I.B.C., but I do not carry it in my head.

Mr. BASFORD: I can appreciate that. Up until the meeting of the board on July 16, then, you had no indication from the Minister of Finance what he thought of this transaction?

Mr. ROCKEFELLER: No, I certainly did not. As I said this morning, Mr. Gordon's attitude was a shock to me; it was such a surprise. Neither was I familiar with the famous book at that time, you know.

Mr. BASFORD: No, as you explained this morning. I can appreciate that. Were any questions at the board meeting as to what the political reaction to this agreement would be?

Mr. ROCKEFELLER: No. We did not get this feeling of nationalism, or whatever you want to call it. We consider ourselves friendly neighbors.

Mr. BASFORD: Which we are. I say that from the bottom of my heart, Mr. Rockefeller.

Mr. ROCKEFELLER: No, it honestly did not cross our thoughts; it was not a factor. Obviously with hindsight we should have thought of it but it did not enter our minds.

Mr. BASFORD: Were there any reports filed with the board or given to the board on the transaction?

Mr. ROCKEFELLER: Yes, undoubtedly; there is always a recommendation.

Mr. BASFORD: Are they available?

Mr. ROCKEFELLER: I do not see why not.

Mr. BASFORD: Do they make any reference to the—

Mr. ROCKEFELLER: They would have the price in it, that is all.

Mr. BASFORD: Do they make any reference to discussions—

Mr. ROCKEFELLER: I am sure they would refer to this contract that was signed in Rotterdam that we have been discussing.

Mr. BASFORD: Yes. Would the recommendation make any reference to the discussions with the governor of the Bank of Canada or other governmental officials?

Mr. ROCKEFELLER: No, that was probably covered verbally and would not be in the minutes. We do not record those details in the minutes, it is not necessary.

Mr. BASFORD: Sir, I was not talking about the minutes; I was talking about reports or recommendations given to the board members.

Mr. ROCKEFELLER: I would have made them, and I do not recall.

Mr. BASFORD: Could you determine the answer to that?

Mr. ROCKEFELLER: No, because it is 4 years ago, and I do not remember what I said. If I do not, I am sure none of the board members would remember.

Mr. BASFORD: Nothing was put in writing?

Mr. ROCKEFELLER: No.

Mr. BASFORD: There is no transcript kept of the board meetings?

Mr. ROCKEFELLER: No. We have official minutes and that is all. All we put in the minutes of the meetings are the resolutions and minutes.

Mr. BASFORD: Why was the board meeting held on the 16th rather than the 19th, three days later, when you could have had an indication what the Minister of Finance in Canada thought of the deal?

Mr. ROCKEFELLER: I do not recall why the timetable was—

Mr. MACFADDEN: We did not know until the 16th that we would be meeting with the minister.

Mr. BASFORD: Pardon me, Mr. MacFadden?

Mr. MACFADDEN: We did not know until the 16th that we were meeting with the minister on the 18th, so the meeting was scheduled on the 16th.

Mr. ROCKEFELLER: Undoubtedly we wanted to get the resolution they wanted; they wanted a prompt resolution.

Mr. BASFORD: Might I suggest you also wanted to present the Minister with a *fait accompli.*

Mr. ROCKEFELLER: No, that was—

Mr. MACFADDEN: That had already been done on June 26.

Mr. ROCKEFELLER: No, there was no conniving or planning to that effect.

Mr. BASFORD: No it had not, because the agreement made on June 26 was subject to approval by your board.

Mr. MACFADDEN: I do not know the legal term on the approvals, Mr. Palmer, whether we refer to them as subsequent approvals or what we call them. The agreement was still a matter of a binding agreement.

Mr. PALMER: Oh, yes, and the approvals would relate back to the date of the agreement.

Mr. ROCKEFELLER: I was there for Mr. MacFadden and my recollection is that as soon as the arrangement was made we asked Mr. Rasminsky to make an appointment with Mr. Gordon just as soon as he could and we would come up. He was busy and we may have been busy, and it was hard to arrange the appointment. We were at his disposal immediately and it was unfortunate that there was that two week gap, but it just happened that way.

Mr. MUNRO: Mr. Chairman, with Mr. Basford's permission may I ask a supplementary question or intervene with a question? On this general point that Mr. Basford is discussing, Mr. Rockefeller, I notice in the agreement—and this was referred to this morning—at the fourth line down it reads:

> Subject to the approval of our Boards of Directors and of all the Governmental Authorities concerned...

Now, I believe it was you or Mr. MacFadden who indicated that "all the Governmental Authorities concerned" in the agreement the Dutch government—

Mr. ROCKEFELLER: And ours.

Mr. MUNRO: —and the United States government.

Mr. ROCKEFELLER: Because we had been advised that no Canadian approval was necessary.

Mr. MUNRO: Does it not seem slightly strange when purchasing a bank in Canada that you would not consider the Canadian government as being one of the authorities you would talk to about it?

Mr. ROCKEFELLER: We taked to Mr. Rasminsky.

Mr. MUNRO: You talked to Mr. Rasminsky but what I am suggesting, Mr. Rockefeller, is that he does not represent the government of Canada. Is it not possible that this contract, in fact, is not binding and that you did not have the approval of the Canadian government?

Mr. ROCKEFELLER: Well, to go back, our Canadian lawyers told us no authority was necessary, and Mr. MacFadden got the impression from Mr. Rasminsky that he felt—on the legal point—that that was correct legal advice.

The CHAIRMAN: Now, Mr. Munro, certainly it is up to Mr. Basford if he wants to yield for supplementary questions.

Mr. BASFORD: I would suggest to the Committee that Mr. Munro is pursuing a very interesting line of questioning and I will yield the floor to him.

Mr. GREGOIRE: May I ask a supplementary question?

The CHAIRMAN: It would appear that Mr. Basford is yielding to you, Mr. Gregoire.

Mr. GRÉGOIRE: Mr. Rockefeller, I would like to know if your bank has bought other banks in other countries?

Mr. ROCKEFELLER: Yes.

Mr. GRÉGOIRE: And if on those occasions you had to deal with the government of the country where you bought the bank?

Mr. ROCKEFELLER: Every country is different. As we said this morning, when we can we prefer to open a branch; it is much simpler. In some countries we have to get a charter. We have a similar situation in South Africa to the one in Canada; it is a subsidiary bank. My recollection is that we went to the South African authorities there. We have a little bank in Nassau, and my recollection is that the law there is that you just set up a corporation and do business without telling anybody.

Mr. GRÉGOIRE: But generally speaking did you have—

Mr. ROCKEFELLER: You follow the laws of the country.

Mr. GRÉGOIRE: I would like to know because you said you buy banks in many countries.

Mr. ROCKEFELLER: No, not many. We have branches in many countries, but there are only a few of these cases where we have subsidiaries.

Mr. GRÉGOIRE: But generally in all these cases did you have to first deal with the government of the country where you buy a bank?

Mr. ROCKEFELLER: I would say fifty-fifty.

Mr. GRÉGOIRE: Fifty-fifty.

Mr. ROCKEFELLER: In London we open branches, and we do not have to tell them.

Mr. GRÉGOIRE: But to buy a bank?

Mr. ROCKEFELLER: There is no need to buy banks; we open branches. They let us open branches in all the countries in Europe.

An hon. MEMBER: Agencies.

Mr. ROCKEFELLER: Branches, not agencies.

The CHAIRMAN: Sweden?

Mr. ROCKEFELLER: No, we are not in Sweden; we are not in the Scandinavian countries.

The CHAIRMAN: I understand that in Sweden the banks cannot be owned by foreigners.

Mr. ROCKEFELLER: I do not know, I am not familiar with that.

An hon. MEMBER: In France?

Mr. ROCKEFELLER: In France we have our own branches.

The CHAIRMAN: Mr. Basford, would you care to resume?

Mr. BASFORD: I have very quickly read through this memorandum of Mr. Rockefeller's of July 19, 1963. We do not yet have Mr. MacFadden's memorandum. On a very quick reading there is nothing in there that surprises me. As to Mr. Gordon's attitude, which at that time, it seems to me, was well known and should have been well known to anyone investing in Canada in the amounts that were at this time contemplated, and this is something that I just do not understand. With respect, sir, I have difficulty in accepting the proposition that Citibank had absolutely no knowledge of the political situation in Canada at that time. This would appear to me—apart from your own investments—a rather peculiar advertisement for the Citibank, which is a very good bank—and I do not say that sarcastically—that is dealing all over the world and should be aware of the political situation existing in the countries in which its customers are dealing. You seem completely unaware of a very well known political situation in Canada. I find that very hard to accept.

Mr. ROCKEFELLER: All I can say is that in my daily work I am in touch with the executive officers of a great many corporations, many of which have operations in Canada, and I cannot recall any of them coming in and bemoaning any Canadian problems they had.

Mr. BASFORD: I can appreciate, sir, that you might not be familiar with this situation, but I was dealing with Citibank as a whole, collectively, and that some of its officers would not have that knowledge.

Mr. ROCKEFELLER: My associate, Mr. Clifford, wants to make a comment.

Mr. CLIFFORD: Mr. Basford, I think one of the reasons for this, and the question you ask is a good one, is that the Mercantile Bank was Dutch-owned at that time. What was involved was a change in ownership from Dutch to American hands. I think if it had been a different case, one where another bank was involved, then the views of the Minister certainly would have been of crucial importance. However, in this particular case I think it was hard to

understand—having been associated with the Citibank at that time—and it was hard to contemplate that there would be the objection that was voiced with a change in ownership from one foreigner to another.

Mr. MACFADDEN: It was not a take-over of a Canadian-owned, publicly-owned, bank.

Mr. BASFORD: I appreciate that, but I have done legal work for the Mercantile Bank of Canada and I do not understand why Mr. Moquette was not in a position to advise you that this would create a political ruckus in Canada and that it should be cleared with the Minister.

Mr. MACFADDEN: I hope your bill was said!

Mr. BASFORD: It was. I have no further questions.

The CHAIRMAN: I recognize Mr. Gilbert.

Mr GILBERT: Mr. Chairman, I would like to ask Mr. Rockefeller about the First National City Bank. Is it incorporated under federal powers in the United States?

Mr. ROCKEFELLER: Yes, by a National Bank charter.

Mr. GILBERT: Does that permit the bank to open branches in different states?

Mr. ROCKEFFELER: No. Our banking law in the United States is a very complicated one and nobody is capable of explaining it in a few minutes. However, the broad practise is that a national bank in the state in which it operates can do no more in that state than the state banks do in that same state. In New York, for instance, we are limited to a New York city area which is defined. The Chicago banks can only have one office in the city of Chicago; that is Illinois law. The Bank of America in California, which is under California law, can have branches all up and down the state of California. As to branches, the National Banking Act defers to the states.

Mr. GILBERT: That is quite different from what we have in Canada.

Mr. ROCKEFELLER: It is different from any place else in the world. I think it is the most antiquated system there is, and it is very hard to explain to anybody who was not brought up with it in the United States. It is not logical.

Mr. GILBERT: Would you venture an opinion with regard to the Javit's bill?

The CHAIRMAN: Well, Mr. Gilbert, I must intervene at this point.

Mr. GILBERT: This is informational.

The CHAIRMAN: Oh, I realize that, but I have precluded other witnesses from asking general questions which do not seem to be related to this particular topic. I am not saying it will not be quite relevant at another stage.

Mr. GILBERT: At what stage, Mr. Chairman?

The CHAIRMAN: Well, we are going to deal with the issue of discrimination and, if I may suggest it to you, I would be interested in making comparisons between Canada and the United States and other countries in the course of discussion on that topic. We are also going to deal with the general topic involving the question of governmental controls over the Mercantile and other banks, and we want to make some comparisons. We are also dealing with the role of the Mercantile Bank in assisting Canadian business at home and abroad.

Mr. GILBERT: Fine, I will defer it until then.

The CHAIRMAN: Do you have other questions on the issue of retroactivity?

Mr. GILBERT: No, that is all, Mr. Chairman.

The CHAIRMAN: I will recognize Mr. Thompson, Mr. Davis and Mr. Grégoire.

Mr. GILBERT: Mr. Chairman, there is one small question here with regard to the memorandum of agreement that was entered into on June 26. One of the last clauses reads:

> It is agreed that the publication of the deal will be done in a joint statement to which both parties have to concur.

Was that done?

Mr. MACFADDEN: Yes, on August 1.

Mr. GILBERT: On August 1. Thank you very much.

Mr. ROCKEFELLER: The Dutch were very sensitive about selling something. They did not want to lose face. They wanted to see the wording.

The CHAIRMAN: Mr. Thompson?

Mr. THOMPSON: My first question is to Mr. Rockefeller. I wonder if you could tell us, Mr. Rockefeller, on what date negotiations began between the Rotterdamsche Bank and the First City National Bank, or the International Banking Corporation on its behalf?

Mr. ROCKEFELLER: I do not have that information. We can go through our records and try and find it for you.

Mr. THOMPSON: Would that be earlier in the year 1963 or was it in 1962, or how soon before?

Mr. ROCKEFELLER: Mr. MacFadden can perhaps come closer to it, but my guess would be—and this is only a guess—that it might have been over a 60 day period in advance. It might have been longer, I do not know. Would you mind asking Mr. MacFadden, because he was closer to it.

Mr. THOMPSON: Mr. MacFadden?

Mr. MACFADDEN: Mr. Thompson, the first discussion with the Dutch occurred on or about the early part of October in 1962. The negotiations became serious in March of 1963.

Mr. THOMPSON: I do not know whether to ask this of Mr. Rockefeller or Mr. MacFadden. Perhaps one of you could tell us how the Rotterdamsche Bank compares in size with the First City National Bank?

Mr. ROCKEFELLER: Oh, it is much smaller. It has since merged, so it has lost its identity.

Mr. THOMPSON: I now come back to you, Mr. MacFadden, in following up Mr. Wahn's premise about the actual dates of your talks with Mr. Gordon and Mr. Rasminsky, or the specific day in which your memorandum was signed with the Dutch bank, or even the fact that this was merely a change of ownership between two foreign banks. It seems to me that the logical answer to this problem of retroactivity is found in the fact that the bank acts in Canada are due

for decennial revision, and that it is not only the practice but it is the traditional procedure in Canada to revise the bank acts every 10 years. I cannot see how in purchasing a bank in Canada, you could be so unfamiliar with the Canadian scene that you actually did not understand that this was the procedure in Canada, and this is what you would face in a matter of several years after having taken over the Mercantile Bank.

Mr. MACFADDEN: We were very familiar with that; we knew that the Bank Act comes up for revision every 10 years.

Mr. THOMPSON: How can you then talk of retroactivity when every bank operating in Canada faces a change in banking legislation every 10 years?

Mr. MACFADDEN: Yes, but we did not anticipate that there would be a special clause put into the revision of the Bank Act to put a fence around this bank that was legally and—

Mr. THOMPSON: A fence! Well, charters have been granted to two new Canadian banks and the requirements of these revisions are certainly different from those of the Bank Act when these charters were granted, even if it were only a few months ago.

Mr. MACFADDEN: Yes, but they did not apply for the charters betwen 1954 and 1964.

Mr. BASFORD: I have a supplementary question, Mr. Chairman, if I may?

The CHAIRMAN: If Mr. Thompson will yield.

Mr. THOMPSON: Go ahead.

Mr. BASFORD: Mr. MacFadden, surely your memorandum of July 18 indicates that Mr. Rasminsky told you on June 20 that what you were contemplating doing was—from his point of view—extremely undesirable.

Mr. MACFADDEN: My recollection is that he said he was not 100 per cent happy.

Mr. BASFORD: Well, I was reading your memorandum, which does not use those words.

Mr. THOMPSON: Again, Mr. Chairman, it seems to me that this whole basis of retroactivity loses its point in the fact of the decennial revision of the Bank Act. It seems to me that the First National City Bank officials must have been aware of what the situation was in Canada. If you look at the memorandum of Mr. Rockefeller, the third paragraph reads:

> They

Speaking of Canada.

> —pretty much ignore the Mercantile Bank under Dutch control on account of the scope of its activities. While highly complimentary to FNCB and its personnel they feel under our management the Mercantile Bank would become a more important factor. He expressed fears of an American manager and an American subsidiary being more responsive to our interests and those of the U.S. than those of Canada.

So, it seems to me that in this memorandum Mr. Rockefeller was quite aware of the remarks that Mr. Gordon had impressed upon him. I now go over to the memorandum of Mr. MacFadden, and it seems to me you were very well aware of the political procedures and the political situation in Canada. In fact, three-quarters of the way down the page I read:

> With a minority Government, having to deal with vociferous minority parties, he could not predict what. . . would be included in the new Act.

I would say the minority parties have been very rational and very quiet in their arguments here today. However, it seems to me that the argument that you are putting up here as far as retroactivity is concerned just loses its whole point because you very definitely reveal your awareness of the political situation in Canada according to your impression.

Mr. ROCKEFELLER: May I reply to Mr. Thompson?

The CHAIRMAN: Yes.

Mr. ROCKFELLER: Mr. Thompson, I do not want to be considered casual or disrespectful, but certainly we knew you revised your Bank Act, and the decennial revision of the Bank Act, provided a bank behaved itself and deported itself properly, to me is like renewing my automobile driver's license every year. If I ask for it, then I get it if I have not been a bad boy. Now, that may have been a false impression on my part. Mr. MacFadden may have given it more consideration, but I certainly did not consider it a major issue.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: Mr. Rockefeller, if between the time you got your last driver's license and the time you applied for the next one you passed a certain age barrier or if your eyes became less effective, you would expect—

Mr. ROCKEFELLER: I would expect trouble; or if I had broken the law.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: You would expect some revision of the terms on which you got the licence.

Mr. ROCKEFELLER: Yes, that is right.

An hon. MEMBER: But what if he had not broken any law?

Mr. ROCKEFELLER: But perfectly reasonable revisions, I would say.

Mr. THOMPSON: In this regard, Mr. Rockefeller, I believe that many of the representatives of Canadian banks in this room today may not think that some of the revisions in this present Bank Act are too reasonable, but they present their case and they accept the ruling.

Mr. ROCKEFELLER: That is all we are trying to do, that is all we are trying to do.

Mr. THOMPSON: Well, Mr. MacFadden, Mr. Palmer stated that he regards the Mercantile Bank as a Canadian Bank. He said the Mercantile Bank is only asking that the Mercantile Bank be regarded as any other bank operating in Canada. I would ask you, Mr. MacFadden,—I believe you understand the situation here in Canada very well—would this Mercantile Bank be willing to dispose of 90 per cent of its shares, or 75 per cent, as the case may be, so as to meet the requirements of Section 53 paragraph 1(b) and paragraph 2(a)? Would the National City Bank be willing to?

Mr. MACFADDEN: Well, who would run the bank?

Mr. THOMPSON: Well, Mr. Palmer said he is quite willing to go along as a Canadian bank and accept legislation, that is passed, governing banking in Canada. The regulation in Bill No. C-222 applies to Canadian banks. Would you be willing to meet those requirements?

Mr. ROCKEFELLER: Only if forced to do so, because after all there is no percentage in doing all the work and giving somebody else 90 per cent of the benefit of it.

Mr. THOMPSON: Well, this is the banking regulation, and this is how Canadian Banks operate or will be required to operate if this bill becomes law.

Mr. MACFADDEN: Yes, but there are no shareholdings, as we understand it, in any of the Canadian banks that exceed 10 per cent in any one non-resident or resident holder, or are the total holdings of non-residents in excess of 25 per cent.

Mr. CLIFFORD: May I speak to this? Mr. Thompson, the clauses in the fifties apply to all banks, and if my understanding is correct, the cut-off date is that day in September, 1964. So that there is not the retroactive feature in that. I will certainly agree that the cause requiring the devestiture of Trust Company shares and such institutions such as RoyNat is retroactive. But the big difference between that clause and clause 75(2)(g) is that that clause applies to all banks; whereas 75(2)(g) applies only to us. There is no other bank, except the Bank of Western Canada and the Bank of British Columbia, that it refers to and both of those banks obtained their charters with the full knowledge that these clauses were going to be in the act, so that can hardly be considered retroactive in those cases.

The CHAIRMAN: You do admit, sir in other words, that this clause does not apply only to your clients? You have just said so.

Mr. CLIFFORD: I am speaking of the clause—

The CHAIRMAN: Clause 75(2)(g).

Mr. CLIFFORD: No, that applies to the Bank of Western Canada, but the Bank of Western Canada obtained its charter with the full knowledge that this clause was going to be in there and accepted its terms.

Mr. THOMPSON: You are a Canadian, I believe.

Mr. CLIFFORD: No, I am an American, but I live in Canada.

Mr. THOMPSON: Well, you are very familiar with Canadian laws. Do you mean that you regard a revision of the Bank Act, whatever the terms of that revising legislation might be, as being retroactive? Would you not regard this as normal procedure in the decennial revision of the Bank Act?

Mr. CLIFFORD: The decennial revision of the Bank Act is an updating, and a very useful and helpful updating of banking legislation, which we go through every 10 years. There are parts in it—I mentioned one—that I am sure everybody here will agree have a retroactive aspect to them, applying to all banks, as far as investment in trust companies and other institutions is concerned. However, that applies to all banks, not just one, and that is the difference. We

acknowledge completely obviously, that often there are changes in a decennial revision of the Bank Act, and it does apply to everybody.

The CHAIRMAN: So, you are now in effect saying, sir, that the problem here is that this applies only to you. You are not therefore objecting to retroactivity as such with respect to the banking field?

Mr. CLIFFORD: In principle I am not in favour of retroactive legislation without commenting on the merits or demerits of that section of the Bank Act, which I think have been very ably spoken to before this Committee.

Mr. LAFLAMME: May I ask you, Mr. Chairman, a supplementary question? How could you say that a law is retroactive when it applies only to the future?

Mr. CLIFFORD: In what respect are you—

Mr. LAFLAMME: In every respect.

Mr. CLIFFORD: Clause 75(2)(g) is not applying to the future, it is changing—

Mr. LAFLAMME: It is going to apply to every bank.

Mr. CLIFFORD: It applies to every bank, but there is only one bank to which it is applicable.

Mr. LAFLAMME: Which is in these circumstances?

Mr. CLIFFORD: I beg your pardon.

Mr. LAFLAMME: Which has a complete 100 per cent owned shares belonging to one corporation.

Mr. CLIFFORD: That is right.

Mr. GRÉGOIRE: Would you say then that if there were two banks in your situation there would be no case of retroactivity, and only the number of banks make the retroactivity?

Mr. CLIFFORD: I am saying that the fact is that this applies to us and not to anybody else.

Mr. GRÉGOIRE: And if it was applied to somebody else there would be no case of retroactivity?

Mr. CLIFFORD: That is a hypothetical question. The fact is—

Mr. GRÉGOIRE: You mentioned these questions.

Mr. CLIFFORD: No, I—

Mr. GRÉGOIRE: You said: "because it applies only to us".

Mr. CLIFFORD: It does apply only to us.

The CHAIRMAN: Mr. Grégoire I think you have got your answer. I think we should return to Mr. Thompson.

Mr. THOMPSON: I have one question for Mr. Rockefeller. Could you tell us, Mr. Rockefeller, what is the financial and corporate connection between Chase Manhatten Bank and Citibank in New York.

Mr. ROCKEFELLER: Absolutely none whatsoever.

Mr. THOMPSON: Mr. MacFadden, you state on page 13 of your brief that 86.5 per cent of the borrowers are companies that are wholly Canadian owned as far

as your present business is concerned. Is it your intention or plan to expand Mercantile so that through multiple branches it enters into the business of general banking across the country. Or is it the intention to limit it to agencies and bank representatives more in line with the practice of Canadian banks in the United States?

Mr. MACFADDEN: We have no agencies or agents in Canada.

Mr. THOMPSON: I am speaking of the future and I am speaking of agents. You are acting as your own agents but not in the sense of normal banking practice across the counter.

Mr. MACFADDEN: It would be our intention, under present philosophy, to establish perhaps a few more branches in order to conform to the general banking practice of the other chartered banks, and it would enable us to be in a position to clear cheques for our customers. It is not our intention at the present time to consider going into a multiple branch operation. As we point out in our brief, the market is very well covered by the existing Canadian banks, who have this large multiple branch establishment. It would be a very expensive thing for us to do and not a practical thing for us to do.

Mr. THOMPSON: One last question, Mr. Chairman; I direct it to Mr. Rockefeller. Does the Citibank face any regulations in those countries where it has subsidiaries, or where it may have direct charters, similar to those proposed in Bill No. C-222—

Mr. ROCKEFELLER: Not that I know of.

Mr. THOMPSON: In effect having to follow the legislation and regulations of the country in which—

Mr. ROCKEFELLER: Not that specifically apply to us and only us. Each country has its own banking laws, and we and the other banks in those countries conform to those laws. There is no difference—

Mr. THOMPSON: You say it applies to you but it could apply to any bank like yours in the country.

Mr. ROCKEFELLER: It does, it does.—

Mr. THOMPSON: The difference being foreign ownership and domestic ownership.

Mr. ROCKEFELLER: Most countries have a great deal of foreign banks. I mean some countries have 30 or 40 different foreign banks, originating in different countries; and they all conform to the laws of the country in which they are operating.

Mr. MACALUSO: Different levels of ownership.

Mr. ROCKEFELLER: All kinds of different ownerships, private banks, public banks, subsidiary banks.

Mr. MACALUSO: No, I mean requirements, requirements as to foreign ownership, the level of foreign ownership. Japan has what, 50 per cent?

Mr. ROCKEFELLER: No; we have our own branches; no capital required.

The CHAIRMAN: I think we can get into this issue of discrimination.

Mr. DAVIS: Mr. Chairman, I would like to address my question to Mr. Rockefeller. I would like him to cast his mind back to the summer of 1963. He was obviously faced with several uncertainties. He was taking over, or the National City Bank was taking over, 100 per cent control of a bank which was already foreign owned. You examined the legal consequences of this and you could not see any need for changes in respect to the law in Canada. However, you were looking ahead to a situation where within, perhaps 12 months, certainly within a year or two, there would be a decennial revision of the Bank Act in Canada and conceivably you could run to somewhat different ground rule, the rules could be changed in some respects. From an economic point of view you had several uncertainties. I have heard the phrases used by you and Mr. MacFadden "continue to operate". Now, in my view, and perhaps you would like to comment on this, you can continue to operate, without growth, you can continue to operate. Is that not true under the draft act as proposed?

Mr. ROCKEFELLER: I suppose you could say that as a practical matter it is meaningless; because if you do not grow with your competitors, you fall behind in your—

Mr. DAVIS: Well, what you are really saying, then, is that the essence of your concern is on growth; that you, in 1963, bought this asset as you saw it, because it had not only an opportunity to continue to operate but to grow?

Mr. ROCKEFELLER: It was potentially a good investment.

Mr. DAVIS: Now, the word growth, points to the future, does it not?

Mr. ROCKEFELLER: Yes, sure.

Mr. DAVIS: So essentially your concern was not with the retroactive feature.

Mr. ROCKEFELLER: No, I mean we were thinking of growth and the return on the money.

Mr. DAVIS: What was under the law of that day?

Mr. ROCKEFELLER: Yes.

Mr. DAVIS: What would materialize in the years to come?

Mr. ROCKEFELLER: We thought it would be a good investment, just like you would make an investment.

Mr. DAVIS: Well, my main point really is to isolate first this matter of growth, and to say that the growth really was something for the future—

Mr. ROCKEFELLER: Yes, I would say growth connotates the future rather than the past.

Mr. DAVIS: Therefore, the arguments concerned here relate to the future and not the past. We are not really that much concerned with retroactivity, but the law, as it stood then, or the charter as it stood then, the charter you bought, was good for a million shares at $10, which was $10 million capital, and that is unchanged; there is no retroactive aspect here?

Mr. ROCKEFELLER: No; it was cheaper then. We had to put more money in afterwards.

Mr. MACFADDEN: It was $5 million when we purchased it, we doubled the capital.

Mr. DAVIS: Yes, but under the charter as it stood, you had this opportunity to expand?

Mr. MACFADDEN: Yes, we doubled the capital.

Mr. DAVIS: Of which you have taken advantage and so on; there is no retroactive action in respect of the authorized capital. What would you say was a reasonable range of ratios as between total liability your authorized capital? Currently it is about 28 to 1, something like that.

Mr. ROCKEFELLER: Mr. MacFadden had some figures of the Canadian banks that ran up to 70 times capital.

Mr. MACFADDEN: There is an exhibit in the back of the brief which shows the ratio of liabilities to authorized capital of the other Canadian chartered banks.

Mr. ROCKEFELLER: But the Japanese and the Germans go even higher.

Mr. DAVIS: So back in 1963 you could have reasonably expected to exploit a charter which had an authorized capital of, let us say, $10 million, and you could run the ratio up to over 30 to 1, perhaps, or more.

Mr. ROCKEFELLER: We would conform—

Mr. DAVIS: That is the degree of growth you bought?

Mr. ROCKEFELLER: Yes; what we would do is that we would—and we felt that the public would force us to—conform, otherwise they would not do business with the bank, to the same ratios as the average of the big chartered Canadian banks; that we could not be out of line.

Mr. DAVIS: Well, would you argue with this interpretation. You bought an asset which in your view at least, almost certainly had a growth prospect up to 25 or 30 times $10 million, but was not guaranteed beyond that growth because there would be new laws, and so on; in other words you were gambling on the law.

Mr. ROCKEFELLER: Well, we would expect—and this is what you find elsewhere—that if your business grows, and it seems desirable to put more capital in, you are encouraged to do so.

Mr. DAVIS: Yes, but this was a future act.

Mr. ROCKEFELLER: Yes.

Mr. DAVIS: So that the retroactive aspect here is not very big, it does not loom very large. One final question, Mr. Chairman. What percentage of the shares, of say, the First National City Bank is held by the largest single shareholders?

Mr. ROCKEFELLER: We have 26 million shares outstanding and the largest shareholder would be—it would be one of these funds—would be between 100,000 and 150,000. Now, you figure out what that percentage would be; it would be less than 1 per cent.

Mr. DAVIS: So your ownership, or at least the ownership of the National City Bank is very widely dispersed?

Mr. ROCKEFELLER: Public held company, completely public held.

Mr. DAVIS: You think this is essentially good policy?

Mr. ROCKEFELLER: Yes.

The CHAIRMAN: Then, you agree with Mr. Davis in that policy?

Mr. ROCKEFELLER: Yes; well it is the facts of life. We are so big that nobody could own us.

Mr. DAVIS: One other point, Mr. Chairman, there was a—

Mr. ROCKEFELLER: We have a billion shares in capital now.

Mr. DAVIS: There was a reference to buying a car and then at the end of the year renewing a licence. It seems to me that every second year you are buying licences not for just one car, but two cars and four cars, a year or two later, and so on. I think that would have been more—

Mr. ROCKEFELLER: I was talking about the permit to drive a car, my driver's licence.

Mr. MONTEITH: It is good for any car.

Mr. GRÉGOIRE: Mr. MacFadden, on the 20th of June you had a conversation with Mr. Rasminsky?

Mr. MACFADDEN: Yes, Mr. Grégoire.

Mr. GRÉGOIRE: And he mentioned to you that it would be advisable for you to meet with the Minister of Finance; is that not right?

Mr. MACFADDEN: That is correct.

Mr. GRÉGOIRE: Was not that advice by the Governor of the Bank of Canada sufficient to have your bank consult with the Minister of Finance before concluding any transaction with the Dutch bank?

Mr. MACFADDEN: Well, this was a conversation, a suggestion. When you enter into a business negotiation and you are in the middle of the negotiations you come to an agreement. It is just not the practice when you are trying to close a deal to get up from the table and say: "Well that is fine, gentlemen, we have got to go and talk to a few people and see whether they like us or not". As long as you are well advised ahead of time that you are not contravening any laws—

Mr. ROCKEFELLER: Mr. Grégoire, may I make a point?

Mr. GRÉGOIRE: Yes.

Mr. ROCKEFELLER: I think the facts speak for themselves. If Mr. MacFadden had come away from Mr. Rasminsky thinking it was Mr. Rasminsky's idea that he should talk, or we should talk, to Mr. Gordon before anything further was done, we would have done it. We would have done it without any question, if we thought that was the thing to do. Now, we have made the wrong decision and had the wrong impression.

Mr. GRÉGOIRE: But is it not a fact that the Governor of the Bank of Canada advised Mr. MacFadden and the First National City Bank that it would be better to meet with the Minister of Finance before—

Mr. ROCKEFELLER: I question your word "before"; you will have to refer to Mr. MacFadden if there was any objection to that word "before".

Mr. GRÉGOIRE: Well, it was at the 20th June that you talked with Mr. Rasminsky, and it was something like 36 days before the Board of Directors of the Citibank accepted.

Mr. MACFADDEN: It was 6 days before the contract was entered into with the Dutch in Rotterdam.

Mr. GRÉGOIRE: Yes, but the contract with the Dutch was subject to consent by the Board of Directors of the Citibank.

Mr. MACFADDEN: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Could I have a supplementary question, please? Mr. MacFadden in your memorandum you indirectly quote Mr. Rasminsky. You say that:

> Mr. Gordon raised the same questions as had been previously raised by Rasminsky in my conversation with him on June 20th:—
>
> (a) This action of ours would open the flood gates for charter applications by other American banks, and
>
> (b) The confidential nature of the relations of the Governor with the Canadian banks would be disrupted by the presence of a subsidiary of a large American Bank who would perforce report all discussions to its Head office. Concern was also expressed over the possible interference of some of our United States laws, such as the Clayton Anti-Trust Act.

Now, would that not have given you at least some hint that Mr. Rasminsky was opposed to your action, and that he would be advising the Minister of Finance in his capacity as Governor of the Bank of Canada? I find it difficult to understand that you did not, from those suggestions which you quote of Mr. Rasminsky, reach the conclusion on June 20, that you had better clear this with the Canadian Government authorities before you went any further on June 20th when you signed the agreement. How do you explain that? I mean, did you not discuss this with Mr. Rasminsky and what he meant by bringing these two things up?

Mr. MACFADDEN: The reference there is to the same two general areas which had been discussed with the Governor. And I reiterate, that at no time did the Governor indicate to me in this conversation, my impression is, that we were violating any law on the books of Canada.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No he could not do that. But surely he was indicating to you that you were taking a rather dangerous course which might eventually lead to your contravening a law that was to be amended.

Mr. MACFADDEN: That was not my impression.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well how did you answer Mr. Rasminsky's two objections?

Mr. MACFADDEN: Well, on the question of opening the flood gates to applications of American banks to come into Canada, obviously I could hardly speak for the 17,000 banks in the United States. I think that is something, under the previous Bank Act, that will be dealt with by this Committee and by the

Treasury Board, whatever procedures were necessary to apply. I did not feel, in answer to the Minister's questions, that this presented any serious problems because we could not anticipate that there would be a flood of applications to come into Canada.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Are you telling us that you came away from your conversation with Mr. Rasminsky without any idea in your mind that this course of action was unacceptable to him, as Governor of the Bank of Canada, and consequently probably to the Government of Canada because he would advise the Minister of Finance. You had no idea of that when he raised these objections?

Mr. MACFADDEN: Well, of course, he raised the objections and we discussed it. But I did not feel that there was any undue concern.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Oh!

Mr. GRÉGOIRE: You took it for granted then that the opposition of the Governor of the Bank of Canada was not important?

Mr. MACFADDEN: Not competent, no.

Mr. GRÉGOIRE: And the advice you received from him to see the Minister of Finance was not sufficient enough to give you that impression.

Mr. MACFADDEN: As I stated this morning, I told him that as soon as we had a firm deal I would come back and we would keep him informed of the negotiations. And I did that within a matter of days after the agreement was—

Mr. GRÉGOIRE: Yes, but you say you saw Mr. Rasminsky on June 20. Then you had a prospective deal with the Dutch bank, subject to acceptance by your Board of Directors, on the 6th of June I think—26th June. Then, on the 16th of July your board of directors accepted the deal, and two days afterwards you met the Minister of Finance, leaving 36 days after the advice from the Governor of the Bank of Canada. Are those the events?

Mr. MACFADDEN: As I say, that was not my impression.

Mr. GRÉGOIRE: Now, who was in such a hurry to finish the deal? Was it the First National City Bank or the Dutch, because you finished the deal two days before seeing the Minister of Finance? Who was in a hurry to finish the deal, was it your bank or the Dutch bank?

Mr. MACFADDEN: Well, nobody was riding a bicycle. We were in the middle of negotiations which were proceeding very rapidly, and then we came to an agreement with the Dutch very much more quickly than I had anticipated. But these negotiations were in process and had been since March.

Mr. GRÉGOIRE: But as soon as you had the first document—the one of the 26th of June—you had a good option in your hands.

Mr. ROCKEFELLER: Contract.

Mr. GRÉGOIRE: A good contract, which was not a definite contract. It became definite when your board of directors accepted it.

Mr. MACFADDEN: It was a definite and enforceable contract on the 26th of June.

Mr. GRÉGOIRE: Well, the first paragraph said "subject to approbation by respective board of administration", so it became effective with that acceptance by the board of administration of the First National City Bank, not before. You had a good option before, but it became—

Mr. MACFADDEN: Counsel tells us that that is a legally enforceable binding contract of the 26th of June.

Mr. GRÉGOIRE: After the 26th of June or after the 16th of July?

Mr. MACFADDEN: On the 26th of June.

The CHAIRMAN: Oh, just a minute sir, you have already told me sometime previously, and I understood you to say, that it would be enforceable, subject to the approval, at least, of your government. You are not suggesting that you would have gone ahead and completed a deal that the Federal Reserve would disapprove.

Mr. MACFADDEN: Of course not. We have already said that, but I am saying, subject to these approvals which are the qualifications of any business deal between the buyer and seller where legal authorities and governmental authorities must give prior approval. It was obvious that the Dutch would not sell the bank and accept the payment from us until these two government approvals had been given.

Mr. GRÉGOIRE: Yes, and also subject to approbation of your board of administration.

Mr. MACFADDEN: Yes, but the two officers of the National City Bank, the National Banking Corporation, and two officers and managing directors of the Rotterdamsche Bank signed an agreement to sell and to buy.

Mr. GRÉGOIRE: Subject to.

Mr. MACFADDEN: Correct.

Mr. GRÉGOIRE: So, it is not final until it is approved by your board of administration.

Mr. MACFADDEN: Well, I think we are getting into rather extreme details on the legal side, and I am not a lawyer—

Mr. MACALUSO: Perhaps your legal advisers could answer that, because I am certain he will agree with the terminology that is being used by Mr. Grégoire.

Mr. CLERMONT: Mr. Chairman, may I have the word—

Mr. GRÉGOIRE: May we have the legal advice of your lawyer?

The CHAIRMAN: If Mr. Palmer feels that he is not competent to deal with this, since it was an agreement drafted and signed apparently in Amsterdam, and partially enforceable in the United States, he may ask a colleague from New York.

Mr. ROCKEFELLER: Mr. Harfield.

The CHAIRMAN: Could you come up here, Mr. Harfield, and bring your little chair with you. Now, I think we ought to try and clarify this, and I think Mr. Grégoire will agree with me.

Mr. GRÉGOIRE: Yes, I would like to have it clarified.

The CHAIRMAN: This phrase must have some meaning.

Mr. HARFIELD: Oh, I think quite clearly it does. I would construe this, under the laws of New York, and it would be my understanding that this would be a fairly general construction, that you had here a binding agreement duly executed by both of the parties, which was subject to conditions subsequent. The conditions subsequent were of two kinds; one was the approval of the boards of directors; the other was the approval of the Dutch Central Bank and of the Federal Reserve Board.

The CHAIRMAN: Why conditions subsequent rather than conditions precedent.

Mr. HARFIELD: Well, I suppose that is really a question of chicken and egg. You can do it either way, but it has been my experience that ordinarily, where you are making a large deal, what you do is to firm up the deal and then you provide that between the time of making the deal and the time of actual closing, you tidy up the details. I am sure that all of you have had the experience of making an agreement which has to be performed at a later date, the performance being subject to opinions of counsel, to title deeds, to title searches; that is what all these things were, in my judgment.

The CHAIRMAN: And if these conditions are not met the deal is not completed.

Mr. HARFIELD: That is right. Now, you come to the other question whether you can repudiate your own deal. And I suppose that, so far as the approvals of the boards of directors were concerned, a board of directors, the board of directors of IBC could have declined to act on this, and that would probably have been an excuse. It would have been a repudiation of what their officers had done. But they might have had a legal technical out on that. Clearly if the Federal Reserve Board had failed to give its approval, as I think Mr. Rockefeller has testified, that would have been an act beyond the control of the parties, which would have made the agreement unenforceable, and no longer binding. The same thing would have been true if there had been a failure to obtain the exchange control licence of the Dutch.

I do not want to appear to argue this, but I might call your attention to the fact that as I listened to the testimony today, chronology is rather imporant. Mr. MacFadden had a conversation with Mr. Rasminsky on the 20th. This agreement was executed on the 26th. On the 2nd of July, Mr. Rasminsky was advised of that fact by telephone and a request for a meeting with the Minister of Finance was made, and yet it was not until the 16th that the board of the IBC met. Now surely they were not trying to rush through.

Mr. GRÉGOIRE: Mr. Rockefeller, did Mr. MacFadden advise you of what Mr. Rasminsky had told him?

Mr. ROCKEFELLER: I am sure he did. I do not remember now, but I am sure he did; he would have in the normal course of events.

Mr. GRÉGOIRE: So he found it important it enough to advise you?

Mr. ROCKEFELLER: I would think so. I do not remember, but I think so. May I elaborate on your other point just a second. We live in a practical world. If the Citibank in New York and the Rotterdamsche Bank in Holland are making a

deal, produce the paper and signed by authorized officers, and either one of us had wheeled out of it on a technicality, our name would have been worthless in banking circles in a week. That is just practical. As to legal, you can do—I do not care what the legal is. But it would go around Europe that the Citibank had welshed on the deal.

Mr. GRÉGOIRE: Yes, but do you call the judgment, or the decisions of the Minister of Finance of Canada a technicality?

Mr. ROCKEFELLER: I am not talking about that, I am talking about the boards of directors. I am not mentioning the financial authorities.

Mr. GRÉGOIRE: I am mentioning the political authorities in Canada. Is that a technicality?

Mr. ROCKEFELLER: No, absolutely not; I am just talking about our board and the Rotterdamsche board. If either board had refused to go along with it our name would have been mud. It is a practical matter.

Mr. GRÉGOIRE: But, Mr. Rockefeller, what I fail to understand is this: if Mr. MacFadden judged it was important enough to tell you about the advice of Mr. Rasminsky—

Mr. ROCKEFELLER: I am sure he called me. I do not remember, but I am sure.

Mr. GRÉGOIRE: He judged it was important enough to tell you about it, and then both of you together did not find it important enough to consult the Minister of Finance before closing the deal; this is what I fail to understand.

Mr. ROCKEFELLER: We had the impression, rightly or wrongly, from Mr. Rasminsky through Mr. MacFadden—I was not there—that we did not have to go to Mr. Gordon and did not need to go to Mr. Gordon until after the deal was made. Now, that may have been a false assumption, but that was our belief; otherwise we would have done it, as I said before; if Mr. Rasminsky had told us, "you do this before", we would have done it, of course. We were not trying to get away with anything.

Mr. GRÉGOIRE: Just on the same subject, but maybe beside the point, as an American businessman, do you feel that you can deal with Canada without, and it is not necessary or important to consult the political authorities, or financial authorities in Canada before—

Mr. ROCKEFELLER: That depends on what kind of a deal; if I want to come up fishing, I do not have to ask any advice.

Mr. GRÉGOIRE: But is it not important in a banking deal?

Mr. ROCKEFELLER: That depends on what kind of a deal. I might want to cash a cheque at the Canadian Bank.

The CHAIRMAN: You do not go through the immigration and custom lines?

Mr. ROCKEFELLER: Very easily, easier on your side than on ours.

Mr. BACHAND: Mr. Chairman, without being disrespectful, as a Canadian, I still think that when there is a law that does not prohibit something, no matter

what respect you have for the Governor of the Bank of Canada, or for a minister, because ministers come and go—

Mr. CASHIN: I was going to ask a question on the point that was just interjected; and since it has been introduced now, I wonder if you would permit me, Mr. Grégoire to ask a question. You mentioned and you seem to rest the case on this, that the law did not, as far as you were concerned, present any road blocks to you. Am I to infer from that that you had a very thorough look at the law?

Mr. ROCKEFELLER: Yes, we consulted Canadian counsel. I do not know if it was Mr. Palmer, or who it was.

Mr. CASHIN: Would they have presented a written brief to you on this.

Mr. ROCKEFELLER: I do not remember.

Mr. CASHIN: Since you understood that bank charters, or the Bank Act, is revised every ten years I am wondering if you thought it worth your while to obtain a legal opinion in Canada on what possible effect the revision of the Bank Act might have on your operation? Since you conducted a thorough investigation of the law and since the law was up for revision and there was a royal commission sitting on the matter, would it not have seemed appropriate to ask for some legal opinion?

Mr. PALMER: I was consulted in connection with this matter, both in Toronto and in New York. I do not recall giving a formal opinion before this conversation of July 18, but I may have done so. I remember very distinctly the conversation in New York, when the matter of the revision of the Bank Act was brought up and discussed, and the possibility that the charter of Mercantile Bank would not be renewed was also discussed. I ventured the opinion at that time—I felt it very strongly—that I thought it most unlikely that, for any reason whatsoever, except for bad behaviour, as Mr. MacFadden said this morning, the charter of one bank would be revoked. I felt that then, and that is one reason I am here today, arguing that in this particular case.

The CHAIRMAN: It would appear Mr. Palmer, that your advice to your clients was sound because as far as I can determine, from my study of this law, there is nothing in here revoking their charter.

Mr. PALMER: There is not?

The CHAIRMAN: No.

Mr. PALMER: That was the only thing that was discussed. We were not talking about clause 75(2)(g). We had never heard of it. We were discussing the possibility that the charter would not be renewed and I gave, as my personal opinion, my view that that would not happen.

Mr. CASHIN: But is this the only reference you made, in your legal opinion to your client, to the revision of the Bank Act.

The CHAIRMAN: I think what you are driving at Mr. Cashin, is whether he advised his client as to the possibility of changes which might affect their operation in Canada in a way different from what they were doing at that particular time.

Mr. PALMER: No, because it was never in my contemplation that there would be special legislation directed at this particular bank.

Mr. CASHIN: I am speaking, not only from a legal point of view. In the minds of the buyers, in terms of doing an economic analysis as to the success of their venture, would the possible revisions of the Bank Act and all other factors not be of some interest to them at that time, in deciding on the action they were taking?

Mr. PALMER: I am not a banker, Mr. Cashin, and I do not know what factors were considered by the officers of First National. Certainly, as far as I can recall, there was no suggestion at that time of what the revisions of the Bank Act might be. It was a year ahead—and as it now happens, it is three years since this particular deal. Nobody knew how the Bank Act might be amended and if it were amended—and this is the point that I think I want to stress again—at the decennial revision of the act, it would apply to all banks. I expressed the very definite view that in my feeling it was extremely unlikely that the parliament of Canada, which is bigger than the government, would revoke the charter of one Canadian bank for no sufficient cause.

Mr. CASHIN: Was there any reference at all in these discussions, to the matter of any concern in Canada at any time, in any way, shape or form, to foreign ownership in banks? Was the foreign ownership in banks mentioned, or Canadian attitudes, or attitudes of Canadian personalities towards foreign ownership?

Mr. PALMER: I do not recall any, Mr. Cashin; I remember being in New York with my partner Mr. Dunnet on the 15th of July, before this meeting, and the matter of Mr. Rockefeller and Mr. MacFadden going to Ottawa was discussed. I can remember very definitely the way it was presented to me; they were coming to Ottawa, as a matter of courtesy to call on the Minister of Finance, and either before or after that particular discussion I had advised them that there was no legal impediment in Canadian law to their buying the shares of the Mercantile Bank from another foreign owner.

The CHAIRMAN: I am returning to you Mr. Grégoire. Your opinion was not couched in a way that put it forward in perpetuity in the future.

Mr. PALMER: The opinion was, that there would be no singling out of this—

The CHAIRMAN: I am sure you did not venture to suggest to your client that the Canadian law might not possibly be changed some time in the future.

Mr. PALMER: I am quite sure. I did not, no. But, if I had been asked the question at the time, and I think, as a matter of fact, I was asked at the time, I would have said, as I did say, that I thought it very unlikely that there would be any singling out of a particular bank for—I am going to use this word discriminatory again, even though we are not in that phase yet—discriminatory treatment.

Mr. CASHIN: You were asked the question?

The CHAIRMAN: No, Mr. Palmer was answering me; he did not.

Mr. CASHIN: Yes, but he said that he was asked.

Mr. PALMER: I said, if I were asked the question.

Mr. CASHIN: I thought you said, you were asked the question.

Mr. PALMER: I was not asked the question whether the charter of the Mercantile Bank would be, or might be, revoked. We were discussing the upcoming revision of the Bank Act and in the course of that discussion I recall that I voiced the opinion that I thought it very unlikely that that kind of action would be taken.

Mr. CASHIN: But was this in relation to any reference to foreign ownership?

Mr. PALMER: Not that I recall.

Mr. GRÉGOIRE: Mr. MacFadden, in your own brief, after the visit to Mr. Gordon, you say that Mr. Rasminsky raised the same questions as Mr. Gordon, and you say in (b):

> The confidential nature of the relations of the Governor with the Canadian banks would be disrupted by the presence of a subsidiary of a large American bank—

You use the word "disrupted," which is a very strong word, and after receiving an opinion of the Governor of the the Bank of Canada, using words such as "disrupted" and advising you to meet with the Minister of Finance, you can now tell us it was only a courtesy visit, even after those words and this advice.

Mr. MACFADDEN: The word "disrupted" was my word.

Mr. GRÉGOIRE: You use it; you said that

> The confidential nature of the relations of the governor with the Canadian banks would be disrupted—

And you said previously:

> —raised the same questions as had been previously raised by Mr. Rasminsky.

He raised that. So Mr. Rasminsky did not use this word?

Mr. MACFADDEN: I do not recall precisely which word he used. The word "disrupted" is my word. This is my memorandum of my recollections or comments on what was said.

Mr. MACALUSO: It conveyed that impression, Mr. MacFadden.

Mr. MACFADDEN: It conveyed that impression. Let me say that it was something that caused him some concern; let me put it that way. We have discussed this with the Governor since on a number of occasions.

Mr. GRÉGOIRE: Was it you that tried to organize a meeting between yourself, Mr. Rockefeller and Mr. Gordon.

Mr. MACFADDEN: Yes.

Mr. GRÉGOIRE: When did you for the first time try to have such a meeting?

Mr. MACFADDEN: On July 2, I telephoned Mr. Rasminsky and told him that we had a firm deal with the Durch and Mr. Rockefeller and I would like to come up to see him and at that time the minister.

Mr. GRÉGOIRE: You had no news about this meeting before which date?

Mr. MACFADDEN: Not till the 16th of July.

Mr. GRÉGOIRE: Before or after the approval by the board of administration.

Mr. MACFADDEN: The appointment was made by Mr. Rasminsky on the 16th and he so advised me by telephone. On the 16th I wrote a confirming note to the Minister, confirming the appointment made by Mr. Raminsky for the 18th.

Mr. GRÉGOIRE: Before or after the approval by the board of administration.

Mr. MACFADDEN: I know nothing about that, or when the board was meeting. I know nothing about it.

Mr. GRÉGOIRE: But you found it necessary to ask legal advice of lawyers before meeting the Minister of Finance?

Mr. MACFADDEN: No, we asked advice of our lawyers before we even negotiated with the Dutch.

The CHAIRMAN: I recognize Mr. Langlois.

Mr. LANGLOIS (*Mégantic*): Mr. MacFadden, with respect to this brief which you had submitted, I presume, when you returned to United States and went to the board of directors, on your meeting with Mr. Gordon on July 18, 1963, after all the different conversations and meetings you had dating back from June 20, you come out and write out a pretty plain statement here about how the Canadian government felt on this whole thing. First of all, the Governor of the Bank of Canada had stated his opinions and on July 18 after your meeting with Mr. Gordon, you write "Mr. Gordon knew of our plans" and so on and so forth and this is where the (a) and (b) come in with his objections that

> This action of ours would open the flood gates for charter applications by other American banks,—

You say that furthermore

> Mr. Gordon admitted that there was nothing the government could do to prevent our proceeding with the plans with the present law, but because of a loop-hole in the present Bank Act—

I do not know how he said it, but this is what you wrote:

> —because of a loophole in the present Bank Act whereby no provision had been made to prevent foreign ownership of a chartered bank.

After telling you all this, he said some more. This is on July 18, and I must say you had an even better insight than we did, because we waited until the 22nd of September to hear anything about it. You go on to say:

> We were reminded that all banks charters expire with the old Bank Act and he made it clear that possibly the Mercantile charter would not be renewed.

He made it clear,—that was Mr. Gordon—

> He said the Government does not welcome our contemplated move, and he can obviously be counted on to use any influence he has to get us out, if we go ahead.

So he actually told you, you were going to get into trouble, possibly.

Mr. MACFADDEN: After we exeecuted the contract.

Mr. LANGLOIS (*Mégantic*): If you went through with that contract. You knew exactly what was coming up. If you did not, I do not know how he could have said that.

Mr. MACFADDEN: That was after the contract was executed.

Mr. LANGLOIS (*Mégantic*): Yes, but even so. This was indicated prior to that by the Governor of the Bank of Canada and now, you mention today that this retroactivity seems to be—I would not want to use the word "discriminatory", because at the moment you are possibly the only foreign bank that would be affected by these changes. It might be rather difficult, but I wondered why you would not have asked for further details in this respect before signing the agreement.

Mr. MACFADDEN: This is almost four years ago and I just do not think it is proper to get into a discussion as to what I might have said or what the government might have said to me. My memory is not that accurate.

Mr. LANGLOIS (*Mégantic*): No, no.

Mr. MACFADDEN: I was just saying this morning that I left the Governor with a very definite impression that we were not in violation of any legal requirements in Canada.

Mr. LANGLOIS (*Mégantic*): Sure, I agree with you.

Mr. MACFADDEN: I asked voluntarily for the meeting with the Governor. I called him on the phone and said "I would like to come and have a private meeting with you" and I went and had a private meeting with him. I did not have to go and call on the Governor. I did not even have to go and call on the Minister. There was no reason for us to do that. We could have announced from Rotterdam that we had bought the bank, and you would have read about it in the newspapers. We do not do that with our friends. We go and tell them what we are doing and so on.

Mr. LANGLOIS (*Mégantic*): Yes, but this is the thing, Mr. MacFadden, you could have easily done it; there was no legal point of any kind to prevent you from doing that.

Mr. MACFADDEN: That is correct.

Mr. LANGLOIS: Now the only thing, as I see it, is that possibly Mr. Rasminsky was trying to give you an insight into the situation that might pop up in two or three days, that you would have to cope with, and that you are having to cope with today.

Mr. MACFADDEN: I did not place that interpretation on it at all. We were quite surprised with the reaction we had from the Minister, as Mr. Rockefeller has always said. I again remind you that it was not until September 22, 1964, fourteen months after we had concluded this contract, that there was any public information available in Canada as to the intentions of the Governor with respect to the control of financial institutions.

Mr. LANGLOIS (*Mégantic*): I think that you probably just took it for granted that we were not going to do anything, or that the Bank Act would not be changed, because after this (a) and (b) situation, you say:

> This action of ours would open the flood gates for charter applications by other American banks—

Well, this would necessarily call for every Canadian institution to shout at the government and close some of the doors. You go on to say:

> The confidential nature of the relations of the Governor with the Canadian banks would be disrupted by the presence of a subsidiary of a large American bank who would perforce report all discussions to its Head Office. Concern was also expressed over the possible interference of some of our U.S. laws, such as the Clayton Anti-Trust Act.

Now, these two points alone—and I am not a businessman—would have opened my eyes. If the minister had sent me back a thing like this, I would have said, wait a minute, let us look into this thing and see where we are going to end up.

You had a good deal maybe at that time, and today you might not figure it so good. I do not know; I am not talking about the business aspect of the thing, but these are things that happen in life and sometimes even a bank has to pay out and say, well, we have made a bad deal. You did not lose face in Rotterdam, but maybe you have to face some consequences now. It is not discriminatory in any respect that I see, because this law did not exist and today it is being put on. Mr. Rockefeller brought in the example of an automobile licence a while ago, but he might have been advised that if the law changes it affects the cost of the plates; that as the car gets bigger, the plates are more expensive. He might say, I am not going to get a bigger car in that respect. They are not blocking anything out. If anybody else, or even possibly the Dutch financiers should open another bank here, they would be under the same conditions and ruling as this bank.

Mr. MACFADDEN: I might suggest, Mr. Langlois, that my comment, in answer to the question of our opening the floodgates for applications of charters, I do not recall that between the date of June 26, 1963 and September 22, 1964, any American Bank applied for a charter in Ottawa.

Mr. LANGLOIS (*Mégantic*): I do not know if they would have, but if they would, the same thing would have applied.

Mr. MACFADDEN: I think that answers the floodgates, sir.

Mr. LANGLOIS (*Mégantic*): One thing could happen. The opening of floodgates is Mr. Gordon's opinion, of floodgates; it is not mine, and Mr. Rasminsky's. Now, what Mr. Rasminsky, or Mr. Gordon implied by that, I do not know. Maybe they feared a flood of American banks coming in or applications for charters. I do not know what they had in the back of their minds. but they said it, and it would have caused me some concern if I had been in the same situation. I am pretty sure this law would apply to the Mercantile Bank if it were still Dutch owned. Whether it is American owned or not, does not matter. It is not the fact that it is American owned that is of principal concern.

The CHAIRMAN: Mr. Langlois I think we are getting into the area of discrimination. I realize it is not easy to keep the two issues clearly divided. As Mr. Palmer said, they do interrelate to a certain extent, but yet at the same time it should be said that there are some particular points with respect to discrimination that could be raised and perhaps we would reserve those until we deal with that subject.

Mr. LANGLOIS (*Mégantic*): I agree with you Mr. Chairman, that they are very closely interlinked, because you hit the nail. You are either going to make a noise or put the nail down, one of the two. I cannot see how you actually separate them and talk about driving the nail and then talk about the noise.

Mr. FLEMMING: May I be permitted a supplementary on this.

Mr. BASFORD: Let us talk about the banks.

Mr. MACALUSO: Mr. MacFadden, in answer to the question of Mr. Langlois, you said that there has not been a flood tide of applications. Really on the evidence that you and Mr. Rockefeller have given today, the First National City Bank for five or six years, or maybe ten years has been investigating how to get into the Canadian banking field and I assume that you would realize that any application from an American bank would of course be turned down.

Mr. MACFADDEN: A charter application?

Mr. MACALUSO: Oh, yes, let us face it. So, therefore, when a charter became available, you took steps to acquire it and this is the way you got into it. This really answers your statement that there have not been applications. There has not been a charter of another bank available to a foreign bank. I disagree with your statement.

Mr. MACFADDEN: For one year it was possible for anyone, any foreign group to come here and apply for a charter. That is the law.

Mr. MACALUSO: That may be, but that is not the point that you made, sir. You made the point that there had not been a flood of applications and I think we all realize that if there was an originating application that First National City Bank would have made it a long time ago since Mr. Rockefeller stated earlier today that they had been trying to find ways and means to get into the Canadian field. The only way that First National City Bank could get in was to grab hold of this charter. You, yourself today stated that you rushed into it in a sense because there were five other banks after it and you were not going to let it slip through our hands, or words to that effect.

Mr. MACFADDEN: We were first in line.

Mr. MACALUSO: So these were conflicting statements, really.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I ask a supplementary. Mr. MacFadden, are you suggesting to us that when you left Mr. Rasminsky on June 20, you were of the opinion that you had changed his mind with regard to points (a) and (b) in your paper; that you had satisfied his objections.

Mr. MACFADDEN: No, I am not implying that at all, Mr. Cameron. What I am implying is that he had raised these questions in his mind and when I left had the impression that he was not 100 per cent happy.

Mr. GRÉGOIRE: And advised you to see the Minister of Finance.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): So you knew that he was still not happy when you left.

Mr. MUNRO: Mr. Langlois, may I ask just one question?

Mr. LANGLOIS: Yes.

Mr. MUNRO: Mr. Rockefeller, if you had advised the Dutch interests what you were dealing with in this transaction, that your people had consulted the Governor of the Bank of Canada and he did not seem happy with your move in this direction, and if you had—and I realize you were not in a position to, because you did not meet Mr. Gordon until July 18—advised that you met the

Minister of Finance, if you had been able to get to him earlier, and of his reluctance, would your name still have been mud, if you had not gone through with the deal.

Mr. ROCKEFELLER: My opinion is that the Dutch said, "You have made a contract and that is your problem, we will enforce it."

Mr. MUNRO: When I look back at the wording of the contract, it seems quite clear to me that it says "subject to the aproval of all governmental authorities concerned"; it does not say "subject to the laws of the countries concerned," it says "subject to the approval of the governmental authorities." And you suggest to me that if you had explained to the Dutch interests that the Canadian government was not happy with your going through with this transaction, that the Dutch interests would not have complied with your request to call the deal at an end, without any type of depreciation of your reputation.

Mr. ROCKEFELLER: I have no idea what their reaction would have been under circumstances that did not exist.

The CHAIRMAN: Mr. Munro, you are drawing to our attention the difference between the use of the word approval and the possible use of the word consent.

Mr. MUNRO: No; this calls for approval of the governmental authorities. I think it is a very significant phraseology, Mr. Chairman. I think all governmental authorities must of necessity—if I could be so bold as to render a legal opinion—certainly refer to the country in which the bank is situated. The governmental authorities to me would be the very men you went to see—one, I think, you saw a little late. The very men you went to see were the Minister of Finance of the country and the Governor of the Bank of Canada. You had the opinion of the Governor of the Bank of Canada that he was not happy. I suggest you had every indication from the past utterances of the Minister of Finance that he undoubtedly would not have been happy and had you related this to the Dutch interests, there would have been no depreciation of you whatsoever for not going through with the transaction, and that is precisely why this particular clause was worded the way it was. I would like the comments of the solicitor on that view.

Mr. BASFORD: After we have those comments, Mr. Chairman, may I point out that it is 6 o'clock.

The CHAIRMAN: Yes; thank you very much. I think we should make note that Mr. Langlois still has the floor.

Mr. LANGLOIS (*Mégantic*): I just have one question, if I could finish it. Mr. Munro has pretty well covered what I intended to say regarding agreements and those governments involved.

When Mr. Gordon mentioned this loophole in the present Bank Act, what exactly did that imply; that they were going to leave that loophole?

Mr. MACFADDEN: I did not understand what he meant by loophole.

Mr. LANGLOIS: You did not know Mr. Gordon. All I can say is that as far as that went he meant to block it. You were lucky you were not working with the Minister of External Affairs; there we could have forgiven you.

The CHAIRMAN: We will recess till 8 o'clock.

EVENING SITTING

The CHAIRMAN: We will resume our session. When we adjourned I was going to recognize Mr. Macaluso, but since he is otherwise occupied—I am sure on very important business—may I point out to the Committee that we seem to have exhausted the list of those who have indicated that they wish to say something on the first round of questioning on the issue of retroactivity. May I suggest to the Committee—and, of course, I am in the Committee's hands in this regard—that we do have some other very interesting and important topics on which some members may want to ask questions. I do not want to suggest that this be shut off, but since our witnesses cannot remain with us tomorrow or Thursday, as far as I am able to determine at the moment, and I cannot say at the moment when we can conveniently arrange to have them back, I would suggest to the Committee that any further questions on this issue be amongst the most pressing and that we attempt to pass on to the other topics.

The first name I have for the beginning of the second round is Mr. Basford, followed by Mr. Lambert.

Mr. CLERMONT: Would Mr. Basford yield the floor to me so I could ask a supplementary.

Mr. BASFORD: I could hardly do that because I have not asked a question.

Mr. CLERMONT: I yielded to you once.

Mr. BASFORD: All right; I willingly yield to Mr. Clermont.

Mr. CHAIRMAN: Yielding, depending on the circumstances, can be fraught with danger or linked with pleasure. Therefore, I think you might take into account that prognostic phrase.

Mr. CLERMONT: Thank you, Mr. Basford. Mr. MacFadden, did you prepare a memorandum after your visit to Mr. Rasminsky?

Mr. MACFADDEN: Yes, I think I did.

Mr. CLERMONT: Have you any objection to presenting this memorandum to the Committee.

Mr. MACFADDEN: I would have to produce that at a later date because I do not have a copy with me.

Mr. CLERMONT: But, you did prepare one.

Mr. MACFADDEN: Yes I did.

The CHAIRMAN: Perhaps the Clerk will take note of this, and we will ask that it be circulated amongst the members at a later time.

Mr. BASFORD: Mr. Rockefeller, going back to the memorandum which you gave me this afternoon as a result of a question, at the bottom of the first page it says—and I take it that it is your writing—

> The inference was that Rasminsky and he—

—which is a reference to Mr. Gordon,

> —were at a loss as to how to cope with this problem and preferred to avoid it by keeping us out.

That was the problem of the American banks. Then further on, on the second page, it is stated:

> It was called to our attention that the renewal of the charters of all the Canadian banks will be due for revision next year and that the one of the Mercantile Bank would not necessarily be renewed. He said that he would have no compunctions—

and I emphasize that,

> —about opposing a renewal for us having advised us so far in advance.

Further:

> He said the government looked on the transaction with disfavour and he advised against completing it.

Further, in your own memorandum you state that "His disapproval—that is, Mr. Gordon's—was very clear." Then in Mr. MacFadden's memorandum of July 18, he—again Mr. Gordon—said:

> —the government does not welcome our contemplated move, and he can obviously be counted on to use any influence he has to get us out, if we go ahead.

I suggest that the first contact you had with the Government of Canada showed you clearly and unmistakably that Canada did not want you to go ahead with this transaction. Yet in spite of that strong disapproval, which was evident to you as proven by your own memorandum, you did go ahead with this transaction.

Mr. LAMBERT: Since when does Mr. Gordon speak for Canada?

Mr. BASFORD: The question was directed to Mr. Rockefeller.

Mr. ROCKEFELLER: Mr. Basford, when the interview took place with Mr. Gordon and his associates, and Mr. MacFadden and myself, the contract had already been signed at that time, as we explained this morning.

Mr. BASFORD: It had been signed and you had gone ahead and had your Board of Directors meeting on July 16th.

Mr. ROCKEFELLER: No; I said "signed".

Mr. BASFORD: It had also been approved by the Board of Directors.

Mr. ROCKEFELLER: I am not clear of the sequence of that because there have been many dates. But when we saw Mr. Gordon the contract had been signed and was in effect.

Mr. BASFORD: Yes. My question, sir, was that on your first contact with the Government of Canada—

Mr. ROCKEFELLER: That was my first contact, yes.

Mr. BASFORD: —it became clearly evident to you that this was a move or a deal that the Government of Canada, in your own words, through its Minister of Finance, would do all that it could to stop.

Mr. ROCKEFELLER: Mr. Gordon made that very clear.

Mr. BASFORD: Yet you chose to go ahead with it.

Mr. ROCKEFELLER: Our hands were tied; we were bound at that point. We had made an honourable contract.

Mr. BASFORD: Did it never occur to you to determine this position before you either signed the contract or had your Board of Directors meeting on July 16th?

Mr. ROCKEFELLER: We were advised it was not necessary, sir.

Mr. BASFORD: This was the legal advice you got?

Mr. ROCKEFELLER: We received legal advice from our Canadian counsel and also Mr. MacFadden's opinion from his conference with Mr. Rasminsky, and whether he interpreted that correctly or not, I cannot say. We took those two affirmative actions and thought we were doing the proper thing at that time.

Mr. BASFORD: It is with real regret that I say this, but I find it very difficult to believe that Citibank was not aware of the political repercussions that this move would occasion—

Mr. ROCKEFELLER: You are entitled to your opinion.

Mr. BASFORD: —and went ahead in spite of those possible repercussions hoping and believing that the State Department would rescue them if need be.

Mr. ROCKEFELLER: I can assure you that we were not relying on the hope of the State Department.

Mr. BASFORD: When did you start to rely on the State Department?

Mr. ROCKEFELLER: We did not rely on the State Department. The State Department injected themselves into this. We did not call on the State Department.

Mr. BASFORD: The Board of Directors came to its decision on July 16th as a result, you told me earlier, of a report and recommendation that you made to the Board of I.B.C. How familiar were you; personally, with this transaction?

Mr. ROCKEFELLER: I would say I was very familiar with it. I did not have at my fingertips all the details that Mr. MacFadden and Mr. Clifford had but I was in touch with the negotiations.

Mr. BASFORD: At this point you must have had a good many written reports and memoranda coming across your desk.

Mr. ROCKEFELLER: No, it was not of that consequence. It was not that complicated. There may have been one memorandum. It was an open and shut case. It was easy.

Mr. BASFORD: Well, you say there may have been one memorandum. Are you prepared to produce the memorandum and the reports which came to your desk recommending acceptance of this transaction?

Mr. ROCKEFELLER: Yes. The report that is in the records of the I.B.C.?

Mr. BASFORD: Yes, or Citibank.

Mr. ROCKEFELLER: Yes. We said that this morning.

Mr. BASFORD: Or Citibank.

Mr. ROCKEFELLER: Well, it was I.B.C. that made this purchase.

Mr. BASFORD: Thank you.

Mr. PALMER: Mr. Chairman, may I interject for just a moment.

The CHAIRMAN: Yes.

Mr. PALMER: I do so with some hesitation. I would like to suggest to the Committee that the issue involved here is really very simple. A great deal of the

discussion has revolved around the question of, as I said in my submission this morning, who said what, to whom, when? I do not think that is the issue at all. I suggest to you that the issue is as simple as this: Is what is set out in clause 75(2)(g), which applies only to the Mercantile Bank, the fair thing for Canada to do?

Mr. BASFORD: Having interjected, sir, it is unfair on the basis that it is discriminatory or that it is retroactive?

Mr. PALMER: I got tangled up two or three times today by trying to combine the two ideas and I do not think you can separate them; it is both.

Mr. BASFORD: Yes, but for the moment we are dealing with retroactivity.

Mr. PALMER: Well, I cannot separate them, Mr. Basford.

Mr. BASFORD: Well, I suggest that if someone did not take note that certain action would be taken it would have a good deal of bearing on the equity involved or the degree of fairness; and your two memorandums of July 18th, and Mr. MacFadden's and Mr. Rockefeller's of July 19th, clearly show to me that Citibank and I.B.C. did not take note of what the consequences of their action would be.

Mr. PALMER: Mr. Basford, although I would prefer not to try to differentiate too much between discrimination and retroactivity, I submit again that the section is retroactive in as much as it attempts to reach into the past and attacks one Canadian bank only in a way that was not envisaged at the time when the bank was incorporated, at the time when the former owners acquired the shares of the bank and that it was not forbidden or restricted by any provision of Canadian law.

Mr. BASFORD: Well, we do not want to go into that at this time. I do not know whether or not you were the solicitor for the bank at the time of its incorporation,—

Mr. PALMER: I was not.

Mr. BASFORD: —but if you have read the reports and are familiar with the bank you will know that it received its charter principally on the undertaking that it was going to be a small foreign bank which wanted three branches in Canada to complement its international services.

Mr. PALMER: I was not counsel at the time of the incorporation of the Mercantile Bank.

Mr. MONTEITH: May I ask Mr. Basford if that information will be filed?

The CHAIRMAN: Are you referring to some hearings or debates in the Senate or the House of Comons?

Mr. BASFORD: Is that question directed to me?

The CHAIRMAN: Yes. I think Mr. Monteith wants to know the source of your information.

Mr. MONTEITH: I want to know the source of your information concerning Mercantile when it was founded.

Mr. BASFORD: The officials of the Mercantile Bank of Canada.

Mr. MONTEITH: Have you any documentary proof?

Mr. BASFORD: I think that the hearings indicate that. I cannot prove that by documents at the moment, Mr. Monteith, but I will be happy to look up the records for you.

The CHAIRMAN: I am sure we can check into that.

Mr. LAMBERT: As a matter of record, Mr. Chairman, there were no minutes of the hearings before the Senate Committee nor the Commons Committee at the time of the incorporation of the Mercantile Bank of Canada.

Mr. PALMER: Mr. Chairman and Mr. Basford, to my knowledge there were no restrictions in the Bank Act or in the charter of the Mercantile Bank at the time it was incorporated.

Mr. BACHAND: Mr. Chairman, may I just add one word? Was the Canadian government's policy so well known publicly that we should have been aware of it or was it only in September 1964 that it was stated by the Minister in the House of Commons? My first recollection, officially, of any public statement was by the Minister on September 22, 1964 and not before that.

Do you think, gentlemen, that any foreigner between July 1963 and September 1964, could have bought on the exchange control of, let us say, one of the smaller banks by paying the price without having violated at all the—

Mr. LAFLAMME: Nobody can test that.

Mr. BACHAND: Yes; we say that was official government policy.

The CHAIRMAN: Mr. Bachand, I think the point you are making, has been brought out. I think the issue is expressed in part by Mr. Palmer and if I may phrase it somewhat differently: parliament having spoken in one way some years ago, is a subsequent government and a subsequent parliament bound in perpetuity by that statement of policy. That is one thing which this Committee has to consider and make a recommendation on. That is one aspect of the matter.

Mr. PALMER: I do not say, Mr. Chairman, that one parliament is bound by what happened years ago. What I am suggesting is that in considering this matter, it should consider two things: is is necessary, and is it fair?

The CHAIRMAN: To whom?

Mr. PALMER: To one Canadian corporation.

The CHAIRMAN: What about the general public's interest?

Mr. PALMER: As I said this morning, I am very much in favour of the proposition that the control of Canadian banking should be in Canadian hands, but the assets of Mercantile represent less than one per cent of the total assets of all the Canadian banks.

The CHAIRMAN: Can you undertake on behalf of your clients that this will remain this way?

Mr. PALMER: No, I certainly will not; but I do not see that any serious, dire consequences would ensue by allowing Mercantile to proceed in the normal way. That is my submission, Mr. Chairman.

Mr. CLIFFORD: I might also say, Mr. Chairman, if I may, that the competition is very, very tough.

Mr. GRÉGOIRE: May I ask a question?

Mr. BASFORD: Mr. Chairman, I have completed my questioning.

Mr. LAMBERT: I would like to come back to this rather notorious meeting of July 18. Could you infer from Mr. Gordon's intimation to you whether he had discussed this matter with his cabinet colleagues? Did he indicate to you that it was the opinion of his colleagues and himself or that if was his own opinion?

Mr. ROCKEFELLER: I did not get any indication whatsoever that he had discussed it with his colleagues. Mr. MacFadden was there also so you might ask him the same question.

Mr. MACFADDEN: I think he referred to the government; that is in our memorandum.

Mr. LAMBERT: He said "the government"?

Mr. MACFADDEN: The government.

Mr. LAMBERT: I see. Was there any indication that the former Dutch owners had discussed the matter with Mr. Gordon, the Governor of the Bank of Canada or any other official of the government? Was this disclosed at all?

Mr. MACFADDEN: I recall no—

Mr. ROCKEFELLER: You might ask Mr. Bachand that as he was a director of the bank.

Mr. BACHAND: To the best of my recollection, Mr. Chairman, I think that today I said that the Dutch at no time were told by either the Governor or by the Minister not to sell to this one or that one; there were no restrictions on the sale of the shares.

Mr. LAMBERT: Had they discussed with the Governor the possibility of a sale?

Mr. BACHAND: I must hesitate. It should be assumed that it was well-known because the bank had been for sale for a while and some new partners or purchasers were sought. I might add, Mr. Lambert, that two Canadian groups made bids for the bank.

Mr. LAMBERT: I see. Therefore, we might say that in the market place it was known that the Mercantile Bank was up for sale?

Mr. BACHAND: It was known on the street, sir.

Mr. MACFADDEN: It was widely known.

Mr. LAMBERT: I have no other questions.

Mr. LAFLAMME: Am I right, Mr. Chairman, in saying that we are now on the discrimination issue?

The CHAIRMAN: If I may express my own view, the Committee, after today's efforts are completed, may feel that they should have spent at least some of the time available on some of the other issues which may be of interest to them. Although I am in the hands of the Committee in this regard, members may wish to consider whether they really have further specific questions.

Mr. LAFLAMME: I think, Mr. Chairman, that if there is any retroactivity, it is part of discrimination.

Mr. BASFORD: Mr. Chairman, I move that we go on to the next point, which is discrimination.

Mr. CLERMONT: Do you not think, Mr. Basford, we should proceed with general questions because we do not know when these people will be able to come back.

Mr. BASFORD: I understood, sir, that the Chairman had worked out how we were going to proceed and I was moving that we now go on to the second state of the proceedings the Chairman had in mind.

The CHAIRMAN: I worked out this suggested agenda with the hope or thought at the time that we would move along a little more quickly than we have.

Mr. MONTEITH: That is being optimistic, Mr. Chairman.

The CHAIRMAN: That is right. If we wish to go on beyond 10 o'clock, can you gentlemen remain with us for some period?

Mr. ROCKEFELLER: Yes.

The CHAIRMAN: Would you be willing to sit past 10 o'clock?

Mr. MONTEITH: How much after?

The CHAIRMAN: We will see how we get along.

Mr. MONTEITH: If you want to sit until midnight, I would not be willing.

The CHAIRMAN: I am not suggesting that but let us try and proceed along these lines.

Mr. OTTO: Mr. Chairman, may I ask a supplementary to Mr. Lambert's question.

The CHAIRMAN: Which of Mr. Lambert's questions?

Mr. OTTO: I want to clarify one point.

The CHAIRMAN: Before you do that, Mr. Otto, I think we should work out what your procedure is going to be.

Mr. LIND: Mr. Chairman, I think we should go on because if they are only going to be here tonight, we should allow a general coverage of the situation.

The CHAIRMAN: Is the Committee in agreement that we should use the remaining period today without attempting to adhere strictly the order of topics that we attempted to set out this morning?

Some hon. MEMBERS: Agreed.

Mr. MACKASEY: Mr. Chairman, would you define my position here so I will know whether or not I can participate?

The CHAIRMAN: Under the rules, members who are not formal members of the Committee are able to participate except that they cannot move motions or amendments or vote and so on. They are also subject to the decision either of the House or of the Committee itself that priority be given to the formal members of the Committee who have the responsibility of taking decision by way of recommendations to the House. We have attempted to follow this approach, I think with some modest success up until now. I think the approach we should take if

we are moving now to general questions, is that I recognize Mr. Laflamme, as I started to do, and so that there will be no suggestion that some people, even though they are not formal members, have not had an opportunity to raise a question that really presses upon them perhaps we will give them an opportunity. Is that satisfactory to the Committee?

Some hon. MEMBERS: Agreed

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I think there are some of us who are on the Committee who have some questions we want to ask but we have been following your suggestions and refraining from asking them on anything but the question of retroactivity. I do not think we should be shut off in this way. I think that we should be given priority in the putting of questions we want to bring up. I am sure that most of us will take care not to use up too much time so as to leave as much time as possible for those who are not members of the Committee who wish to ask questions.

The CHAIRMAN: I do not want us to get bogged down on this issue but I want to make clear, as far as I am concerned, that I am going to continue to give priority to the regular members of the Committee. However, in an attempt to be fair—and usually under those circumstances, one gets criticized by both sides—I thought we would give Mr. Mackasey a brief opportunity because he has been very anxious to ask some questions.

Mr. COWAN: I have been here all day—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Some of us have been here all day.

Mr. COWAN:—and I have not asked a question yet.

Mr. MACKASEY: On a point of order, I would like to make one point.

The CHAIRMAN: We have not been recognizing points of order from non-members of the Committee. Perhaps the best thing to do would be to proceed with Mr. Laflamme and we will work you in due course.

Mr. LAFLAMME: Mr. MacFadden, when you deal in your brief with the question of discrimination, you surely mean that your bank should receive different treatment than other Canadian banks?

Mr. MACFADDEN: That is right.

Mr. LAFLAMME: How can you explain that? If you read clause 76 of the proposed legislation, you will note that Canadian banks have to sell the shares they have in other corporations, up to 10 per cent, but you, as another bank, can have only one corporation, being the owner of 25 per cent of the total cash value or total shares. Do you think that this is discrimination against Canadian banks or against Mercantile?

Mr. MACFADDEN: This is discrimination against the Mercantile Bank.

Mr. LAFLAMME: Because you will have to sell some of your shares to Canadian owners?

Mr. MACFADDEN: No.

Mr. LAFLAMME: You do not want to?

Mr. MACFADDEN: No, because we are restricted in the taking of deposits and that restriction does not apply to any other Canadian chartered bank. We are restricted to 20 times our authorized capital.

Mr. LAFLAMME: Yes, but who told you, if anyone, that you would be refused if you ever asked that your authorized capital be increased?

Mr. MACFADDEN: That question has not been asked.

Mr. LAFLAMME: You never asked for this. If you asked for an increase in your authorized capital and got it, would you still feel that there was discrimination?

Mr. MACFADDEN: Very definitely.

Mr. LAFLAMME: Why?

Mr. MACFADDEN: Because we still have this restriction that is lying over us, which is a legislative restriction against our growth regardless of whether we apply and are granted an increase in our authorized capital. How many times do we have to come back to the well? We are still dependent upon a decision of an administrative member of the government as to whether or not the increase will be granted. I cannot tell you and you cannot tell me who the Minister of Finance is going to be eight years from now. I do not know who he is going to be.

Mr. LAFLAMME: Under the new powers that will be given to the Canadian banks under this law you, as the Mercantile Bank, will be able to sell debentures, like the others?

Mr. MACFADDEN: Yes, I assume so, but again it would be listed under our liabilitées which include the shareholders equity that we discussed this morning.

Mr. LAFLAMME: You would be authorized, like every other bank, to undertake business in every province?

Mr. MACFADDEN: We would hope that as a chartered bank we would be entitled to the same privileges as the other banks have.

Mr. LAFLAMME: Is there anything in this law that would prevent you from doing so?

Mr. MACFADDEN: No, except that if we opened a new branch we would hope that we would gather some deposits, and now we are restricted from taking deposits.

Mr. CLIFFORD: You mentioned, sir, the subject of debentures. If it did issue debentures that would have to be included in the formula, so there would not be much incentive to issue them unless we have a substantial increase in authorized capital.

Mr. LAMBERT: If I may make a correction, I do not think the limitation is in respect of deposits; it is all liabilities.

Mr. CLIFFORD: That is right.

Mr. LAMBERT: It is your capital liabilities.

Mr. CLIFFORD: So all our capital is added in there also—our equity.

Mr. LAMBERT: It doubles up. It is far less.

The CHAIRMAN: I think Mr. Lambert is right in that clarification.

Mr. LAFLAMME: Under this bill you will be authorized to receive deposits from Canadians and receive guarantees such as mortgages like every other bank. The only thing that could prevent you from growing as you say, is that there will still be a limitation of 25 per cent.

Mr. MACFADDEN: Clause 75 (2)(g) is the discriminatory legislation.

Mr. LAFLAMME: But actually you have much more than that?

Mr. MACFADDEN: We have much more?

Mr. LAFLAMME: At this present stage?

Mr. MACFADDEN: We are a little over it now, yes.

Mr. LAFLAMME: That is all.

The CHAIRMAN: Mr. Cameron is next, followed by Mr. Clermont.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. MacFadden or Mr. Rockefeller, on page 7 of your brief you speak of a discriminatory feature that is directed solely against the Mercantile Bank. Have you examined the special provision for the Mercantile Bank in clause 56(2) which specifically exempts you from the provisions of clause 53 which limits all other Canadian banks in the way of share ownership to 10 per cent for any individual and 25 per cent for a total of foreign ownership.

Mr. MACFADDEN: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You see that you have a special provision of exemption. Would you say that was discrimination against you or discrimination in your favour?

Mr. MACFADDEN: Mr. Clifford will answer that question.

Mr. CLIFFORD: The point you raise is a good one. I think it is clear in that clause that the government has taken affirmative action to state that these clauses do not apply to the Mercantile Bank on a retroactive basis. I think it also says that all Canadian banks who might, at September 1964, have more than 25 per cent foreign ownership are also not being treated on a retroactive basis. I think it says that as their shareholdings decline the lower percentage will apply. I do not know for a fact whether any of the other Canadian banks do have more than 25 per cent foreign ownership or did as of that date. But, the clause was put in there to protect all banks, including ourselves, who had more than 25 per cent foreign ownership as at September 1964.

Mr. MACFADDEN: Therefore it is not discriminatory because it applies equally to all the banks.

Mr. CLIFFORD: And it was not done on a retroactive basis.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But it does not apply to all banks. Clause 56(2) very clearly gives a special exemption which can apply only to the Mercantile Bank.

Mr. CLIFFORD: That is quite correct, sir.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The other provision you spoke of with regard to the foreign ownership at September 1964, I think it is—

Mr. CLIFFORD: I think that is the trigger date.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): In this case the share has to be held by a Canadian resident in right of or for use or benefit of a non-resident. But a non-resident is still prohibited except within the limits specified of a total of 25 per cent share ownership of all other Canadian banks. Now the question, it seems to me, that we or you have to decide is whether you would like to have both these provisions wiped out? Would you like to have the discrimination against you and the discrimination in your favour wiped out? There have been several statements from you gentlemen that you are a Canadian bank, a Canadian company and you wish to operate within the confines of the Canadian law. Now, here is your problem, I think: Are you prepared to operate within the confines of the Canadian law and therefore agree to have both these clauses deleted with, perhaps, the sort of provision that we made for the Bank of Western Canada, a period of ten years in which the National City Bank of New York could divest itself of all but 10 per cent of its holdings. What would your reaction be to that, Mr. Rockefeller?

Mr. ROCKEFELLER: I am not familiar with these other sections that you have just quoted. I would prefer that Mr. Clifford answer as I never have heard of those sections.

Mr. CLIFFORD: Your question, as I understand it, is whether or not we would suggest the elimination of one clause or both clauses. The only clause we are objecting to is clause 75(2) (g).

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The one that discriminates against you but not the one that discriminates for you?

Mr. CLIFFORD: I do not think that discriminates—well, it does. What it really does is say that the law is not retroactive.

The CHAIRMAN: It also says that you will be the only bank which can be held 100 per cent by one entity which is a non-resident.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The only bank that will have the benefit from this.

The CHAIRMAN: Is any other bank going to be allowed at present or in the future that privilege if this law is passed?

Mr. CLIFFORD: Not under this legislation. But the bank was owned 100 per cent by foreign interests and that ownership was transferred to another foreigner.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): There is another question in that connection that I would like to ask you. Has it not occurred to the American principals in this business that there is a very logical reason for the comparative equanimity with which the Canadian government of the day viewed a foreign incorporation when it was a Dutch incorporation and at the same time viewed with a certain amount of misgiving when that foreign ownership was transferred to the most powerful bank, I believe, in the most powerful economy in the world, in view of the considerable misgivings Canadians are now having over the volume of American ownership of our industries and our resources. Would it not have occurred to them that it is reasonable there is nothing really inconsistent with that attitude? Has that never occurred to you?

Mr. ROCKEFELLER: That was strictly between us and the Dutch. I mean why?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): There is a considerable difference between the United States and the Kingdom of the Netherlands, Mr. Rockefeller, and I may say, considerable difference between their financial institutions and the most powerful financial institution of the most powerful nation in the world.

Mr. ROCKEFELLER: We will disclaim the adjectives regarding our bank; you can call our nation whatever you want.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well, whatever it is. But I do not think you can disclaim, with regard to your nation, its position in the world which naturally causes some misgivings on the part of small countries such as Canada. It seems to me that this is one point that you should have borne in mind and not have based some of your argument on the fact that this bank was already foreign-owned. It was foreign-owned by interests that could not cause very much misgiving on the part of the Canadian government or the Canadian people, and the situation might very well change when that ownership changed.

I would like to ask Mr. Rockefeller another question. It has been brought out here that it is not possible for the American governmental authorities to grant to a Canadian bank the privileges that you people are demanding from the Parliament of Canada.

Mr. ROCKEFELLER: We are not demanding anything.

Mr CAMERON (*Nanaimo-Cowichan-The Islands*): Well, then you are begging for them, if you wish, or pleading for. You will agree that it is not possible for the American authorities to give a Canadian bank reciprocal treatment?

Mr. ROCKEFELLER: I disagree with you. Let me explain. The American authorities will grant to Canadians or the nationals of any other country the same rights they grant any United States bank. There is no discrimination between a foreign bank and a United States bank. Now when we come to this country you make distinctions between your banks and a foreign-owned bank. We do not make that distinction.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This is not the question I asked you, Mr. Rockefeller.

Mr. ROCKEFELLER: When you come to branches there are some differences, technical differences.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I should say they are very vital differences, extremely vital differences: the American authorities are not able under your legislation and I presume under your constitution, to grant to a Canadian bank the rights that you are here asking from the Canadian Parliament for your bank as a foreign-owned bank.

Mr. ROCKEFELLER: Nor to a domestic-owned bank?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But you cannot grant it to us so, therefore, there can be no reciprocity in that way?

Mr. ROCKEFELLER: In that respect.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No. There could, however, be some reciprocity in the field of according—this is a suggestion I would be

quite prepared to make in the House of Commons or here in the committee—some legislation that would enable American banks to establish in Canada the same sort of agencies that are now established by Canadian banks in New York and other parts of the United States.

Mr. ROCKEFELLER: Agencies or branches or subsidiaries; they can do any one they want.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Are not your agencies, your branches and your subsidiaries confined to one state?

Mr. ROCKEFELLER: Well—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I mean they have to be established under the aegis of a state government?

Mr. ROCKEFELLER: No. They can be established either under a state charter or under a national charter but can only operate in one state—either way.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes. Now any agency provisions that we might make in Canada would, I presume, apply to the whole of this country.

Mr. ROCKEFELLER: I would not know.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I think you can take it for granted that if legislation authority was given in Canada an agency of the First National City Bank of New York would be able to establish an agency in every one of our major cities. Now would that not seem to you to be a more reasonable reciprocity between your country and mine?

Mr. ROCKEFELLER: No, because an agency is limited.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes.

Mr. ROCKEFELLER: We would allow your banks, the Canadian banks, to come in with an agency or with a branch or with a subsidiary.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But you would not allow them to come in on the basis that you wish to come into Canada.

Mr. ROCKEFELLER: On a nation-wide basis.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No. You could not.

Mr. ROCKEFELLER: No; you have made that point.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No, you could not. Again, I come back to this: Would not an agency, which actually would be a more valuable agency than any Canadian bank can establish in one state of the union with the exception of the State of New York because that is the money market of the world, be fair reciprocal treatment?

Mr. ROCKEFELLER: I do not think so because an agency is limited, you see. I think some of the Canadian banks—I am not sure about this—have branches or subsidiaries in the United States. Do they want those taken away from them?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Do you want them taken away?

Mr. ROCKEFELLER: No; we welcome competition of any kind.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Frankly, I am not particularly concerned about the Canadian banks.

Mr. ROCKEFELLER: I think you are discriminating.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have an idea they are well able to look after themselves.

Mr. ROCKEFELLER: We are a Canadian bank.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Then if you are a Canadian bank, Mr. Rockefeller, why have you objections to operating under the Bank Act, as all other Canadian banks have to operate?

Mr. ROCKEFELLER: Because we think this proposed Bank Act discriminates against only us.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But it does not discriminate against a Canadian bank.

Mr. ROCKEFELLER: We think it does.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You say you are a Canadian bank.

Mr. ROCKEFELLER: We think it does, and that is the argument.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I must say that I find your argument very unpersuasive, Mr. Rockefeller. On the one hand you state very loudly: We are a Canadian bank, and the next breath you say: We do not want to operate under your Canadian banking legislation.

Mr. ROCKEFELLER: Let us make one point. Is not Mercantile chartered under Canadian law?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mercantile is chartered under Canadian law.

Mr. ROCKEFELLER: All right, it is a Canadian bank. There is no argument about that, right?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It depends on your definition of a Canadian bank?

Mr. ROCKEFELLER: Well, it is a Canadian chartered bank; we admit that.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): All right.

Mr. ROCKEFELLER: And as such may it operate like the other chartered banks.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): All right; then if it operates like the other chartered banks you must divest yourself of 90 per cent of your ownership and you must abide by all the other provisions of the act. I do not see how you can get around that; you cannot have it both ways. You cannot be a Canadian bank and want special treatment.

Mr. ROCKEFELLER: Well the special treatment applies to us because the shares of Mercantile happen to be owned by one owner. That is what you are objecting to.

Mr. LAFLAMME: But the other banks cannot have that.

Mr. ROCKEFELLER: They could have that.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): They cannot because that is forbidden by law.

The CHAIRMAN: Mr. Rockefeller, are you not aware that under the proposed bank act, aside from the exemption given to yourselves, no other bank chartered in Canada will be permitted to have more than 10 per cent ownership by any individual and 25 per cent ownership of associated non-resident individuals?

Mr. CLIFFORD: If I might ask a question at this juncture, is there any other Canadian bank which have more than 10 per cent ownership in the hands of one individual? I do not believe so.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not think that affects the matter anyway. These are the provisions under which banks operate in Canada. You have told us you are a Canadian bank; you want to be treated like all other Canadian banks, but the moment we suggest to you that the provisions of the Canadian Bank Act should apply to you in all particulars you immediately want special treatment—and I suggest to you that we are giving you special treatment with regard to the foreign ownership of the shares of the Mercantile Bank, special treatment which is not given to other banks. At the same time we are placing limitations on you that are not placed on other banks. Now, if you really are a Canadian bank and wish to operate within the Canadian banking laws then I would have thought that you would have agreed to have both these sections wiped out.

Mr. ROCKEFELLER: To divest ourselves of 90 per cent of ownership changes the situation.

Mr. LAMBERT: I have a supplementary to Mr. Cameron's question. When you say, "like all other Canadian banks" that is not technically correct because the Western Bank has 50 per cent or 51 per cent for a period of up to ten years.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It has to divest itself over a period of years.

Mr. LAMBERT: Of ten years.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Ten years.

Mr. LAMBERT: That is right. Perhaps the owners of Mercantile might consider that aspect, that if they want to operate as any other Canadian bank they have ten years.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I am quite sure no one would object to a ten year period being allowed for this divesting of foreign ownership. But as far as I can understand, you do not wish to divest yourself?

Mr. ROCKEFELLER: No.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Unfortunately, Mr. Rockefeller, you cannot stand in two positions at once. You are not a Canadian bank like other Canadian banks and to ask us to give you still more special provisions while you are loudly claiming you are a Canadian bank would, I think, be an insult to the Canadian parliament. I for one would oppose it very strongly. Apparently, as I say, you are unable to make up your minds whether

you are a Canadian bank or whether you are a foreign bank which wants to have the name of a Canadian bank and special privileges. I point out to you that you already have a special privilege, and you already have also, of course, a special disability. One follows from the other; both can be eliminated but not one.

Mr. BACHAND: May I say a word, Mr. Chairman, on this. I beg to differ with you, Mr. Cameron. I do not think, as a Canadian citizen, that any special privileges were granted to the Mercantile Bank. Mercantile was given a right, like every other bank, in 1953. They continued that right. They are not asking for a special privilege. They are only asking that they not be deprived of the ordinary right that they had and are continuing to have.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Bachand, may I point out to you that we are in the process of revising the Bank Act. Every one of the charters of the existing chartered banks of Canada are being revised and they are having removed from them by this act some of the privileges they exercised up to this time. So I would suggest that this is a special privilege you are requesting when you ask to be eliminated from the provisions that govern other chartered banks in Canada. The other chartered banks—and they have growled about it, very politely,—have objected to some of the provisions that we are putting in the act because it will curtail some of the rights they have enjoyed in the past.

Mr. BACHAND: If I may disagree with you, Mr. Cameron, I think that the other banks had the right to have more than 10 per cent of the shares but they never exercised that right. The Mercantile had it and continued to exercise it. They just ask in all fairness not to be deprived of the right. They are not asking for a privilege. That is why I say that if it applies only to one case it is discrimination, if you deprive them of that right.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): As far as I know we have not had any evidence, Mr. Chairman, as to the shareholding position of the chartered banks in Canada. We may have had but I do not recall it.

The CHAIRMAN: Not in this context.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Actually I do not know what the shareholding position of the chartered banks in Canada is. There may be some who have allowed more than 25 per cent of their shares to fall into foreign hands, but I do not know.

Mr. ROCKEFELLER: In effect, you would be changing the ownership of Mercantile and not changing the ownership of the other chartered banks because they are not affected.

Mr. CAMERON (*Nanaimo-Cowitchan-The Islands*): But as I say, I do not know. It may be so but I do not know.

The CHAIRMAN: Mr. Cameron, your question period has expired. I would now recognize Mr. Clermont followed by Mr. Wahn.

(*Translation*)

Mr. CLERMONT: Mr. MacFadden, what were the total in deposits of the Mercantile Bank of Canada, at the end of the financial year, 1962, in Canadian funds and in foreign funds?

(*English*)

Mr. MACFADDEN: I am afraid I did not catch your question, Mr. Clermont. I think Mr. Clifford got it.

Mr. CLIFFORD: On June 30, 1962, the total assets of the Mercantile Bank were $96,222,000.

Mr. CLERMONT: I am asking only for the deposits, first in Canadian funds and, second, in American funds.

Mr. CLIFFORD: All right. Of the $96 million, $50,684,000 at that particular date was in Canadian dollar assets.

Mr. CLERMONT: And do you have the American currency?

Mr. CLIFFORD: Well the remainder would be in American currency.

Mr. CLERMONT: $46 million?

Mr. CLIFFORD: $46 million.

Mr. CLERMONT: In 1963?

Mr. CLIFFORD: $84 million approximately.

Mr. CLERMONT: Of what?

Mr. CLIFFORD: Of which $35 million was Canadian dollar assets.

Mr. CLERMONT: And 1965?

Mr. CLIFFORD: I might just mention that of that total $19 million was in loans.

Mr. CLERMONT: And 1964?

Mr. CLIFFORD: As at June 30 the total assets were $105 million of which $44 million were Canadian dollar assets.

Mr. CLERMONT: And 1965?

Mr. CLIFFORD: $171 million total assets—this is all as at June 30—of which $75 million were Canadian dollar assets.

Mr. CLERMONT: And 1966?

Mr. CLIFFORD: $225 million total assets of which $114 million were Canadian dollar assets. If I may, I might just explain the growth in assets, with capital of $10 million; when it was increased and we felt we could increase our total assets, using the traditional Canadian relationship of one part capital to twenty parts deposit—while that is not in law it is the general practice—that explains the rapid growth in assets totals between 1964 and 1965.

Mr. CLERMONT: Mr. Rockefeller, how many branches do you have outside of the United States?

Mr. ROCKEFELLER: I think about 190 in round figures.

Mr. CLERMONT: How many are wholly-owned by your American bank?

Mr. ROCKEFELLER: They would either be branches or wholly-owned subsidiaries. We have a few other investments but I am not including those.

Mr. CLERMONT: Have you any foreign branches wherein you hold a minority interest?

Mr. ROCKEFELLER: No. We have some investments in banks where we do not have the entire ownership. We have a 40 per cent interest in a French bank that operates in Africa. The Banque Internationale pour l'Afrique Occidentale.

Mr. CLERMONT: I was under the impression from some figures I looked over that you had about 39 branches where you had a minority interest.

The CHAIRMAN: You mean subsidiaries.

Mr. ROCKEFELLER: Branches are wholly owned.

Mr. CLERMONT: I was looking over some figures regarding your foreign operation.

The CHAIRMAN: I think what Mr. Clermont is driving at is whether you have less than majority interests in banks in other parts of the world.

Mr. ROCKEFELLER: The one in Africa I mentioned is less than a majority.

The CHAIRMAN: Are there any other you can tell us about?

Mr. ROCKEFELLER: That is the only one that is less than a majority that I can think of. We have an investment in Honduras and I think that is 51 per cent.

Mr. CLERMONT: Who is managing that bank in Africa?

Mr. ROCKEFELLER: We have one officer and the rest are either French or African.

Mr. CLERMONT: But you do not hold majority stock?

Mr. ROCKEFELLER: No; we have 40 or 41 per cent.

Mr. CLERMONT: How is it that you were satisfied to have only 49 per cent when you want 100 per cent here.

Mr. ROCKEFELLER: That was all we could get. The rest did not come on the market.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, on page 14 of the brief of the Mercantile Bank, I read the following: "With a phone call to the Mercantile Bank a Canadian businessman can obtain prompt information about markets for his merchandise at points as distant as Milan and Singapore."

Mr. Rockefeller, if the Mercantile Bank makes a telephone call to your bank or establishment in Milan and asks for information and at the same time, this bank, which is your branch has received the same request from a United States company, what is going to happen?

(*English*)

Mr. ROCKEFELLER: The information would be given to both parties.

Mr. CLERMONT: When you say that you do not laugh?

Mr. ROCKEFELLER: No.

Mr. CLERMONT: How many branches do you have in Europe, say, in France?

Mr. ROCKEFELLER: One in Paris, two in Switzerland, three in Germany, two in Belgium, two in Holland, one in Italy, one in Lebanon but that is not Europe and two in England.

Mr. CLERMONT: They all seem to be located in big centres?

Mr. ROCKEFELLER: Yes, in big cities.

Mr. CLERMONT: Have you any branch or branches in Japan?

Mr. ROCKEFELLER: Yes, four or five.

Mr. CLERMONT: Do you own them 100 per cent?

Mr. ROCKEFELLER: They are branches and branches are wholly owned; they are the same bank.

Mr. CLERMONT: I understand that in Japan ownership has to be at least 51 per cent Japanese?

Mr. LAFLAMME: In those banks you do not receive deposits from the citizens?

Mr. ROCKEFELLER: Yes. We do a complete banking business.

Mr. LAFLAMME: In all of the countries you have this arrangement?

Mr. ROCKEFELLER: Yes. I cannot think of anywhere that we do not. Taiwan has some restrictions; that is correct.

Mr. CLERMONT: In answer to a question you said that in New York state foreign banks are treated as domestic banks.

Mr. ROCKEFELLER: I said this morning that they are in some ways treated a little better.

Mr. CLERMONT: As you often mentioned, Mercantile is a Canadian bank. Did you apply to the State of New York for an agency?

Mr. ROCKEFELLER: An agency of Mercantile?

Mr. CLERMONT: Yes.

Mr. ROCKEFELLER: That would not be permitted.

Mr. CLERMONT: Why?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Do you not have an agency in New York?

Mr. ROCKEFELLER: No; we could not do indirectly what we do directly. They say it is a Canadian bank because it is owned by us.

Mr. MACFADDEN: With Ottawa there to intercede for us in Washington.

Mr. ROCKEFELLER: It would not be allowed.

An hon. MEMBER: Do you think we will do a better job than the State Department?

Mr. ROCKEFELLER: We would like very much to have an office of Mercantile in Chicago, but that would not be permitted.

An hon. MEMBER: This is discrimination!

Mr. CLERMONT: And there is a limit on what a domestic bank can pay on short term deposits?

Mr. ROCKEFELLER: That is a federal regulation; it is not a state regulation. On a demand deposit that is a law; on time deposits that is a federal regulation.

Mr. CLERMONT: Was the ceiling changed in 1965, so that it now allows the domestic banks to compete more freely with the foreign agencies?

Mr. ROCKEFELLER: There are no restrictions on the foreign agencies.

Mr. CLERMONT: I know that; but you brought up the fact that the Canadian agencies in New York received favourable treatment against domestic banks because they were not restricted like domestic banks; but was it—

Mr. ROCKEFELLER: The ceiling was raised in 1966.

Mr. CLERMONT: Was it brought up to a more favourable rate?

Mr. ROCKEFELLER: Yes.

Mr. CLERMONT: This morning I think that you tried to erase from the public mind the idea that because Mercantile is wholly-owned by an American firm it would be easier for the Mercantile to obtain deposits from United States companies in Canada.

Mr. ROCKEFELLER: That has not been our experience elsewhere in the world.

Mr. CLERMONT: Yes, but what about in Canada?

Mr. ROCKEFELLER: I think it would be the same as in the rest of the world.

Mr. CLERMONT: But do you not think that, in the light of the ownership pattern of Canadian industry, it is to be expected that funds flowing in from the United States would be more readily available to you?

Mr. ROCKEFELLER: No; our experience is that subsidiaries—

Mr. CLERMONT: Yes; but your experience is with, say, Japan or Germany, which are far away from the United States. Canada is not so distant.

Mr. ROCKEFELLER: Or England?

Mr. CLERMONT: Even England is much farther from the United States than is Canada.

Mr. Chairman, this is my last question: Again I am coming back to a reply given by Mr. Rockefeller to the effect that in New York foreign banks are treated as well as, if not better than, domestic banks; but is it not true, Mr. Rockefeller, that a branch in New York state must maintain in the state assets equivalent to 108 per cent of its liabilities payable inside the state?

Mr. ROCKEFELLER: It applies to the Intra Bank; namely, the bank that is separately incorporated. I do not think that it applies to the agencies.

Mr. HARFIELD: It does not apply to agencies. It does apply—

Mr. CLERMONT: I said "branch".

Mr. HARFIELD: It applies to branches; that is correct. A branch of a foreign bank which is licensed to operate in New York is not required to place any capital in New York, but it is required to maintain certain securities, and, over-all, an amount of assets in New York which are equivalent to 108 per cent

of its liabilities in New York; so that you have, in effect, the equivalent of a capital position.

Mr. CLERMONT: Is that ratio to liabilities limited only to 12½ per cent?

Mr. HARFIELD: No, I think not; because there is no restriction at all on the increase. If, for example, you increase your deposits presumably you immediately lend out those deposits and they then become assets; so that the two go up together.

The CHAIRMAN: Mr. Rockefeller, just to be sure that I understood you correctly, you did tell Mr. Clermont that it has been your experience with your subsidiaries and branches in other countries that they are very successful in attracting deposits from American firms in those countries?

Mr. ROCKEFELLER: I said it was difficult to get American subsidiaries to do business with us in preference to the local banks. They are sensitive to this local feeling.

The CHAIRMAN: It is difficult? I thought I heard differently.

Mr. ROCKEFELLER: No; they lean the other way. They favour the foreign banks. They think it helps their public relations image.

Mr. CLERMONT: Is Mr. MacFadden in a position to say whether the Mercantile Bank makes advances or loans under section 88 in Canada?

Mr. MACFADDEN: You will have to direct that question to Mr. Clifford. He runs the books.

Mr. CLIFFORD: Yes, we do.

Mr. CLERMONT: Thank you. That is your answer, Mr. Whelan.

The CHAIRMAN: I thought Mr. Whelan had a supplementary question. I am going to recognize Mr. Wahn, but first I want to bring to your attention, gentlemen, a quotation from the Zwick memorandum, from page 2:

> In California, Washington and Illinois foreign branches were open before legislation was passed prohibiting foreign branch banking....

Would that be retroactive legislation?

Mr. ROCKEFELLER: Do you know about that?

The CHAIRMAN: I am showing Mr. Sherman—

Mr. HARFIELD: Harfield.

The CHAIRMAN: Mr. Sherman was your partner.

Mr. MACFADDEN: He died in 1910. This shows you, gentlemen, how much care you must take when you are looking at lawyers' letterheads. I can say to the Committee that you are much more substantial than Mr. Sherman.

Mr. HARFIELD: I am not in a position to speak about the laws of Washington. I do know that Illinois restricts any branches; that is to say, under the laws of Illinois a bank, even incorporated under the laws of that state, has to do business at one office. It may not have any branches or additional offices; and I believe that state law has been used to exclude the branches of any foreign banks.

In Washington I believe there is now a similar restriction.

I want to call your attention to the fact that in connection with the restriction of these states against foreign banks, when we talk about a foreign bank in New York we are talking about Connecticut, or New Jersey.

The CHAIRMAN: And we are worried about separatism.

If I may just interrupt here for a moment, it would appear from what Dr. Zwick said that there were at one point branches of foreign banks in these states and that these state legislatures then passed laws forbidding foreign branches, which, I presume, caused these branches either to go out of existence, or—

Mr. HARFIELD: If I am correct in my understanding, in Washington and in California there are branches, although now they would do not be permitted because this is knows as the "grandfather clause", and in order to avoid the sin of retroactivity these states have said, "Henceforward we will not permit any other foreign branches to enter."

The CHAIRMAN: I am informed, sir, that in California, although technically the state law permits a branch, it does so only if the branch can get federal deposit insurance, which is not possible.

Mr. HARFIELD: I believe that is correct.

The CHAIRMAN: As a practical matter then foreign branches are not permitted in California.

Mr. HARFIELD: I think that is perfectly true.

The CHAIRMAN: I am also informed, sir, that with respect to Illinois there were foreign branches, including at least one branch of a Canadian bank, which had to go out of business after this law was passed.

Mr. HARFIELD: I am not informed on that. It may be true, but I cannot affirm or deny it.

Mr. WAHN: Mr. Chairman, after the long discussion that we have had with regard to retroactivity, discrimination, punitive features and other matters, I wonder whether Mr. Rockefeller would agree that perhaps the question of substance to which this Committee should be addressing itself is whether or not it is in the interests of Canada that we should restrict foreign banks in Canada?

Would you agree, Mr. Rockefeller, that that is the basic question of substance that we should be discussing?

Mr. ROCKEFELLER: Yes; that is the question, but it is not for us to say whether you want to have international banks, or to be a world money market. That is not for us; that is for you gentlemen.

Mr. WAHN: I think, toward the end of your memorandum, you point out certain advantages which would flow from permitting—

Mr. ROCKEFELLER: If you were to ask us, we would recommend it.

Mr. WAHN: If that is the real question of substance that we should be considering, I am wondering whether it would not be desirable to withdraw these charges of retroactivity, punitive legislation and discriminatory treatment which have been made in the brief and which have taken up so much of our time. I say that, fully realizing that, to anyone who is not intimately familiar with the process of the decennial revision of the Bank Act, it might be natural

enough to make those charges in the first instance; but after the long discussion that we have had today I am wondering whether it would not be in the interests of everyone concerned to concentrate upon the question of substance rather than upon these charges which are rather inflammatory in their nature.

I will take a few moments to outline why I make this suggestion. Without going into a lot of detail, it is apparent from the answers you gave to Mr. Cameron, Mr. Rockefeller, that at least certain provisions of this long bill have been inserted for the protection of Mercantile, with which you, personally, were not familiar.

Mr. ROCKEFELLER: I agree.

Mr. WAHN: Basically, I think it is true that this bill represents the decennial revision of the Canadian Bank Act in which new rules are being laid down by the Canadian parliament to govern the activities of all Canadian chartered banks for the next ten years. It is quite apparent from clause 53 and 75, to which you have taken objection, that the basic philosophy is that in Canada, rightly or wrongly, the bill takes the position that we do not want any Canadian chartered bank to have more than 25 per cent foreign ownership nor do we want any one person to own more than 10 per cent of a Canadian chartered bank. That was the general principle and I think Mr. MacFadden and Mr. Palmer and your other experts would agree that this is the general idea.

It was recognized that Mercantile was in a special position, because at the time this bill will be enacted, Mercantile will be owned 100 per cent by National City. In order to give effect to the legislative purpose parliament could have insisted that you divest yourself either immediately, or within a reasonable period of time, of 75 per cent or 90 per cent of the ownership of Mercantile. I think you probably would have objected even more strenuously to this than you do to the present proposed legislation. This would have been consistent with the general legislative purpose.

For example, I happen to own a few shares in one of the Canadian chartered banks. If, before this legislation becomes effective, I could get together with enough fellow-Canadians who also own a few shares we could form a syndicate and perhaps accumulate 35 per cent of the outstanding shares and I might then be able to sell them at a considerable profit to the Chase Manhattan, for instance.

Mr. LAMBERT: Mr. Chairman, there is no conflict of interest here, is there?

Mr. WAHN: Not so long as it is disclosed and that is what I am doing.

As a result of this proposed legislation Canadians will no longer be able to do this. It affects all of us.

What I am suggesting, Mr. Rockefeller, is that actually the debate of parliament has gone a long way to recognizing the special position of Mercantile. What I am saying in effect is this: Please try to put yourself in the same position as all the other Canadian chartered banks; reduce foreign ownership to no more than 25 per cent. Parliament has not gone so far as to ask you to reduce the holdings of National to 10 per cent, so that in a sense you are, as Mr. Cameron has pointed out, in a better position than are other Canadian shareholders. They could have asked you to do that and can still do that. What they are saying to you, in effect, is that if you do not want to do that and if you want to retain your special position, which is different from that of all the other Canadian banks,

then the Canadian government wants to keep an eye on your rate of growth. Nobody has said that they will not permit you to grow further. You have not asked for an increase in your authorized capital. What the Canadian government is saying is, "Put yourself in the same position as are the other Canadian chartered banks and you will be treated exactly as are the other Canadian banks; but we are not going to insist that you do that. However, if you do not do it then we want to be in a position to limit your growth; we want to be a position to watch you".

Naturally you would prefer to retain the special position which you have held for some years, namely, to be owned 100 per cent by National City. There is no other bank in Canada in that position. After this legislation goes through no other Canadian chartered bank can be in that position. Obviously it would be a tremedously valuable asset if you could be the one and only Canadian chartered bank that had that special privilege.

Surely, looking at it in this way, if this is the true effect of the legislation, it would be better to accept the fact that there is nothing really retroactive, discriminatory or punitive in this legislation, but rather that this is an attempt to carry out a legislative purpose which may or may not be right. The legislative purpose, I repeat, is to try to induce all the Canadian chartered banks, including Mercantile, to get down to 25 per cent foreign ownership and, if not, to help the Canadian government to keep a rather fatherly eye on their growth. Is there anything really retroactive, discriminatory or punitive in this type of legislation?

Mr. ROCKEFELLER: In our opinion, there is. In your opinion, there apparently is not.

Mr. WAHN: In other words, you still insist, or suggest, that this legislation is retroactive, punitive and discriminatory?

Mr. ROCKEFELLER: Yes.

Mr. THOMPSON: May I ask you, Mr. Rockefeller, whether in light of the explanation that Mr. Wahn has just made, this legislation does not appear perhaps different from when you drafted your brief?

Mr. ROCKEFELLER: No; I think we knew this.

Mr. WAHN: Obviously, there has been no meeting of the minds between us on this particular point. I propose to go on and ask questions of substance which are of interest to me, Mr. Chairman, and I will be quite brief.

A comparison has been made with the Dutch ownership. I am informed that National City is approximately 17 times the size of the Dutch bank that formerly owned Mercantile. Do you agree with that? Is that more or less correct?

Mr. ROCKEFELLER: I do not know. Those figures are available.

Mr. WAHN: The Dutch bank has been absorbed by a bigger bank. The figures would be distorted at this point.

Mr. ROCKEFELLER: We are considerably larger.

Mr. WAHN: Is the National City Bank subject to United States anti-trust regulations?

Mr. ROCKEFELLER: Yes.

Mr. WAHN: We have had examples in Canada where, by acting on a parent company, the United States anti-trust division has influenced the actions of Canadian subsidiaries. Could you give this Committee any undertaking that if the United States anti-trust department issued instructions to National City with regard to the actions of the Mercantile, the Mercantile would feel free to disregard those instructions from the United States government?

Mr. ROCKEFELLER: No; but I can tell you this, that our government has endeavoured to infringe—or, at least, this is what other countries have thought—on the sovereignty of other countries where we operate branches and has asked for information on our branches and we have refused to give it to the United States authorities; and this has been upheld by the courts.

The CHAIRMAN: You refused to give what?

Mr. ROCKEFELLER: We refused to give information about business we were doing in some of our branches. The Swiss, for instance, have a secrecy law—

The CHAIRMAN: Could you direct your attention particularly to what Mr. Wahn is interested in.

Mr. ROCKEFELLER: With regard to the anti-trust laws, the answer is no, because I do not know what the impact of the anti-trust laws would be.

The CHAIRMAN: Perhaps we could ask this gentleman whose partner is no longer with us. You have more substance than your departed partner.

Mr. HARFIELD: Substance which has more spirit, though.

The CHAIRMAN: I did not know that a New York corporate lawyer engaged in these flights of wit. This is very impressive.

Mr. HARFIELD: I would like to take that question a little more broadly, if I may, Mr. Wahn, than merely the anti-trust laws because there are a series of instances—and I say this with some personal regret—in which the United States has made an effort to export its laws instead of merely its products.

The Mercantile Bank is a Canadian corporation which happens to be owned at this point by a United States corporation. The conduct of the Mercantile Bank depends upon conformity to the laws of the country where it is organized and where it does business. Its direction must be taken from its board of directors in accordance with those laws—the Canadian laws.

We have been successful, as Mr. Rockefeller has said, in a number of instances—not directly involving the anti-trust laws, but other laws of similar impact—in seeing to it that the laws of the United States do not run beyond the boundaries of the United States and that mere ownership of a foreign corporation does not subject that corporation to the impact, or direction, of the laws of the United States.

It is quite true that in respect of foreign funds control operations and the blocking laws, for instance—the anti-trust laws—there have been efforts by the United States to expand the impact of its laws beyond its territorial boundaries, but this is not a function of ownership of stock in a foreign corporation. This is a function of the relationship of the foreign corporation to the United States, because the United States cannot and does not attempt to carry out the enforcement of its laws abroad. It does not say that unless there is what it regards as conformity to them, it will deny access to its own market.

On that basis—and there are a number of warm issues on this at the present time—it does not make any difference whether a Canadian bank, for example, is owned by First National City or wholly-owned in Canada. The issue is the contact of the operations of the foreign bank with the United States. The anti-trust laws prohibit limitations on competition where they affect the domestic or foreign commerce of the United States. Beyond that they do not purport to go, and in terms of enforcement there is no basis for doing more than saying, as has been said by the courts in the Aluminum Company case and in the case of de Beer Mines and in a whole series of others, which is: "If you, the foreign corporation perform acts which have an adverse effect, in our estimation, on our foreign commerce then we will punish you if we can catch you". This is not a function of stock ownership. It is a function of activity.

Mr. WAHN: Would you not be in a much better position to resist an order from the U.S. anti-trust division if you owned only 25 per cent rather than 100 per cent?

Mr. HARFIELD: I think that probably our position would be more comfortable in that regard.

Mr. WAHN: We are anxious to make your position more comfortable.

Mr. HARFIELD: I can confirm what Mr. Rockefeller has said that there have been instances where there has been an effort, although not in the case of a subsidiary—there has been no instance that I know of where there has been an attempt by an agency of the government to force a subsidiary to conform—by, for example, the internal revenue service, through the exertion of pressure on the head office of the bank, to require action or inaction at one of its foreign branches. The foreign branch is an integral part of the corporate body, so this is really saying to Mr. Rockefeller. "You are prohibited from doing this, that or the other thing in a foreign country." Even in those instances the bank has successfully resisted because our courts have said that to the extent that compliance with an order of the United States courts would result in violation of the law in any foreign country—for example, the Swiss secrecy laws—that order is unenforceable and will not be issued.

The CHAIRMAN: Mr. Harfield, do these laws to which you have referred, the anti-trust laws of the United States and the laws dealing with foreign assets and so on, act *in personam* as well? Are there not penalties of fines or imprisonment in respect of persons resident in the United States?

Mr. HARFIELD: Yes.

The CHAIRMAN: The reason I ask you this specifically is that Mr. Rockefeller, who is a resident of New York, is also the chairman of the board of the Mercantile Bank.

Mr. HARFIELD: We had an instance in which a federal court sitting in New York ordered a branch of the bank in a foreign country to embargo a particular account maintained on the books of that branch. The court said that this order could not have the personal impact that you talk about if to comply with the order would have involved a liability at the place where the branch did business. In other words, the law of th country where the branch does business is paramount; and it is a much stronger case where it is a subsidiary.

The CHAIRMAN: I would like to ask this one question: What is the attitude of the National City Bank with respect to the United States voluntary guidelines program on the operations of its subsidiaries or its branches abroad?

Mr. HARFIELD: That is primarily a policy question and I think Mr. Rockefeller might answer it.

Mr. ROCKEFELLER: I do not think it applies to subsidiaries, but I am not clear on this. As far as the operations of our own bank in the United States and of our branches are concerned we have conformed with them. That is not an effect of law; that is on a voluntary basis.

The CHAIRMAN: You have, on a voluntary basis, complied with the guidelines?

Mr. ROCKEFELLER: Yes.

Mr. HARFIELD: As Mr. Rockefeller said, they do not apply in the case of subsidiaries because they are not regarded as United States persons.

Mr. ROCKEFELLER: In England we have conformed with the guidelines of the Bank of England.

The CHAIRMAN: If the American government extended the guidelines program to cover wholly-owned subsidiaries abroad, what would you do?

Mr. ROCKEFELLER: I think we would resist it. This question has never been raised.

Mr. CLIFFORD: We are a Canadian bank and according to the Bank Act we are run by a Canadian board of directors. We have received guidelines from the central Bank of Canada three times that I can remember in the last few years. We have observed, and intend to observe, and our board of directors would insist that we scrupulously observe, every single one of them.

The CHAIRMAN: You did not get any guidelines from the United States?

Mr. CLIFFORD: No; and we would not.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): As perhaps you know, there has been a dispute lately over the handling of cheques from the American Friends Society for the purchase of drugs to be sent to Viet Nam, and one of our chartered banks appears to have run into certain trouble with the American authorities, which they have resisted. What would have been the policy of the Mercantile Bank of Canada, which you have told us is a Canadian bank, if it had been asked to perform these functions that the Canadian banks have been performing, and it had been urged by the American authorities to cease doing so? Would you have acted as this Canadian bank has done, or would you have obeyed the—

Mr. HARFIELD: Obviously I cannot answer that, sir, in terms of what the bank would do, but in terms of what I would advise them to do if they were to solicit my legal advice. I would tell them to disregard it.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You would tell them to disregard the advice.

Mr. HARFIELD: I would tell them to disregard the instructions. I think that for them to attempt to propose extra-territorial sanctions is wrong, and I would defend that to my last client!

Mr. BACHAND: Mr. Chairman, may I supplement that? As one of the ten Canadian directors I can assure you that we would certainly not comply with a request from another government unless we had a decision by our board of directors. We would act solely in accordance with Canadian law.

Mr. WAHN: Bearing in mind the fact, Mr. Chairman, that the Canadian government is under an obligation to maintain its currency at a state of value in terms of U.S. dollars; in view of the fact that we are also under an obligation, as I understand it, not to exceed a certain limit of U.S. dollar reserves; and in view of the fact—

Mr. MACFADDEN: In terms of exemption.

Mr. WAHN: Yes; and in view of the fact that it is rather easy for a subsidiary of a very large U.S. owned banking corporation to get U.S. dollars from its parent company, is it not reasonable that the Canadian government should have a special concern and that they certainly should be more concerned when a Canadian chartered bank is owned by a powerful U.S. bank than the case of a Canadian bank owned by a small Dutch bank?

Mr. MACFADDEN: Mr. Wahn, may I suggest that Mr. Clifford answer this question? This has been discussed, and it has been brought out in the press. I think it might be of interest to the Committee to have that point clarified.

Mr. CLIFFORD: The guidelines which the governor set up, which I think were effective December 31, 1964—it was really a request to the banks that they strike a position as of that date and that the total deposits from U.S. residents and the total loans to U.S. residents should not be changed in a way that would work in an adverse manner as far as the balance of payments was concerned. We report our position regularly and I may say that we observe the guideline as scrupulously as we possibly can. We have never exceeded that guideline which was given to us by the governor of the central bank.

Mr. WAHN: I am not sure that I understand that. Could you explain it again, please?

Mr. CLIFFORD: I understood your question to be whether or not the Mercantile Bank had observed a guideline from the Canadian government with respect to the foreign reserves position.

Mr. WAHN: That was not my question, but it may amount to the same thing. My question was this: First of all, as I understand it, we are under an obligation not to exceed $2.3 billion in reserves.

Mr. CLIFFORD: Yes.

Mr. WAHN: We are obligated to maintain our currency at a fixed price in relation to U.S. currency, with a bit of fluctuation one way or the other.

Mr. CLIFFORD: Yes.

Mr. WAHN: In order to do this, since we do not have foreign exchange control in Canada, we have to go through the exchange operations of the Bank of Canada. In order to comply with these commitments the government of Canada obviously has to have some control over the inflow and outflow of U.S. dollars. Where only Canadian-owned chartered banks are concerned it is relatively easy for the Bank of Canada to exercise that control but where you have a situation

where the currency we are dealing with is U.S. dollars, which is a reserve currency, and where you have a Canadian chartered bank owned 100 per cent by one of the most powerful banks in the world in the U.S. where there is no minority interest to complain about anything that is done and where there is a very large supply of U.S. dollars available, is it not possible that, for example, if the Bank of Canada decided that we had to restrict expenditures in Canada for fiscal control, other banks might have to cut back on loans to their customers, but that the Mercantile Bank would have sources of funds from its parent bank in the United States, which it could get and could lend out free of the control of the Bank of Canada?

Mr. CLIFFORD: I think I stated the position correctly. The directive we received from the governor of the central bank was with regard to helping to keep the foreign exchange reserves at a given level. It was given to all the banks at the same time and it was on the basis that they would strike a position as of December 31, 1964 on their loans to U.S. residents and their deposits from U.S. residents and not change that position subsequently in a way which would adversely affect the U.S. balance of payments.

We have scrupulously observed that, as we have scrupulously observed every other directive given by the central bank, obviously. We would not contemplate doing anything other than what the central bank asks us to do, particularly in our position.

Mr. MUNRO: Mr. Chairman, I just want to ask a couple of questions.

Mr. MacFadden, in your memorandum outlining what took place at your meeting with Mr. Gordon you mention in the last paragraph:

> We had previously called on U.S. Ambassador Butterworth to inform him of our plans and he was most enthusiastic about our going in to Canada.

How long was the previous to meeting Mr. Gordon on July 18?

Mr. MACFADDEN: On our way through to the meeting.

Mr. MUNRO: Was this on the same day?

Mr. MACFADDEN: Yes; this was in the morning, perhaps an hour before the meeting.

Mr. MUNRO: You also mentioned, Mr. MacFadden—and I think I am quoting you accurately—that there were five others. When you were referring to the others interested in buying the Mercantile I think you stated: "There were five others interested, and we were not going to lose it". What five others were you referring to?

Mr. MACFADDEN: I do not know which specific banks they were, but the managing director of the Rotterdamsche Bank, after we had concluded the agreement and in subsequent conversations, indicated that there were one American bank and four well-known foreign European banks that had approached them to buy the Mercantile. This is irrelevant to our purchase, because we were unaware of them at the time we made our approach.

Mr. MUNRO: You were not aware of them at the time?

Mr. MACFADDEN: I do not consider it is relevant to our purchase of the Mercantile shares.

Mr. MUNRO: Are you saying that you do not consider it relevant?

Mr. BASFORD: If I may ask a supplementary question, I thought you said this morning that it was because of these other banks that you had to move so quickly.

Mr. MACFADDEN: I said that we were not aware of them until the negotiations had been completed.

Mr. BASFORD: I thought that was what you said this morning, with respect. I will have to check the record.

Mr. MUNRO: You were not aware until what time?

Mr. MACFADDEN: We were not aware until after the agreement had been signed in Rotterdam, or perhaps it was at some later date. I was not present at that meeting, and I do not know what was discussed.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have a very clear recollection that either Mr. MacFadden or Mr. Rockefeller said: "There were five other banks after it, and we were not going to let it slip out of our hands".

Mr. BASFORD: "Were not going to lose it".

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): "Were not going to lose it". That is the impression I got; and apparently other members of the Committee got the same impression, that you had this information before you completed the deal.

Mr. MACFADDEN: That the bank was for sale.

Mr. MUNRO: When you used the terminology that we had understood, that there were five others interested—and I must say that you indicated considerable determination this morning when you said, "We were not going to lose it," surely that would have relevance if only as a factor in your mind leading you to rush through this transaction? You yourself indicated that you were acting in considerable haste at all these meetings. I believe it was after the meeting with Mr. Rasminsky, the Governor of the Bank of Canada, on June 20, that you consummated this transaction prior to meeting Mr. Gordon on July 18.

You indicated, with reference to question put to you, that there were five others interested and that you were not going to lose it. You also seemed to indicate that you were moving rather rapidly in these negotiations after your initial meeting with the Governor of the Bank of Canada. It seemed plain to us that this was a governing factor in your decision to rush ahead with the transaction. As members of the Committee are we wrong in this impression?

Mr. MACFADDEN: I do not think that we can, from day to day, control the speed with which negotiations come quickly to a conclusion. After all, we had been carrying on these negotiations with the Dutch from early March and weeks and months had gone by. I do not know what triggers it off at the last minute, when all of a sudden you come to an agreement; I guess if the seller wants to sell and the buyer wants to buy they come a little more quickly to an agreement.

Mr. MUNRO: At any rate, you were not aware of these other five until subsequent to July 16, when the deal was made firm by the Rotterdam Bank. Is that right?

Mr. MACFADDEN: It was on the market. We were in line. We were the second or third ones to talk about it. Obviously there were other people in mind. When you start negotiations you obviously want to conclude them as quickly as you can. You do not want them to drag on and on.

Mr. MUNRO: Especially if you are aware that there are others interested, I suppose. This would add to your haste. That is reasonable?

Mr. MACFADDEN: I think it is irrelevant.

Mr. MUNRO: It is quite relevant, Mr. MacFadden, if it was one of the governing factors that urged you to carry through with this transaction before meeting with the minister of finance. You are the one who is complaining about retroactivity.

Mr. MACFADDEN: Mr. Munro, we were not trying "to pull a fast one." We were trying to conclude a deal after satisfying ourselves that we were not contravening any laws of Canada.

Mr. MUNRO: With respect, Mr. MacFadden, your statement on the record to the effect that "there were five others; We are not going to lose it", would certainly indicate that this was very much on your mind prior to what you regard as the first consummation of this transaction.

Mr. MACFADDEN: I do not know what was on the minds of my partners when they were negotiating in Rotterdam.

The CHAIRMAN: Mr. Munro, perhaps when we read the transcript we can draw our own conclusions.

I would like to recognize Mr. Gilbert now, followed by Mr. Mackasey, Mr. Cowan and Mr. Otto.

Mr. COWAN: Is there a reward for patience on my part? I have been here all day, as I said before—

Mr. MACKASEY: Mr. Chairman, I will gladly pass. I prefer at any time to listen to the words of Mr. Cowan than to participate. I am quite happy to pass until another day.

Mr. BASFORD: Mr. Chairman, it is quite obvious that you did not catch my signal that I wished to be put on the list.

The CHAIRMAN: I will ask for the guidance of the formal members of the Committee. Ordinarly, as I said, we do give priority to those who are already on the regular list as members. The individuals I mentioned have been attending very patiently, and we have a problem because of the time we have taken up till now. We are continuing past ten o'clock, but to what extent, of course—

Mr. THOMPSON: Mr. Chairman, I think it is only fair that we hear from those members who have not previously been able to participate.

Mr. MACKASEY: Mr. Chairman, if you would all stop arguing about my participation you might get some work done. I have made it quite clear that I am prepared to sit here and listen. There are other participants. I do not know what all the discussion is about.

The CHAIRMAN: We are not taking all that time discussing this point. I want to make sure that those will have to make decisions on this issue prior to voting

have had the full opportunity they feel they should have to question the witnesses here. Perhaps these members would yield their priority to the three I have mentioned.

Who wants to start—Mr. Mackasey, Mr. Otto, or Mr. Cowan? If you will settle that amongst yourselves we will proceed.

Mr. COWAN: Do not the hours of attendance make any difference here?

The CHAIRMAN: If that were the case I would do even more talking than some members think I do now.

Mr. OTTO: Mr. Chairman, to settle the argument, I would like to confine my questioning to the issue of discrimination. With all respect to Mr. Wahn, I think it is the Committee's duty to decide, first, if there is discrimination. If there is, we still have the right to pass the legislation, but the first question is: Is there discrimination?

Mr. Clifford, in the questioning by Mr. Cameron I believe he said that the law was a general law. Did I correctly understand you to say that although the law may appear to be general law it is in fact, or could be in fact, discriminatory. Is that what you said.

Mr. CLIFFORD: Are you talking about 75(2)(g)?

Mr. OTTO: Yes.

Mr. CLIFFORD: I said it was discriminatory.

Mr. OTTO: Mr. Cameron pointed out that it appeared to be a general law governing all banks. Did I understand you to say that although it appeared to be a law governing all banks, in reality it was discriminatory against you. In other words, it could be a law—

Mr. CLIFFORD: —That applies only to us.

Mr. OTTO: —prohibiting any bank's opening on Bay Street between Richmond and Adelaide, which could appear to be a general law; but if you were the only bank there then this could be discriminatory? Was that your argument?

Mr. CLIFFORD: The clause, of course, applies to the two new banks and the banks that may come along in the future. At the time it was drafted it applied only to us and in that respect it was discriminatory as well as being retroactive.

The banks that came in subsequent to the first introduction of this clause knew what the clause was going to be. Therefore, I think it can be argued that it was prospective legislation so far as they were concerned.

Mr. OTTO: I did not hear your answer to Mr. Cameron when he said: "Although it could be discriminatory against a small bank it would not necessarily be discriminatory against a large mamoth of a bank like yours." It seems to—and I want to know if you agree with this—that discrimination is discrimination and that it does not matter whether it is against a large, powerful person or a small, insignificant person.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): If you are going to quote me I wish you would do so correctly. I did not make any suggestion that it was a case of the ones being discriminatory and the others not being discriminatory. I said that the action of the Canadian government was not inconsistent—

Mr. OTTO: It was a rationalization of discrimination.

I will direct my next question to Mr. Rockefeller or Mr. MacFadden. At the time that you had your meeting with Mr. Gordon did you gather from his instruction, or from his conversation, that if you did not buy the Mercantile Bank the law would not be applied, and, that if you did buy the bank it would be applied.

Mr. ROCKEFELLER: No, no.

Mr. OTTO: In other words, he said that the law was going to be passed in any event, whether or not you bought the bank?

Mr. ROCKEFELLER: He was not talking about the law. He was talking about our buying the bank. He did not want us to buy the bank.

Mr. OTTO: Did he say that he did not want you to buy the bank?

Mr. ROCKEFELLER: Yes.

Mr. OTTO: Did he give any indication at all that he was going to introduce this legislation against foreign-owned banks whether or not you bought it?

Mr. ROCKEFELLER: He made mention of a report he had made some years ago, as a member of some other commission. He said that he was still in favour of that, and that he was going to recommend this when the decennial consideration came up again, as is happening now.

Mr. OTTO: Thank you.

Mr. ROCKEFELLER: I might mention that we could not have chosen a more unfortunate day to visit Mr. Gordon. An hour before we got there he had been informed about the U.S. equalization tax and he was not pleased at all. We were the first victims that came in.

Mr. LAMBERT: You did not get the back of just one hand but the back of two.

Mr. COWAN: Mr. Chairman, I have only a few questions I would like to ask. My first is directed to Mr. MacFadden. In his resumé of what transpired on July 18 he writes as follows:

> Mr. Gordon knew of our plans to acquire the Mercantile Bank . . .He raised the same questions as had been previously raised by Rasminsky in my conversation with him on June 20th:
>
> (a) This action of ours would open the flood gates for charter applications by other American banks—

You were not making an application for a charter, were you? I gather from the evidence given that you were advising Mr. Gordon that you had acquired control of this Dutch bank.

Mr. MACFADDEN: That we had bought the bank.

Mr. COWAN: I was wondering why he would make reference to charter applications by other banks. As my friend, Mr. Lind, says, you had "pulled a fast one" and bought the Dutch bank faster than your competitors—

Mr. MACFADDEN: Of course, until the government had—as the Minister did on September 22, 1964—announced its intention to bring in certain legislation

and restriction on foreign ownership there was no public indication that such legislation was intended by the government. Therefore, under the terms of the Bank Act, which is still in force, any group can apply for a charter, foreign or other.

Mr. COWAN: Mr. MacFadden, they could apply for a charter whether or not you bought the Dutch bank? That is what I am driving at.

Mr. MACFADDEN: That is correct.

Mr. COWAN: The fact that you were buying the Dutch bank had really no influence on this section (a), that your action in buying the bank would open the flood gates for charter applications. The flood gates were never closed, in my opinion.

Mr. MACFADDEN: All I am saying is that was one of the questions that was raised, which was bothering them.

Mr. ROCKEFELLER: May I try and clarify that? I think Mr. Gordon was afraid that as this news came out it would give competitors and others the idea.

Mr. COWAN: That is much better than "opening the flood gates".

Mr. ROCKEFELLER: Yes, that is right. I think that was what was meant.

Mr. COWAN: I like that wording better, sir.

Mr. MacFadden, further on you say:

> Mr. Gordon admitted that there was nothing the government could do to prevent our proceeding with our plans, because of a loophole in the present Bank Act whereby no provision had been made to prevent foreign ownership of a chartered bank.

Mr. Rockefeller in his resumé, also on page one, in the second paragraph, says:

—it would be considered as taking advantage of an unforeseen loophole.

Was this word "loophole" used, or is it—

Mr. ROCKEFELLER: It is one which has been used by Mr. Gordon, I think.

Mr. MACFADDEN: It was used.

Mr. BACHAND: May I say that Mr. Gordon on June 14, 1965 said:

> This rather unique circumstance amounted in effect to a loophole in the law which requires that bank charters be approved by parliament.

Mr. COWAN: I thank you for the prompt and accurate answers. I am wondering if you have any idea why Mr. Gordon would state that there was some objection to your taking advantage of this loophole when the Canadian Cabinet met the mid-November payroll of the government by taking advantage of a loophole in interim supply? I believe you are a Canadian citizen, sir? Could you answer that for me?

Mr. BACHAND: If I may say, sir, whenever anyone sees a loophole in the law that would be an advantage to him he would try to take advantage of the loophole before the law is changed.

Mr. COWAN: Through the Chairman, sir, to you, as a Canadian citizen, do you think that your action in taking advantage of this loophole—as Mr. Gordon

called it—in July 1963, was a precedent for what was done in November 1966 by the Cabinet.

Mr. BACHAND: Mr. Chairman, if I may answer Mr. Cowan, I did not take any action. I was a director, and it was the U.S. people who bought from the Dutch.

Mr. COWAN: Through you, Mr. Chairman, to Mr. MacFadden: There has been a great deal of stress here today on Mr. Gordon's having said something on the 18th of July, and, because of Mr. Gordon's having said it then it is a fact—without argument.

I have here in my hand the report of a debate in the House of Commons of 1963. Mr. Gordon, who is a friend of mine, presented his celebrated first budget on June 13, 1963.

You have told us that you could not get a date with him on July 2, and could only meet him on July 18. I wonder if you are aware that between June 13 and July 8—and I have brought *Hansard* over so that no one can question my dates—he brought in a supplementary statement on budgetary proposals. On July 8 he was speaking in the House of Commons and stated:

> ... Therefore, on behalf of the government I am proposing to table tonight revised resolutions on the Income Tax Act and the Excise Tax Act to supersede those tabled on the night of the budget...
>
> There is another administrative change of a similar kind...
>
> It has also been revised to operate more fairly as between those who construct...
>
> A different type of clarification in the income tax—

and Mr. Diefenbaker interrupts and says:

> Is this the final version or the authorized version?

and Mr. Gordon says:

> There is one other substantial clarification proposed.

I wondered if you realized that Mr. Gordon, between June 13 and July 18 when you met him, was backing up and sidestepping and withdrawing? Do you realize how definite his statements are when he makes them? Great reliance is being placed on what he told you on July 18.

I wonder, sir, if you have had the opportunity of hearing our present Minister of Finance. He spoke last Saturday in Vancouver and in the second paragraph of his address to the Truck Loggers' Association of British Columbia he stated:

> It used to be that a minister of finance presented a spring budget in which he laid down government fiscal policy for a year ahead. This concept is now becoming rather outmoded and could indeed be harmful.

I am asking you: Were you aware of this flexibility in statements made by ministers of finance in Canada today as compared to, say, five years ago, and times previous to that? A Canadian citizen might know.

Mr. BACHAND: Mr. Chairman, if I may answer, I also recollect that the present Minister of Finance, commenting on the introduction of the Bank Act, said:

> This measure of control need not involve any inequity.

We beg to submit that it does involve inequity.

Mr. COWAN: Mr. Rockefeller, you were kind enough during the day to identify yourself as a bank clerk, and referred to the Honourable Walter Gordon, the Minister of Finance, as an accountant. I am a printer. I wanted to ask you definitely, sir, do you think that the one bank, your First National City Bank, could affect the banking system in Canada as seriously as the admission into Canada of *Time* magazine and *Readers Digest* has affected the publishing industry in this country?

Mr. ROCKEFELLER: I do not know about their situation but I do not think either the Mercantile Bank or our bank in New York could affect your situation here at all seriously.

Mr. COWAN: I do not think so either, sir. I can assure you, as a printer, that making *Time* magazine and *Readers Digest* a Canadian publication has been done by cabinet action, it was passed right through the House of Commons, so they must be Canadian, no argument about it. If you are from Europe it takes you five years to become a Canadian citizen, but *Time* and *Readers Digest* were made Canadian citizens by a vote of parliament. But why did you not bring Mr. Luce up with you to persuade the government that you should be a Canadian chartered bank?

Mr. ROCKEFELLER: Maybe we should have.

Mr. COWAN: I wondered if you thought you had more influence than Mr. Luce.

Mr. ROCKEFELLER: We did not have the idea.

Mr. COWAN: I see. Well, I was just dropping that as a suggestion because if you had brought him up you might have been ahead.

These conversations that Mr. MacFadden and Mr. Rockefeller had with Mr. Rasminsky and Mr. Gordon, were they all conducted in English?

Mr. ROCKEFELLER: Yes.

Mr. COWAN: The reason I asked that question, sir, is that we have a little idiosyncrasy up here that when two people disagree on their report of any incident you are always able to clear yourself by pointing out that the point was lost in translation.

If your conversations were all in English, Mr. Rockefeller, are you saying that Mr. Elderkin is mistaken when he says in his memorandum that you told Mr. Gordon there was no firm commitment to take over Mercantile? It could not have been lost in the translation, so I am asking you the question.

Mr. ROCKEFELLER: I am not saying Mr. Elderkin was mistaken. I say that he and I have a different opinion of what was said.

Mr. COWAN: That is how you would explain the two conflicting views?

Mr. ROCKEFELLER: Well, they are in obvious conflict. We know what was in our minds, but apparently we did not make it clear.

Mr. COWAN: I just have another comment or two. You pointed out on the second last line of your statement, that if you decided to proceed it was at your own peril. I have been in business for something over 40 years and would you not agree that most business decisions that businessmen are forced to make are at their own peril?

Mr. ROCKEFELLER: Every one.

Mr. COWAN: I agree 100 per cent with what you say. This is no particular brief that we are holding out.

Mr. ROCKEFELLER: We say it is a business risk. You use your best judgment; it may not be right, but it is the best you can do.

Mr. COWAN: The best you can do, yes, sir. I would like to close by making one more reference. This year the Bank of Montreal is celebrating 160 years of incorporation, it was founded in 1817. Confederation occurred in 1867. So, we are 50 years behind the Bank of Montreal. The Bank of Montreal was founded with more than 40 per cent, almost one-half, of its capital provided out of Boston and New York. You will find that in Merrill Denison's *History of the Bank of Montreal.* I thought you would like to know that Sir Donald Smith and his cousin, George Stephen, bought the St. Paul, Minneapolis and Northern Railway back in 1874 from Dutch investors for 25¢ on the dollar and, having given the Dutchmen a little bit of money, we rewarded them later by making one Lord Mount Stephen and the other Lord Strathcona. I wondered if you had hopes, now that you have bought a Dutch bank, that we would recommend you also?

Mr. ROCKEFELLER: I will not answer your question directly but it will interest you to know that in my childhood my maternal grandfather, James Stillman, after whom I was named, was a close friend of Lord Mount Stephen and Lord Strathcona, and I remember being introduced to them when I was about this big.

Mr. COWAN: And you all got in Dutch?

Mr. ROCKEFELLER: This is diversion; we are wasting your time. In Mr. Harfield's firm, Sherman and Stirling, the Stirling of that firm was also closely associated with these gentlemen and his friends in New York called him Lord John.

Mr. COWAN: I asked Mr. Harfield—who is present in the body—that question at noon, and he told me he did not realize that fact.

Mr. ROCKEFELLER: Is that so? It is history. We used to call him Lord John.

The CHAIRMAN: Thank you, Mr. Cowan. I think you have demonstrated that patience certainly brings certain rewards.

I think we may proceed for a few minutes more. I will now call on Mr. Gilbert.

Mr. GILBERT: Mr. Chairman, it is very difficult to follow that act!

The CHAIRMAN: You might have your own approach.

Mr. GILBERT: I will try. Mr. Rockefeller, does the First National City Bank own other interests in Canada besides Mercantile?

Mr. ROCKEFELLER: No. Well, International Trust.

Mr. GILBERT: International Trust.

Mr. ROCKEFELLER: That came as part and parcel of it. The Dutch wanted to get rid of it and we had to take that, too.

Mr. GILBERT: Is that the only other financial institution in which you have an interest?

Mr. ROCKEFELLER: Yes.

Mr. GILBERT: With regard to clause 76, which imposes a limitation on Canadian chartered banks with regard to other Canadian corporations, it limits them to 10 per cent, would that apply to the First National City Bank?

Mr. ROCKEFELLER: And the International Trust?

Mr. GILBERT: Yes.

Mr. ROCKEFELLER: I do not know whether it would or not, but if if applied to the other chartered banks and it was made to apply to Mercantile as a chartered bank then I do not see how we could quarrel with it.

Mr. GILBERT: It would apply to Mercantile but it would not apply to the First National City Bank. Do you follow the point?

Mr. ROCKEFELLER: It is owned in a different way.

Mr. GILBERT: So it would not apply, then?

Mr. ROCKEFELLER: I do not know if it would apply, but if the Canadian parliament wanted to raise that question we certainly would give it careful consideration. We have not done so up to this point.

Mr. GILBERT: What I am saying is that clause 76—

Mr. ROCKEFELLER: In spite of Mr. Cameron we are not asking for any special privileges.

Mr. GILBERT: Clause 76(1) does discriminate with regard to Canadian chartered banks and with regard to Canadian corporations, but it would not discriminate against the First National City Bank. Is that right?

Mr. ROCKEFELLER: Mr. Palmer says it would not apply because the ownership of International Trust does not flow through Mercantile, it flows direct. However, that is a technicality.

Mr. PALMER: It flows this way, Mr. Gilbert, one here and one there.

Mr. ROCKEFELLER: But if you people want to raise that question, that is something well worth considering.

Mr. GILBERT: I think that is all, Mr. Chairman.

(*Translation*)

The CHAIRMAN: Mr. Latulippe has also been most patient. We should perhaps attempt to let him have a few minutes to put questions which he feels are urgent.

Mr. LATULIPPE: I shall not take much time. I listened with a greal deal of attention and interest to the observations, and to all questions having to do with Canadian repercussions throughout the whole day. We have had numerous questions to consider, but we are still far from a solution, and I would like, this evening, to give you my impressions and it seems to me that solutions are easier to come by than we think.

In regard to foreign banks we must have a positive policy, and not a negative policy if we want to prove that we are mature people at the international level, and if we want to keep our share of the world financial market.

Foreign banks, it seems to me, must be subject to the same rules and the same laws and the same privileges as other Canadian banks, and if we want to have a positive policy for as long as we shall not be able to control our credit currency, Mr. Chairman, we will be subject to national and international finances, and Canadians will be subject to interest and debt burdens.

If we want to control our own economy, let us first of all create and control our capital by our own means, by our own physical capacity. Let us exercise our sovereignty over our true credit and our social credit and afterwards we will be able to tell foreign institutions that we are now mature and able to manage our own ship and we will be able to do without foreign capital. Until then, Sir—

The CHAIRMAN: Are you formulating your ideas, or are you asking a question?

Mr. LATULIPPE: I am coming to a question.

The CHAIRMAN: When is your question to begin?

Mr. LATULIPPE: Mr. Chairman, what difference is there between English capital, French capital, United States capital, Dutch capital or Italian capital? We are subject to different types of capital in Canada, because we do not shoulder our responsibilities ourselves on any financial and economic point. As long as we shall let our institutions, our governments, and our provincial administrations go to New York, and to England to borrow capital, we shall be subject to the domination of foreign countries. If we are not able to achieve a positive policy ourselves, then we must be fair and positive in our attitude to foreign institutions, let us not just be negative in regard to foreign capital. Let us accept foreign capital for as long as we cannot create our own sources of capital, and I conclude by saying, once again, foreign banks must be treated as friends and subject to easy and positive conditions. To meet our own needs we need foreign capital at the present time. So I say, we welcome foreign capital and the same prerogatives as those offered to other banks in Canada or other foreign banks doing business in Canada. That is all, Mr. Chairman.

The CHAIRMAN: Thank you. Perhaps our witness will want to comment on your ideas, your profound ideas. Perhaps we should not expect the witnesses to reply in the same profound manner you have.

Mr. ROCKEFELLER: Can I reply in English?

The CHAIRMAN: Yes, it would be easier.

(*English*)

Mr. ROCKEFELLER: We would not presume to tell you how to run your country or your banking affairs, but if you asked our opinion we would heartily recommend that you become a world money market and that you realize that banking is not a little thing that can be compartmented. You cannot stop the flow of money; money flows around the world. All the countries of Europe, who have been in this business for centuries, allow other banks. In our country we allow banks from any country. We welcome them because it makes New York, like London, one of the money market centres of the world. We are competing with London. Frankfurt is a money market centre. Beirut is a great money market centre. I think there are more banks in Beirut than anywhere else. There are over 90 banks in Beirut.

The CHAIRMAN: Is that not the home of the Intra Bank?

Mr. ROCKEFELLER: It was. Switzerland is the home of many banks. It is a sign of maturity. Now, this is not a reflection on your country, but you asked for an opinion and this is the opinion we would recommend. You might increase Mr. Gordon's and Mr. Rasminsky's problems, but that is their job.

The CHAIRMAN: I will now recognize Mr. Thompson. I believe he has also been waiting patiently to ask a question.

Mr. THOMPSON: I have just one question on an item that I do not think has been raised before today. I will direct my question to Mr. Rockefeller. In Mr. MacFadden's memorandum under paragraph (d), which is half way down the page, it is stated that one of the questions raised by Mr. Gordon in questioning whether or not you should acquire the Mercantile Bank was that the confidential nature of the relations of the Governor with the Canadian bank would be disrupted by the presence of a subsidiary of a large American bank, who would perforce report all discussions to its head office. In the operations in the past, present or projected into the future of the Mercantile Bank, would that necessarily be a requirement of the City National Bank of New York?

Mr. ROCKEFELLER: Absolutely not.

Mr. CLIFFORD: May I supplement that, sir? We do receive confidences from the central bank when we meet with the Governor, and confidences are not received by corporations, they are received by men. The people who manage the Mercantile, and who receive this confidential information, live in Canada and they would not under any circumstances be obligated or would they do what has been suggested. What is confidential is confidential to us.

Mr. THOMPSON: As chairman of the parent body that owned the subsidiary bank, Mercantile, you would agree with that statement?

Mr. ROCKEFELLER: Absolutely, and Mr. MacFadden can reinforce this. He was our manager in London for some years and in that capacity I am sure there were many occasions when he had transactions with the Governor of the Bank of England that he never breathed a word about in New York. Various governors who are now out of office in the Bank of England have told us that. They dealt with us with complete confidence because they knew what kind of people we were and how we did our business.

The CHAIRMAN: Mr. Lind, did you have a question?

Mr. LIND: Yes. I want to come back to a question I asked this morning. The Mercantile Bank is a chartered bank in Canada and receives its charter from the Canadian government. Mr. Rockefeller made the generous offer that he would reveal all figures, and I was wondering when I would receive the figure that I asked for of the bad debt losses written off in the years 1962, 1963, 1964 and 1965?

Mr. ROCKEFELLER: Those will be supplied by Mr. Clifford. How much time do you need; a week, three or four days?

Mr. CLIFFORD: I will get them and give them to the Chairman, on the basis that I understand they were requested. I do not know whether this would conflict with the Inspector General or not.

The CHAIRMAN: Mr. Lind is the member of the Committee who seems to have a special interest in this. Perhaps Mr. Clifford and Mr. Lind might consult together with the Inspector General to see if there is any breach of the present regulations regarding disclosure of information. There has been no general accord on the part of the Committee that we all seem to need this information, although I see no objection to having it made available if Mr. Lind feels that it will assist him in his study.

Mr. ROCKEFELLER: We would request that you keep it confidential. It might affect our collection of some debts, and things like that, but if you would like to have these figures for reaching your own judgments, we certainly want to make it available to you.

The CHAIRMAN: I think the best procedure—

Mr. ROCKEFELLER: We request you use it with discretion. We will rely on you.

The CHAIRMAN: I think, Mr. Lind, that you and Mr. Clifford can get together directly on this point on the basis that has just been outlined. Is that satisfactory?

Mr. LIND: Yes.

Mr. BASFORD: I would like to ask a couple of questions related to Mr. Gilbert's questions, which I have noted here and which can be answered by a statement filed with this Committee subsequently. I do not need this information tonight. I would like to know what moneys, since Citibank took over Mercantile, have been paid either by Mercantile or Citibank, or what moneys or securities were transferred to International Trust Company. I would also like to know the growth history of International Trust Company, and the ownership structure of it, for the period that is in question here, namely, from the time that Citibank acquired Mercantile and International Trust. That can all be done by a supplementary statement filed with the Committee.

Mr. ROCKEFELLER: We are perfectly willing. We would again request you not to spread it around because you would hurt the International Trust Company.

Mr. BASFORD: Thank you, I respect your wishes.

The CHAIRMAN: Are there further questions which those present consider pressing at this point?

Mr. BASFORD: I have one other question which the witnesses might think is hypothetical, but I assure them that in my view it is not. In the event that the present draft act stays substantially as it is, I would like to know whether the witnesses are able to put before the Committee a plan or proposal which would be fair to Citibank and by which they could divest themselves of the 100 per cent holding in the Mercantile Bank.

Mr. ROCKEFELLER: We have not made any contingency plan of that nature. If Parliament so acts, we will have to consider the situation at that time.

The CHAIRMAN: If there are no further questions of those present,—

Mr. CLERMONT: Mr. Chairman, will Mr. MacFadden send the memorandum he made after the meeting with the Governor of the Bank of Canada?

Mr. MACFADDEN: I have just presented it to the Chairman.

Mr. CLERMONT: Thank you very much.

The CHAIRMAN: If there are no other questions the members present consider pressing, I will suggest that we express a word of thanks to our witnesses today for providing us with information which I am sure will be of assistance to us in our study and recommendations on this very important issue, and I remind the Committee that we will meet again next Thursday morning at 11 o'clock to hear a group of trust companies. If there are no further comments regarding our order of business, then I declare this meeting adjourned until next Thursday.

Appendix "KK"

A SUBMISSION

to

THE STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

by

THE MERCANTILE BANK OF CANADA

With Reference to Bill C-222
Section 75(2)(g)

SUMMARY

The Mercantile Bank of Canada urges deletion of Section 75(2)(g) from Bill C-222 because:

1. It is unnecessary in order to achieve the announced aims of bank regulatory policy.—see page 7

2. The paragraph is discriminatory It applies to one bank only, the Mercantile Bank, and it is made to apply to it notwithstanding the fact that the Mercantile Bank was incorporated by Parliament with the full knowledge of Parliament that it would be foreign-owned.—see page 5

3. The paragraph is retroactive in effect and operation—The Mercantile Bank was incorporated, by Parliament, in 1953. It has been operating in Canada, as a duly constituted Canadian chartered bank, for 13 years. Now it is faced with prospective Government legislation, directed at it alone, that could seriously affect its operations and its growth.—see page 6

4. The paragraph is punitive—The acquisition of the Mercantile Bank by First National City Bank did not constitute a "foreign takeover"; it involved simply a transfer of ownership from one foreign (Dutch) owner to another (a United States) foreign owner at a time when such a transfer required no approval by any Canadian governmental authority. It would seem obvious that the inclusion of Section 75(2)(g) in Bill C-222 is based solely upon the nationality of the Bank's present owner.—see page 8

This submission recites the pertinent facts concerning the original chartering of the Mercantile under Dutch ownership and the subsequent transfer of the shares to United States owners. Finally, this submission attempts to sketch the role Mercantile plays in the Canadian financial community so that the committee may assess the possible effect of Section 75(2)(g) upon Canadian business.

Like all Canadian chartered banks, the Mercantile is interested in and has views concerning other portions of Bill C-222. However, since Section 75 (2)(g) is directed specifically and exclusively to the Mercantile, this submission will confine itself to our views on that portion of the Bill, even though it is only a small part of the whole. With respect to the rest of Bill C-222, we wish to

associate ourselves with the submission filed by the Canadian Bankers Association of which we are a member.

Statement of facts

Section 75(2)(g),* attempts to impose limitations on the activities and development of The Mercantile Bank of Canada. The basis for this repressive legislation is that the ownership of Mercantile is in the hands of non-residents of Canada.

Mercantile was established by Parliament in 1953, by 1-2 Elizabeth II, chapter 67. Its authorized capital is now $10,000,000 divided into 1,000,000 shares of the par value of $10 each, of which 800,000 shares with an aggregate par value of $8,000,000 are issued and fully paid.

At the time of its incorporation, it was clearly understood that Mercantile would be foreign-owned. The incorporating Act was passed by Parliament with that knowledge.

For several years following its incorporation, all of the issued shares of Mercantile, other than shares held by directors, were owned by Nationale Handelsbank N.V., of the Netherlands, later merged with Rotterdamsche Bank N.V., also of the Netherlands.

In September 1962, First National City Bank became interested in acquiring the shares of Mercantile which the Dutch were then seeking to sell. Serious negotiations commenced in March 1963 and resulted, on June 26, 1963, in a binding written agreement (copies of which will be made available to the Committee). Thereafter, First National City Bank, through its subsidiary, International Banking Corporation, paid for and took delivery from the Dutch all of the issued shares of Mercantile other than the shares held by directors.

At present, Mercantile operates only seven offices in this country: Montreal (head office), Calgary, Halifax, Quebec City, Toronto, Vancouver and Winnipeg. At the close of the fiscal year on October 31, 1965, total assets of this bank were $222,000,000. Paid in capital and rest accounts now total $10,000,000.

Section 75(2)(g) is Contrary to Canadian Legislative Traditions and is both Unfair and Punitive

A. *Section 75(2)(g) is discriminatory because it is directed specifically to the Mercantile Bank.* The Mercantile is the only Canadian bank more than 25 percent of whose shares are held by "any one resident or non-resident shareholder". The section places, or attempts to place, a limitation on the growth of the Mercantile Bank.

This section would preclude a bank, in circumstances that can apply only to the Mercantile Bank, from having outstanding "total liabilities...exceeding 20 times its authorized capital stock...". The attention of this Committee is directed to Attachment A, and particularly to column 5 thereof. There it will be seen that liabilities of all chartered Canadian banks are in excess of 20 times, and range up to 70 times, authorized capital.

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*"*Except as authorized by or under this Act,* the bank shall not, directly or indirectly, at any time after the 31st day of December, 1967, have outstanding total liabilities (including paid-up capital, rest account and undivided profits) exceeding twenty times its authorized capital stock if more than twenty-five per cent of its issued shares are held by any one resident or non-resident shareholder and his associates as described in section 56."

Attachment A shows, therefore, something of the severity and unreasonableness of the proposed limitation that would be imposed on Mercantile, the only Canadian bank that would be affected by the provisions of Section 75(2)(g). Normal activities of Canadian banks have carried them far beyond the suggested 20 to 1 ratio of liabilities to authorized capital. To impose such a limitation on one bank and not on the others is discriminatory and harsh.

The discriminatory feature of Section 75(2)(g) is further emphasized by the fact that it is directed against the present owners of the Mercantile Bank. Historically there has been no restriction on foreign ownership of chartered banks. In the case of the Mercantile, foreign ownership was specifically approved at the time the Bank was chartered. The present proposal was not put forward until ownership of the Mercantile Bank was transferred from Dutch to U.S. hands.

The section in question is, therefore, doubly objectionable as discrimination against a particular institution and against the nationals of a particular friendly country.

B. *Section 75(2) (g), in addition to being discriminatory, is also retroactive.* It is submitted that retroactive legislation, especially when aimed at a specific target, is not in keeping with the best Canadian legislative traditions. The section is retroactive because it would alter the terms under which the Canadian Government will treat ownership of a Canadian bank after that ownership hs been acquired. The section is not directed to a hypothetical or future situation. It is directed to an existing situation. An established bank, chartered by Parliament some 13 years ago, is now being singled out for uniquely severe treatment.

The original acquisition by Dutch interests of all the Mercantile Bank shares and the subsequent transfer of that ownership to United States interests was entirely in accordance with Canadian law. It is hard to conceive of a more egregious example of retroactivity than the proposed section which, more than three years later, seeks to deprive the present owners of the Mercantile of the benefits of a purchase which they made openly and lawfully in reliance on Canadian law.

Further evidence of the retroactive intent of Section 75(2)(g) can be found by examining the provisions of Sections 53, 54 and 56 of Bill C-222, all of which relate in some fashion to limitations on non-resident ownership of Canadian chartered banks. Without commenting on the merits of these proposed limitations on non-resident ownership, the Committee should note that the Bill does contain such limitations and that they are rather stringent. Consequently, if there were not a deliberate intent to enact retroactive legislation, Section 75(2)(g) would not be necessary. Future foreign ownership of Canadian chartered banks is certainly adequately circumscribed in Sections 53, 54 and 56.

Some proponents of Section 75(2)(g) have attempted to justify it on the ground that such a provision is necessary to protect the Canadian financial community from the threat of foreign encroachment. If there were such a threat, there are other more equitable means available to deal with it. Indeed, Sections 53, 54, and 56 are so designed.

Further, however, though foreign owned, the Mercantile is still a Canadian chartered bank and, like all Canadian banks, is subject to all provisions of the Bank Act. This gives the Canadian government precisely the same measure of

control over the Mercantile that it has over other Canadian chartered banks. Authorized capital can not be increased or decreased without government approval. Interest rates and reserve requirements are subject to government control, and the Mercantile has the same reporting responsibilities that all other Canadian banks have.

C. *Section 75(2)(g) seeks also to punish the Mercantile Bank, although Mercantile has violated no law.* Of all the Canadian chartered banks, Mercantile is the only one singled out in Bill C-222 for punitive measures in the form of a limitation on its growth. Furthermore, if even by inadvertence Mercantile were to exceed the limitation placed upon it, the penalty which would be assessed is harsher than penalties assessed for violating other parts of the Bank Act. Anyone looking at Section 75(2)(g) for the first time, aside from noting the obviously discriminatory and retroactive features of the paragraph, could certainly also conclude that Mercantile had been singled out for special punishment for some past wrong-doing.

It is submitted that the Committee consider the extent to which Section 75(2)(g) may circumscribe growth opportunities for Canadian Business at home and abroad

Limiting Canada's only foreign owned bank may also handicap Canadian business. To assess this possibility it is necessary to describe briefly the role Mercantile plays in the Canadian business community.

In contrast to other Canadian banks which operate hundreds of branches, Mercantile has only seven. For example, each of the three largest Canadian banks has more than 1,000 branches in Canada.

It is unrealistic for Mercantile to try to match its competitors' branch networks. That would require an enormous investment and also would hold small promise of any return because the branch systems of other Canadian banks occupy an overwhelming market position.

Mercantile renders a particularly valuable service to Canada's business community in two ways: by encouraging and developing Canadian exports, and by offering lending techniques designed to serve the special requirements of highly technical industries.

How Mercantile Aids Canadian Export Development

Mercantile gives important assistance to the development of Canadian exports because of its direct access to 183 branch offices and affiliates of First National City Bank in 60 countries on six continents. The extent of this foreign banking network is unsurpassed by any other bank in the world.

Other Canadian banks have also established strong overseas branch and agency systems. It is worth noting, though, that the overseas branches available to Canadian business because of Mercantile Bank's foreign ownership complement more than they duplicate the overseas coverage of other Canadian banks. For example, Canadian banks, not including the Mercantile, operate in 42 countries abroad. With the addition of the facilities of the Mercantile, this jumps to a total of 77 countries. So, while Mercantile is small at home, it makes, we believe, a substantial contribution to the coverage of foreign markets rounding out in a special way the broad coverage of other Canadian banks.

With a phone call to the Mercantile Bank, a Canadian businessman can obtain prompt information about markets for his merchandise at points as distant as Milan and Singapore. This information is detailed, current, and based upon on-the-scene reports. Canadian customers of the Mercantile Bank also may receive, if they wish, a monthly worldwide economic summary called the Foreign Information Service. It has recently been rated by those who receive it as the most useful service of its kind.

Export development has always been basic to the health of Canada's economy. Improved access to world markets can be especially significant to Canadian businessmen now, because world markets are more competitive than ever before. Mercantile is qualified and proud to serve Canadian business abroad.

How Mercantile Serves Special Technical Needs of Canadian Business

Canadian business, like that of all highly industrialized nations, is becoming increasingly technical and specialized, and with the growth in technology has come the need for lending techniques and financing plans to match it. For example, financing petroleum production must be arranged in a totally different way from financing computer production. Mercantile turns to such specialists as geologists, petroleum engineers, and electronic engineers to tailor financing plans to the special needs of Canada's highly technical industries. Through close relationships with the large institutional lenders, access to medium and long-term funds can be made readily available when needed.

An analysis of 1966 borrowings from the Mercantile Bank shows that 86.5 per cent of the borrowers are companies that are wholly Canadian owned or are Canadian controlled. Only 8.8 per cent of the borrowers are United States companies. By total dollars, less than a quarter of Mercantile's outstanding loans are to United States customers. Mercantile's Canadian dollar deposits at August 31 amounted to 0.42 of one per cent of such deposits in all the chartered banks.

If the Committee is interested in details of how Mercantile is aiding Canadian exports and meeting specialized financial needs of Canadian business, we will be glad to supply the names of Canadian businessmen whom we have served and who could provide detailed information to persons authorized by the Committee.

How Mercantile Trains Young Canadian Bankers

Since the change from Dutch to United States ownership in 1963, Mercantile Bank has embarked on an aggressive recruiting program to attract promising young Canadians to banking careers at home. This program has produced an extraordinarly well-qualified group now enrolled in training and development programs which will qualify them as professional bankers in only a few years. Their training is provided at the Mercantile head office in Montreal, in Mercantile branches, in New York City and overseas. This extensive program will contribute importantly to the development of modern Canadian bankers qualified to meet the intricate and challenging financial needs of Canada.

Conclusion

It has been suggested occasionally that Mercantile Bank offer shares to the Canadian public. Mercantile management, however, is in no position even to consider this proposal until it has an earnings record that would enable Mercantile's shares to be valued in the market place on a basis comparable with

shares of other Canadian banks. Furthermore, consideration of selling shares to Canadians must be deferred until Mercantile can be assured that it will not have special restrictions placed on its growth. No prudent investor would buy the shares of a bank which has been burdened with special limitations not placed upon its competitors.

However, we respectfully remind the Committee that since 1964 shares of First National City Bank stock have been listed on both the Montreal and Toronto Stock Exchanges, making those shares as available to Canadians as the shares of Canadian banks.

We have attempted here to describe the objectionable features of Section 75(2)(g) in terms of the interests of both Mercantile and its customers. We have suggested that measures such as this are contrary to the Canadian legislative tradition of not changing the rules in the middle of the game, and not discriminating against one competitor to favor others. We have no quarrel with the right of any government to regulate bank operations, but we urge strongly that it be done on a prospective, not a retroactive basis. When the Canadian government decided to limit foreign ownership of other financial institutions, insurance and trust companies, it did not even suggest any measure such as Section 75(2)(g). (See Chapter 40, Statutes of Canada 1964-65) Instead, it enacted legislation limiting foreign ownership from that date forward, and did not persecute existing companies, attempt to limit their growth, nor try to force foreign owners to divest. There is nothing to warrant treating banks worse than other kinds of financial institutions.

For all these reasons we urge removal of Section 75(2)(g) from Bill C-222.

Respectfully submitted on behalf of
the Board of Directors,
The Mercantile Bank of Canada
Robert P. MacFadden, President

October 25, 1966

SCHEDULE A

FIGURES AS AT AUGUST 31, 1966 IN MILLIONS OF DOLLARS

	1	2	3	4	5
	Authorized Capital	20 Times Authorized Capital	Liabilities including paid up Capital, Rest and Undivided Profits	Difference between 2 and 3	Liabilities Times Capital
Bank of Montreal	100	2,000	5,274.6	−3,274.6	52.7
Banque Canadienne Nationale	25	500	1,075.5	− 575.5	43.0
Canadian Imperial Bank of Commerce	125	2,500	6,373.6	−3,873.6	50.9
The Bank of Nova Scotia	50	1,000	3,537.1	−2,537.1	70.7
The Provincial Bank of Canada	20	400	562.1	− 162.1	28.1
The Royal Bank of Canada	100	2,000	6,424.6	−4,424.6	64.2
The Toronto Dominion Bnak	50	1,000	2,996.0	−1,996.0	59.9
The Mercantile Bank of Canada	10	200	224.5	− 24.5	22.4
Bank of Western Canada	25	500			

APPENDIX "LL"

Memorandum of Agreement between the Rotterdamsche Bank N.V. and the International Banking Corp. (I.B.C.) a subsidiary of First National City Bank:

Subject to the approval of our Boards of Directors and of all the Governmental Authorities concerned, the Rotterdamsche Bank N.V. agrees to sell or cause to be sold and the I.B.C. agrees to buy all the capital stock of the Mercantile Bank of Canada on the following terms and conditions:

1. As soon as possible after the close of business September 30, 1963 I.B.C. will take delivery and pay for 50 per cent of the stock of the Mercantile Bank of Canada and will agree to take delivery and pay for the remaining 50 per cent of the stock at any time up to four years after date of the initial transfer, and the Rotterdamsche Bank N.V. agrees to sell or cause to be sold and delivered such stock to the I.B.C. within this time period.

2. The price of the stock shall be fixed at the time the contract of sale is signed and shall consist of the following two factors:

(a) The fair net asset value of the Mercantile Bank of Canada presently stated at * of situation September 30, 1963 but to be determined by an audit satisfactory to buyer and seller.

(b) A premium of * to be paid at the time of the transfer of the first 50 per cent of the shares and the payment therefor.

3. The I.B.C. will pay or cause to be paid in dividends to the seller an amount equal to 5 per cent per annum on the * of the shares held by the seller or on such other figure as may be fixed by audit referred to in 2(a) above.

4. The Rotterdamsche Bank N.V. will execute or cause to be executed an agreement to vote its shares in the same manner as those held by the I.B.C.

5. Upon the transfer of the first 50 per cent of the shares it will be agreed that the phrase "Affiliated with First National City Bank, New York" will be used on all signs, letterheads, Annual Reports and other documents of the Mercantile Bank of Canada and in the reports of the First National City Bank.

6. Mr. C. F. Karsten and Mr. H. J. Knottnerus will remain on the Board of Directors of the Mercantile Bank so long as they represent shareholders. The other directors will be elected by I.B.C.

It is agreed that the publication of the deal will be done in a joint statement to which both parties have to concur.

This Memorandum of Agreement will be submitted to the Senior Management of First National City Bank not later than July 5, 1963 for approval.

June 26, 1963.

*Figures have been deleted because of their confidential nature

I, CARL W. DESCH, Secretary and Treasurer of INTERNATIONAL BANKING CORPORATION, DO HEREBY CERTIFY that the following is a true and correct copy of a resolution duly adopted at a special meeting of the Board of Directors of said Corporation held July 16, 1963.

RESOLVED that the proposal for purchase of all the shares of The Mercantile Bank of Canada for * plus the amount by which the fair net asset value of such Bank at September 30, 1963 exceeds * or less the amount by which such fair net asset value is less than * as determined on the basis of audit of such Bank, and with provision for further payment, all generally on the basis set forth in the Memorandum of Agreement dated June 26, 1963, is hereby approved.

IN WITNESS WHEREOF, I have hereunto affixed my official signature and seal of the said Corporation in the City of New York on this 8th day of March, 1966.

(SEAL)

*Figures have been deleted because of their confidential nature

Dr. C. F. Karsten
Managing Director
Rotterdamsche Bank
Rotterdam, Netherlands

Our Board acted affirmatively on Bank and Trust Company today stop Rockefeller Moquette visit Ottawa Thursday next and Domestic Banks will be informed by personal visits on Monday Tuesday next stop believe short news release by next Tuesday imperative if you agree regards

APPENDIX "MM"

Government of Canada

Ottawa, Canada
July 18, 1963

Called by appointment with Mr. Rockefeller on Walter Gordon, Minister of Finance. We were joined by Robert Bryce, Deputy Minister of Finance and Clayton F. Elderkin, Inspector General of Banks. Mr. Gordon had asked Henry Moquette, President of the Mercantile Bank *not* to join the discussion.

Mr. Gordon knew of our plans to acquire the Mercantile Bank and had discussed it with Mr. Rasminsky, Governor, Bank of Canada. He raised the same questions as had been previously raised by Rasminsky in my conversation with him on June 20th:—

(a) This action of our would open the flood gates for charter applications by other American banks, and

(b) The confidential nature of the relations of the Governor with the Canadian banks would be disrupted by the presence of a subsidiary of a large American bank who would perforce report all discussions to its Head Office. Concern was also expressed over the possible interference of some of our U.S. laws, such as the Clayton Anti-Trust Act.

Mr. Gordon admitted that there was nothing the Government could do to prevent our proceeding with our plans, because of a loophole in the present Bank Act whereby no provision had been made to prevent foreign ownership of a chartered bank. He stated that if we were to apply for a charter today we would be turned down under the temper of the present Parliament. He pointed out that the report of the Royal Commission on Banking was due to come down in the fall and would be followed by hearings in connection with the revision of the Bank Act due in June, 1964. With a minority Government, having to deal with vociferous minority parties, he could not predict what restrictions on foreign ownership of Canadian banks would be included in the new Act. We pointed out that it had always been the practice of Anglo-Saxon countries *not* to enact retroactive legislation. We were reminded that all bank charters expire with the old Bank Act and he made it clear that possibly the Mercantile charter would not be renewed. He said the Government does not welcome our contemplated move, and he can obviously be counted on to use any influence he has to get us out, if we go ahead. He referred several times to the Gordon Commission Report of 1957 "of which I was the Chairman" in which he recommended specific legislation to prevent foreign control of Canadian banks.

Mr. Rockefeller indicated that we were committed on our plans but had not yet filed for approval with the Federal Reserve. In answer to our question about the foreign-owned former Barclay's Bank and the present Mercantile, he said that they were small and inconsequential and consequently they could live with them. Mr. Rockefeller reminded Mr. Gordon of the activities of Canadian banks in the U.S. He brushed that off as inconsequential, even including the operations of the Agencies in New York City.

We had previously called on U.S. Ambassador Butterworth to inform him of our plans and he was most enthusiastic about our going into Canada.

Robert P. MacFadden
Vice President

Mercantile Bank of Canada

A call was made with Mr. MacFadden on Finance Minister Gordon. There were present his associates Bryce and Elderkin. The meeting was very friendly but the result unfavourable. It lasted for 45 minutes. The Minister had been asked to see a representative of the U.S. Treasury who had been sent up to explain President Kennedy's tax bill at the same time as our appointment and the Treasury man was deferred until we had finished. Gordon also extended apologies for not being able to take up to lunch. Preliminary arrangements had provided for Moquette of the Mercantile Bank to accompany us but when we arrived he was told that Gordon wanted to see us privately.

Gordon had been advised of the matter by Rasminsky. He said he would like to talk from a memorandum and had a memorandum in hand during the conversation. The Mercantile Bank was permitted to come in in 1953 under a different set of circumstances. Its entry into the market provoked considerable discussion at that time. Gordon went on that he had been chairman of a banking commission to review the laws several years ago and that commission did not look favorably on the presence of a foreign bank in the market. He stated that if we enter the market through purchase of the Mercantile Bank it would be considered as taking advantage of an unforeseen loophole. It would be further considered inopportune at this time because another banking commission is being established this fall to review the banking laws again with changes in the laws contemplated in 1964 or 1965.

The argument was that Canada was a small developing country in which banking played a more important part than in mature countries. They now enjoy a very flexible working arrangement between the Governor of the Central Bank and the chartered banks. They pretty much ignore the Mercantile Bank under Dutch control on account of the scope of its activities. While highly complimentary to FNCB and its personnel they feel under our management the Mercantile Bank would become a more important factor. He expressed fears of an American manager and an American subsidiary being more responsive to our interests and those of the U.S. than those of Canada. He made vague allusions to the U.S. tax and antitrust laws. He reiterated his published views as to being concerned with the extent of U.S. ownership of Canadian industry. He stated that U.S. manufacturing subsidiaries were more interested in Canadian business than manufacturing for export from Canada and did not assist in combating Canada's balance of payments problem.

Another major argument was that if we were permitted to come in there would undoubtedly be a flood of applications from other U.S. banks and other foreign banks. The inference was that Rasminsky and he were at a loss as to how to cope with this problem and preferred to avoid it by keeping us out. In reply to a question he stated that without any doubt if we attempted to obtain a new charter in Parliament it would be refused.

He dismissed our presence in the London market and friendly relationship with the Bank of England as inapplicable as London is an international market with many foreign banks. He dismissed the existence of Canadian agencies, branches, subsidiaries in the U.S. saying they were an inconsequential factor in our market whereas we would be an important factor in the Canadian market. In reply to another question he said that he would feel just the same way if matters were arranged so that we had a branch rather than a subsidiary in Canada.

It was called to our attention that the renewal of the charters of all the Canadian banks will be due for revision next year and that the one of the Mercantile Bank would not necessarily be renewed. He said that he would have no compunctions about opposing a renewal for us having advised us so far in advance. He knows that licenses of foreign banks operating in New York are renewable annually. He said the Government looked on the transaction with disfavor and he advised against completing it. Fortunately at the very beginning we opened the conversation by saying that we had made a deal with the Dutch and were coming to advise him of it. This was the one thing that seemed to disturb him and to shake his overall attitude of telling us what we should do. We

made no commitment as to our course of action. We said that we of course would consider his views and appreciated them but might feel that our contractual obligation with the Dutch was such that we were committed. We further said that we also had an obligation to our shareholders to take advantage of an opportunity that was open to them. His disapproval was very clear. He did not forbid us to proceed and made no direct threats of reprisal. On being asked that if we decided to proceed it was at our own peril he said that he would not use those words but it was a correct appraisal of the situation.

J. S. Rockefeller,
Chairman.

July 19, 1963

APPENDIX "NN"

Mercantile Bank

Comments on my call on Mr. Rasminsky at the Bank of Canada on June 20, 1963:

1. We were completely right in going directly to him first to discuss our plans. He was most appreciative and had heard no intimation of our plans so at this date there had been no leak. I did not feel that he was too surprised at our proposal.

2. He strongly recommended our going the route of the Mercantile as easier for us but did not back away from a charter application on our own. He suggested the timing could be complicated by the revision of the Bank Act.

3. In either case he would be called to testify before the Treasury Board and would want to think through carefully two points on which he would have to give answers:

(a) Would this open up an influx of applications from American banks, and

(b) What would be the effect on close working arrangements with chartered banks when discussions would be reported promptly to our Head Office and could he and the Bank of Canada live with it.

4. He approved the sequence of steps we propose to take and I assured him we would come back to him when the deal is firm and before signing and at the same time to clear with the Minister of Finance.

5. He spoke very highly of our proposed counsel Palmer and knows I will be talking with him shortly, he said our conversation is "off the record".

June 20, 1963
in Ottawa

Robert P. MacFadden,
Vice President.

HOUSE OF COMMONS

First Session—Twenty-Seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 39

THURSDAY, JANUARY 26, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.

Bill C-222, An Act respecting Banks and Banking.

Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

Messrs. Sinclair M. Stevens, President, York Trust and Savings Corporation; Léo Sauvé, General Manager, Lincoln Trust and Savings Company; Jarvis Freedman, President, Rideau Trust Company.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25564—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Basford,	Davis,	Lind,
Cameron (*Nanaimo-Cowichan-The Islands*),	Flemming,	Macaluso,
Cashin,	Fulton,	McLean (*Charlotte*),
Chrétien,	Gilbert,	Monteith,
Clermont,	Irvine,	More (*Regina City*),
Coates,	Johnston,*	Munro,
Comtois,	Lambert,	Valade,
	Latulippe,	Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

*Replaced Mr. Leboe on January 25, 1967.

ORDER OF REFERENCE

WEDNESDAY, January 25, 1967.

Ordered,—That the name of Mr. Johnston be substituted for that of Mr. Leboe on the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

25564—1½

MINUTES OF PROCEEDINGS

THURSDAY, January 26, 1967.
(79)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.00 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Clermont, Davis, Gilbert, Gray, Irvine, Johnston, Laflamme, Lambert, Latulippe, Lind, McLean (*Charlotte*), More (*Regina City*), Wahn—(15).

In attendance: Messrs. Sinclair M. Stevens, President, York Trust and Savings Corporation; H. Soule, Q.C., President, Hamilton Trust and Savings Corporation; Léo Sauvé, General Manager, Lincoln Trust and Savings Company; Jarvis Freedman, President, Rideau Trust Company; John Burnett, Secretary, Lincoln Trust and Savings Company; Stewart Ripley, Executive Vice-President, Metropolitan Trust Company; K. L. Cunningham, Managing Director, District Trust Company; the Honourable Mrs. Ellen Fairclough, Secretary, Hamilton Trust and Savings Corporation; and Miss M. R. Prentis, research assistant.

The Committee resumed consideration of the banking legislation.

On motion of Mr. Clermont, seconded by Mr. Cameron (*Nanaimo-Cowichan-The Islands*),

Resolved,—That copies of a memorandum by Robert P. MacFadden, President, The Mercantile Bank of Canada, filed with the Chairman at the meeting of January 24th, be distributed to the members of the Committee and included in the Minutes of Proceedings and Evidence. (*See Appendix NN, Issue No. 38*).

The Committee then proceeded to consideration of the brief submitted by A Group of Twelve Trust Companies. In accordance with the resolution passed at the meeting of October 13, 1966, the brief is attached as *Appendix OO*.

The Chairman introduced the witnesses and Mr. Stevens made an opening statement and was questioned.

The questioning continuing, at 12.50 p.m. the Committee adjourned until 3.45 p.m. this day.

AFTERNOON SITTING
(80)

The Committee resumed at 4.00 p.m. this day, the Vice-Chairman, Mr. Laflamme, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Flemming, Gilbert, Gray, Irvine, Johnston, Laflamme, Lambert, Lind, McLean (*Charlotte*), More (*Regina City*), Munro—(13).

In attendance: The same as at the morning sitting.

The Vice-Chairman presented the Ninth Report of the Sub-Committee on Agenda and Procedure, dated January 26, 1967, which is as follows:

Your Sub-Committee on Agenda and Procedure met at 12.55 p.m. this day and agreed to recommend as follows:

(a) That the Committee expand its schedule to include sittings on Monday evenings and Friday mornings until completion of the study of the banking legislation;

(b) That the programme for the week of January 30, 1967, be as follows

Governor of the Bank of Canada—
Monday, January 30, evening sitting and
Tuesday, January 31, morning sitting

Canadian Bankers' Association—
Tuesday, January 31, afternoon and evening sittings

Minister of Finance—
Thursday, February 2, all day and, if necessary, morning sitting, Friday, February 3;

(c) That the Trust Companies Association, who have indicated that they now wish to submit a brief, be asked to file their brief for consideration by the Sub-Committee on Agenda and Procedure;

(d) That the brief of County Savings and Loan Corporation be distributed to members and printed in the final issue of the Minutes of Proceedings and Evidence concerning the banking legislation.

On motion of Mr. Cameron (*Nanaimo-Cowichan-The Islands*), seconded by Mr. More (*Regina City*), the report was *approved.*

Messrs. Stevens, Sauvé and Freedman were questioned.

At 4.40 p.m. the Chairman resumed the Chair.

The questioning having been concluded, the Chairman thanked the witnesses, who then withdrew.

At 6.05 p.m. the Committee adjourned until Monday, January 30th, 1967, at 8.00 p.m.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, January 26, 1967.

The CHAIRMAN: Gentlemen, I think we should begin our meeting. Our witnesses this morning represent a group of 12 trust companies. Before introducing them and having them present their briefs, I think—

Mr. CLERMONT: The witness that we had before us last Tuesday, Mr. MacFadden, tabled a memorandum that was written after his visit with the Governor of the Bank of Canada. Can the members of the Committee have that memorandum now?

The CHAIRMAN: I think that after the hearing on Tuesday I directed the Clerk to circulate this memorandum to the members of the Committee.

Mr. CLERMONT: I have not received a copy yet.

The CHAIRMAN: My copy has stapled to it the transmittal slip of the Committees Branch of the house.

There was no move to formally include this document in our records at the hearing on Tuesday because it was produced late in the proceedings and there were not copies for all the members.

Mr. CLERMONT: I will move that it be made part of the record.

The CHAIRMAN: It is moved by Mr. Clermont that this document be made part of our record. Is there a seconder? Seconded by Mr. Cameron. Agreed?

Motion agreed to.

I would also suggest to the members of the steering committee that perhaps we might be able to adjourn our session this morning a little earlier, say, about ten to one, and we might firm up our schedule for next week in light of the news we had in the house yesterday with respect to the government's plans for the session. Perhaps the supporters of the opposition who are thinking about what may or may not have transpired might have some information.

Mr. LAMBERT: As long as we all agree, Mr. Chairman.

The CHAIRMAN: Yes. The government's proposals in the house place a particular burden on the members of this Committee from all parties and I think we should try to figure out where we stand in that regard as soon as possible.

Mr. LAMBERT: I am not going to be stampeded.

Mr. CLERMONT: I note here that Mr. MacFadden's brief says in paragraph 4:

> He approved the sequence of the steps we proposed to take and I assured him we would come back to him when the deal is firm and before signing and at the same time to clear with the Minister of Finance.

The CHAIRMAN: What are you referring to at this time?

Mr. CLERMONT: Mr. MacFadden's statement.

Mr. MORE (*Regina City*): We are not discussing this.

The CHAIRMAN: Are you bringing this to our attention for any particular reason?

Mr. CLERMONT: Maybe there is no sequence. As a regular member of the Committee sometimes I hear comments of other members and I wonder whether they are germane; however, I am polite and I do not care what—

The CHAIRMAN: In any event, our agenda this morning is in respect to the trust companies brief. This document has been made part of our record and it speaks for itself, now being a public document. If it is satisfactory to those members of the steering committee who are here, to stay for a few moments when we adjourn for lunch we will try and discuss where we stand. I would certainly appreciate this possibility being carried out.

This morning we have a delegation representing 12 trust companies. We have with us Mr. Jarvis Freedman, President of the Rideau Trust; Mr. Kenneth Cunningham, General Manager and Secretary of the District Trust; Mr. Stewart Ripley, Executive Vice-President of the Metropolitan Trust; Mr. L. P. Sauvé, General Manager of Lincoln Trust; Mr. Hal Soule, President of Hamilton Trust; Mr. John Burnett, Secretary of Lincoln Trust, Mr. Sinclair Stevens of the York Trust and the Hon. Ellen Fairclough, Secretary of the Hamilton Trust.

I believe, Mr. Stevens, that you will be the principal spokesman for your delegation; that being the case, I will ask you to present your brief to us and we will proceed to our questioning.

Mr. S. M. STEVENS (*President of York Trust and Savings Corporation*) Thank you, Mr. Chairman. As your Chairman has indicated, I am, at least, at the beginning, the principal spokesman for the group but I would emphasize that I have other people here with me who, if you care to direct any questions to them to the best of their ability, would be very willing to try to answer any points which you may care to raise.

In appearing before you, we felt we should, perhaps, first clarify why we are appearing before you; a federal committee looking into the Bank Act. As you have probably noted in reviewing our submission, many, if not all—I think possibly with the exception of one or two of the companies that have joined in this brief—are actually provincially incorporated trust or loan companies. I would make clear, therefore, first of all, we feel that it is in the public interest for you to have as much testimony as possible touching on this extremely important point, namely, what revisions should be made to the Bank Act.

We feel this in view of the fact that our Canadian banks, largely owing to the effect of the Bank Act, are an integral and perhaps the most important part of our entire financial system in Canada. This financial system is just one complex. A change in one aspect of the system quickly has repercussions in another segment of the financial system. Nowhere is this more true than in this question of banking legislation. It is the real heart and soul of the Canadian financial system.

So we, as a group of 12 companies who knew as long ago, of course, as two or three years ago that there would be revisions to the Bank Act, felt that we

must meet and discuss among ourselves how we feel bank revisions may or may not affect our type of company and, in general, the public in Canada. As long ago as last May—I believe, the proposed revision to the Bank Act came in, in July—these companies commenced having meetings, at which time we discussed what we felt were the relevant points under the Bank Act as we anticipated it would be coming into form in July. As a result of these meetings, and I think in total we have had about seven meetings, we prepared the brief, which you have before you, setting out some of what we regard as the highlights to be considered when you are reviewing the Bank Act.

I would emphasize, therefore, that our main point is that we feel the Canadian financial system is a composite system in that we, as trust and loan companies, fit into the system; but anything that you might do in the Bank Act could have consequences for us in the trust and loan side and we want to, at all costs, make sure that whatever balances exist in the Canadian financial system at the present time, are not, even inadvertently, knocked out in order to cause a lessening of competition in the Canadian financial system I feel that we, as a group, would not be putting it too strongly to say that any lessening of competition in the Canadian financial system will benefit, perhaps, some but it is certainly going to hurt the general public in Canada.

Having said that, I would perhaps, just touch on what we feel are some of the highlights in our brief and, as your Chairman has suggested, then leave it open to you to ask any question you would like, since I understand you have all had an opportunity to review the brief to some degree.

I would mention that we, as a group, have perhaps, one common denominator and that is that we have all largely come into the field over the last five or six years. I think this has been a very encouraging thing in Canada, in that in spite of the fact that we had, perhaps, a period of 40 years where there was virtually no new competition coming into the savings field in Canada, there has been over the last, say, five or six years quite a new breeze or a new spark of competition. These 12 companies are part of that competition which have come into the field. The schedule which we set out at the back of the brief indicates the extent to which we have come into the field including the amount of equity that has been raised during this period and the actual amount of funds which have been won in the form of deposits or in some type of guaranteed security.

I would mention that in spite of the fact that these companies have been active mainly over the last five to six years, they now have some 70 branches and there are something over 180,000 people—Canadians—dealing with these companies. The most important point I feel, as I mention on page 1 of the brief, is that:

> Taken in isolation, the proposed Bank Act amendments will tend to enhance and consolidate the already dominant position of the chartered banks in Canada.

This may be, if not the key, certainly one of the most important points we would like to leave with you. We do not have any particular objection to the proposals in the revised Bank Act such as interest rate ceiling modification or elimination; but we stress that if the Bank Act is amended and legislation which affects other concerns within the financial system is not amended in order to give

compensating advantages to those institutions, the balance which now exists among the financial institutions could easily be disrupted in favour of the banking interest which in turn would mean a lessening of competition in Canada.

We feel the term, which is certainly encouraged by the banking industry, namely near banks, is a term which is not accurate. Under the definition in the Porter Report, we feel that we are banking institutions in that a banking institution in the Porter Report is referred to as any financial institution which issues transferable, demand and short-term claims with an original term up to 100 days. Under that definition, all of the companies represented here today, are banking institutions.

Again, on page 2, we highlight the fact that the Porter Report really advocates pretty well exactly what our brief is advocating and that is that the system should be opened up. Additional powers should be granted to certain of these banking institutions which they do not have at the present time. You will notice the quotation we have on that page touches, really, on the trust and loan companies when they refer to banking institutions, and mentions the fact that they should be free to make personal loans and that they should have access to Bank of Canada facilities or some such facilities.

Again, at the foot of page 2, we mention that we think it is important that this Committee give consideration to whether the Bank Act should not be revised more often than the traditional ten year period. In Canada we have had a tremendous change in our banking and financial system since the end of the war, and yet there has been only one revision of the Bank Act during that period. Various figures in connection with this matter, we bring out in the brief but I think our main point is that the Canadian system is becoming so vibrant, is growing so quickly, and there are such important changes taking place—certainly yearly—that it may be too infrequent to have parliament passing on the Bank Act every 10 years. Now, as I understand it, there is no reason why you cannot amend the Bank Act more frequently than 10 years and we are simply suggesting that it may be good to make this either clear or perhaps write right into the Bank Act that such revisions could be contemplated. If it was so, we feel that any imbalances that may appear as a result of your revisions of the Bank Act could very quickly be corrected and put back on to what would be a more satisfactory basis.

On pages three and four of our brief, we emphasize the tremendous distortion in the financial system between the banking segment of the system and the other side of the banking group. We point out, for example, that one of the banks alone would have in gross assets more, as far as intermediary funds are concerned, than the entire trust and loan industry put together. We do this to try to underline the fact that, as far as competition is concerned, if there is any tendency to extend still further advantages to the banks, it could only result in a lessening of competition in that the banks have this dominant position. So, what we are saying is that in extending further advantages we must, we feel, be very careful to make sure that there are compensating advantages to those who do not enjoy this very dominant position to which we are referring.

On page 4 you will note we point out that the banks in the aggregate in Canada in August of last year had 5,786 branches. This compares to the trust and loan industry having something like 500 offices.

In short, coming up to our specific points, we are saying that you are dealing with the most vital piece of legislation in the entire financial system. We urge you not to look on it as an isolated matter but that you bear in mind that any change you make in that will have an effect on the other banking institutions in the system. We feel that before you make a change in the Bank Act you should consider, perhaps, amending other legislation to ensure that from the date the new Bank Act comes into force the compensating advantages which you care to give as a parliament to the other competing banking institutions will be there from the day the banks get their new advantages.

Dealing specifically, then, with this question of what are the points that we would ask you to consider, not necessarily in the Bank Act, but at least consider should be dealt with before you revise the Bank Act, we touch on page 6 on such items as the question of giving the privilege of making unsecured loans for consumer credit to companies that are competing in the banking field with the banks. This is something which comes very, very close to this question of competition, in that in the trust and loan field you deal with your public very much as a bank but at the present time, if you have a customer who requests a personal loan to buy a car or some other thing of a personal nature, it being an unsecured type of transaction in the sense of the trust and loan companies legislation, trust and loan companies are unable to service that type of business with the result your customer will go either to a finance company or possibly to a bank.

This often results in the banks, for example, saying: "If we make the personal loan we feel we should have your entire banking business", and it puts the trust and loan company in a disadvantageous position in that it does not have it within its power to make such a loan as the bank has. On that point, perhaps, I should have mentioned that speaking very, very generally, I think it is important to remember that the banks, under your Bank Act, have virtually all financial power, with the exception of those powers which are precisely prohibited. For example, up until this revision they could not go into the mortgage field. But generally speaking, the banks have virtually all financial powers within their charters as a result of your Bank Act. The other banking institutions are the reverse.

The trust and loan companies, for example, have only the powers that they are specifically given under their acts. Any residual powers are not theirs. Now, I think it is important, perhaps, in considering the Bank Act, that we bear that in mind. It is such a wide act compared with the acts which empower the trust and loan companies, which are restrictive.

On the same page we touch on item 2. This is a point, namely, deposit insurance, which we were very encouraged on in that when we commended our discussions in May, 1966, we were at best only hopeful that deposit insurance might be available to various banking institutions. I think it is very encouraging to know that such progress has been made that now it is generally felt—it is virtually certain—that some type of deposit insurance will be brought into the Canadian financial system at an early date.

On this point, however, we would stress that we think it would be very, very important that deposit insurance be passed and be effective at least at the same time that the proposed Bank Act, as revised, becomes effective. We think

the suggestions which have been raised by certain bankers that first of all deposit insurance is not necessary with respect to their institutions, and, in the second place, that it is an undue burden or a costly burden for them to bear is something which should be refuted. First, on the point that it is not something that the banks require, I would suggest that we refer to Mr. Paton's own testimony before you, as President of the Canadian Bankers' Association. It is very significant that he makes the point—and I am referring to page 1601 of the testimony given on November 24 before this Committee: Mr. Paton says:

> Your reserves must always be more than ample to meet the contingencies of this situation, and even if they are more than ample the impact on them at any one time under certain conditions might be quite severe and the publication of this impact could have a detrimental effect on public confidence. It also might happen that one particular bank might have unfortunate experiences, and not only could public confidence be impaired in them it might apply to the general banking community at a time when it would be unfortunate for it to do so. Any time would be unfortunate, but some times can be more unfortunate than others, depending on conditions.
>
> The other main point is that banking is a risk business and calls for a lot of experience, anticipation and a certain amount of hope—

This, gentlemen, is the President of the Canadian Bankers' Association pointing out the situation with respect to the suggestion that they be required to show inner reserves. We suggest that if they feel they are in that position surely the argument can be raised that the question of deposit insurance is a very valuable thing for them also as well as any other banking institutions which it applies to.

Again on this point, I would mention that the December, 1966 issue of *Fortune* paints a very vivid picture of the liquidity problems experienced by one of the largest banks in the world—the Morgan Guaranty in New York City—during the fall of last year. I think it is very interesting reading for each of you if you have the time. They describe the liquidity squeeze—and as a rule it is the liquidity squeeze which is the most embarrassing thing for any banking institution. During that period, for example, at one point they had to sell $200 million of municipal bonds at a $15 million loss. This, gentlemen, is a bank which is possibly larger than any bank in Canada and, yet, they had a very awkward period to go through in the fall of 1966, as is related in the December issue of *Fortune*.

Let me touch then on a second point, namely, that certain bank presidents—and I think you will probably have noticed in the press their comments on the question of deposit insurance—stated that they feel that it is an imposition on them in that they, in effect, are supporting their competition. They do not need it; they are supporting their competition. This, we would point out, is not so, in that the fees that would be charged under the deposit insurance are all ratable. In other words, the institution with $10 million of deposits pays rateably the same as the institution with a million dollars.

On that point, I would also mention though that we, as a group, find it rather remarkable that the banks asked, and as I pointed out earlier, we do not

disagree with this point, that the Bank Act relieve the interest rate ceiling or at least modify it. This, perhaps, will give them the benefit of being able to earn on their resources at least a half of one per cent which is possibly one full point more than they are currently earning on their resources. Surely it could be argued that if you were giving them that advantage to earn that much more on their resources, that the fact that you request or that in the deposit legislation they be required to pay one-thirtieth of one per cent for deposit insurance is not too much of an undue burden on the banks.

So, to summarize, we feel that deposit insurance would be a very valuable thing to have in Canada not only with respect to our institutions but generally with respect to all institutions which are taking deposits. We also feel that the question of deposit insurance is an urgent one though, in that to preserve the balance—the competitive balance that we speak of—it should be brought in as soon as possible, and, under no circumstances should it not be brought in if the Bank Act—I should reverse that. The Bank Act should not be revised if deposit insurance has not been passed and is effective at the time the proposed revisions to the Bank Act are made.

Again, on page 7, we touch on the question of recourse to the Bank of Canada or some such body. This is a privilege enjoyed by the Canadian chartered banks and certain of the money dealers. This, we feel, should be made available to all banking institutions. It touches on this question of liquidity and it is a very valuable thing for any banking institution to have available to it. Again, though, we are encouraged in that the act which is now before parliament touching on the Canada Deposit Insurance Corporation provides for this type of recourse and we would urge that this matter be dealt with prior to the revisions of the Bank Act.

Our item No. 4 is something which is, I think, of considerable importance to other banking institutions. At the present time our clearing system is designed so that the Canadian chartered banks through the Canadian Bankers' Association handle clearing of all checking privileges in Canada. This means that as trust and loan companies you are in the position where if you have checking accounts, your cheques have to clear through a rival or competing institution, namely, a bank. To put it, perhaps, overly simply, a chartered bank has an account in the name of your trust company. That account is no different really from the personal account you have with your own bank. The trust company though is given the privilege of writing not only their own cheques on that account but also their customers, in drawing upon you, can automatically draw upon your account in the bank.

We are suggesting that this is inadequate and that the trust and loan companies should be allowed to come into the clearing system as equal partners and handle their own clearing facilities themselves as the competing institutions presently do.

On this point, it perhaps has been very vividly put in that Lincoln Trust, for example, asked to see the rules and regulations governing clearing in their area. They have 17,000 items a month clearing through their various branches in the Niagara Falls area of Ontario. They felt that they would like to know the position that they were in with regard to the clearing of those cheques, in that 17,000 items are a large monthly momentum to have under way. They wrote to

the Greater Niagara Clearing House requesting a copy of the rules and regulations that they, at least indirectly, had to work with. The reply was:

> In reply to your request for a copy of the rules and regulations regarding clearing houses the Canadian Bankers' Association advises that these are restricted to members of the clearing houses. No distribution is made to institutions having non-member privileges, the rules being a private matter between banks which alone have direct concern.

We are simply mentioning this to point out the disadvantageous position that other banking institutions are in, in reference to the chartered banks on this question of clearing. Again, I would summarize, we feel that if this could be modified before revision of the Bank Act it would be helpful to these other banking institutions.

On page 8 we touch on the question of subordinative debentures. Here we simply have in mind that it is being contemplated that other institutions will be given the privilege of issuing debentures in substitution for capital. In other words, there would be a middle layer between capital and the liabilities generally which institutions may have to the public. In this respect we feel that the other banking institutions should have the same privilege and be allowed to issue these debentures which, of necessity, will be of comparatively long term. I believe the legislation before you now contemplates at least five years. But this gives you the advantage of being able without actually issuing further shares in your institutions to have a deck instrument which in turn will not be included in your leverage calculations in determining the amount of liabilities you can otherwise incur from the public.

Item 6 touches on deposits by non residents. Here again I would emphasize this is nothing directly to do with the Bank Act, but in considering your revisions of the Bank Act I think it would be helpful if parliament could consider giving the advantage to other banking institutions which banks now experience with regard to the 15 per cent withholding tax on foreign currency deposits. This is something which touches our institutions particularly at border points such as Niagara Falls, Windsor, or in any of these points where because of cottages or some other reason you find Americans, in particular, wish to open banking accounts with trust and loan companies. At the present time the trust and loan companies have a disadvantage in that in paying interest to those institutions they must withhold 15 per cent; whereas the bank can pay net of any withholding tax and, consequently, it is very hard for these institutions to compete effectively against the bank which does not have that handicap to work under.

On page 8, again I refer to Mr. Paton who I identify as President of the Canadian Bankers' Association, and think he put the bankers' case very clearly when he said:

> If the ceiling is lifted,—the banks will be able to attract more deposits away from the so-called near banks and make more loans to business and small borrowers.

Gentlemen, what we are saying is that we have no objection in particular to the ceiling being lifted but we feeel that in considering your revisions to the Bank Act you should be very cautious as to what those revisions may do in relation to the other banking institutions in the community, and that no move

should be made which would lessen competition within that community. In any event, if for no other reason than inadvertence the Bank Act is revised in some way which does create an imbalance, it should be clearly understood that it could be amended quickly—you certainly would not have to wait 10 years—in order to ensure that whatever imbalance has been created can be corrected and that we can have more competition in Canada rather than less.

The CHAIRMAN: Thank you Mr. Stevens. Well gentlemen, the brief obviously falls into a number of categories, and I welcome your suggestions on the method of procedure. I might recommend that we begin by discussing the preamble, particularly in so far as it deals with the general surrounding circumstances of the operations of the Trust company industry, and then move on in order to the specific recommendations. Would this seem to be practical?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have one point in mind, Mr. Chairman. Mr. Stevens advanced a number of proposals for widening the powers of the trust and loan companies. It does seem to me that because they all stand together, as it were, there is not much point in discussing in isolation such things as the lender of last resort request or the clearing house facilities. The whole thing seems to me to hang together.

Mr. LAMBERT: Mr. Chairman, I hope Mr. Cameron is not suggesting that we should question Mr. Stevens and his associates by having one member talk about deposit insurance, another about the interest ceiling, and so on. This is precisely what we have been trying to avoid. There is a general picture, first of all, and then there are the specific recommendations. I would hope that we could keep our discussions in that framework.

The CHAIRMAN: What I had in mind was this: A large portion of the preamble deals in a descriptive way with the operations of the banking institutions represented or reflected by Mr. Stevens and his associates. Then there are a number of specific proposals. I would suggest that insofar as any aspects of the preamble can be linked more specifically with any one of the proposals, that it be dealt with in the course of considering the specific proposals. In other words, I do not suggest that we eliminate discussion of the preamble insofar as it goes beyond the general background of the nature of the industry, but rather that those are other aspects of the preamble to be linked to the specific proposals. Would that be satisfactory? If it does not seem to work, then we can modify our procedure as we have done on a number of occasions in the past. The only way to find out, of course, is to give it a try. I will recognize the members in the usual manner. Mr. Lambert has already signified, followed by Mr. Davis, Mr. Cameron and Mr. Laflamme.

Mr. LAMBERT: Mr. Chairman, I am rather intrigued by the insistence in this brief of the description of the organizations of these various trust companies and banking institutions. This of course is rather an obvious comment on my part. With the exception of two of the members of this association, they are within the Province of Ontario. However, I am sure that there are a number of others with whom they have some connection, and I am just wondering whether they have communicated to their provincial governments the thought that they are banking institutions, and what the implications of being banking institutions would be under the BNA Act, where there is a 100 per cent reservation of exclusive

jurisdiction to the Government of Canada over banking currency and interest. Some of the Provinces are making very loud noises with regard to their jurisdiction in connection with banking institutions, if I may use that term. Have you any comment in regard to that?

Mr. STEVENS: Yes. On page 1, as I think I mentioned, the reason we use "banking institutions" is that the Porter Commission Report, in a blanket sense, used this term in reference to any institution which took in money on some type of call up to 100 days. Now in this sense all of the institutions represented in this brief are banking institutions. I am aware of the fact that naturally there are Federal Provincial disputes, if you like, as to where the various powers are situated. We as a group circulated ourselves and, I think without exception, uniformly agreed that if the various things that we are asking for here could only be granted if we were Federal institutions we would, if not collectively, certainly individually, be willing to apply for Federal charters in order to ensure that the compensating advantages that we feel we should have, can be granted to us. In other words, we are saying, technically, that we are provincial, but if the only reason that we cannot be granted certain of the advantages that we feel should be forthcoming is the fact that we are not a Federal institution—there are some Federal institutions here, but I mean those that are provincial—the provincial ones would be willing to reapply and become chartered federally.

Mr. LAMBERT: Well you are adopting the definition "banking institutions" then. In your affirmative reply do you feel then that you should come under the Bank Act?

Mr. STEVENS: One difficulty that we have in answering some of the committee members questions is that our presentation is as a group, in a sense, that we have met, prepared the brief, and we are telling you of our thinking. Now I do not know what the group would say in respect of some of the questions; I can tell you that I, personally would have no objections to coming within the banking legislation of Canada.

Mr. LAMBERT: There are further implications of course; if you come under the Bank Act then your operations would be subject not only to the rights under the Bank Act but certainly under some of the obligations or responsibilities. I do not think you would go so far as to say that because of the fact that you call yourselves "banking institutions" we would then place an umbrella over you, and you would become chartered banks via the back door. To me there is just a little bit of an element in some of the representations of having one's cake and eating it as well. I just want to get that clear because, Mr. Stevens, you undoubtedly have followed these proceedings and you know my views not only now but when you were before us under another hat.

Mr. STEVENS: A Western hat.

Mr. LAMBERT: Yes, under a "Western hat". Under the Bank Act there is this question of control of banking and banking branches which are under the control of chartered banks and near-banks, so far as regulations particularly are concerned and perhaps matters regarding protection for the public, reserves and all this. That is why I am intrigued by the point of view on behalf of your group that you are "banking institutions", and that the limited practices that you engage in are banking practices and therefore come under the umbrella, in spirit

at least, of the Bank Act. As a group, are you seeking both the privileges and the obligations under the Bank Act?

Mr. STEVENS: No. I would say that we are seeking what we set out there in that we feel that the advantages that we have and the disadvantages that we have are such that in our competition with the banks, consideration should be given to the fact that if the proposed provisions to the Bank Act give certain further advantages to the banks, there should be compensating advantages given to institutions such as ours in order to ensure continued competition. What I have said simply reiterates what the Porter Commission Report very strongly advocates.

Mr. LAMBERT: Well there are two ways of approaching that. Either one says that the rules of the game shall be the same for all concerned, and therefore you are all in the same game and subject to all the same rules. That is one way of approaching it. The other way is to take the Bank Act and set it up in compartments, whereby you have certain rules applying to the chartered banks, certain rules to banking institutions of a type like yours, and that the two sections be compensated—which is perhaps what you are aiming at—so that there will be rough equivalents. What would you favour in this regard, or if have you some other version to give.

Mr. STEVENS: One problem in this field is that the trust companies themselves have two main functions. There is a fiduciary function or an agency function, in which you are acting as trustee on various matters. Now some trust companies stress this side very, very heavily; in fact the main part of their business is this fiduciary type of relationship. The larger trust companies, in fact, would be predominantly fiduciary organizations and are often allied with chartered banks.

Mr. LAMBERT: I noticed that. Could you include in your testimony sometime what evidence you have and to what degree precisely this relationship exists. There has been some pretty loose talk in regard to this.

Mr. STEVENS: Yes. Now to come to the other side of my point, the other function which trust and loan companies have developed is an intermediary function where they are taking in funds and re-lending those funds, and in that sense they are performing a banking function as that term is defined in the Porter Commission report. Now the reason that I draw this distinction is that it is in that secondary activity that we are really speaking to you today; it is this intermediary function which is the banking function. In the United States this function probably would be more similar to the savings and loan type of function of some of the institutions in that union, whereas the banks are one thing and then you have the savings and loans. I think possibly where some confusion comes in is that in the United States system the federal authorities and the provincial authorities are very careful in adjusting their mechanism to ensure that there is not an imbalance between the savings and loan industry rate of growth and the banking rate of growth. I think it was some time in the spring of 1966 that an imbalance did appear very quickly in that the chartered banks on the Eastern coast were allowed to pay more on certain of their certificates of deposit, which caused quite a flow of funds to the east out of the savings and loans industries, particularly in the West. Now seeing this, the mechanism of the federal authorities, after a few months, was to force the eastern banks to

lower the amount that they could pay on their funds and this caused the flow to at least subside and start returning to those institutions in the west. The reason I point this out is because we in Canada have no such mechanism and if through revising your Bank Act you give too much advantage to the banks with the predominant position they are presently in, they could make it relatively difficult for these other institutions, because they are banking institutions, to remain competitive with them.

Mr. LAMBERT: You will also admit that part of the action you mentioned in the United States was also a first time step by the F.D.I.C. to order a roll back on interest rates payable by savings and loan associations to correct a competitive disadvantage. When we discuss deposit insurance we will inquire whether you people are prepared to accept roll back provisions. They are not in the act at the present time, but they may be included in the regulations. I do not know what the government's thinking is in this regard.

Mr. DAVIS: Mr. Stevens, in your contribution this morning you stressed competition. Would you comment on the fact that your trust and loan companies are in a broad area of finance, we might say, or in a broad field and you are opposed to compartmentalization. You see different areas of responsibility or different functions and they vary over the field, but essentially you would like to see the rigid compartmentalization eliminated and an upluring of the lines between these departments of activity. Purely in economic terms, would you then, perhaps, prefer one umbrella in terms of rules and regulations that would apply to the entire field rather than several different levels of jurisdiction, for example. Would that be the preference in economic terms of your industry?

Mr. STEVENS: I do not think we are going that far. Essentially what we are saying is that you are considering revisions to the Bank Act. We are not necessarily opposed to those revisions provided parliament is aware of the imbalances or the consequences which may follow to other institutions as a result of the added advantages which are given to the banks in the pending revisions to the Bank Act. In other words, what we are saying is that there is now a balance between these institutions, but it could easily be disrupted, and this is what we hope will not happen. If legislation is brought in, as we are suggesting, at the same time the Bank Act is revised, it will at least help preserve the present balance.

Mr. DAVIS: Yes. You are saying that upluring these lines is perhaps desirable, but the Bank Act essentially lures it in the sense of giving opportunities to the chartered banks and, of course, does not in itself give additional opportunities in the reverse direction, under the Trust and Loan Companies Act. In economic terms you would prefer to see more blurring of these lines, more competition.

Mr. STEVENS: In economic terms we feel the best thing for the nation is more competition in the financial system.

Mr. DAVIS: Which lends itself toward the argument that there should be one set of rules and regulations for the entire financial community rather than different sets administered at different government levels.

Mr. STEVENS: I would not want to appear to hedge on that, but I think I would have to say that this is not necessarily the case. I do not think there is that much wrong with the system provided something is not changed—

Mr. DAVIS: Self-adjusting.

Mr. STEVENS: —without taking into account the consequences to other institutions and amending their legislation in order to make sure that they are put into a position where they are at least as competitive as they were before.

Mr. DAVIS: You seem to endorse in your submission what you called the definition of banking appearing in the Porter commission report. As I recall it, the Porter commission itself did not claim to have come up with a definition, but it did endeavour to talk in meaningful terms and therefore had to use terminology similar to that which I think you have used, beginning at the bottom of page 1.

Has anyone in your organization or any of the other witnesses you have with you taken a good hard look at that so-called definition which you have outlined on page 1 and at the top of page 2? Have they any reservations or comments to make about that definition?

Mr. STEVENS: If you would like, I could have somebody check the Porter report to dig out where that quote came from.

Mr. DAVIS: I realize that that is a true quote.

Mr. STEVENS: I see what you mean.

Mr. DAVIS: The Porter commission had reservations and I am wondering what reservations your people had, especially if any one of them was trained in the law and is perhaps looking at this more from a constitutional point of view or from a legal phraseology point of view.

Mr. STEVENS: I think that in the context it is used here there is no need for any reservations.

Mr. DAVIS: You think this is effective and meaningful and would embrace your industry as well as chartered banks.

Mr. STEVENS: Yes, as defined by the commission.

Mr. DAVIS: As far as your industry is concerned this has real meaning and you have, as far as you are personally concerned, no particular reservations.

Mr. STEVENS: I think sometimes perhaps too much turns on words. Granted, it is difficult to define but it is largely a question of communication. If you have a deposit with us and it is returnable on demand or there is a chequing account or something like that, then in the sense that that is similar to some obligation that the bank may owe you, and they call it a chequing account or a savings account, the similarity is too great to say that they are not both banking type transactions. Do you follow what I mean? Whether or not you call one a savings account, a chequing account or some other type of deposit account surely they are very similar. It does not matter whether or not you call them banking operations. I think in the broad context this certainly is defined in the Porter commission report. They are similar enough that they are at least like banking transactions.

Mr. DAVIS: Then in your view the so-called near-banks would be included as banks and you do not have any reservations.

Mr. STEVENS: As I mentioned, there are two main functions carried out by the type of company we represent here. First, there is this fiduciary function,

and second, the other intermediary function which is the taking of money and the reloaning of that money at, you hope, a rate differential. I personally think there is a danger in putting too much emphasis on specific wordings. What I am saying is, both institutions are doing something that is, at least, very similar. The fact that the one calls it a banking operation and the other calls it some type of intermediary function is more a question of terminology. For example, in the United States would you call the savings and loan institutions banking institutions? Technically you probably would not, but on the other hand they are doing something quite similar to banking institutions, and they are very competitive with banking institutions.

Mr. DAVIS: You obviously find it difficult to readily find and use some word other than banking that is descriptive of their functions.

Mr. STEVENS: For example, when the banks referred to other institutions as near-banks, I think this was done to denote a very obvious point. What we are saying is that that is not really the point. They are two different types of institutions and both of them are in the money business. Perhaps it would be better to say that we are in the money business. The banks call their business banking, which of course it is, and we call our business the trust and loan or savings business. In that sense I think we are both quite accurate in what we say and perhaps if you are looking for some general word, we could say that we all are in the money business.

Mr. DAVIS: Yes. If you look at the Canadian constitution you will note that it says money and banking is a federal responsibility. That was the main reason for my question. Thank you, Mr. Chairman.

The CHAIRMAN: Thank you, Mr. Davis. Before I give the floor to Mr. Cameron I would like to tell the Committee that the quotation that was referred to at the bottom of page 1 can be found on page 363 of the Porter report. It seems that the Porter Commission attempted to define two items: banking institutions, banking liabilities. Their definition of banking liabilities can be found at page 378.

I recognize Mr. Cameron, followed by Mr. Clermont, Mr. MacLean, Mr. Laflamme and Mr. Wahn.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Stevens, I am sure that you have been following the proceedings of these hearings and that you must have realized that the point you brought up earlier in your submission with regard to the proper terminology to use for your operations is one that has been concerning this Committee quite a bit because, as I presume you are aware, the Bank Act specifically precludes any other institution except chartered banks using the term "banking and bankers". If, as I understand it and I may be wrong on this, you are now maintaining that you should be considered as conducting a banking business, are you then prepared to accept the consequences of a definition of banking being included in legislation that would then, is effect, be an assertion of federal authority over all operations of these institutions which you say do a banking business? This was my problem, Mr. Chairman, when you suggested the division of these matters. I notice the four suggestions you made for additional powers to your institutions would in effect give your institutions all the powers now exercised by the chartered banks plus those which you now enjoy and which are forbidden to the chartered banks. I think you would agree

that you have powers that are prohibited to the chartered banks. I am just wondering how you can reconcile this position unless you are prepared to accept the suggestion made by Mr. Lambert that you should become chartered banks. Have you any idea of how you could get around this? I realize of course that we are dealing, as you pointed out several times, with a very large and powerful series of institutions vis-a-vis some very much less powerful ones, but has it not occurred to you that if you made these requests there would be discrimination in your favour in the legislation. I am not suggesting that that may not be a good thing, but how can we achieve it? Would you be prepared, for instance, when you ask for lender of last resort relationships with the central bank, as a consequence to submit yourself to the cash reserve provisions of the Bank Act? Can you answer that?

Mr. STEVENS: Yes. I think your question is very helpful in the sense that it perhaps enables me to make, I hope, our real point. You might say that we are in the savings business. In that sense we are similar to what the banks are in the sense that we take in funds on one basis or another either through the issue of guaranteed investment certificates or some type of deposit accounts; so, we are winning public funds. Now, where the great difference comes—and I only wish what you said was true that the advantage is on our side—is where we can invest those funds. Under the relevant trust and loan companies, both in the federal jurisdiction and in the provincial jurisdiction, we are limited as to where we can invest our funds. The main field which is utilized by these institutions is the mortgage field; in other words, a rough ratio of probably 60 per cent on average of the funds taken in by trust and loan companies goes into mortgage investing; the other 40 per cent is invested in some type of bond or other security as defined in the trust and loan legislation either provincially or federally. The banks, on the other hand, are in the position where they take in public funds, but as I mentioned earlier, the Bank Act is an extremely wide act in that it virtually empowers the banks to go into any field that it wishes in the financial fibre of this nation, with certain specific exceptions. One of the exceptions, which was brought in in the 1920's, was a direct prohibition against going into the mortgage field. That prohibition is at least being relaxed in the revision that is now before you. It is that type of added advantage which has been given to the banks, which we feel means that we, when we appear before you, should stress that when you are giving that advantage to the banks you must bear in mind that we, as institutions, under our legislation and charters have limited fields that we can go into. One of the main fields that we can go into is, in fact, the mortgage field. So if you allow the banks to come into that field and you do not give compensating advantages back to us, you can get the imbalance that I have referred to. The main point I would like to make is that without any counterbalance, imbalance will always favour the chartered banks because they have virtually all the powers within the financial field with the exception of those in which they are prohibited precisely. We, on the other hand, have only those powers that have been granted to us. Rather than say that we would have an advantage over the banks, if for example we were given the privilege of having unsecured loans, all that could be said is that we have been given one additional power that the banks already have.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But if you had the power to give unsecured loans and you were given the lender of last resort relationship

with the Bank of Canada, then would it not naturally flow from that that you should become part of the reserve system and submit yourself to the cash reserves requirement of the chartered banks?

Mr. STEVENS: I think this would be for your Committee and parliament to decide. The sense of what we are saying, or urging, is that there could be an imbalance here and we hope that parliament will not create it. I feel it is parliament's problem to ensure that the imbalance does not develop. We are pointing out though that there are being additional advantages granted to the banks; we feel that our position should not be forgotten, and that any legislation which can encourage the competitive balance to be maintained should be passed, not a year from now but as quickly as possible because, as we point out in our schedule, when you revised the Bank Act in 1954, the growth of the banks in the new fields they were then permitted—or they felt they were permitted—to go into was very, very sharp and pronounced; they can move very, very quickly.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Possibly you may have studied the evidence given by Professor Neufeld to this Committee.

Mr. STEVENS: I have read it.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You will have noted that he points out the development that you have referred to—and it has been referred to several times—in the financial institutions of the country, whereby the operations of trust and loan companies are becoming more and more like those of banks; and banks are moving into fields that have traditionally been those of the trust and loan companies. Professor Neufeld suggested that we should recognize this situation and provide some sort of an interim incorporation as banking institutions for the type of institution you are representing here. I do not have his report with me just now and I forget the details of his ideas on this score, but he seemed to think that this development is going to continue. As I recall it, he suggested that at the end of 10 years the operation would be indistinguishable, and that at that time all institutions, which under any logical definition could be called banking, would be brought under the same legislation. What would be your view on that, Mr. Stevens?

Mr. STEVENS: He is speaking, I think, in at least a semi-academic sense.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes.

Mr. STEVENS: My only hesitation is that I think in a practical sense that you, as a Committee, and parliament generally, have to take into account the circumstances of the entire industry including the trust and loan, the banks, and the other companies. I think that while academically, if you like, his suggestion is perhaps quite acceptable, the practicalities—I am talking about the provincial-federal jurisdictional problems and this type of thing—may be the more difficult element to solve. What I do feel is in the best interest of the country though, is that in one way or another, whether it is done as the professor indicates or otherwise, that parliament sincerely devise to ensure that there will be this competition that I think the country so urgently needs in the financial system.

The CHAIRMAN: Mr. Cameron, the Porter Commission made a somewhat similar proposal to that of Professor Neufeld, at page 363—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes.

The CHAIRMAN: —suggesting interim provisions if this type of institution were to be included under federal regulations.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes. Earlier, Mr. Stevens, you did say that if it was not possible to have these expanded powers you speak of except by coming under federal legislation, that you, yourself—you were not speaking, I think, for your group would be quite prepared to accept that position to come under federal jurisdiction. I do not know because I am not a lawyer but I imagine that if the definition of banking were embedded in legislation, then there eventually would be a court decision on it; I imagine that it would be almost essential—

Mr. STEVENS: That is right.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): —to determine whether federal authority could be exerted over the institution. I am assuming that this would be what would happen, and unless it was a favourable decision for the federal authorities, nothing could be done. I am still not sure how far you are prepared to submit yourself to federal jurisdiction. I presume you have included in that the operations of the inspector general of banking, and that you would come under his survey and his control. Again, I come back to this point, that if you are to have the authority to give unsecured loans—in fact, as I say, to have all the powers of the banks—then it would seem inevitable that you must become a part of the reserve system and accept the obligations of the cash reserve provisions in the Bank Act. Would you agree that this is a logical outcome?

Mr. STEVENS: I would like to clarify one point. For example if this power to make unsecured loans cannot be granted to us because of a jurisdictional problem in the sense of somebody saying that a provincial company should not have that power—perhaps it is adjudicated on, as you are suggesting—we individually say that we would be willing to apply for federal charters and become, under your trust companies act or your loan companies act, federal trust companies or loan companies as the case may be; then automatically the federal authority would have jurisdiction over us, and the superintendent of insurance would have us under his jurisdiction here in Ottawa. Now in answer to the question, does that mean that we would want to come into the reserve position which the banks have with the Bank of Canada, I think the two things are not directly related in the sense that at the present time you have federal trust companies and loan companies. For example, Mr. Tigert of International Savings is a federal company under the federal law. You do not necessarily have to have those companies keep reserves with the Bank of Canada to function in the fields they are functioning in, and I think quite properly. On the other hand, it is an entirely different question as to whether, in effect, you want to make all institutions in Canada banks. I think this is where the practicalities come in, in that there may be some institutions who would prefer to remain more savings institutions, mortgage institutions, and not become banks. On the other hand, I think this question of keeping the reserves with the Bank of Canada is something that can be overstated in a sense in that the absence of any formula as to how large a bank can grow in relation to its capital and reserves is a tremendous compensation in favour of the chartered banks in relation to whatever reserves they may have to keep with the Bank of Canada. I am referring to the fact that

most of our banks have ratios to capital and reserves of something like 20 to 1. By law, trust and loan companies are limited to a ratio of 15 to 1. In the United States it is general that banks have a ratio of 13 to 1. All I am indicating is that I do not think keeping a reserve with the Bank of Canada is as awesome a thing as sometimes it is made out to be.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I would assume that you would welcome a relaxation of this prohibition of expanding your assets in relation to your capital.

Mr. STEVENS: Do you mean, allow us to go to 20 to 1?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes.

M. STEVENS: We, as a group, have not considered that; in fact I do not know what to say.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This it is not a trick question—and I have some sympathy for you—but you stated that you want to put your institutions in a position to compete more effectively with the banks; that is, to grow at a greater rate in relation to the bank's growth than is permitted at present. Is that a fair way of putting it?

Mr. STEVENS: No; I think we are saying that we hope a system or a climate will be preserved where we can suitably compete with the banks—not necessarily at a greater rate but at least be in an equally competitive system with the banks.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well, can I put it this way. You would hope that the share of the business which now goes to the sort of institutions you represent would increase to become a greater ratio of the total than at present is within your powers.

Mr. STEVENS: In the sense that that would mean more competition within the general Canadian financial system, I think this would be good. In other words, it is unfortunate that our banking system has got concentrated into such large institutions. If we cannot have—I do not know how many—let us say, 10 new banks actively taking a fair section of that business, I think the next best thing would be to have some other institution, such as we represent, taking a larger section off the general Canadian financial climate in order to ensure more free interchange and competition.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But I do not imagine that your main concern is the notion of competition so much as the benefits that will accrue to you from being placed in a better competitive position.

Mr. STEVENS: Well—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The point I have in mind is this, Mr. Sinclair—and this has come up several times in our hearings. We have asked various witnesses, including the Governor of the Bank of Canada, if he considered that the growth of the near-banks in any way posed a danger to his control of the monetary system. As I recall it, Mr. Rasminsky said that he did not think it was the case at the present time, but that he was not sure what the situation might be in 10 years time. What I have in mind is that if you were successful in persuading the parliament of Canada to extend your powers in this way then that growth of the so-called near-banks might be accelerated to the

point where Mr. Rasminsky would have to take another look at it. This brings us back to the question of your connection with the reserve system and the cash reserve problem.

Mr. STEVENS: I think my comment there would be the same as our comment on the idea of having earlier revisions and more frequent revisions to the Bank Act, in that if there is an imbalance on either side I think the federal authorities or the provincial authorities, as they work it out, should be in a position to move relatively quickly to ensure that the imbalance will not result in a lessening of competition between one section or the other. This is really our main point. If, for example, the imbalance did occur too much in favour of the trust and loan companies, I think that it should be corrected, but certainly that is not the problem today. In fact, I think on page 5 of our brief we point out that in spite of the growth that has taken place over the last ten years, the trust and loan industry is only now back to the point that it enjoyed in the 1920's as far as percentage of the market is concerned.

Mr. LAFLAMME: I have a supplementary question, if I may. Did you not know, Mr. Stevens, that there has been an imbalance in favour of your institutions during the last five or six years, as stated by Mr. Rasminsky when he gave us the figures of your growth during the last period of time as compared with the growth of the banks. If the ratio is allowed to stand as it is, what will happen in the next ten years?

Mr. STEVENS: I am not sure I understood your question.

The CHAIRMAN: I think Mr. Laflamme is drawing your attention to the rate of growth of your industry as compared to the chartered banking industry.

Mr. STEVENS: I guess I would make two comments on that. First, that there was such an imbalance the other way around for about 40 years, from the 1920's down to the 1960's, that the trust and loan industry was virtually getting down to something, not zero, but an awfully small section of the community. However, they started to develop back—naturally percentages sound large but I am speaking in terms of real dollars, as we mention in our brief—but even today the entire trust and loan industry is smaller than some of the larger banks. In other words, one bank today would be as large as the whole trust and loan industry put together, as far as intermediary funds are concerned. I think the danger is that percentages might make it appear that we are growing very quickly in terms of chartered banks or, say, twice as fast, something like that, but in real dollars it is still a comparatively small growth. The only reason that it looks as if there is an imbalance in our favour is that for 40 years there was such a heavy imbalance the other way and competitively these companies were virtually going into a very, very small section of the Canadian financial system.

We are saying, that now you are contemplating a revision to this Bank Act, that we hope parliament will be cautious and ensure that the old imbalance does not come back for these institutions that have started to show a bit of spark and growth, that they will not be knocked back to where they were in the 1920's.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, further to the question put by Mr. Laflamme with regard to the growth of Trust and Loan companies as compared to that of the banks, I would like to express the version of Mr. Rasminsky, the Governor of

the Bank of Canada. Mr. Rasminsky appeared before this Committee the first of November, 1966, and replied the following to a question which I put to him and which you will find on Page 1046 of the Minutes of Proceedings and Evidence.

(English)

> Mr. Rasminsky, yesterday evening you made certain remarks concerning various operations of banks and financial institutions generally. You told this Committee that the assets and deposit liabilities of the banks over the last ten years has increased by 83 per cent. You added that during the same period the corresponding increase for near banks had increased 300 per cent.

Mr. Stevens, you mentioned that one of the reasons is that for 40 years the trust and loan industry had not increased, but that does not seem to be the only reason brought up by Mr. Rasminsky in his reply, which was:

> ...were affected by some special considerations, including some inhibitions or limitations on the capacity of the chartered banks to compete, resulting from certain provisions in the Bank Act.
>
> The proposed amendments to the Bank Act will remove some or all of these limitations...

According to the reply given by Mr. Rasminsky, it seems that the present Bank Act has some limitations on the banks as well.

Mr. STEVENS: I have not had the benefit of being able to read Mr. Rasminsky's actual testimony, but I feel that he is supporting what we are saying, in that the revisions as contemplated to the Bank Act are going to remove what would otherwise be regarded as certain limitations on the banks. If this is so, any imbalance that has been in our favour—and I do not feel there has been any imbalance in our favour, but let us say there was—is quickly going to change to the reverse situation, where the imbalance will be in favour of the banks and we will, in fact, be back to the position that existed after the 1920's.

(Translation)

Mr. CLERMONT: In the group of Trust and Loan companies mentioned in this Brief, how many have provincial or federal charters?

(English)

Mr. STEVENS: I believe I am right in saying that including the companies that appear on the addendum, which are the loan companies, I think there are three federally-chartered companies. The others would be provincially-incorporated, but some of those would be federally supervised. For example, Fort Garry Trust Company which is a Winnipeg incorporated company and Inland Trust and Savings Corporation Limited, which is another Winnipeg company. I am not sure whether Inland is a federal charter or not, but I know it is either federal or a Manitoba company and it would be federally supervised in Manitoba.

The CHAIRMAN: That is the arrangement the Manitoba government has with the federal government?

Mr. STEVENS: That is right.

(*Translation*)

Mr. CLERMONT: You mentioned in your replies to Mr. Cameron that if Bill C-222 is adopted by the House of Commons as submitted to us now, the chartered banks would enjoy an additional advantage because they would be able to make conventional mortgage loans, are you not aware that the percentage of these loans would be limited to 10 p. cent in accordance with clause 75(4)(a)?

(*English*)

Mr. STEVENS: I believe you are referring to the fact that rather than take the leash off the banks completely and say that they can go into the conventional field without any limitation, they have been given a formula that they may go in at a certain rate of speed. This is correct, but we feel that the important point is that this is a field that they have been specifically prohibited from being active in up to this date, and this is one of the fields which trust and loan companies have been most active in and naturally there is possibly going to be some disruption here. We are not frightened of competition in that sense; what we are saying is that it would be unfortunate if the new competition—and aggressive competition—which has been coming into the system, say, in the last ten years in some way gets frustrated as a result of the banks getting these extended privileges and powers. I really think it has been very healthy for the Canadian system that since the 1950's new competition has been instituted. For example, I know in our own situation in Toronto we have opened branches which have competed with banks on an hourly and rate basis. Sometimes we have five branches of the different chartered banks around us, and in some instances these banks have met our competition by doing exactly what we have been doing. They are open longer hours and I understand—I do not think this is public knowledge yet—the banks are going to open on Saturdays. This, I feel, is good. Let us have more competition, but let us make sure that the group that are at least in part triggering some of this new competition and this new service to the public, because this is all that we are talking about, is not put in the position where the banks have an unfair advantage over them. I think we must bear in mind the fact that the banks have a tremendous predominance in the field and if they are given an extended advantage they can move very swiftly, not to increase competition, but to lessen it.

Mr. CLERMONT: You mentioned that the banks may start the practice of opening on Saturdays. I understand that they may also open at nights.

Mr. STEVENS: They are, sir.

Mr. CLERMONT: The savings bank in Montreal does.

Mr. STEVENS: We will have 24 hour banking.

Mr. LAFLAMME: May I ask Mr. Stevens a few supplementary questions relating to the previous one asked by Mr. Clermont?

When you say that the banks will be allowed to loan on mortgages up to 10 per cent, do you not think this would help when there is a shortage of money such as we have had recently? It would help your own institutions; it would fill a gap.

Mr. STEVENS: The point I mention there is that when we speak of the financial system, it is all one system. Let us say there is $20 billion or $30 billion in the system. What we are really talking about is that the money has to be funnelled through either one or other type of institution. It either goes through an insurance company, a trust and loan company, a bank, a caisse populaire or a credit union. In the interests of competition, the more people who have access to those funds for their disposal, the more it ensures the best competitive position for the general public. The fact that you allow the banks to come into a new field does not mean that there is any additional money in that field. It means that they have to take it from some other place.

Mr. LAFLAMME: But it could be controlled through the Bank of Canada.

Mr. STEVENS: That, of course, gets into the question of just how big the Bank of Canada wishes to create the economic system, which is an entirely different question. What I am saying is that in effect it is just like one loaf; it is a question of whether you want it sliced into 100 parts or 5 parts.

(*Translation*)

Mr. CLERMONT: Mr. Stevens, when you mention on page 3 of your brief that on the 30th of June 1966, the Trust companies had total assets of three and a half billion, do you mean all trust companies with provincial and federal charters?

(*English*)

Mr. STEVENS: That would be right.

(*Translation*)

Mr. CLERMONT: Moreover, are you not an expert on financial matters. Were you not one of the interim directors of a group who came before this Committee to obtain a charter on behalf of the Western Bank?

The CHAIRMAN: Would you, please, repeat your question?

Mr. CLERMONT: It is not just the Trust companies that are on the Canadian market to get loans. There are the Credit Unions, the Caisses populaires who are also on the market. It would also be helpful for the Committee to know that the Caisses populaires and Credit Unions have about two and a half billions in their deposits. So, the difference between other institutions and banks would be less if the two and a half billions were added to the deposits in the Trust companies?

(*English*)

The CHAIRMAN: Do you follow Mr. Clermont's point? He feels that if you add in the assets of the caisse populaire and the credit unions to those of your group, the difference between the chartered banks and these institutions taken as a whole is not as great. Do you have any comment on that question?

Mr. STEVENS: I cannot remember the exact figures but I think if you add in every institution which you are referring to, the banks still have 50 per cent of the system. The $20 billion that the eight banks control in Canada—it is over that now, I think, it is $21 billion or somewhere around there—is at least equal to 50 per cent of the entire system if you throw in everything else, even including the life insurance companies.

(*Translation*)

Mr. CLERMONT: Mr. Stevens, you said it was very much in the public interest that there be greater competition in the future. Are you satisfied with Clause 76? Do you feel it is going to create greater competition for the banks to have to give up, before the 1st of July 1971, all voting shares in excess of 10 percent that they might hold in a Canadian or foreign enterprise or company?

(*English*)

Mr. STEVENS: Appearing on behalf of the group as we are, I would rather not comment on that particular section because I do not think it has any direct bearing on us. I would suggest that I do not think, as the so-called spokesman for the group, I should make any comments.

Mr. CLERMONT: Why? You do not seem to have any objection to appearing for this group when you are a provisional director of a bank.

Mr. STEVENS: I am no longer a provisional director.

Mr. CLERMONT: You are an acting director?

Mr. STEVENS: I am a director, yes.

Mr. CLERMONT: But you do not find it difficult to appear here in a dual capacity. You are a bank director and you are represented here as an owner or a member of a group of trust companies.

Mr. STEVENS: I would say on that point that the types of things which we are discussing today in relation to the trust and loan companies are not so dissimilar to the problems which the Bank of Western Canada, and any other new bank, will have to meet when it attempts to come in and compete in the Canadian financial system. Essentially what we are saying, and while in my own personal position the Bank of Western Canada does not have any immediate problem with respect to whatever you do in the Bank Act—

Mr. CLERMONT: They will, because within 10 years you will have to release a big share of your—

The CHAIRMAN: Mr. Clermont, I think what you say is quite right, but Mr. Stevens is appearing here with this particular group of trust companies and, with respect, I wonder, really, if at this stage we are dealing with the subject matter in an appropriate way by asking him about his personal views with respect to links between trust companies and banks. It may be that after we exhaust the subject matter which this group wishes to discuss with us that we will have some time to ask questions on other issues. I think this might be an issue we could then look into.

Mr. CLERMONT: Mr. Chairman, my question was in response to the answer which Mr. Stevens gave to my previous question. I asked him to comment on clause 76 of Bill No. C-222 and he said that if this clause is adopted by parliament as it stands we will have more competition in the financial field. That is why I asked my second question, but Mr. Stevens preferred not to make any comments. If he does not want to make any comments, then that is the end of my questioning, sir.

The CHAIRMAN: First of all, are you in a position to make any comment with regard to that question on behalf of the group? Does the group have any view on this at the moment?

Mr. STEVENS: No. As I mentioned before, the problem is that I do not feel I should comment unless the group have specifically considered the question of clause 76. Speaking personally, I would say that if clause 76 is designed to ensure more competition—and I emphasize this—I feel that clause 76 is good.

Mr. CLERMONT: Thank you, sir.

The CHAIRMAN: As it is about seven minutes to one o'clock perhaps we could recess at this time. Will those members who are on the steering committee remain for a few moments, please.

AFTERNOON SITTING

The VICE-CHAIRMAN: Gentlemen, I see a quorum. I have a report to present from your subcommittee.

(SEE MINUTES OF PROCEEDINGS)

Mr. CAMERON: I move concurrence in the report.

Mr. MORE (*Regina City*): I second the motion.

The VICE-CHAIRMAN: All those in favour?

Motion carried.

When we recessed Mr. More's name was on the Chairman's list.

Mr. MORE: No, there were several ahead of me. I know that Mr. McLean was ahead of me.

The VICE-CHAIRMAN: I might ask that a new list be prepared. Gentlemen, would you kindly indicate to me if you have any questions to ask of Mr. Stevens or the other witnesses.

Mr. MCLEAN (*Charlotte*): I think I come after Mr. Clermont.

Mr. MORE: That is right. I think Mr. McLean was next.

Mr. MCLEAN (*Charlotte*): I think he was finished.

The VICE-CHAIRMAN: Yes, I think he was finished. That is why I thought Mr. More was next.

Mr. MORE: No, I was not. Mr. McLean was ahead of me and I do not want to usurp anybody's position.

Mr. GILBERT: Mr. Stevens, this morning you said that your group comes within the Porter Report definition of banking and banks. That definition set forth in the Porter Report would also include the caisses populaires and credit unions but it would not include finance companies, and finance companies form part of the financial system. You say it is all one system. What would be your observations with regard to that?

Mr. STEVENS: First of all, I would like to clarify the fact that we are presenting the views of the group in relation to what we feel is significant as far

as the Bank Act provisions are concerned. In other words, what we as trust and loan companies feel is significant for you, as a committee, to hear.

On the point that you raised, the caisses populaires, the credit unions or the finance companies, I can only comment on this from a purely personal standpoint. My comment would simply be that if you follow the definition of the Porter Commission Report, even finance companies, if they issue some type of an obligation maturing under the hundred days, would be carrying on banking. They would be carrying on a banking type of endeavour.

Mr. GILBERT: My understanding is that that would not have covered Atlantic Acceptance. It may have covered Prudential, but not Atlantic.

Mr. STEVENS: It would have on their 30, 60 and 90 day type of obligation.

Mr. GILBERT: It would have even covered Atlantic Acceptance?

Mr. STEVENS: Oh yes. I am only indicating a wide interpretation of the Porter Commission Report.

Mr. GILBERT: That definition?

Mr. STEVENS: Yes.

Mr. GILBERT: You indicated to Mr. Cameron that you in your personal capacity, and possibly your group, would not be inclined to come under the Bank Act. You indicated that you might be prepared to come under the federal act, the Trust and Loan Act. You have indicated that 60 per cent of your business is in mortgages. If we pass the present bill as it now stands and the banks get into mortgage financing, do you anticipate a decline in your investment portfolio with regard to mortgages?

Mr. STEVENS: It is difficult to say whether there would actually be a decline. One point that has been raised is that if you refer to table 2 on page 11 you will notice that when the banks first came into the NHA mortgage market after the passing of the 1954 Bank Act, they came in at a tremendously rapid rate for three years, 1957, 1958 and 1959. This had quite a disruptive effect on those other institutions that were in the NHA field, in that they suddenly had a new competitor who was becoming very significant. In fact, I think we mention in the brief the percentage that the banks actually took of the total private placement of NHA funds during that period. Then they pulled right out again. They felt that because of interest rate problems, or something, they could not remain in the field. This had a disruptive influence. We think it would be unfortunate if they are again allowed to come into the conventional mortgage field as it would possibly have a disruptive influence in that field, which is our field to the extent of 60 per cent of our assets. Now, you asked me, "Will that mean that we will have less?" Our main point, I think is that given the competitive advantages that we feel we should be getting, we are not worried about actually having less provided we feel that we can keep in competition with these banking institutions. In other words, one of the big points is that we feel we can hold our own in the mortgage field provided we can attract funds in competition with the other institutions in the country that are also trying to attract funds. You obviously cannot hold your own if you cannot carry on attracting funds.

Mr. GILBERT: The banks are also going to have the right to issue debentures, which will be another feature of attracting more deposits.

Mr. STEVENS: But those debentures will probably appeal to a different section of the financial public. In other words, they may be bought by these institutions or people interested in longer term types of securities; bond buyers.

Mr. CAMERON: I have a supplementary question to the one Mr. Gilbert was asking you, and your answer to that question, which was with regard to the fact that the entry of the chartered banks into the NHA loan field had taken away a great deal of business from the existing lenders. I wish to ask you this because of your emphasis on the competitive features. Does this not imply, Mr. Stevens, that the banks which were operating at the time under a 6 per cent limit, were undercutting the others in interest rates? Could you not have met their rates?

Mr. STEVENS: In the NHA field the rates are uniform at any one time.

Mr. CAMERON: How did the banks have an advantage in that way?

Mr. STEVENS: It was partly the branch network, and with something over 4,000 branches it is a network and if the head office for instance, of the Bank of Commerce says, "We are willing to put out NHA funds", their 1,300 branches can very effectively put money out quickly. We are saying that this is good in a competitive sense provided compensating legislation is passed on the other side to make sure that those institutions such as trust and loan companies, who are in the field, are not put into the disadvantageous position where they cannot continue to attract funds and also compete in that field.

There is something else in relation to your two questions that perhaps I should reiterate in case I was not clear. Essentially what we are saying is that we feel there is a role for our type of institution in the Canadian financial fibre. In other words, there is a role for the trust and loan type of company. We feel that certain legislation should be passed which would give us compensating advantages to the tremendous advantages that are going to be given to the banks under this proposed revised Bank Act. In saying that, we are quite prepared to accept any regulation that it may be felt is required to give these extended advantages to trust and loan companies. In other words, we feel this is a role for this type of company other than simply becoming another bank. Do you follow what I mean?

Mr. CAMERON: Yes.

Mr. GILBERT: Suppose you do not receive these compensating features such as entry into the personal loan field, and so forth, what effect will it have on your companies? Will you be getting back to your 1920 position?

Mr. STEVENS: We could.

Mr. GILBERT: Is that not why Professor Neufeld felt that you should come in under the umbrella of the Bank Act and, in fact, he indicated that you should not only come in but you should have the advantage of retaining your fiduciary position, and the banks should not have the same privilege for a period of at least ten years, at which time it would be reviewed. What concerns me is that if we pass this act the way it stands without giving compensating features to your group; you may find yourself in a very serious position, and much the position that Professor Neufeld indicated. I cannot understand why you are not prepared to come in under the Bank Act, where you would not only maintain your present position but you would receive some of the advantages that the banks now enjoy.

Mr. STEVENS: The chief thing that I think this perhaps turns on is that there are companies in the trust and loan field which prefer to stay in the mortgage field when they have these added inducements, such as going into consumer finance, and this type of thing. This is the field in which they feel they can best serve the public. They do not have any immediate desire to go into general business or commercial financing, or the general business type of activity in which banks have traditionally specialized. Banks were originally referred to as wholesale bankers who dealt in nothing but a business type of activity. There are trust companies and loan companies who feel they do not wish to enter that segment of the business. In other words, they are willing to leave that segment of the business to the banks, but they do wish to remain competitive in their own field. With reference to your point, I think in practice we may find that there are certain trust and loan companies that would optionally say, "We would prefer to become banks and go in under the system," but what we are saying as a group is that we feel that we should receive assurance that at least the present system under which we have trust and loan companies is not placed in some type of disadvantageous position where they will get back to the position which applied in 1920. That does not mean, if any one of those companies wanted to go the whole circle and become a bank, that there would be anything wrong with giving them that right or opportunity to become a bank. Of course, as you know, our own group felt that there was a place for a new bank in Canada and that is why we asked for the charter.

The CHAIRMAN: What is the range of interest rates in the mortgages that your companies give?

Mr. STEVENS: I cannot be too precise. In our own case we went very heavily into NHA lending. We would have, I think, something like 55 to 60 per cent of our total mortgage portfolio in NHA mortgages. NHA mortgages originally had an interest rate of 6¼ per cent, but the current rate is 7¼ per cent. Traditionally the conventional rate is approximately one point higher than the NHA rate, therefore at the present time money is available somewhere in that 8 per cent range for a conventional loan and NHA is lending at 7¼ per cent.

The VICE-CHAIRMAN: One of the criticisms which the banks make is that you attract deposits because the interest rates which you pay on your deposit accounts are much higher than the bank rate. You are now going to find that the banks in the conventional mortgage field will probably charge between 8 and 8½ per cent on the conventional mortgages. Do you think this will directly affect your ability to attract deposits?

Mr. STEVENS: I do not know whether this will affect us directly but I think possibly it will indirectly, in that the banks have a higher gross income, which presumably they could use in part to pass on to attract more deposits. I think there was testimony given before you which indicated that through the mechanism of free balances or service charges, or in other ways, the banks are charging well in the 7 to 8 per cent range at the present time on loans that otherwise would be looked upon as straight commercial loans and where traditionally they charged 6 per cent. In the consumer finance field I think the rate they are charging is somewhere between 9 and 11 per cent. I think they are, in fact, certainly earning, more than a 6 per cent rate. I think the average return in gross figures earned by the banks now is just a whisker over 6 per cent.

Mr. MORE (*Regina City*): Mr. Chairman, I want to ask Mr. Stevens if the companies he represents are all members of the Trust Companies Association.

Mr. STEVENS: I believe we are in the happiest position of all in that we have one company that is a member of the trust association as a full voting member. The trust association admits companies as non-voting members and we have one company with that status. We have a third company that is not in the association. Therefore, we have one company that is a full voting member of the association, one company that is a member of the association but is a non-voting member, and a third company that is not in the association.

Mr. MORE (*Regina City*): Amongst these 12 companies?

Mr. STEVENS: I am sorry. I am referring to our own companies.

Mr. MORE (*Regina City*): I was going to raise that. I thought you were just referring to your own operations.

Mr. STEVENS: Yes. I think I would have to call on our people. Alberta Fidelity is not a member. Central Ontario is not a member. City Savings is not a member. District Trust is not a member. Fort Garry Trust is a member. Hamilton Trust is a member. Kent Trust is a member. Lincoln Trust is a member. Metropolitan is a member. Northland is a member. Rideau Trust is a non-voting member. Most of the newer companies, while they are members they are non-voting members. York Trust is a member.

Mr. MORE (*Regina City*): I raise this point because I understand that at one time this association expressed no wish to present any evidence or to appear, and now I understand they are presenting a brief. I wondered if your action was as a result of their first decision that they were not going to appear or make any representations?

Mr. STEVENS: I do not think we would be that presumptuous, but I think it does indicate that there is certainly no combine among the trust companies.

Mr. MORE (*Regina City*): And that there is also a difference in operations amongst the various trust companies?

Mr. STEVENS: Yes, there is a great difference in the rates we pay on money in the general operation of trust companies as such.

Mr. MORE (*Regina City*): Is there much interlocking directorship involved amongst these 12 companies that you represent in this brief?

Mr. STEVENS: I would not think so. There is very little. There are three companies in our own group and even there I do not think there would be overlapping directorships in more than one or two instances.

Mr. MORE (*Regina City*): It is not extensive enough to cause an association of interest to develop among them?

Mr. STEVENS: As a group, definitely not.

Mr. MORE (*Regina City*): I wanted to carry on a little further with the statement you made regarding the banks being given wider powers, how quickly they move and the effect on your associations, particularly with regard to N.H.A. loans. Did the entry of the banks into that field, and the statement that they controlled 60 per cent of the N.H.A. loans made by conventional lenders at that time, indicate that there was a static field from which they were able, under the

same rules, to take that volume of business from you as a competitor, or did it in fact not mean a greater volume of business for the benefit of the people who wanted N.H.A. loans?

Mr. STEVENS: I do not know that I can answer that precisely other than to repeat what I said this morning, that it is a question of so much money being available and who will have the right or the responsibility of administering where that money goes. In other words, when the banks go into the mortgage field they do not automatically have money available to put into the mortgage field; they have to pull it out of some other section. In reply to the point you are raising, I can only say that the banks pushed into that field to the extent that you have indicated, through their own choosing. I cannot tell you what happened to the other companies who you ordinarily would have expected would fill that field.

Mr. MORE (*Regina City*): I think you indicated in your portfolio there was some 55 per cent in N.H.A. loans. Was it any less during the period the banks operated in the N.H.A. field?

Mr. STEVENS: We came after that period.

Mr. MORE (*Regina City*): You came after that period, so there is no relationship there.

Mr. STEVENS: No. I am merely relating what some of the companies that were active in the field have told us.

Mr. MORE (*Regina City*): Is it not a fact that since the banks had to withdraw from this field because of the limitation on their interest rate that there has been a dearth of funds under N.H.A. from conventional borrowers in many localities in Canada? Has there not been a lot of complaint about this?

Mr. STEVENS: I do not know if that is related only to the fact that banks would choose to withdraw from the field. Technically they can still stay in the field, but they have not done so. I think there are other things that come to bear on that. It is more a question of the market place, and the feeling of some institutions that they would prefer to go into conventional lending as opposed to N.H.A. lending.

Mr. MORE (*Regina City*): There was also a withdrawal by the conventional lenders in the amount of money they made available for N.H.A. loaning purposes, I take it, and this has brought about the tightness in that field that we get complaints about?

Mr. STEVENS: You mean the current tightness?

Mr. MORE (*Regina City*): Yes.

Mr. STEVENS: Oh, no, I think it is fair to say that the current tightness is definitely a world-wide tightness of money. It is nothing which is specifically related to N.H.A. mortgage lending or conventional lending, it is just the general world-wide tightness that is especially being felt in the United States and in Canada.

Mr. MORE (*Regina City*): That tightness expressed itself in the withdrawal of the banks from the N.H.A. field because of their loaning rates, their restriction on the rate of interest.

Mr. STEVENS: No, not only in the N.H.A. field but also in the conventional field.

Mr. MORE (*Regina City*): Does the present 7¼ per cent bring an increased flow of funds into the N.H.A. field from sources like yourselves?

Mr. STEVENS: Perhaps some of my associates could comment on that, but my general impression is that I do not think that anybody today, even with the 7¼ per cent, has rushed into the field with large amounts of funds available. I agree it seems to be very attractive, but money is relatively tight.

Mr. MORE (*Regina City*): Yes. In connection with clearing house operations, do you have to keep accounts with the banks in this regard? Do you borrow money from the banks at any time?

Mr. STEVENS: We would like to but—

Mr. MORE (*Regina City*): You do not. Do any of your operations borrow money from the banks?

Mr. STEVENS: Yes.

Mr. MORE (*Regina City*): Do you have to keep a compensating balance when you do this?

Mr. STEVENS: I do not know whether we can speak generally on that. I know in our own instance it has certainly been requested from time to time that we keep compensating balances. I do not think—and again I would have to call on the other companies in the association—there is any extensive loaning. Certainly there is no extensive loaning from the banks to any of our companies.

Mr. MORE (*Regina City*): When you do borrow they request a compensating balance?

Mr. STEVENS: Automatically, I think, they would almost always have it because out of necessity, in having to keep an account with the bank, you keep pretty heavy cash balances there, so anything that you borrow in all likelihood would be at least partly compensated for through other deposits that you hold with them in other accounts.

Mr. LAMBERT: You made a point, Mr. Stevens, about asking for more frequent Bank Act revisions. Now, other than the statement that you have made I have not seen the reasoning behind this. What advantages do you feel would be gained by having the operating charters of the banks, revised more frequently? Would your trust company like to have its charter revised by others—not yourself nor your own solicitors—or your memorandum of association and your articles, or whatever you file with the Provincial Secretary of the province of Ontario or with the Alberta Fidelity Trust in the province of Alberta?

Mr. STEVENS: In fact, this is exactly what happens. For example, let us take the Ontario situation. We are chartered under the Ontario Loan and Trust Corporations Act. As far as our charter is concerned we get letters patent but the powers come from the Loan and Trust Corporations Act. That act is amended—if not annually, certainly from time to time—at the will of the Ontario legislature, and any change or amendment that they wish to put in that act is automatically applied to us. Last year, for instance, they amended the act quite extensively, and this year I think they intend to do it again in your own province. There

have been several amendments to the Trust Act, which applies to trust companies in that province, and in that way the jurisdiction which has power over the loan and trust corporations is doing exactly what we are suggesting should be done by the parliament of Canada in relation to the Bank Act.

In other words, if there is anything that parliament feels they wish to pass on in the sense of revising the Bank Act, the traditional feeling—and this is all I understand it is—that it would not be done other than in these 10 year intervals does not have to be followed. The type of thing we mean, for example, is where the banks say they feel the 6 per cent ceiling means that they cannot make an NHA loan if it goes beyond the 6 per cent level. In other words, they perhaps do not have the power to make a 6¼ per cent NHA loan because of the 6 per cent ceiling. Well, parliament could have acted on that and amended the Bank Act to make it clear that in the case of NHA mortgages the 6 per cent ceiling did not apply.

Mr. LAMBERT: That could have happened at any time.

Mr. STEVENS: That is right.

Mr. LAMBERT: That is a matter of government policy in not wanting to amend one section in the light of the Porter Commission Report. I think you will agree that that is probably the reason why the individual amendment was not made. There is nothing that prevents the Bank Act from being amended in part at any time, but the basic difference is, of course, that there is no separate document, there is no separate, shall we say, letters patent, or what have you, at all with regard to a bank. The Bank Act is the whole structure of a bank, whereas your company can exist subject to certain conditions set out in the Loan and Trust Corporations Act. It has a separate corporate entity, but unless the chartered banks appear in Schedule A they have no corporate entity.

Mr. STEVENS: Certainly I would not anticipate that parliament would arbitrarily amend Schedule A. What we are referring to is the fact that the provisions within the Bank Act could be amended or revised more frequently by parliament than the 10 year intervals which have become traditional.

Mr. LAMBERT: I am going to refer to a situation that developed on Tuesday, when it was alleged by the National City Bank people that they were advised on July 18, 1963 that their charter—being their appearance in Schedule A of the Bank Act—might not be renewed. In other words, the whole thing would have gone down the drain, there would be no more corporate structure, nothing. Now this does not happen with regard to any of your trust companies because you already have your letters patent. You do not get your continuing corporate life from the provisions of the Loan and Trust Corporations Act. I will admit, there is a licence.

Mr. STEVENS: That is a one year licence which, if it is not renewed each year—

Mr. LAMBERT: But that is not a revision of the Bank Act.

Mr. STEVENS: No, but—and this is the point I am making, Mr. Lambert—as far as the trust companies are concerned they are given a charter but, really, the charter is of very little worth to you if you are not able to keep your licence alive. Technically the banks come into being as a result of the Bank Act, and in effect the Bank Act not only creates them, it licenses them.

Mr. LAMBERT: Frankly, up to this moment you have not shown me any clear reason for the change from ten years to five. Is it to be more flexible?

Mr. STEVENS: That is right.

Mr. LAMBERT: Why should the whole act be revised?

Mr. STEVENS: Oh no—

Mr. LAMBERT: After all, a revision is a rather mighty gestation, you know, and it has certain convulsions. I do not know whether the body can stand that.

Mr. STEVENS: Well, perhaps the word "revision" is an unhappy word in that I do not think we contemplated a revision in the sense that there necessarily needed to be a complete overhaul of the Bank Act, but that quite readily there would be an amendment of the Bank Act—and the banks would not be surprised if it was made—with respect to any aspect that parliament felt needed to be clarified in the banking system in Canada.

One of the things we are saying is that if, in rewriting the Bank Act, some imbalance appears in two years, for instance, where the banks seem to be getting an unfair advantage over other sections of the financial community, I think parliament should feel quite free to amend the Bank Act in whatever way they feel is required in order to curb, if you like, the imbalance that has been created through the revision of the Bank Act.

Mr. LAMBERT: That is a horse of a different colour, to scramble my metaphors, but your brief says that the custom of revising the Bank Act every 10 years should be changed in favour of more frequent revisions. You have since modified that and I think the position you have now taken is much more reasonable.

Mr. STEVENS: That is right.

Mr. LAMBERT: That is all I have, Mr. Chairman.

Mr. STEVENS: For example, there was confusion over this question of the interest rate ceiling. For instance, on consumer loans could the banks charge a 6 per cent rate on an add-on basis? They received certain legal opinions, as I understand it, to the effect that this was all right. This is something that perhaps parliament, if they had chosen, could have amended in order to clarify whether the 6 per cent ceiling meant one thing or another.

All we are suggesting is that by revising the present Bank Act we feel there inadvertently could be imbalances created, and if it is accepted that there will not be another revision for 10 years—that may be an unfortunate 10 years —there will be a lessening of competition during that period.

Mr. LAMBERT: All right, that is fine. I will leave it at that. I will have more questions on this general section but I will yield as we are on another subject.

The VICE-CHAIRMAN: Are there any other members who want to ask questions on this general section?

Mr. LAMBERT: I said on the general section, but if I may continue. I was prepared to yield to anybody else who wanted to—

The VICE-CHAIRMAN: There is no one else.

Mr. LAMBERT: May I continue then, Mr. Chairman.

In the first paragraph on page 3 you say:

> Rather, their "competitive" response has been to ask Parliament for wider powers which, if granted in isolation, will enhance their already dominant position.

May I ask how could banks become more competitive unless they are given these particular powers that they are seeking?

Mr. STEVENS: I am sorry, I missed the point of your question.

Mr. LAMBERT: I am referring to the last sentence in the first paragraph on page 3, and this is my question. Unless the banks, which have already moved into every aspect of what is given to them under their charters, get these wider powers, how can they be more competitive?

Mr. STEVENS: This is a very general subject and it is something that I think the Porter Commission Report again touches on in that they point out that it is rather—to use their language—disappointing that the banks have not responded to some different types of competition such as longer hours or a drive-in facility, this type of thing.

Mr. LAMBERT: Bonus turkeys?

Mr. STEVENS: Perhaps.

Mr. LAMBERT: Toasters?

Mr. STEVENS: The banks have not responded in the way they perhaps could have and, as we mention in our brief, in effect the banks, especially in recent times, have been responding through the creation of new types of instruments. I know some of the banks brought out an instrument which they claimed, through a certain accumulative calculation of interest, yielded you 5.55 per cent. I think the simple interest on it was 4.85 per cent. It is the selling of that type of competitive instrument which over-all is probably a good thing in the market place. In other words, they are competing for money by creating new instruments which they think will be more saleable to the public.

Mr. LAMBERT: I will admit that in so far as hours of banking are concerned there might have been some changes, but as to the days on which the banks had to be open, of course they were caught by the Bills of Exchange Act. Did you know this?

Mr. STEVENS: Yes, to a degree. It is like the type of thing that I could only make reference to. For example, I do not know if you have ever seen a bank advertisement on a TV program.

Mr. LAMBERT: No.

Mr. STEVENS: I think you should ask yourself why.

Mr. LAMBERT: Spare us, oh Lord, from advertising on TV!

Mr. STEVENS: But this is the type of competition we need, in that it is—

Mr. MORE: You want them to raise their costs of operation, which does not seem necessary is that it?

Mr. LAMBERT: No. But you understand what I was getting at, Mr. Stevens. If you are really going to be more competitive in the wider sense, for instance, of

being able to go into the medium range financing field or to lend on chattel mortages, that sort of thing of course amendments would have to made to the Bank Act.

I have a further question on that page. This is the last sentence of the third paragraph, which refers to the close affiliation of the banks with certain of the larger trust or loan companies. There has been a fair amount of—and I will put it in quotation marks—"loose talk" about this owning or affiliation. What evidence do you have of this as between the banks and the larger trust and loan companies outside of possibly some overlapping of directors?

Mr. STEVENS: There are some people with us today, I think, who could give much more direct evidence on this point.

Mr. LAMBERT: It is your brief.

Mr. STEVENS: However, I would comment—

Mr. GILBERT: All he wants to do is call more expert witnesses.

Mr. STEVENS: I think you are quite proper in saying other than certain interlocking directorships. For example, I think the Bank of Montreal and the Royal Trust have 14 common directors. If you stand on St. James Street in Montreal I think it is rather interesting to note that as you face the building on the left hand side you see what is called the Bank of Montreal; on the right hand side you see a tower called the Royal Trust. They are joined with corridors and have certain common facilities. I think you can assume that they are reasonably close. If you go into the Bank of Montreal and some type of trust business is involved in your dealings, it certainly is not uncommon to have the suggestion made that the Royal Trust be retained to handle that kind of business. I have first hand knowledge of that.

Mr. LAMBERT: It is not an example that is not being followed, though, is it?

Mr. STEVENS: It usually is followed.

Mr. LAMBERT: It may be within the case of the Bank of Western Canada, your connections having a close appearance to the Fort Garry Trust Company, and I am sure we are going to see it in the Alberta Fidelity Trust Company in Alberta, not that I object—

Mr. STEVENS: No, but you are asking for evidence and I am trying to give you evidence. There are certain lines of credit or deposit facilities available between these companies, and about which the gentlemen present could give you very much more detail, which certainly have been utilized to some extent over the past months between the banks and the trust companies to which I am referring.

If you refer to the *Financial Post* on this particular subject, for example the comment under the Bank of Nova Scotia heading you will find that that bank is part of a group which acquired a substantial share interest in Eastern & Chartered Trust Company, and I do not think it is any secret that they are extremely close to that company.

Mr. MORE: Mr. Stevens, in your own case, you are not worried that because of your support of this brief the shareholders of the Bank of Western Canada at their next annual meeting will kick you out?

Mr. STEVENS: I hope not.

Mr. MORE: That is a pretty close relationship, too, I would say.

Mr. LAMBERT: You say in the first paragraph on page 5, the last sentence —actually this is the whole purpose of the paragraph—the following:

> If the Bank Act is amended as proposed, without concurrent action to improve the position of other "banking" institutions, we believe such an imbalance will occur and the concentration in our system will increase and competition will lessen.

Would the other banking institutions be prepared to accept the regulations, and so forth, which exist under the Bank Act?

Mr. STEVENS: In answer to Mr. Cameron's point on what I think was a similar question, our attitude as a group is that whatever regulations are necessitated through the granting of these additional advantages to our type of company, we are more than willing to accept those regulations. When it comes to the question of whether we actually want to become banks, I think certain of the trust and loan companies would say they would prefer, provided they feel they can remain competitive in their field, to remain in the field they are in and not become banks. In other words, they do not want to go into general business loaning or commercial loaning or the wholesale type of banking activity, but they want to remain what I suppose is called in the United States savings banks, where they remain active. In Montreal for example, there is the City and District Savings Bank. That type of activity.

In other words, I think there is room in Canada for different types of institutions—without everything being a bank—provided these other institutions are not put in the position where, because of legislative action, they really have no room to compete; their competitive position is lessened to such an extent that they cannot compete with the other institutions. In mentioning this perhaps I should underline that when we speak about getting an advantage, such as the advantage of being able to make personal or unsecured loans, we are talking about the personal loan to the run of the mill customer who wants to buy a car and to whom you want to make a $2,000 loan. At the present time the banks can make those loans, and quite rightly. We are saying that this is a great service, I think, to the public the fact that the banks are able to make these personal loans to people in that category. Likewise, the trust and loan companies should have the privilege of making that type of loan to a similar customer, rather than having the customer go to a bank to pick up the loan, which immediately puts us at a competitive disadvantage in relation to the banks. Now, in saying that we are drawing a clear distinction between that type of loan, which probably would be no higher than, say, $5,000 to any individual person, and general commercial loaning in connection with business activity, factory activity, financing of receivables, or things of that type.

Mr. LAMBERT: What about the reverse side of the coin? There has been the suggestion that if trust and loan companies were allowed to go into the consumer lending field, what about the banks being allowed to go into the fiduciary business?

Mr. STEVENS: I think they should speak for themselves.

Mr. LAMBERT: No, I mean this has been put forward as a *quid pro quo*. This might affect some of the trust companies rather seriously as well when we consider, shall we say, the strong power base from which the banks would start.

Mr. STEVENS: I thing the point is certainly well noted.

Mr. LAMBERT: That is fine.

The CHAIRMAN: I understand Mr. Laflamme has to leave at 5 o'clock and I wonder if the other members of the Committee would accord him a few moments to ask one or two questions now?

Mr. LAFLAMME: My name was on the list, but when I was chairing the meeting I could not ask questions.

Mr. Stevens, surely you must agree that within our financial system the central bank, which is the Bank of Canada, must control credit. Do you agree with that.

Mr. STEVENS: Yes.

Mr. LAFLAMME: Everywhere in your brief when you present your arguments you speak about competition. You want more competition between the financial institutions. How can you reconcile the fact that the Bank of Canada must control credit with the fact that while you call yourselves banking institutions and you want the powers that the banks have, most of the trust companies do not want to become banks? You want some additional powers on the grounds that you would like more competition with the banks. I am just trying to reconcile those arguments because to my mind they seem to be contradictory to the main principle that the central bank must control credit.

Mr. STEVENS: No. I believe a somewhat similar question was raised when the Governor of the Bank of Canada was before you, and he said that he felt under the present set-up there was no problem in controlling credit because the banks have a relationship to the other, if you like, banking institutions.

What we are saying is that we do not want to be put in a more competitive position with the banks. We are saying that the banks are being allowed to become more competitive with us, and unless certain compensating advantages are given to these other institutions the affect will not be that we will be more competitive, but that the banks will become more competitive. We are looking for the equalizer.

Mr. LAFLAMME: Yes, but I understood the Governor of the Bank of Canada to say, when he compared the growth figures of your institutions with the growth figures of the banks during the last five years, that he would not worry too much because of the changes that were being put in this bill that would allow the banks to enter into some of the other fields where their organizations could act to curb the growth of the trust companies. I am sure you understand that some of the banks entered into your field by lending moneys to the trust companies during that period.

Mr. STEVENS: This is probably over-simplifying what we are saying, but the financial system as such is almost like a wheel with the Bank of Canada as the hub. At the present time they translate their wishes of a banking nature to the chartered banks, which form the inner circle. The outer circle is where you have these other institutions. Now, the way the Bank of Canada governs the money

supply and credit conditions to which you are referring is through their direct relationship with the chartered banks. Our point is that being on the outer circle, as opposed to the inner circle, parliament has to be very careful in the powers they give at the present time in addition to the chartered bank powers, in that the inner circle could expand very quickly and eliminate or lessen the outer circle because all funds pass through the chartered banks. The situation is that if the people on the outer circle do not have a sufficient competitive advantage to win funds from the chartered banks, you will find there will be less competition in the system. However, this does not affect the Bank of Canada's power at the hub to control the system, as such, as they have been doing.

Mr. LAFLAMME: Yes, but do you not think there are a many ways of attracting clients and attracting deposits, such as lowering the interest rate on loans and by other means? I think the main factor to keep in mind is that it is important for the central bank to control credit. I think everyone wants to have the lowest interest rate possible, and in this way you can compete in this field with the banks.

Mr. STEVENS: This, of course, is one of the advantages of deposit insurance. It will allow companies to compete more effectively for deposits.

Mr. LAFLAMME: Is it your belief that all the trust companies you have mentioned in your brief are interested in taking part in the deposit insurance proposal?

Mr. STEVENS: Oh, very much so. They could not be more enthusiastic.

Mr. LAFLAMME: Thank you.

The CHAIRMAN: Does this mean we have completed our discussion on the preamble? We can now move on to the specific proposals of the witnesses appearing before us today.

First of all, paragraph one—Unsecured Loans and Consumer Credit. Are there any further questions on this proposal?

If not, I will move on to paragraph two, the proposal on Deposit Insurance. I will recognize Mr. Clermont.

(*Translation*)

Mr. CLERMONT: Mr. Stevens, are you aware of Bill C-261 which was introduced in the House on January the 11th 1967, with regard to deposit-insurance? Are you aware of this Bill? Would you care to comment on this bill?

(*English*)

Mr. STEVENS: I think the general comment that we would make is that we welcome the fact that this bill has already been introduced in parliament. In fact, perhaps one of the most important messages that we wish to bring to this Committee is that it is very important that the passage of this bill be expedited as quickly as possible and, if it is at all humanly possible, that the bill should be passed and be effective prior to the revision of the Bank Act. From a general perusal of the proposed bill we feel that it covers the points we would like to see covered in such a deposit insurance set-up. We are referring to the fact that they

not only specifically provide for the automatic insuring of federal companies, but also the insuring of trust and loan companies which are provincially incorporated and in which the provincial jurisdictions are in agreement with respect to those institutions applying for the insurance. We think this is good, in that as many institutions as possible in Canada should be covered with this type of deposit insurance. The rate, one-thirtieth of one per cent, would appear to be satisfactory. I think the fact they have indicated that the rate may be lowered is interesting. In other words, the starting rate is one-thirtieth of one per cent, but if experience proves that that is to high, they mention that it could be lower. The method of setting up the institution, its relationship with the Inspector General of Banks and the Superintendent of Insurance I think is a workable and good arrangement. I think the fact that they are insuring deposits up to $20,000 is very satisfactory.

Mr. CLERMONT: You are satisfied with the limit of $20,000?

Mr. STEVENS: That is right. Generally speaking, as I think I mentioned in the early part of your hearings, we are very encouraged that there has been as much progress in connection with the Canada deposit insurance corporation act as has been made, and we would just urge that no effort be spared to get the act passed and in force as soon as possible.

(Translation)

Mr. CLERMONT: Mr. Chairman, my next question also has to do with No. 3 on Page 7. The Brief mentioned that the short-term loans could or should be made either by the Bank of Canada or the corporation appointed for deposit insurance. If this is the case, in connection with the Deposit Insurance Corporation, do you think the initial capital of $10 million would be sufficient to make short-term loans to trust companies or others?

(English)

Mr. STEVENS: I believe on that point that there is provision where the Minister of Finance can loan additional funds to the corporation, and I would anticipate that what they have in mind there is if the corporation did need funds of that size that they would be made available. So I would not read the $10 million as anything more than a nominal capital for the corporation to work with but additional funds are available. I think under clause 11 they make it quite clear that the corporation will have the power to acquire assets from a member institution or make loans or advances to the member institution. This is very similar to the procedure that the chartered banks now enjoy with the Bank of Canada. In the Bank of Canada statistics, which I think Mr. Lind had, it is shown on a weekly basis just how much the Canadian banks borrow from the Bank of Canada and how much they get into the sale and buy back of assets in relation to the Bank of Canada. Those coming under this will have a similar type of relationship as the banks now enjoy with the Bank of Canada. This, of course, is what we were hoping for under item 3 in our brief which you are referring to.

Mr. CLERMONT: Thank you, Mr. Chairman.

The CHAIRMAN: Now, who would like to ask further questions on this issue of deposit insurance.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Deposit insurance, no. That has come out of the matter I was going to ask, namely the fact that they have in effect a lender of last resort.

Mr. LAMBERT: Mr. Stevens, I was wondering if it was going to be just as flexible as that. It seemed to me that the loaning provisions under Bill No. C-261 were more in the nature of lender of last resort, and not, shall we say, under the present Bank of Canada Act whereby the banks can, from time to time, make srort term borrowings. Under the deposit insurance corporation act these are lenders of last resort with interest rates as high as 10 per cent, and with some rather stringent penalties involved.

I have a number of questions and I think perhaps if you will check into it a little closer you may find that I maybe a little closer to it in that version. You will notice in the bill there are not any powers granted unless they are granted by regulations which will be drawn up, and incidentally that is going to be almost another new bill when it comes up. The merger or sale provisions of the FDIC in the United States apply in this way. If an institution gets into trouble and does go to the deposit insurance corporation for a loan of last resort, and yet its management still does not appear to be able to cope with the situation, the corporation is then able to step in and forcibly bring about a merger with some willing purchaser, or actually sell the assets of the institution involved. These powers are not spelled out in this legislation.

I made representations in regard to this the other day when we were discussing this bill on second reading. It will be instructive to see what is the minister's reply in this regard. But, I am asking you on behalf of your associates whether this would not be, shall we say, a good feature in this type of bill because at the present time I do not see what the deposit insurance corporation is going to do after it has made a loan to an applicant and there is default in repayment of the loan; or, the management says: "All right, here it is; it is yours, do with it what you want". Do you feel that such features should be part of such an act?

Mr. STEVENS: As you say, Mr. Lambert, you are probably very much closer to the contemplative workings of this deposit system than I would be. As far as the American system is concerned, I think it is just as much removed from a lender of last resort, facility which is available with respect to liquidity, to those institutions that are insured—savings and loan or banking institutions—and I think it would be unfortunate if this legislation made the loaning provision or the acquisition of asset provision a lender of last resort, or a last resort provision with penalty type of clauses. I do not really think this is the most workable system.

There are two advantages, as I see it, to deposit insurance. The one is that there is complete assurance that a person with up to $20,000 will not lose any deposit he has placed in one of these institutions. I think that is certainly the paramount thing; it is security. But the second thing, in order to give security, is supervision. It is written right into the legislation that there must be proper supervision and I think, perhaps, in practice this is the strongest thing in the system, in that there is a fund created out of this 1/30 of 1 per cent that would certainly be sufficient to ensure that there can be very much tighter scrutiny and

supervision of all institutions, including the banks, than there has been up to the present time. I think this is good that in practice there will be a minimum of problems such as you are referring to in that with proper supervision these problems should not occur. There should never be a situation—I cannot say there should never be; in fact there may be—there should never be a situation where there would be an actual default. In fact, I think under the American system, since it was brought into being in January 1954, there has been less than $42 million actually paid out in claims.

Mr. LAMBERT: Yes, I understand that, under the insurance. But what I am speaking of is under the lender of last resort feature of the legislation. This is what I am dealing with. I am not dealing here with the insurance of deposits. I am talking about the lender of last resort. In other words, when the situation is really serious and rather than have an institution close its doors there are facilities for it to go to, to get a loan to keep the thing going. The words are serious: "lender of last resort". The alternative to this is closing the door.

Mr. STEVENS: Well, I would think it would be very rare, if this insurance comes into being, that there would ever be the closing of the door of any institution. In practice, I think, what would happen would be that a merger would be arranged, or some other arrangement would develop, to ensure that that situation actually would not happen.

Mr. LAMBERT: Yes, there are undoubtedly situations where you may say that the other members in an association, rather than having one of their members go to the wall, would say: "Well for the good of the whole system we will arrange a merger". But, this is not always possible, and it is too late, when you have not got it in the act, if you are faced with this.

Mr. STEVENS: As you indicated, I would presume in these regulations they are going to cover this. I know they cover it in the American system.

Mr. LAMBERT: Yes. It is my understanding, although it is not spelled out in the legislation, that the standards that will be applied under the federal deposit insurance legislation, in so far as investments and so forth are concerned, will be at least those of the federal Trust Companies Act. It is obvious that the investment mix of a great number of the provincially incorporated institutions that do not now come under federal supervision is not up to the standards of the Trust Companies Act, and as required by the Superintendent of Insurance. I made representations the other day that there should be a period of adjustment permitted to an applicant to bring that institution's investment mix or portfolio up to the standards of the Trust Companies Act. But, that in the interval it have an interim certificate so you do not have to say, spend five years out in the wilderness qualifying yourself. You are able then to afford, by paying the premium and undergoing the supervision, to say: "We are a member of the Canadian Deposit Insurance Corporation" and yet you are given three to five years to bring your investments up to the standards in order to avoid, shall we say, a fire sale of present investments. Now, how does this strike your people or you?

Mr. STEVENS: Again, I have to emphasize I do not think as a group we have discussed this precisely, but I think your point is a very valid one that in so far as most of the trust companies are concerned, I would think this is very, very

high, say 90 per cent of them or whatever the average you would like to take, I do not think you will find in practice there will be any problem with regard to satisfying federal authorities that these are suitable institutions to be insured under this legislation. Certainly the Ontario companies, for example, would have an act governing them that is every bit as severe as, as perhaps much more severe than, the federal act with respect to their activities.

Mr. LAMBERT: Savings supervisions?

Mr. STEVENS: I would say that as far as the supervision is concerned and the requirements of the act, I think it is reasonably severe and good in Ontario. Now granted there are ten provinces but the situation in each of these provinces, I do not know. You are undoubtedly much more familiar with that than I am. But I would say, very generally speaking, that I do not think there would be the problem here that others might feel there is. I quite agree with you that if there was a situation where some companies did not seem to meet the standard there should be some kind of limbo period where at least they can have the benefit of insurance on some basis rather than leave them in the situation where, perhaps, they need insurance more than any institution and yet for technical reasons cannot get it.

Mr. LAMBERT: You are connected with a trust company incorporated under the Alberta Trust Companies Act. It is my information—perhaps you can set me right if I am wrong—that at the present time that act required only that the first million dollars of investment of a trust company operation out there shall be subject to supervision and that the remainder is at your choice.

Mr. STEVENS: I am not a director of the company you are referring to, the Alberta Fidelity Trust, although we do own a share interest in that company. As far as the Alberta situation is concerned it would come as a great surprise to me if the Alberta act was what you say. Certainly, in any discussions I have ever had with the Alberta Fidelity people they feel the act as it presently stands—it was recently amended—is a relatively severe act and is in many ways very similar to the Ontario act. It would surprise me if that is the situation, but on a first hand basis I cannot answer your question.

Mr. LAMBERT: Well, my information is from one of the Alberta trust companies who is the most active in the field. They feel themselves it is a very dangerous situation. Now, I am subject to correction but if that is so, all it means is that you can put up a million dollars and then if your investment portfolio is $10 million have $9 million of garbage.

Mr. STEVENS: I would say very, very quickly, from what I know from the people who I have spoken to and our company there that that is not the situation. I think there is a misunderstanding there.

Mr. LAMBERT: All right, fine; thank you Mr. Chairman.

The CHAIRMAN: Are there any further questions on deposit insurance? Before we pass on to the next topic I wonder if I could ask you Mr. Stevens what are your views with respect to the provision, as I recall, that for a provincially chartered institution to be eligible for the proposed federal deposit insurance scheme they must have the concurrence of the provincial authority? If this is not something on which your group feels it can express a view I will understand but

I was wondering whether or not your group might have a view with respect to a situation on which the provincial authority—to take the most simple—does not act in one direction or another when provincially chartered institutions would like to come under the scheme?

Mr. STEVENS: Perhaps, Mr. Chairman, I could answer it in this way. In our own province—here I am referring to the province of Ontario—in which most of these companies are situated, this question was raised. We approached the responsible ministers in the Ontario situation and said: "We hoped that if a federal system of deposit insurance was instituted they would co-operate in every way to ensure that provincial institutions could become part of that federal system without any delay". We were assured at every level that every co-operation would be given on the part of the province of Ontario.

Mr. MORE (*Regina City*): Have you had such assurance from Manitoba? You have interests in a company there and I presume you would make the same inquiry?

Mr. STEVENS: I have not actually asked anybody there but I would hope they would. Now, the fact that the Manitoba companies are federally supervised, I think, would make it comparatively easy to shift over to this deposit insurance, as the federal people already have the facts on any Manitoba company. I would say that I certainly have no indication from the Manitoba people that they would not co-operate; but, I personally have not specifically spoken with the Manitoba ministers on that subject.

Mr. MORE (*Regina City*) As far as Ontario is concerned, would their present legislation, under which you are incorporated, bar you from entering the federal deposit plan, if they took no action?

The CHAIRMAN: I think the problem, as I posed it, Mr. More, as I recall—I do not have the bill in front of me—the draft federal act requires the consent of the provincial authority.

Mr. MORE (*Regina City*): Yes, it is part of the act.

Mr. STEVENS: In other words, I think the barring, Mr. More—

Mr. MORE (*Regina City*): Is done in the act.

Mr. STEVENS: —is more on the federal side.

Mr. MORE (*Regina City*): Yes.

Mr. STEVENS: They say you cannot apply for the insurance unless your own province agrees.

Mr. MORE (*Regina City*): That is right.

Mr. STEVENS: But, I do not think there is anything in the Trust and Loan Companies Act of Ontario that says you could not.

Mr. CHAIRMAN: My question was to find out whether your group had a view or if someone individually had a view on whether it would be more desirable if the scheme did not call for the consent of the provincial authority? But you may not be in a position to comment on this and I will not insist as I realize you are expressing a collective opinion. I am putting it at the simplest level, one on which the province takes no stand. There is a more complex problem if they say no.

Mr. STEVENS: I think you probably know my hesitation on this point. I think I would perhaps answer it more correctly by saying that we feel deposit insurance is a very valuable thing and is something that the public deserves and are entitled to with respect to all institutions which are deposit taking institutions.

The CHAIRMAN: Are there any further questions on the proposals under deposit insurance? It not, we will turn to topic three, Bank of Canada or other resource. I believe Mr. Cameron has already signified that he wishes to pursue this topic.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I think, Mr. Chairman, you are satisfied with the provisions under the deposit insurance bill, are you? That covers your question of access to lender of last resort?

Mr. STEVENS: Well, subject to any doubts that Mr. Lambert has seeded in my mind, I felt that the reference to it in the legislation was what we had in mind. Now, I would hope that it would not be treated as a lender of last resort facility in the sense that he is referring to in the CMHC sense, but that it would be treated more as the same facility which is afforded to the chartered banks at the present time and which is used very frequently by the chartered banks in their dealings with the Bank of Canada.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Otherwise you would want to stick to your original idea of direct access to the Bank of Canada?

Mr. STEVENS: We feel that companies such as our should have access to the same type of facility that the banks presently enjoy. Now, whether it is from the Bank of Canada or from a corporation such as is contemplated in this deposit legislation, as long as it is there, we feel it is needed in order to ensure liquidity.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Do you think you can divorce that from the other aspect of the relationship between the chartered banks and the central bank?

Mr. STEVENS: They have in the United States.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I am not familiar with the situation there.

The CHAIRMAN: I think you may be referring to the federal home loan bank scheme which we had some allusion to?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That is more similar, I gather, to the provisions under the deposit insurance act, is it not?

Mr. STEVENS: That is right.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I doubt whether an institution such as yours would have access to the federal reserves system, lender of last resort provision.

Mr. STEVENS: You mean the home bank?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes.

Mr. STEVENS: Well, an institution such as ours would probably be classified as either a savings bank or a savings and loan type of institution and as such they would have resort facilities. For example, the savings and loan institutions

in the United States, certainly in the state of California, have tremendous facilities available to them which they utilize from time to time to a great extent. It is this type of facility that would be very valuable with respect to our type of institution in Canada. We would hope the facility which is indicated in the CDIC would be that type of facility.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I think that is all I have to ask on this question.

Mr. CLERMONT: I think Mr. Stevens mentioned that short term loans are often used by the bank? Is this with the Bank of Canada? I have here what they call a statistical summary and judging from the last column on page one, it does not seem to be used very often.

Mr. STEVENS: Which statistics have you?

Mr. CLERMONT: January 1967.

Mr. STEVENS: Oh, you are one month ahead of me.

Mr. CLERMONT: If I look to the last column for 1965-66, I see a dot but no amount.

Mr. STEVENS: I have the December one here and the column that it shows under is on the lefthand side under "Canada" and it shows outstanding advances to chartered and savings banks, which is the first column, but the more significant column is the next one, "purchase and re-sale agreements."

Mr. CLERMONT: I have on page one, the last column on my right, "advances charter and savings banks" and dash, dash, dash, dash, dash.

The CHAIRMAN: Do we have another copy of the January one? Mr. Clermont we have an extra seat up here, you sit down up here.

Mr. CLERMONT: I prefer to ask the questions.

The CHAIRMAN: We only have a limited number of copies. Now, you are referring to what?

Mr. CLERMONT: The reason for my question, Mr. Chairman, is that I wanted to find out if I misunderstood Mr. Stevens when he mentioned the banks often use short term loans. I do not know if it is the case because I am not familiar with it. But if I refer to this report it does not seem that this facility is often used.

Mr. STEVENS: Now, as I read the column you are referring to, this is an actual loan or advance to one or more chartered banks at the particular week in reference. Now, it rarely happens, the banks may borrow for a very limited period and then back out again. But the point you are referring to is that on September 14, for example, $3 million was advanced to some bank or banks.

Mr. CLERMONT: Again, Mr. Stevens, I am not saying you are wrong or right; I am asking the question for more information.

Mr. STEVENS: As I understand it, you mention there is a dot opposite January 14, 1967. That would mean at that date there was no loan or advance from the Bank of Canada to a chartered bank or a savings bank. But if you look up the column you will see the dates when there were loans and advances.

Mr. CLERMONT: But as the law exists now I do not see how trust companies can get loans from the Bank of Canada.

Mr. STEVENS: I am sorry.

Mr. CLERMONT: Have you some explanation that the Bank of Canada should be or may be in a position to make short term loans to trust companies. How they do it? Bill C-190 will have to be amended for sure because I do not think the Bank of Canada, even under Bill C-190, could be authorized to make short term loans to trust companies or loan companies, and so on?

Mr. STEVENS: I think this comes back to the point Mr. Cameron was making in that he said, as I understood it, under our item three we say there should be some type of recourse similar to what the banks have to the Bank of Canada, or to the Deposit Insurance Corporation. What we are saying is that if the resource is provided under the CDIC act as is contemplated in your draft bill. This is what we have in mind. It does not necessarily have to come from the Bank of Canada.

The CHAIRMAN: If there are no further questions on this topic we will move on to the next one.

Mr. MORE (*Regina City*): I would just like to ask one question in this regard. Mr. Stevens, perhaps this then leads up to the federal requirement of provincial approval, in that if you are going to have this resort open to you as a provincially incorportaed company, then it must be with provincial approval and the province would have to take the responsibility. There might be a relationship in these two clauses on that basis.

Mr. STEVENS: Yes. I am not sure of what the jurisdictional problems would be there.

The CHAIRMAN: I suggest that if we have no further questions on this topic we move on to topic No. 4, the clearance system. Do you have any further questions on this?

Mr. CLERMONT: This brief mentions that perhaps the clearing system might be operated through the facilities of the Bank of Canada; and to Mr. Rasminsky, in reply to a question, said that as the Bank of Canada has no such facility he did not visualize that it could be organized except at a great cost. Perhaps the word "cost" is not a good word to use—

Mr. STEVENS: What we were attempting to indicate in our item 4 is that we feel the clearing system as it is presently constituted, which excludes companies like ours, should be at least re-constituted, if you like, under the present arrangement, under the bankers' association, where we can become members ourselves; but we did say that we support this primarily or alternatively, the clearing activities should be centralized under the Bank of Canada. In other words, if there is some problem in arranging it through the Canadian Bankers' Association we are simply saying that perhaps it could go right under the Bank of Canada.

Mr. CLERMONT: It might be corrected easier if you become a member of the clearing house as it is now.

Mr. STEVENS: That is right, and I would presume that is what would happen.

Mr. MORE (*Regina City*): Mr. Stevens what schedule do you operate under in your clearing operations now. What do you call the schedule of charges that

you accept and operate under? Is it Schedule B or Schedule C? We heard about Schedule B. I am wondering what your schedule is?

Mr. STEVENS: Schedule B, I think. I think you probably have had access to information that we have not been able to get hold of.

Mr. MORE (*Regina City*): Do you not have a Schedule? Do you not accept a schedule for the charges that you pay? Do you not have it outlined?

Mr. STEVENS: No. As I understand it, we are told what we pay, but just what schedule it is we could not be certain. This letter, of course, which Lincoln Trust have and which I read, refers to their trying to see the rules and regulations governing the clearing system.

Mr. MORE (*Regina City*): In the case of Caisse Populaire and credit unions we were told they were presented with Schedule B and that was it. They accepted it or they did not get the privileges. Is there no schedule presented to your people?

Mr. STEVENS: To the best of my knowledge, there is not. We have operating people here from some of our trust companies and perhaps they could comment.

Mr. MORE (*Regina City*): They are all shaking their heads.

Mr. STEVENS: We are told that there is a flat fee and that it costs us, I think, five cents per cheque to clear through the bank. You remember the letter I read?

Mr. MORE (*Regina City*) Yes, I do, but that does not answer my question. That was a request to see by-laws and other things. I am talking about your Schedule of fees. Do they inform you by telephone and you make a memo of it?

Mr. STEVENS: No. As far as I know, all they tell you is that it cost you five cents a cheque and that there is a flat fee. Until this very moment I never realized that it was all set out in schedules and that there are A, B and C schedules.

Mr. MORE (*Regina City*) We heard about A and B and I wondered if there were others. Have these rates changed in recent years; if not, how long have they been static?

Mr. STEVENS: Mr. Freedman tells me that they are adjusted annually.

Mr. MORE (*Regina City*) That is different. I understood that Schedule B had not changed for eight years.

Mr. STEVENS: No. My impression was that they are static.

Mr. CLERMONT: Mr. Chairman, if I remember correctly, we were told that Caisse Populaire in Quebec were able to get better service than the credit unions dealing through one bank.

Mr. MORE (*Regina City*): Yes, that is true.

Mr. CLERMONT: Maybe we can pass the information on to the trust companies.

Mr. STEVENS: It would be very welcome.

Mr. MORE (*Regina City*): In the other case we were told that it was Schedule B, that they have a copy of it, that it is all set out and that they accept it because they have no alternative.

Mr. STEVENS: Maybe this Committee could intervene between us and these banks, and we could learn.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I would have a talk with the credit unions and find out how they discovered it.

Mr. STEVENS: But there are much more expert witnesses than I here today who could speak to this point.

Mr. MORE (*Regina City*): Well, if you can give us the information, I would like to have it.

The CHAIRMAN: Mr. Stevens, you are entitled to call upon any others of your delegation with you to deal with any questions if they seem to be more capable of handling them. Mr. Sauve of Lincoln Trust.

Mr. L. P. SAUVE (*General Manager, Lincoln Trust*): The point that we are making with respect to the clearing is that we are expected on a day to day basis to process some 17,000 entries per month; we have not to this date been able to obtain a copy of the rules and regulations with respect to the clearing, and yet we are expected to know the rules and regulations. We must clear through a chartered bank, and the point in the brief is that this would be much easier for us to clear directly, to be full members of the Clearing House Association and have access to the rules and regulations.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You would be in support of the recommendations of the Porter Commission in that respect?

Mr. SAUVE: Yes.

Mr. MORE (*Regina City*): Do you support the philosophy that the clearing should be at par and that there should be no exchange on cheques?

Mr. SAUVÉ: The question of exchange on cheques has not been considered or discussed by our group.

Mr. LAMBERT: Do you get instant credit on your items on deposit at the chartered banks, or is it only credit on payment?

Mr. STEVENS: I believe it is generally credit on payment in that the bank likes to have the obligation, the cheque that you are depositing, cleared and I think they generally assume that it takes three to five days. Upon clearing you get credit. I think this varies from bank to bank, there may be some that would give you instant credit but others would say that they felt that your customers' cheques—this is what I am talking about—should be given three to five days to clear before they will actually consider it a cleared item in your own account.

Mr. MORE *(Regina City)* But there are some items for which you get instant credit?

Mr. STEVENS: I can only assume that this varies from bank to bank because certain trust companies have told me that they had to wait three to five days; others have told me that they at least think they have instant credit.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Does this apply to certified cheques?

Mr. STEVENS: It depends on who certifies them. Do you mean certified by a bank?

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: I mean certified by your own institution.

Mr. STEVENS: Again, I think it depends on the receiving bank.

Mr. LAMBERT: If by participating as a member in the clearing institution you were getting instant credit would you be prepared to accept the responsibilities and the cost of the float.

Mr. STEVENS: I think the banks have the float pretty well out of the system, as far as the loan companies are concerned. For example, any obligation of ours is charged against our account up to twelve midnight every night, and I think the balancing is as tight as they can possibly make it.

Mr. LAMBERT: This is all very nice in the metro areas where they have computers to work on. Let us assume that somebody comes into your trust company and deposits a cheque for $5,000 drawn on the Toronto-Dominion Bank in Vancouver. When you start to clear that item, do you get instant credit on deposit at your chartered bank or is that item on collection, which would mean perhaps a week or a little more. That is a case where that float has not been adjusted by any computer, it cannot be at the present time.

Mr. SAUVÉ: I can answer only with respect to our own individual company but items of $50,000 or more are cleared on the day on which the cheque is issued, and certified cheques are cleared instanteously. With respect to the float as the clearings come through the clearing house they are charged back to us a day earlier; in other words, there is a day charge back. So that any cheques which are presented today are charged against our account as of yesterday, and the float is offset in our particular case.

Mr. LAMBERT: It is a turning back of the float.

Mr. SAUVÉ: Yes, that is right.

The CHAIRMAN: Let me understand this correctly. You do not individually or as a group take part in any of the decisions or discussions regarding the administration of the clearing house?

Mr. STEVENS: Oh no, none whatsoever.

The CHAIRMAN: You obviously do not appear to have access to the figures which go to justify the costs that you are asked to pay?

Mr. STEVENS: That is correct.

The CHAIRMAN: If you want to participate in the system you pay the charges they ask of you.

Mr. STEVENS: Yes. We feel there are two additional points that perhaps could be mentioned in connection with our request to get into the clearing system. One is that it makes any institution to a certain degree precarious in that here you have thousands of customers who have chequing facilities with you and yet those facilities can only be cleared through, at least to some degree, a semi-competitive institution, and if that institution should say that they did not wish to clear any further you would have to make immediate arrangements to try to clear through another institution which would be awkward to say the least. We have received every assurance certainly from the people in Ottawa that they would try to ensure that something like that would never happen, but at

the same time the fact that you are not part of the clearing system puts you in the position where you are not first-hand able to clear yourself without going through an intermediary. The second thing, of course, is just the principle of it, the fact that you are not able to handle the chequing facility of the people who cheque with you, as other banks can, in a direct way. They have to be cleared through a competing bank who, in turn, had the carriage of your cheques.

The CHAIRMAN: Mr. Lambert raised something which perhaps you might confirm. If somebody comes in and deposits with you a cheque drawn on one of the chartered banks and it has to be handled, Mr. Sauvé, for example, through your Lincoln Trust operation, the banks do not pay you anything for your effort in moving that cheque through your system into the chartered banks clearing system?

Mr. SAUVÉ: No.

The CHAIRMAN: Do you have to pay the clearing house something for depositing that cheque in the clearing system?

Mr. SAUVÉ: I do not think there is any charge for deposits, just for the cheques.

The CHAIRMAN: I understood the credit unions to tell us that they actually had to pay the chartered banks something for the privilege of handling an item for them. I was wondering if you were in the same position.

Mr. STEVENS: Are you referring, Mr. Chairman, to when you wish to make a deposit with the bank?

The CHAIRMAN: No. Let us say that somebody came into your branch and wanted to deposit in his account a cheque drawn on a chartered bank. You have to move that cheque along through York Trust or Lincoln Trust and so on until at some point it gets into the account of the chartered bank with whom you retain a relationship for clearing purposes. You must have some expense moving that through your own operations. You are not allowed anything for that?

Mr. STEVENS: Oh, no. For example, if you had an account with us—

The CHAIRMAN: I do not.

Mr. STEVENS: —when your cheque passes through to our clearing agent it costs us five cents.

Mr. SAUVÉ: Mr. Chairman, if I understand your question correctly, the only place that there could be a charge is when in maintaining our account with the chartered bank there was an annual charge just for the maintenance of the account; in effect, the handling of the deposits through their particular account could be a charge directly against us.

The CHAIRMAN: I will recognize you right now, Mr. More. You must obviously have similar types of expenses for moving those cheques through your own branches and systems?

Mr. SAUVÉ: Just the daily operating expenses.

The CHAIRMAN: For which you are given no allowance by the chartered banks.

Mr. SAUVÉ: No.

Mr. MORE (*Regina City*): If you received for deposit a cheque drawn on a chartered bank, do you charge exchange on it if it is deposited?

Mr. SAUVÉ: Well, the exchange set-up within our own company is not any different than the exchange set-up with the chartered bank. If it is exchanged locally there is no charge, or if it is exchanged in any town where we have an office there is no charge. The system is not any different.

Mr. LAMBERT: But in the case that I have put: where a cheque for $5,000 drawn on the Toronto-Dominion or a chartered bank in Vancouver, where your trust company has not a branch, would that be subject to an exchange charge payable by your customer?

Mr. SAUVÉ: Yes.

Mr. STEVENS: But the exchange charge is the bank's charge.

Mr. LAMBERT: But it is the same one.

Mr. SAUVÉ: Yes.

Mr. LAMBERT: Are you charged fully or is there an adjustment?

Mr. SAUVÉ: Fully.

Mr. STEVENS: As I understand it—and one bank made it very clear to me one day—our account is no different really in its set-up than anybody else's account. The only facility they give is the fact that we can have, as Mr. Sauvé says, a large number of people, in effect, writing obligations which may be charged against our account, and that is the only facility that we have other than the same facility you have in your own chequing account.

The CHAIRMAN: Are there any further questions on the clearing house? If not, we will move on to topic No. 5, subordinate debentures. Do you have any further questions on these proposals?

If I may ask you a question myself, what is the nature of the debentures that are made available now by trust companies?

Mr. STEVENS: A trust company technically cannot issue a debenture in that the concept under the trust companies legislation is that you are purely a trust company and that all the monies you receive are in trust.

The CHAIRMAN: I am perhaps using the wrong term. I am referring to the certificates.

Mr. STEVENS: That is right. I was just going to mention that. But what the trust companies do is take money in in trust, which is what they call a deposit, or if it is for a term of one year or longer, they call it a guaranteed investment certificate. It means these are trust funds guaranteed by the company.

The CHAIRMAN: But they would rank ahead of the type of document or obligation that you are proposing.

Mr. STEVENS: That is correct. Now a loan corporation does not make this distinction in respect of trust funds. A loan corporation acts in the same way that a bank does; they simply borrow money from their customers. When you make a deposit with the bank you are loaning money to the bank. Now when you put deposits with a loan corporation, that is your relationship; it is a direct obligation of the company. And if it is for a year or longer it is in the form of a debenture.

Mr. LAMBERT: Of course the word "guarantee" is meaningless except as to the rate of interest.

Mr. STEVENS: Well, there is no guarantee what the company's own obligation—

Mr. LAMBERT: That is right.

Mr. STEVENS: The wording comes right out of the act.

Mr. LAMBERT: It has been suggested to me that it is an old carry-over and that it is really guaranteed as to the rate of interest.

Mr. STEVENS: And as to the return of principal.

The CHAIRMAN: I think what Mr. Lambert is driving at is that the guarantee only extends so far as the assets of the company itself; there is no higher authority that assists. I think that is his point.

Mr. LAMBERT: And if, unfortunately, the investments of a trust company go "blooey" then there is nothing there to fulfil the guarantee.

Mr. STEVENS: It has never happened. The point that I would mention though, is that a trust company is purely a fiduciary concept and the only way that they can take in funds is in their fiduciary relationship. The word "guarantee" comes in to distinguish taking in funds in a purely agency capacity where, for example, they take in $1,000 to administer some customer. They do not guarantee the return of that money. If you say it is to be put into a mortgage of some type and there is a loss on that mortgage, it is your loss. They simply have been acting as your agent in their fiduciary relationship. The guaranteed aspect comes in in that you are still putting money in trust with them but you ask them to guarantee the full return of interest and principal; but it is still a trust with the company.

Mr. LAMBERT: I see.

The CHAIRMAN: Are there any further questions with relation to subordinate debentures? If not, we will move on to the next topic, deposits by non-residents. Do you have a question on that topic?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, on the subject of deposits by non-residents. Do any institutions which are members of your association have formal relationships with any foreign institutions or foreign banks?

Mr. STEVENS: I believe Kent Trust has a portion of their capital owned by one of the Detroit banks, the Manufacturers bank in Detroit, but to my knowledge that is the only connection.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Would that bank make investments in the trust company?

Mr. STEVENS: I do not know whether they do or not.

We have not a Kent Trust person with us. Kent Trust has its head office in Chatham, Ontario, and they have a branch in Windsor. That would be the only connection that I know of.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Thank you.

The CHAIRMAN: I understand from reports that I have read in the paper that the interest of the Detroit bank is not in excess of 25 per cent.

Mr. STEVENS: It was definitely not control.

The CHAIRMAN: Are there any questions on the concluding paragraph of this?

Mr. CLERMONT: Mr. Stevens, will you explain what you mean on page 9 by the words "add-on" or "free balance". I have heard of compensating balance.

Mr. STEVENS: Well, a free balance is a procedure where in making a commitment to loan you funds the bank will indicate that part of the consideration will be that you will not maintain on balance, interest free, x dollars of money; sometimes it is expressed in a percentage of your total commitments, other times it is expressed in total amounts. In other words, if you are given a line of credit of $500,000 the bank may say that they wish you to maintain a balance of $50,000 with them at all times, free of interest.

Mr. CLERMONT: Is that desire expressed verbally or in writing? We were told by the bank that this is not the case?

Mr. STEVENS: I missed the last part of your question.

Mr. CLERMONT: Is that request for free balance or compensating balance made verbally or in writing by the banks?

Mr. STEVENS: I have asked for it in writing but, unfortunately, I have never received it in writing. I have had it often put to me orally.

Mr. CLERMONT: What do you mean, Mr. Stevens, when you say that in the case of some loans the interest was as high as 11 or 12 per cent? We were told that with some consumer or personal loans the rate of interest is 6 per cent, plus some added charges which would bring the costs of a loan to 11 or 12 per cent. Are you aware of any consumer loans where the interest is so high?

Mr. STEVENS: The effect of these compensating or free balances is one where you can get in actual terms very high rates of return being paid. For example, if you borrow from a bank $100,000 and leave on deposit with them $50,000, the rate of return is very high.

Mr. MORE (*Regina City*): Mr. Stevens, are you suggesting that there is this requirement made by banks?

Mr. STEVENS: Oh, no.

Mr. MORE (*Regina City*): We understand that in general it is a ten per cent balance.

Mr. STEVENS: Oh, it is moving up.

Mr. MORE (*Regina City*): Do you say from your knowledge of a compensating balance requirement that chartered banks are asking in excess of ten per cent?

Mr. STEVENS: I have heard of it, yes.

Mr. CLERMONT: Mr. Stevens, paragraph 3, article 93, reads as follows and I will read it in French:

(*Translation*)

"The bank shall not, directly nor indirectly, charge or receive any sum for the keeping of an account unless the charge is made by express agreement between the bank and the customer."

(*English*)

Mr. STEVENS: My translation system broke down.

Mr. SAUVE: So did mine.

The CHAIRMAN: I think that Mr. Clermont is reading the section in the present Bank Act.

Mr. CLERMONT: Paragraph 3 is not new, Mr. Chairman; it is the same as it is in the present Bank Act.

The CHAIRMAN: That is what I am saying. You are reading the section which in effect expresses the interest ceiling and prevents charges from being levied without the express agreement of the customer.

Mr. CLERMONT: That is for the operation of an account?

The CHAIRMAN: I presume the problem arises because there is some doubt as to what the definition of a compensating balance may be with reference to the wording of the law.

Mr. CLERMONT: I am referring to service charges for operating an account; the banks are not supposed to make any service charges on the customer unless he agrees to sign a certain form and most of these were deposited with this Committee last year.

The CHAIRMAN: That is the form.

Mr. MORE (*Regina City*): I understand that Western Bank does not have these things.

Mr. STEVENS: We have not made their first loan yet.

The CHAIRMAN: Are there any further questions of our witnesses?

Mr. GILBERT: Mr. Stevens, have your compensating balances been asked strictly on loans or because of the activity of your account?

Mr. STEVENS: As far as our own situation is concerned, the question of compensating balances has always arisen during the discussion of the loan. In other words, you request a loan and it is mentioned that if the loan is made there would be a compensating balance of x amount of dollars required. I believe Mr. Freedman wanted to comment on that too.

Mr. JARVIS FREEDMAN (*President of Rideau Trust*): We maintain a compensating balance for services because of the activity of your account.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): How is it calculated?

Mr. FREEDMAN: God only knows.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I am sure the bankers know as well as God.

Mr. LIND: Does it take ten per cent of your loans?

Mr. FREEDMAN: We do not have loans. It is strictly operating costs.

Mr. CLERMONT: If you have, say, $100,000 as a compensating balance are you allowed to issue so many cheques without charge?

Mr. FREEDMAN: No; we must pay for our cheques and we must maintain our account at the end of the day, we must have sufficient money in our account plus our compensating balance to meet all obligations. We do not borrow from the bank.

Mr. CLERMONT: I know that. Do the banks ask you to keep a compensating balance even if you have no loans, and do they give you permission to issue so many cheques through your account without any actual charges. What is the reason for their request for a compensating balance if you do not have any loans?

Mr. FREEDMAN: For services rendered to us.

Mr. CLERMONT: Are they cheque deposits, or what are they?

Mr. STEVENS: In respect of clearing house privileges, it seems to me that pretty well every trust company here has a different arrangement with the banker. We pay so much per cheque. We pay an annual associate membership fee to the clearing house.

The CHAIRMAN: Are you invited to meetings?

Mr. STEVENS: No. We also have a difficult problem on recourse. Items are charged to our account after what we consider the normal legal recourse has expired. We have had items returned and charged to our account six weeks after clearance.

The CHAIRMAN: So that you maintain a balance and you pay service charges as well.

Mr. STEVENS: Yes, particular service charges.

The CHAIRMAN: You, Mr. Stevens, were referring to something different I gather, that is to say, a balance that was not connected with activity in the account. Do I understand that correctly?

Mr. STEVENS: I think we are talking about two different things here. When Mr. Freedman referred to his situation with Rideau Trust I think he would be referring to cash balances he carries with his bank and apparently there is some understanding in that there has to be a minimum amount in order to please the bank in relation to whatever services they feel they are performing for Rideau Trust in connection with their general activities with that bank. That is one thing, and I think all trust companies carry substantial cash balances with their banks just out of necessity. Certainly in our case, we carry several hundreds of thousands of dollars cash in the bank in order to ensure that clearings will not put us into an overdraft position at 12 midnight when they are charged up. Out of necessity you have to have these relatively large balances.

Mr. CLERMONT: Is it not the same thing with an individual in that when he issues a cheque he expects to have the balance in his account?

Mr. STEVENS: That is true. The question is with regard to the degree. In other words, we are talking in very large figures. I know that we carried during

one 12 month period on an average about three quarters of a million dollars daily balances in one company alone, free of any interest.

The CHAIRMAN: What about the second type of balance?

Mr. STEVENS: The second type is with respect to applications for loans. An oral suggestion is made to the effect that, if the loan is granted, it would be expected that a certain free balance or compensating balance would be maintained with the bank, which would be part of the consideration for their making a loan.

Mr. MORE (*Regina City*): These would be demand loans and if you did not meet the request would you have the loan called?

Mr. STEVENS: I do not think it would ever be put in exactly that language. On the other hand, in practice that might be what would happen.

Mr. CLERMONT: Is it a gentleman's agreement?

Mr. MORE (*Regina City*): A gentlemanly understanding.

The CHAIRMAN: Do we have any further questions?

Mr. GILBERT: I have a short question on the Rideau Trust compensating balance. Are you paid any interest on that compensating balance?

Mr. STEVENS: No.

The CHAIRMAN: We want to thank our witnesses for adding to our store of knowledge on these various issues and for this very interesting discussion. Tonight's meeting is cancelled. We will resume on Monday evening at eight o'clock. Our witness will be Mr. Rasminsky, the Governor of the Bank of Canada. He will be returning, pursuant to our arrangement when we began our hearings, to deal with issues that have arisen relevant to his responsibility. At that time our Vice-Chairman, Mr. Laflamme, will be in the Chair as well as for our two sessions on Tuesday since I have a speaking commitment.

The meeting is adjourned.

APPENDIX "OO"

This brief on the proposed amendments to the Bank Act is respectfully submitted to the House of Commons Committee on Finance, Trade and Economic Affairs by:

The Alberta Fidelity Trust Company	Edmonton
Central Ontario Trust & Savings Corporation	Oshawa
City Savings and Trust Company	Edmonton
District Trust Company	London
Fort Garry Trust Company	Winnipeg
Hamilton Trust and Savings Corporation	Hamilton
Kent Trust & Savings Company	Chatham
Lincoln Trust and Savings Company	Niagara Falls
The Metropolitan Trust Company	Toronto
Northland Trust Company	Timmins
Rideau Trust Company	Ottawa
York Trust and Savings Corporation	Toronto

Through some seventy branches (approximately 14 per cent of the total number of trust company branches in Canada), these companies serve approximately 180,000 depositors. Collectively they are registered to do business across Canada.

The above companies believe that the amendments to the Bank Act, if implemented as proposed, will bring far-reaching changes in the structure of the entire Canadian financial system, and will affect not only the chartered banks, but all types of "banking" institutions, including trust and mortage loan companies and consumer finance companies.

Parliament should not make revisions to the Bank Act in isolation, without concurrently undertaking revisions to public statutes which govern the operating position of other "banking" institutions. Taken in isolation, the proposed Bank Act amendments will tend to enhance and consolidate the already dominant position of the chartered banks in Canada. Such a move would run counter to the spirit and recommendations of the Report of the Royal Commission on Banking and Finance (Porter Report). This Report, published in 1964, made a number of recommendations designed to encourage a more creative and competitive banking and financial system in Canada, which the Commission felt would best serve the Country's changing needs.

"Banking" institutions were defined by the Commission to include all financial institutions which issue transferable, demand and short-term claims with an original term up to 100 days. On this definition, all of the companies joining in this submission would be "banking" institutions.

An important recommendation of the Report was that *all* Canadian "banking" institutions, (including chartered banks and trust and mortgage loan companies) should be granted broader investing and borrowing powers in order to promote a more competitive and flexible financial system in Canada.

The Commission also recommended that steps be taken to guard against excessive concentration in the financial system. The views of the Porter Commission are summarized on Page 375 of the Report:

> "... we recommend that the powers of banking institutions be broader than any of them exercises under present legislation. They should all be free to invest in N.H.A. or conventional mortgages, subject in their conventional lending to the 75% loan-to-value limit....Similarly, they should all be free to make commercial and personal loans without restriction on the security they choose to take, and should all be entitled to the classes of security now available to chartered banks under Section 88 and related parts of the Bank Act, and to any loan guarantees which are offered by the Government to the present chartered banks. Other institutions need the same access to security as chartered banks if they are to compete effectively in this area, particularly as the banks' long experience and established position will give them a great working advantage."

We support completely the main recommendations of the Porter Report, relating to the encouragement of competition and the granting of wider loan powers to "banking" institutions.

We are not opposed in principle to the chartered banks receiving further advantages as contemplated in the proposed Bank Act now before you; but we do feel that Parliament should be extremely careful that in amending the Bank Act, they do not so improve the competitive position of the chartered banks that other "banking" institutions will find it difficult to compete with the chartered banks. Such action on the part of Parliament will defeat the objectives set out in the Porter Report and competition among banking institutions in Canada will lessen, not increase.

Accordingly, we recommend that the proposed Bank Act be passed in its present form but that the custom of revising the Bank Act every ten years be changed in favour of more frequent revisions, and that it be passed only after immediate steps are taken by Parliament to strengthen the competitive position of other "banking" institutions, by implementing the proposals recommended in this brief.

A review of recent chartered bank activity in Canada and their present position in our financial system supports our contention. Our chartered banks already enjoy a dominant position in the Canadian financial system and there is insufficient competition in the system at the present time. For example, the response of the chartered banks to "competition" from other "banking" institutions in the retail savings field has not been what free enterprise would dictate. Rather, their "competitive" response has been to ask Parliament for wider powers which, if granted in isolation, will enhance their already dominant position.

The chartered banks are, certainly, ideally placed to capitalize on any new powers they are granted. This fact was dramatically demonstrated following the last revision of the Bank Act in 1954, when the banks rapidly gained a dominant position in the new markets opened to them. The 1954 Bank Act allowed the banks to enter the NHA mortgage field. During the 1957-1959 period, the banks originated nearly 60% of the NHA loans made by private lenders. Also, following the 1954 Bank Act and as a result at least in part of revisions in the Act, the banks moved aggressively into the consumer loaning field, so that at the present time, chartered banks now hold 32.7 per cent of the total outstanding consumer credit in the Country compared with 14.1 per cent in 1957. In the same period

the sales finance company share of the market fell from 26.2 per cent in 1957 to 17 per cent today. (See Table 2.)

The present banking system in Canada is a highly concentrated one, where our three largest chartered banks alone control over 70 per cent of the chartered bank assets and over 50 per cent of the savings in the entire financial system, including savings held by the trust companies, loan companies and credit unions. This concentration is heightened by the fact that most of the Canadian banks are closely allied with certain of the larger trust or loan companies in the Country.

On June 30, 1966 trust company assets of a guaranteed or intermediary nature totalled approximately $3.5 billion, compared with a total Canadian dollar chartered bank position of $18,767,000,000. Three of our largest chartered banks (The Royal Bank of Canada, the Canadian Imperial Bank of Commerce and the Bank of Montreal) have *each*, total assets in excess of the entire trust company position, which includes some 50 companies.

Since June 1964, when the Bank Act first came up for revision, our chartered banks' Canadian dollar deposits have increased (in just over two years) from $15,665,000,000 to $19,172,000,000, a net increase of $3,507,000,000. The amount of this increase alone is approximately equal to the entire guaranteed or intermediary funds of all Canadian trust companies.

In Canada, the chartered banks operated a network of 5,786 branches (including agencies) in August, 1966. This network compares with a trust company network of approximately 500 offices. That is, at the present time the banks have approximately 12 offices in Canada for each trust company office. With the exception of The Provincial Bank of Canada and The Mercantile Bank of Canada which have respectively 369 and 7 branches, each of our chartered banks has more branches in Canada than the entire trust company industry. The Canadian Imperial Bank of Commerce alone has 1,354 branches or 2.7 times the total for the entire trust industry.

With chartered bank assets growing so rapidly and with their dominant position with respect to total assets and branches as shown above, it can be seen and has been shown historically, that their entry into new fields can be most dramatic and disruptive to those presently in such fields. Such action could easily result in a competitive imbalance which would be followed by a lessening of competition. In our opinion this would not be in the best interests of the Nation and would run contrary to the recommendations of the Porter Report.

A different type of banking system has evolved in the United States. From the very beginning the U.S. government has been fearful of a concentrated banking position, and has consistently intervened with legislation to ensure competition among financial institutions. Attempts, for example, to merge banks in one city or trading area, which would result in 40 per cent of the city's business being transacted by two banks, have been stopped by the federal authorities. At the present time, the combined assets of the three largest U.S. banks (Bank of America, First National City and Chase Manhattan) represent less than 8 per cent of the assets of the U.S. banks and savings and loan associations.

In the United States there is constant review by the Federal authorities to ensure that competitive imbalances do not arise unduly. Where such imbalances appear, early steps are taken to readjust the situation to ensure that one

segment of the financial industry does not get an undue advantage over the other. Recently the U.S. authorities took such action to correct an apparent imbalance between the banking industry and the savings and loan industry. A similar mechanism does not exist in Canada and accordingly care must be taken to ensure that such imbalance is not created through amendments to the Bank Act, the key statute in our financial structure.

We recommend that Parliament act decisively and promptly to reverse the trend in our Canadian financial system towards concentration and the elimination of competition which has developed and could develop if a competitive imbalance should arise as indicated above. If the Bank Act is amended as proposed, without concurrent action to improve the position of other "banking" institutions, we believe such an imbalance will occur and the concentration in our system will increase and competition will lessen.

Encouragement of Competition

In contrast to 25 years of concentration and lessening of competition in our financial system following 1930, there has been in the last ten years an encouraging growth in the savings, trust and mortgage field by newly active concerns. As Table 1 indicates, at least 24 trust or mortgage loan companies have become active in the savings field since 1955. As a group, these newly active "banking" institutions were successful in raising $36 million in fresh equity money from their shareholders during the 4-year period from 1961 to 1965, thereby enlarging their capital base and their ability to compete. Since 1961, these banking institutions have been able to attract $285 million in public savings in the form of deposits, debentures and investment certificates. Given the preservation of competitive conditions and equal opportunity, these newly active companies might be expected to grow and prosper.

A strong post-war demand for mortgage funds, plus the willingness of these companies and other previously established trust and loan companies to compete aggressively for public savings, are the main underlying factors contributing to the growth of these trust and mortgage loan companies in recent years. This recent growth, however, has only restored the trust and loan industry to the percentage position in the Canadian financial system which it enjoyed in the 1920's.

The Porter Report, in Chapter 10, includes some historical information indicating that the trust and loan companies were similarly successful in competing for public savings in the 1920's, when the demand for mortgage funds was equally strong. In the 1930's and 1940's, however, trust and loan companies lost ground relative to the banks, owing to the weak demand for mortgages. It was not until the mid 1960's that the trust and loan industry regained its relative position in size to the chartered banks.

Should near-term weakness develop in the Canadian mortgage market, perhaps due to a combination of falling demand and new competition from the chartered banks, it is obvious that the growth prospects of trust and loan companies would be greatly diminished. Therefore, if it is the intention of Parliament to encourage competition in the Canadian financial system, we submit Parliament must intervene decisively, through compensating legislation, to broaden the powers of other "banking" institutions to offset the extra advan-

tages to be given the chartered banks in the proposed Bank Act now before the Committee.

Your Committee is therefore urged to recommend to Parliament that the following legislative steps be undertaken, on a timetable concurrent with the enactment of the revised Bank Act.

1. Unsecured Loans and Consumer Credit

Both the Trust Companies Act and the Loan Companies Act should be amended to authorize companies registered under them to make consumer loans, and to make loans on less security or different security than now is required. This is in keeping with the key recommendation of the Porter Report.

It is noted that the Minister of Finance intends to call a federal-provincial conference to consider all aspects of consumer credit in relation to credit-granting institutions. In order to ensure fair competition, these powers should be given to trust and loan companies concurrently with the entry of the banks into the conventional mortgage loaning field.

2. Deposit Insurance

The need for deposit insurance was perhaps indicated indirectly when Mr. S. T. Paton, President of The Canadian Bankers' Association appeared before you on November 24, 1966 and testified against the chartered banks being required to disclose their "inner reserves" as contemplated in the new Bank Act.

A Canadian Press report states Mr. Paton said; Making public these details about their contingency funds and losses through bad debts could shake public confidence in the banking system... Business failures tend to come in bunches, and a run of bankruptcies resulting in a severe impact on inner reserves "could be an embarrassment". If only one of the eight chartered banks was hurt, the damage could spread throughout the banking community because of public apprehension.

The competitive position of "banking" institutions other than chartered banks, and the prospects for the incorporation of new banks would be greatly improved by the introduction in Canada of a system of deposit insurance similar to the one in existence in the U.S.A. Depositors in the U.S.A. have enjoyed this added protection since 1933, and its introduction in Canada is long overdue. We consider that the implementation of deposit insurance in Canada as proposed by the Minister of Finance would instil added confidence in our financial institutions and go a long way towards broadening the base of competition.

The Minister's action in this regard should be endorsed and immediate action should be taken by Parliament to pass upon presentation the Minister's proposed bill to establish a Crown Corporation which will provide deposit insurance to all chartered banks and all other federally chartered "banking" institutions, in a manner similar to the operation of the Federal Deposit Insurance Corporation in the U.S.A. The services of the Insurance Corporation in Canada should also be made available to provincially-incorporated financial institutions who qualify and agree to be bound by the operating rules of the Corporation.

We believe that deposit insurance as described above should be implemented and available at the same time the revised Bank Act comes into force.

3. Bank of Canada or other Recourse

It is also recommended that the Bank of Canada or the Corporation which is set up to provide deposit insurance, be empowered to make short-term loans to all "banking" institutions that qualify. In effect, the Bank of Canada or the Insurance Corporation would be empowered to act for all "banking" institutions, on terms and conditions similar to the way the Bank of Canada now lends short-term funds to both chartered banks and money market dealers. This would be a further step in equalizing competitive conditions in the financial system.

4. Clearing System

At the present time, membership in the Clearing House has been restricted to the chartered banks, by virtue of provisions contained in the Canadian Bankers' Association Act. This means that other financial institutions who accept deposits must clear their customers' cheques through one of the existing chartered banks, and in reality they have no privileges or rights over and above those of any other customer who deals with a bank.

Such "banking" institutions have no assurance that present clearing arrangements will be continued, and the present system gives chartered banks a competitive advantage over other "banking" institutions in that clearing has to pass through a competing chartered bank.

The Porter Report recommended that the clauses of the Canadian Bankers' Association Act which give the Association the right of operating the clearing system, should be repealed, and an association of all clearing institutions should be formed to manage the system and allocate costs equitable among all members in relation to the work done for each. We support this recommendation or any initiative to centralize the clearing activities under the Bank of Canada.

5. Subordinate Debentures

It is requested that the Trust Companies Act and Loan Companies Act be amended to provide for the issue of long term subordinate debentures by Canadian trust and loan companies. Such debentures would be subordinated to the deposit and certificate liabilities and debentures presently being issued by trust and loan companies and would rank in an intermediate position in preference to the shareholder equity. By virtue of its subordinate position, the long term subordinate debenture debt of a trust or loan company would be regarded as part of the capital base of a company, for purposes of computing its maximum borrowing potential in relation to capital. Revisions to the Bank Act contemplate the creation of this type of security for the chartered banks. On grounds of equity, a similar provision should be enacted for the other "banking" institutions.

6. Deposits by Non-Residents

The chartered banks presently enjoy an unfair advantage in soliciting foreign currency deposits by virtue of the provisions of Section 106 of the Income Tax Act. This Section waives the 15% withholding tax on interest paid on foreign currency deposits in the chartered banks. It is recommended that the same provision should apply to all "banking" institutions as well under the same circumstances.

Conclusion

The intentions of our chartered banks were clearly shown when Mr. S. T. Paton, President of the Canadian Bankers' Association, appeared before you on November 8th. Mr. Paton is reported to have said, "If the ceiling is lifted,... the banks will be able to attract more deposits away from the so-called near banks and make more loans to business and small borrowers."

We respectfully suggest that with the banks having the competitive advantage outlined above and with their intentions stated so bluntly, care should be taken by Parliament that before revising the Bank Act, other relevant legislation as indicated in this brief should first be amended to ensure that there may be more rather than less competition in Canada's financial system.

It is also submitted that a ten-year interval is too long a period between revisions of the Bank Act in Canada. The Bank Act has, in fact, only been revised once since the end of the Second World War. During this interval, the assets of the Canadian chartered banks have increased by approximately $20 billion, and the character of banks and the entire system has altered greatly. The new Bank Act should contain a provision providing for more frequent revision of the Act, perhaps every three to five years, or indeed whenever Parliament is of the opinion that the Act has caused a competitive imbalance in our financial system which would not be in the best interests of the nation.

More frequent revisions of the Bank Act would also ensure that Parliament might move quickly to correct any ambiguity in the Act's provisions which become apparent, as they have in the past, in the actual day-to-day operations of the chartered banks. For example, confusion has arisen since the last revision of the Bank Act as to the method of calculating interest on loans charged by chartered banks. By using an "add-on" or "free balance" method of charging interest, or through "service charges" some chartered banks now realize an effective interest rate of over eleven per cent on certain loans, yet they maintain they are still within the six per cent ceiling set out in Section 91 of the present Bank Act. (See Page 127 of the Porter Report.)

As indicated in the Porter Report, Canada needs a more open, competitive financial system. The revised Bank Act now before this Committee extends certain advantages to the chartered banks which cannot help but allow them to extend and concentrate further their position in Canada. It is essential that this danger be offset by extending to other "banking" institutions without delay, compensating powers to preserve their competitive position in the system. Such actions by the Parliament of Canada will be followed in most cases by similar provincial legislation and the recommendations of the Porter Report will thus be met, at least in part.

TABLE 1

THE SAVINGS, TRUST AND MORTGAGE INDUSTRY
SAVINGS ACTIVITIES OF 24 NEWLY ACTIVE "BANKING" INSTITUTIONS

Name of Company	Date of Incorporation	($000) Liabilities to the Public		($000) Shareholders' Equity	
		Increase 1961–1965	Total Dec. 1965	Increase 1961–1965	Total Dec. 1965
		$	$	$	$
The Alberta Fidelity Trust Company	1912[1]	3,900	3,900	925	1,325
Atlantic Trust Company	1964	1,600	1,600	1,060	1,060
Central Ontario Trust & Savings Corporation	1964	4,000	4,000	720	720
City Savings & Trust Company	1964	14,900	14,900	1,450	1,450
Commonwealth Trust Company	1962	14,400	14,400	1,280	1,280
District Trust Company	1964	2,200	2,200	1,770	1,770
The Fidelity Trust Company	1909[1]	4,200	4,200	300	510
Fort Garry Trust Company	1964	4,100	4,100	1,430	1,430
Halton & Peel Trust & Savings Company	1955	32,700	48,300	1,300	2,610
Hamilton Trust and Savings Corporation	1963	11,100	11,100	1,615	1,615
Kent Trust & Savings Company	1964	2,200	2,200	1,500	1,500
The Lincoln Trust and Savings Co.	1964	9,300	9,300	2,008	2,080
The Metropolitan Trust Co.	1962	21,100	21,100	2,785	2,785
Northland Trust Co.	1961	6,100	6,100	710	710
North West Trust Co.	1957	17,300	21,500	2,060	3,170
Rideau Trust Co.	1964	1,400	1,400	520	520
Savings and Investment Trust Co.	1960	15,200	16,200	1,080	1,580
Trans Canada Savings & Trust Co.	1963	3,600	3,600	350	350
York Trust and Savings Corporation	1962	72,400	72,400	5,170	5,170
Total of 19 trust companies		241,700	262,500	28,105	31,635
Canadian First Mortgage Corporation	1963	7,000	7,000	1,290	1,290
Commonwealth Savings & Loan Corporation	1959	20,300	21,300	1,970	2,570
Federal Savings and Loan Corporation	1964	3,100	3,100	1,410	1,410
Fidelity Mortgage and Savings Corporation.	1963	5,600	5,600	1,930	1,930
General Mortgage Service Corporation of Canada	1961	7,200	7,200	1,320	1,320
Total of 5 mortgage companies		43,200	44,200	7,920	8,520
Total of 24 "banking" institutions		284,900	306,700	36,025	40,155

NOTE (1): Not active in the savings field prior to 1961.
Source: Financial Post Survey of Industrials (various).

TABLE 2

THE NHA MORTGAGE MARKET IN CANADA
($ millions)

	New Loans by Chartered Banks	New Loans by Trust & Loan Cos.	Total Loans (excl. CMHC)	Loans by CMHC
	$	$	$	$
1957	173	9	278	235
1958	300	48	519	389
1959	175	19	308	367
1960	1	64	242	168
1961	NIL	195	453	271
1962	NIL	177	412	172
1963	NIL	167	385	302
1964	9	180	352	377
1965	6	201	321	461

COMMENT

During the 1957–1959 period, Canadian banks originated $648 million in new NHA loans. Total loans in this period by private lenders (excluding CMHC) amounted to $1,105 million. Thus the chartered banks accounted for nearly 60% of new NHA loans during this three-year period. Subsequent to 1959, interest rates moved above 6% and the ganks curtailed their NHA loaning.

CONSUMER CREDIT IN CANADA
($ millions)

December 31	Chartered Banks Personal Loans	Loans by Sales Finance Cos.	Total o/s Consumer Credit (1)	% Share Taken by Banks	% Share Taken by Sales Finance Companies
	$	$	$		
1957	421	780	2,976	14.1	26.2
1960	857	828	4,020	21.3	20.6
1965	2,186	1,142	7.055	31.0	16.2
1966–July	2,338*	1,219	7,150†	32.7	17.0

(1) Including life insurance company, consumer loan company and credit union loans, department store and other retail credit.

*Over 23% of their loan-position †Estimate

SOURCE: Bank of Canada
Statistical Summary
November 1966

COMMENT

On Page 126 of the Porter Report it is stated:

"One of the most dramatic shifts which has occurred in bank assets has been the growth of mortgage and other loans to individuals. Since 1945 chartered bank lending to individuals has jumped from $269 million to $2,573 million, accounting for 32% of the increase in the banks' loans and holdings of non-government securities. Mortgages under the National Housing Act climbed to almost $1 billion between 1954, when banks were first permitted to acquire them, and 1959."

ADDENDUM

The following companies endorse the foregoing brief:

Commonwealth Savings & Loan Corporation, Toronto
Federal Savings and Loan Corporation, Toronto
Fidelity Mortgage and Savings Corporation, Hamilton
Inland Trust and Savings Corporation Limited, Winnipeg
International Savings and Mortgage Corporation,
Winnipeg and Montreal

HOUSE OF COMMONS

First Session—Twenty-Seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 40

MONDAY, JANUARY 30, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.
Bill C-222, An Act respecting Banks and Banking.
Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESS:

Mr. Louis Rasminsky, Governor of the Bank of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25637—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Basford,	Davis,	Lind,
Cameron (*Nanaimo-Cowichan-The Islands*),	Flemming,	Macaluso,
Cashin,	Fulton,	McLean (*Charlotte*),
Chrétien,	Gilbert,	Monteith,
Clermont,	Irvine,	More (*Regina City*),
Coates,	Johnston,	Munro,
Comtois,	Lambert,	Valade,
	Latulippe,	Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

MONDAY, January 30, 1967.
(81)

The Standing Committee on Finance, Trade and Economic Affairs met at 8:05 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Davis, Flemming, Gilbert, Gray, Johnston, Laflamme, Latulippe, Monteith, More (*Regina City*), Munro, Wahn—(13).

In attendance: Representing the Bank of Canada: Messrs. L. Rasminsky, Governor; J. R. Beattie, Deputy Governor; L. Hebert, Deputy Governor; G. K. Bouey, Adviser; R. Johnstone, Deputy Chief, Research Department. *And also:* C. F. Elderkin, Special Adviser, Department of Finance, and Miss M. R. Prentis, research assistant.

The Committee resumed consideration of the banking legislation and Mr. Rasminsky was questioned.

During his testimony Mr. Rasminsky tabled a memorandum headed *Extracts from Bank of Canada record made at the time of conversations between L. Rasminsky and R. P. MacFadden of First National City Bank of New York regarding consultations with Minister of Finance with respect to acquisition of Mercantile Bank.*

The Committee agreed that the document was tabled without prejudice to a possible request to table the complete memoranda later, if the Committee should so direct. Copies of the memoranda were distributed to the members.

On motion of Mr. Clermont, seconded by Mr. Davis,

Resolved,—That the memorandum tabled by Mr. Rasminsky be included as an appendix to the Minutes of Proceedings and Evidence. (*See Appendix* page 2799).

The questioning continuing, at 10:20 p.m. the Committee adjourned until 11:30 a.m. Tuesday, January 31, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

25637—1½

EVIDENCE

(*Recorded by Electronic Apparatus*)

MONDAY, January 30, 1967.

The CHAIRMAN: Gentlemen, I think we are now in a position to begin our meeting. As you know, our principal witness this evening is Mr. Louis Rasminsky, the Governor of the Bank of Canada. He is with us at this time pursuant to an arrangement that we made at the conclusion of his testimony at the beginning of our public hearings to the effect that he would make himself available, when we seemed to be reaching a conclusion, to deal with matters pertaining to his responsibilities that had arisen between his first appearance and this latter stage.

I understand Mr. Rasminsky has with him Mr. J. R. Beattie, Deputy Governor; Mr. L. Hebert, Deputy Governor; Mr. G. K. Bouey, Adviser to the Bank, and R. Johnstone, Deputy Chief of the Research Department of the Bank.

I have asked Mr. Rasminsky if he has an opening statement. He tells me that he does not have one but would prefer instead to make himself available immediately for questioning. I have asked the members to signify their interest in the usual manner.

(*Translation*)

The first name that I have on my list is Mr. Clermont.

Mr. CLERMONT: Since last Tuesday especially we have heard the name of the Mercantile Bank of Canada quite often. I am sure that you are very well aware of the fact that on Tuesday evening Mr. MacFadden, tabled a brief prepared by him after the meeting he had with you. I wonder, first of all, whether you, Mr. Rasminsky, have also prepared a brief about that meeting you had, and secondly, if you suggested, advised or recommended to Mr. MacFadden, that before there was any kind of agreement between the Citibank and the Mercantile Bank, representatives or officers of the Citibank meet with Mr. Gordon, and thirdly, are you aware of the brief?

Mr. RASMINSKY: Mr. MacFadden's brief? Yes.

Mr. CLERMONT: Of section 4 and I quote:

(*English*)

"He approved the sequence of steps we propose to take."

(*Translation*)

Mr. RASMINSKY: Yes, I did see Mr. MacFadden on June 20.

(*English*)

Mr. CLERMONT: Mr. Rasminsky, I suggest to you that the first time you gave evidence to the Committee, it was my privilege to ask the questions in French.

Mr. RASMINSKY: And your privilege to hear the reply in good English.

Mr. CLERMONT: It is up to you. I must say that your French is very good too.

Mr. RASMINSKY: Thank you very much, Mr. Clermont. I am pleased to reply to the question in English because the notes which I made of the conversation with Mr. MacFadden on June 20 and of two subsequent telephone conversations with him are in English. In replying to your question I propose to rely entirely on the notes which were made of those conversations at the time.

In reply to your second question, I did, in fact, urge Mr. MacFadden to see the Minister of Finance before concluding the transaction. My note on this subject, if I can deal entirely with this particular question as it arose in the three conversations that I had, is that Mr. MacFadden, in the first conversation, indicated that if the Minister of Finance or I expressed very strong views against their coming in, the bank would certainly reconsider their decision. I said that the administration of the Bank Act was a matter for the government and not the central bank and I strongly urged them to see the Minister of Finance and hear his views before concluding their negotiations with the Mercantile. That is the way my note reads, "with the Mercantile." It should, in fact, have read "with the Dutch owners" of the Mercantile. My note goes on later, after other subjects were dealt with that he—that is MacFadden—said that he had intended to speak to the Minister of Finance at the same time as he spoke to me but as he was involved in the Budget Debate it was clearly impossible to see him. I urged him not to push the matter to a conclusion with the Mercantile before seeing the Minister of Finance and he undertook that they would not do so. Those are the extracts of my note of the conversation dealing with the subject of your question.

Mr. MacFadden on July 2 phoned and said that they now had a deal to buy the shares of the Mercantile subject to the approval of both boards. I said that I assumed that before completing the deal Mr. MacFadden planned to see the Minister of Finance and he replied in the affirmative, saying that he and Mr. Rockefeller were proposing to come here on July 18, if this was satisfactory. I said that I attached great importance to him talking to the Minister of Finance before making a final commitment. I wondered whether they were aware of the views that the Minister of Finance had expressed regarding foreign ownership and control of Canadian chartered banks in the preliminary report of the Royal Commission on Canada's Economic Prospects. I read him the full text of paragraph 20 on page 93 of this report. I do not reproduce in my own notes the next of paragraph 20 on page 93 but we do have a copy available here if it is needed.

The third conversation took place on July 26, 1963. On that date Mr. MacFadden telephoned to report on developments related to the National City's purchase of the shares of the Mercantile. He said that the Minister of Finance had been fairly tough in indicating to them that he did not wish them to proceed with the transaction but that after serious consideration they had decided to go ahead. They were arranging to see the Minister again on Monday. I reminded Mr. MacFadden of his remark at an earlier meeting in the Bank of Canada, that they would want to have the approval of the authorities before going ahead. Mr. MacFadden said that this had meant that they would only go ahead without that approval after very serious consideration. They had done this and

decided to go ahead. That is the record of the three conversations dealing with this matter.

I may say that in the ordinary course of events I would be very reluctant indeed to make public the Bank of Canada record of what was a private conversation and it is only the extraordinary nature of the present circumstances, the fact that these conversations, particularly the conversation of June 20, have already been the subject of discussion in this Committee and the fact that a version of the conversation has been published that has led me, reluctantly, to the conclusion that it would be right for me to make public in this way the Bank of Canada internal report of this conversation.

Your third question, Mr. Clermont, was whether I had expressed approval of the sequence of steps that the Citibank was proposing to take with regard to the Mercantile. I think that the rest of the content of Mr. MacFadden's memo which deals with the problems that I raised in connection with the matter would suggest that I did not express approval of the substantive action that they were taking. I think what occurred was that Mr. MacFadden told me that the Citibank had been considering for some time coming into Canada and had considered various alternatives, of which the principal alternatives were applying for a charter under the Bank Act or acquiring the stock of the Mercantile. I did confirm to Mr. MacFadden that in my judgment, though I am not a lawyer, there was no legal obstacle to their acquiring the stock of the Mercantile. I think it is quite probable, although I have no distinct recollection of this, that I advised them that in my opinion there would be some doubt as to whether if they applied for a charter under the Bank Act they would succeed in obtaining a charter. But I would not consider it an accurate version of the general view that I expressed approval of the sequence of steps they were proposing to take.

(*Translation*)

Mr. CLERMONT: Mr. Rasminsky, would you object to tabling the memo you have just read.

(*English*)

Mr. RASMINSKY: Mr. Clermont, as I indicated before, I have some reluctance to publish internal memoranda of the Bank. I had thought that it would be likely that I would be asked the question that you have put to me and I came to the conclusion that in all the circumstances the right course of action for me to follow was to put myself in the hands of the Committee. If the Committee feels that it would be helpful to their consideration of this question to have copies of the memoranda that were prepared at the time—that is, the memoranda of the three conversations that I have referred to—I would be prepared to have them tabled. But you recognize that this is an extraordinary situation.

I would like to say that the reason I attach importance to making it clear that the circumstances would have to be extraordinary to warrant that action is that a good many people come into my office and tell me of their worries and their plans in confidence. It is helpful to the central bank in the conduct of its duties to be the recipient of such confidences and I would not like any action that I take in this respect with regard to these memoranda to lead anyone to believe that when they came in and talked to me they were running the risk that a memorandum of the conversation might be tabled. The circumstances connected

with this case are extraordinary, first, because it is a direct object of legislation and consideration of the Committee and, second, because the record of the Committee is already spread out with accounts of these conversations. In these extraordinary circumstances I am quite prepared to put myself in the hands of the Committee and table the memoranda.

(*Translation*)

Mr. CLERMONT: Mr. Rasminsky, I can only express my own opinion, but the fact that Mr. MacFadden accepted to table his confidential memorandum is most extraordinary. In my opinion it would be better for your memoranda or memorandum relating to your meeting of June 20th and 2nd of July, I do not remember the third one—

Mr. RASMINSKY: July 26.

Mr. CLERMONT: —be tabled in the Committee.

(*English*)

The CHAIRMAN: Mr. Rasminsky, as I understand your position, you are saying that you do not, under the circumstances, have a direct objection to the tabling of the specific memoranda relating to the meeting and the two conversations in question but you would not want to have this act taken as a precedent with respect to any past or future memoranda of conversations and meetings under your responsibilities as Governor. Is that correct?

Mr. RASMINSKY: Sir, that is correct.

The CHAIRMAN: With Mr. Clermont's permission, if we could just digress for a moment, I was going to invite comments from the members of the Committee, on this particular aspect of the tabling of the documents.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Rasminsky, in spite of the extraordinary circumstances do you feel that tabling these memoranda may, perhaps, in some way, inhibit your future relations? We have to decide whether we are going to cause more damage than not by tabling them. In spite of your statement here tonight do you think it will create some problems for you in the future.

Mr. RASMINSKY: Mr. Cameron, I have no way of knowing that. I would quite frankly hope that people who have come to see me in the past and those who may come to see me in the future would recognize—at least if these memoranda are tabled—that these circumstances were extraordinary, that they might even recognize that my position in resisting tabling the document might have certain elements of awkwardness to it, and that it would not affect their view, that they could continue to come and talk to me in confidence and in the assurance that the confidence would be respected, which it certainly would. Although I cannot be completely sure, I would hope that the answer to the question would be that the tabling would do the Bank no harm.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The thought occurred to me that your evidence here this evening, which has substantiated what we were told by Mr. MacFadden's memoranda perhaps would be sufficient.

The CHAIRMAN: Is there any further comment on the question of tabling these documents.

Mr. MORE (*Regina City*): Mr. Rasminsky, was there any consultation between you and Mr. MacFadden with regard to tabling his documents.

Mr. RASMINSKY: No, sir.

Mr. MORE (*Regina City*): He did it without any consultation?

Mr. RASMINSKY: Yes, sir.

Mr. GILBERT: Mr. Rasminsky, did you make separate memoranda for each interview that you had with Mr. MacFadden?

Mr. RASMINSKY: Yes. There were three interviews: the long conversation of June 20, of which I made a note; the telephone conversation of July 2, of which I made a note, and a telephone conversation of July 26. After the telephone conversation of July 26 I immediately called into my office Mr. W. E. Scott, who was at that time Executive Assistant to the Governors of the Bank of Canada and who is now Inspector General of Banks; I told him the details of the conversation and asked him to make a memorandum of the conversation, which he made and which I initialled. So that separate notes were made of these conversations; two of them by me and one by Mr. Scott.

Mr. GILBERT: Is the memorandum that you refer to tonight a summary of your three memoranda?

Mr. RASMINSKY: The notes that I was using in my initial reply to Mr. Clermont's question consist of the extracts from these three memoranda dealing with one single point, namely, the question whether the First National City Bank people were advised to see the Minister of Finance before concluding the transactions. There is other subject matter dealt with in the full memoranda.

The CHAIRMAN: Are there any further suggestions with regard to the specific point of tabling the documents?

I might say to the Committee that it might want to take into account the necessity of eliminating any possibility of the suggestion being made that the Governor is raising this question of tabling the documents through lack of confidence, if I may put it that way, with respect to their content. It should be made absolutely clear, Mr. Rasminsky, that you are concerned with respect to the broad issue of confidentiality of discussions with the Governor and that you have no hesitation with respect to the specific memoranda in question.

Mr. RASMINSKY: That is quite right. That is the only object of my concern.

Mr. MONTEITH: Mr. Chairman, may I ask Mr. Rasminsky a question. I think you mentioned that you have dealt only with those extracts from your notes that had to do with this one particular question.

Mr. RASMINSKY: In reply to Mr. Clermont's question.

Mr. MONTEITH: Yes. Are there any extracts in those notes which apply to other phases of the deal which might be considered, under ordinary circumstances, confidential?

Mr. RASMINSKY: Do you mean commercial aspects of the deal?

Mr. MONTEITH: Yes.

Mr. RASMINSKY: No, sir.

Mr. DAVIS: It seems to me, Mr. Chairman, that other members of the Committee may have other questions which bear on the basic memorandum, and perhaps after we have heard some of these questions we might then decide whether they should be produced or not, instead of deciding now.

The CHAIRMAN: Yes, and I also throw out another suggestion for the consideration of the Committee. Mr. Rasminsky might meet this point by tabling the composite memorandum setting forth the specific extracts on which he has relied to tell us what happened in the course of these conversations.

Mr. RASMINSKY: We have a number of copies of these documents here and I would be prepared, of course, to place that document before the Committee.

The CHAIRMAN: Members of the Committee, perhaps the suggestion that I have just made might be the initial way of dealing with this: that if Mr. Rasminsky feels that this step will be consistent with his responsibilities regarding keeping confidential the general tenor of discussions and so on, Mr. Clermont's request might be met, at least initially, by him requesting the tabling of the composite memorandum.

Mr. RASMINSKY: Yes. I am quite prepared to do that at once. All that I would be tabling, of course, would be, in effect, the notes that I have read, and I am quite prepared to do that.

The CHAIRMAN: And these notes are the extracts from the memoranda—

Mr. RASMINSKY: These are the extracts from the memoranda dealing with this one specific point, consultations with the Minister of Finance with respect to the acquisition of the Mercantile.

(*Translation*)

The CHAIRMAN: Mr. Clermont, do you wish to have these notes tabled?

(*English*)

Mr. CLERMONT: Mr. Chairman, I remember well what I said. I said that I am expressing my own opinion and it is up to the Committee. My opinions are on the record, and if the Committee wishes these memoranda or only a résumé of them produced, I have no objection.

The CHAIRMAN: I think that this memorandum, as I gather, goes beyond a résumé; they are the specific extracts.

Mr. RASMINSKY: That is right.

The CHAIRMAN: Each of the three memoranda that were made the first after the meeting, and the second and third, after each of the telephone conversations, dealing with the specific question you have asked contain more than the résumé. Perhaps, if I may take the initiative myself, I would invite the Governor to table what I refer to as the composite memorandum and if the Committee in the course of questioning later feels that further extracts are necessary, we may deal with the specific issue of that time. Does that meet with your approval?

Mr. LAFLAMME: Mr. Rasminsky, if you have made notes of the essential context in your memos, how could it be of harm to anyone if the full memos were tabled?

Mr. RASMINSKY: Well, Mr. Laflamme, I am not, as you know, arguing against tabling the full memos. I have indicated that I am perfectly willing to table the memos if the Committee wishes me to do so. The notes that the Chairman has suggested that I table are not a résumé of the whole conversation; they are the complete record of the conversation on one point, and one point only, namely, the question of consultation with the Minister of Finance before acquisition of the Mercantile. The conversations covered a wider ground than that; they covered some of the substantive issues involved in the possible entry of the Citibank into Canada through the acquisition of the Mercantile.

Mr. CLERMONT: Were you expressing to Mr. MacFadden at that time the views of the Bank of Canada?

Mr. RASMINSKY: I was essentially raising questions with Mr. MacFadden. The first that I knew of the desire of the Citibank to acquire the Mercantile was in the course of the conversation on June 20th, so that I did not express the considered view of the Bank of Canada but I did raise a number of questions with Mr. MacFadden.

The CHAIRMAN: May I suggest to the Committee that for a start at least I invite the Governor to table the relevant extracts—I think that is a better term than composite memorandum—from the three memoranda dealing specifically with Mr. Clermont's question. Then I ask him to do so without prejudice to the right of the Committee to ask for the presentation to us of the complete memoranda before Mr. Rasminsky completes his testimony. Is that satisfactory to the Committee:

Some hon. MEMBERS: Agreed.

The CHAIRMAN: May I ask you to have one of your associates present us with this information. I will ask the Clerk to assist us. I would suggest to the Committee that since we are starting this issue— and I want to give the floor back to Mr. Clermont who was kind enough to yield it so that we could deal with this procedural matter—we try to exhaust our questions on this particular topic—I do mean this precise question but the general topic with respect to he relations of the Mercantile-Citibank interests with the government as they have come before us and, in the same context members may put any questions they may have to the Governor as to his views of the effect of the operations of foreign banking institutions in the country. Then, of course, we will proceed to recognize members on all the other issues which I am sure interest them as a result of the many suggestions and points made by the other witnesses who have appeared before us over the last several months.

(*Translation*)

The CHAIRMAN: Mr. Clermont, you could perhaps continue your questions.

Mr. CLERMONT: In paragraph 2, you say:

(*English*)

"MacFadden phoned this afternoon and said that they now had agreed to buy the shares."

(*Translation*)

Are you under the impression, or are you convinced, Mr. Rasminsky, that the transaction for the purchase of shares was finalized at the time when you spoke to MacFadden over the telephone? Had the deal been finalized then?

(*English*)

Mr. RASMINSKY: Mr. Clermont, I think the answer to your question is contained in the next sentence of the memorandum. The expression that "we have a deal" was indeed the expression that Mr. MacFadden used. It raised in my mind the same question that you are now putting to me, and so, as I say in the text of my note of the conversation which has now been distributed to you, "I said that I assumed that before completing the deal, MacFadden planned to see the Minister of Finance, and he replied in the affirmative" and asked me to arrange for him and Mr. Rockefeller to see the Minister of Finance on July 18th.

(*Translation*)

The CHAIRMAN: Have you finished, Mr. Clermont?

Mr. CLERMONT: For the moment, yes I have.

(*English*)

The CHAIRMAN: I will now take further questions. Will the members please indicate to me their interest, if any, in asking further questions at this point.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Is this confined to the conversations with Mr. MacFadden?

The CHAIRMAN: No. I would also think that if the members wish, because it is difficult to keep these things separate, I would be willing to accept questions on the general issue of the effect on monetary control and so on.

Mr. LAFLAMME: Before you proceed, may I ask a supplementary question arising out of Mr. Clermont's last question.

You referred Mr. Rasminsky, to your telephone conversation of July 26th in which you stated that Mr. MacFadden telephoned to report on the developments related to the National City Bank's purchase of the shares of Mercantile Bank, and said further that the Minister did not wish them to proceed with the transaction but after serious consideration they had decided to go ahead. Was July 26th the first time that you heard from Mr. MacFadden or someone else from the Mercantile Bank that they wanted to go ahead with the deal?

Mr. RASMINSKY: That they had decided to go ahead with the deal, yes sir.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Rasminsky, in Mr. MacFadden's memo he more or less quoted you in two respects with regard to your attitude to the entry of the National City Bank. As I recall it, the first one was that you were afraid that this might open the door to other applications from American banks, and the second one was some misgivings, that you had with regard to the confidentiality of your conversations with the members of the Canadian banking fraternity. Mr. Rasminsky, could you enlarge a bit on that and give us some idea of the dangers that you see in a very large foreign bank coming into the Canadian banking system.

Mr. RASMINSKY: In reply to your question I will enlarge on both of these points, and perhaps mention some other matters that I raised as well.

I think, Mr. Cameron, that every country would regard the control of its credit policy—that is, of the policy which determines the cost and availability of credit—as an essential instrument of national economic policy, and one which should therefore remain in the hands of the domestic monetary authorities. This view, which I think is fairly widely held, is reflected in various ways in the legislation or the institutional practices of a good many countries, including many countries that are basically internationalist in their broad outlook. In the United States, for example, as you know, the banking institutions of the United States are divided into state chartered banks and national banks. All national banks are members of the Federal Reserve System. State banks can be members of the Federal Reserve System. Of the 51 States of the American Union—have I the number right?—I believe that I am right in saying that there are only 5, or, possibly, 6 states which permit foreign banking in any shape or form. In the case of national banks in the United States, banks such as the First National City Bank of New York, for example, the national bank law provides that no foreigner, no non-American, can be a director of a national bank. Other countries have provisions of other sorts which are designed to ensure that the banking system remains basically under the control of the domestic authorities.

Now, these are matters of degree. A small foreign bank certainly would not jeopardize monetary control, or monetary policy. A large number of small foreign banks might present a rather different problem. A few foreign banks operating in Canada on a very large scale, to constitute a very large fraction of the Canadian banking system, could present a problem again of quite a different sort. Now, it is considerations of that kind that I have in mind, and these considerations I mentioned in the initial conversation with Mr. MacFadden.

The second consideration that he refers to in his memo is also one which I did indeed raise. I said that one of the questions raised in my mind about their coming in, was what effect this might have on relations between the Bank of Canada and the chartered banks. In this respect there were two separate things that I was thinking of. One was the effect that this might have on the character of the meetings that take place between myself and the general managers and presidents of the chartered banks. This is really not a question of confidential information, because at these meetings I do not really give any confidential information. I could not do so, and make available confidential information to one section of the community and thereby treat them differently from others. But I had found that the contacts with the general managers and with the presidents of the banks did provide a useful opportunity for an informal exchange of views and information, which I think were helpful to the chartered banks and to me in the conduct of my duties. The question in my mind was what effect the presence of what might be regarded as a large American bank at these gatherings might have. This was the question in my mind.

While I am on that subject, I would like to say this, Mr. Cameron, that, as things have turned out, Mr. Stewart Clifford, the General Manager and Chief Executive Officer of the Mercantile Bank, has attended the meetings of the chief executive officers, as well as the meetings of the general managers, and I have not the slightest criticism to make of the way he has conducted himself in what

for him must have been a very difficult situation. I would like to make that perfectly clear.

The second thing that I had in mind about our relations with the Chartered Banks had reference to the possible use by the central bank of a technique which we refer to as moral suasion—I have occasionally heard it referred to as immoral suasion!

An hon. MEMBER: Arm-twisting.

Mr. RASMINSKY: Yes; or "ear stroking". In the period of my governorship of the bank, before the Mercantile incident, I have encountered situations where it seems to be in the national interest to ask the banks to conduct themselves along certain specific lines. It is not a technique of monetary policy that I like particularly; I would much rather operate impersonally, through the quantitative power, through the power that we have to vary the cash base; but, as I say, there have been two or three occasions on which I myself, in a fairly short period which included the exchange crisis of 1962, as you will recall, have found it useful to make specific requests of the banks, and in every case where I have done so the Canadian Banks have complied. Such requests can succeed only if there is universal compliance, because if any single bank refuses to comply its competitors are not going to stand by and let it get the business that they, the complying banks, are turning away.

I wonder whether a Canadian bank which is a wholly-owned subsidiary of an American bank would be in a position to comply with such requests? I raised this question with Mr. MacFadden in one or other of these conversations, and he assured me in, I am certain, absolute good faith, that the Citibank as most cooperative with the central bank in every country where it operated. It is not a question of the intention of the bank; it may be a question of American law; that the American anti-trust law has been interpreted in a way which has, in effect, prevented subsidiaries of American companies operating abroad from entering into agreements which, if entered into in the United States, might be regarded as being in violation of the anti-trust legislation. Therefore, these were the two points which were covered by 3(b) of Mr. MacFadden's memorandum.

To complete the substance of the questions that I raised with him, I was concerned at the possibility that the foreign funds control legislation of the United States might be given extra-territorial application in Canada, and affect the activities of Canadian banks. I am not a lawyer, and I am not giving a legal opinion here, but there have been some situations where it has appeared to me that that seemed to be happening; that is to say, where Canadian subsidiaries of American companies refused to be guided exclusively by Canadian law, and refused to carry out certain transactions in Canada which were perfectly legal under Canadian law, on the grounds that such transactions, if carried out in the United States, would be a breach of the foreign funds control regulations, and that their parent company might be subject to penalties under American law if they permitted their Canadian subsidiaries to carry out these transactions. To me it seemed an unsatisfactory situation to have a Canadian bank which was not able to carry out the whole range of banking transactions for Canadians, and I also expressed this view to Mr. MacFadden.

That completes the account of the substantive points that I raised with him.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Thank you, Mr. Rasminsky.

I wonder if I may ask one concluding question? Have you given any thought to, and have you any views on, the possibility of foreign banks being permitted the type of agencies that Canadian banks now enjoy in some of the States of the Union.

Mr. RASMINSKY: Well, I know, Mr. Cameron, that this Committee has been requested by the Minister of Finance to consider that possibility. Before the Minister himself has decided what the policy of the government may be, and before the Committee has reached any conclusions, I would not wish to express any categorical view on the subject.

If it were helpful to the Committee I would be glad to try to outline what seem to me to be the pros and cons of this matter. I suppose that a very obvious pro, and a very obvious reason, for giving some sympathetic consideration to it is the fact that Canadian banks operate in a great many countries of the world, and it would seem, on the face of it, to be a rather odd situation that Canadian banks can operate in a great many countries of the world, but there is no means at all by which foreign banks can operate in Canada. Canadian banks operate not only in the United States, but in Paris, London, Dublin, Glasgow, the Netherlands, and Beirut; and, of course, they have very extensive branches in the Western Caribbean and in South America. That, I would think, is point number one on the pro side.

Secondly, I think it is probably the case that the presence in Canada of some foreign institutions might in some respects increase the competition between Canadian banks, which I conceive to be in itself a good thing, and might perhaps, improve, in some respects, the banking services available to Canadians. I do not know that there are any enormous gaps here, but there may be some contribution that agencies can make, particularly, I suppose, in transactions connected with the financing of foreign trade, and perhaps in foreign exchange markets. They might also, depending on how they operated, increase the competition in the making of loans in Canada. I think that those are the most important positive considerations.

On the other hand, I think it is quite likely that the establishment of agencies in Canada would increase the amount of banking business done by Canadians with the head offices of U.S. banks, particularly on a U.S. dollar basis. This, again, is a matter of degree, Mr. Cameron. At the present time, there being no exchange control or anything of that sort here, Canadian residents are perfectly free to do their banking business with the United States if they find it to their advantage to do so; and in fact, the large New York banks have travelling salesmen, so to speak, in Canada who go across the country, particularly looking for loans, on occasions when the United States banks have excess funds that they want to lend.

This is not a black and white matter. I think it is likely, however, that the establishment of an agency with one or more permanent offices in Canada would not only lead to increased agency business, which, in itself, so far as I am concerned, is more an advantage, but there would be, on the other side, the likelihood, I would guess, that more Canadian banking business would be done with non-resident banks in a non-resident currency; that is to say, in American

dollars. If that business got to be a very large fraction of the total banking business in Canada, this could present a problem for the monetary authorities.

Finally to the extent—and this is again on the negative side that the United States banking agencies, either for their own account or for account of their head office, became a large part of the business of banking in Canada, they would constitute an element that would be rather less subject to monetary control because of their ready access to outside funds, or to moral suasion when this was needed. Those seem to me to be the main considerations in connection with the problem of agencies.

The CHAIRMAN: Yes. The next name on my list is that of Mr. Wahn. Is this the subject matter that you had in mind?

Mr. WAHN: It does come close, Mr. Chairman.

The CHAIRMAN: I am quite prepared to recognize you now.

Mr. WAHN: Mr. Rasminsky, in Mr. MacFadden's memorandum there was a reference to the fact that a conversation was off the record. About 25 or 30 years ago a very wise man told me that no conversation is ever off the record. I have never had occasion to doubt the wisdom of that remark. I make reference to that because of what transpired on that particular occasion. I gather that there was some concern expressed that the confidential nature of your conversations with Canadian chartered banks might be adversely affected by the intrusion of a foreign owned bank. I can see quite clearly that where you have, in effect, rather an exclusive club consisting of representatives of the Bank of Canada and a very limited number of very large, powerful, responsible chartered banks, without having any legal control you can influence the action of the chartered banks along the lines that you think are desirable in the interests of the country. I can understand that this may have worked very well in the past.

The question I would like to put you is this: In light of the more competitive banking environment which everyone seems to feel is necessary in the future, we will not have just the seven or eight well-established banks, who are prepared to go along, but also some new and highly agressive competitors. Is it sufficient to rely upon this type of gentlemanly behaviour and club-like control, or would it not be better for either the Bank of Canada, or the government, to have authority to issue legally binding directives to the chartered banks when it is necessary in the interests of proper monetary or fiscal control?

Mr. RASMINSKY: May I answer your question without accepting all the accusation of being gentlemen?

In the first place, you refer to this as being exclusive. Of course, it is the case that all the banks are present, so that there is nothing exclusive about it within the banking system.

I have similar conversations with the trust companies' association and with the instalment finance companies. As I said to Mr. Gray, or as Mr. Gray said to me on the occasion of my previous appearance, my door is open to anybody who wants to talk to me; so that there is nothing exclusive about it in that sense.

The chartered banks are the instrument through which the monetary policy of the central bank is made effective. This arises out of the legal situation that they have to hold cash reserve requirements with the central bank. It has seemed to me to be desirable that the chartered banks should know, from time to time,

not what the central bank has in mind for the future—because probably you do not know yourself—out what the central bank had in mind, and how it looks at the situation that has passed.

The main reason for the meetings is not what the chartered banks get out of it but what the central bank gets out of it. It is important to us to have as up-to-date information as we can about business attitudes, about what he demand for bank credit is, and about the other things that the chartered bankers, with their far-flung branch system, see going on in the country; and these contacts have been grist to the mill; they have been one source of information which has been of value to the central bank and I would regret it if we gave them up.

We do not rely on this as a technique of carrying out monetary policy. We are carrying out monetary policy impersonally and quantitatively, by providing cash reserves to the commercial banking system. I think it is the case that most central banks do have contacts of this sort, some perhaps more developed than others, but it is certainly not an unusual circumstance that there should be regular meetings between the governor of the central bank and the chartered banks.

On your question about whether it would not be preferable to operate through the issue of directives, this may be a matter of individual attitude. One could come to a different conclusion about this. So far as I am concerned—so far as the central bank is concerned—I think that in our society, in a country which is organized in the way ours is, it is preferable to operate indirectly by providing a monetary atmosphere that will lead people, in the pursuit of their own self-interest, to take action which, broadly speaking, moves the economy in the direction in which you think it should be moving, and that we should avoid getting into the position of issuing specific directives.

That is not an inevitable conclusion, but that is the way in which it seems to me that we can best operate.

Mr. WAHN: Mr. Rasminsky, you said earlier that on several occasions you had found it necessary, despite the general control over monetary policy through these indirect methods that you mentioned, to ask the chartered banks voluntarily to comply with certain guidelines.

Mr. RASMINSKY: Yes.

Mr. WAHN: The other day the officials of Mercantile Bank referred also to the fact that the Mercantile Bank had complied voluntarily with guidelines to the same extent as had the other chartered banks. Do you, or the government, under the existing legislation, or under this proposed legislation, have the authority to make such voluntary guidelines mandatory?

Mr. RASMINSKY: No, sir; we do not.

Mr. WAHN: Do you think it would be desirable, for the new legislation that this Committee is considering, to give such authority either to the Bank of Canada or the government for the future, bearing in mind—

The CHAIRMAN: I wonder, Mr. Wahn, if you are not putting the governor in a difficult position? Up until now we have been rather cautious about asking officials in his capacity to make precise statements with regard to recommendations of policy. Although I myself may not be personally averse to having this

type of activity going on in committees I think that until the principle is more widely established we should make sure that we are not putting the governor in an awkward position.

Mr. WAHN: If it is a difficult question I will certainly withdraw it.

Mr. RASMINSKY: Now that the Chairman reminds me, I regard it as a difficult question.

Mr. WAHN: Mr. Rasminsky, the substantive question that this Committee is considering is, of course, how we can improve the Canadian banking system. If I ask any more difficult questions of that nature—

The CHAIRMAN: Mr. Wahn, I hesitate to interrupt again, but I wonder if we are being completely fair. Other members may feel that they are in a position at this time to ask questions related more generally to the issue of the relations between the Mercantile Bank, the government and the Bank of Canada, and to the broader area of the possible impact of foreign banking operations within Canada. I allowed your previous question because I could see its direct relevance. Could you assist me by telling me whether or not the other questions you are about to ask have as strong a link with the areas I have outlined?

Mr. WAHN: If they have not, Mr. Chairman, I hope you will tell me. Assuming that Mr. Rasminsky agreed that more competition was desirable, my next question was going to be whether he saw any great objection to permitting greater competition within the Canadian banking system through the intrusion of foreign branches of foreign banks, as distinct from Canadian chartered banks operating as subsidiaries of foreign banks? I believe Mr. Rasminsky dealt with agencies, and my question now is directed toward improving or increasing competition in the Canadian banking system through foreign branches.

Mr. RASMINSKY: Mr. Wahn, I am afraid I would have to know more about how foreign branches would operate; whether they would be subject to the Bank Act; whether there would be any limitation on their size or in the scope of their business; what the difference between foreign branches and foreign-owned banks incorporated under the Bank Act would be; and what would be the difference between branches and agencies. I am afraid that I cannot answer the question without knowing more about what foreign branches would be doing.

Broadly speaking, I would guess that the same sort of considerations that I have indicated I thought were relevant in the case of agencies would also apply to foreign branches. However, I am not sure of that, not knowing what the proposal would be.

Mr. WAHN: Would you feel that the existence on a fairly substantial basis of foreign branches in Canada might make monetary control more difficult?

Mr. RASMINSKY: The more substantial the basis the more difficult it would be.

Mr. WAHN: I have no other questions on this foreign aspect Mr. Chairman.

The CHAIRMAN: I now recognize Mr. Monteith.

Mr. MONTEITH: I have a different topic, too, Mr. Chairman; I am sorry.

The CHAIRMAN: I can see Mr. Davis, and then—

An hon. MEMBER: There is Mr. More here.

The CHAIRMAN: Yes, all right; I will recognize Mr. More instead; followed by Mr. Davis, Mr. Johnston and Mr. Munro.

Mr. MORE (*Regina City*): Mr. Rasminsky, I wonder if you could clarify something for one? I am wondering just exactly why the Mercantile, under its new owners, apparently creates more of a problem than it did in its previous operation?

Is it because the interpretation in the United States of certain of their laws as applying against wholly-owned subsidiaries in foreign countries is different from that of any other nation, and that there was no such law applicable to the Mercantile before it became a wholly-owned subsidiary of the First National City Bank?

Mr. RASMINSKY: Mr. More, perhaps I could answer that question, which was also put to me by Mr. MacFadden in one of these conversations, by referring to my notes on my conversations with him. I said to him, on June 20, that he should realize that the Citibank coming into Canada would cause much more of a stir than the original establishment of the Mercantile; that there were two reasons for this: First, that the Citibank coming in would be regarded as the harbinger of things to come; that people would think of this not in terms of a single American bank coming in, but would assume that the competitors of the Citibank in the United States would also certainly want to establish in Canada once the Citibank had done so.

Secondly, that people would consider that it was one thing to have a foreign-owned bank in Canada, when the owner was rather distant—a small Dutch bank—and another thing to have in Canada a bank the owner of which was a nearby, large, very enterprising and aggressive American institution.

I think those are the two points that would, in the mind of some people, at any rate, constitute a difference between the previous and present ownership of the Mercantile.

Mr. MORE (*Regina City*): The previous owner of the Mercantile you say was a small Dutch bank, not a large bank engaged in international operations?

Mr. RASMINSKY: Certainly, in Dutch terms, it was a large bank, and perhaps also in over-all terms; but it certainly was a more distant bank, with fewer connections in Canada and with very little in the way of commercial affiliations with Canada, because there are very few Dutch-owned companies in Canada. Therefore, I think that many people would regard that in a different light from ownership of the Mercantile Bank by one of the largest of the American banks. Mr. More, I would not want to be held to these figures, because they are given to me from memory by my colleague, Mr. Hebert, but his recollection is that the total assets of the previous owners of the Mercantile were about $1 billion compared with assets of about $16 billion of the Citibank.

Mr. MORE (*Regina City*): You feel that the opportunity for growth, then that is available to our neighbours to the south is largely because American companies operating in Canada would avail themselves of these services?

Mr. RASMINSKY: I said that that was an essential difference between ownership by a large American bank, and by the Dutch bank. I understand that, in fact, as the Mercantile has been operated up to the present, the great bulk of its business, in terms of numbers of accounts and the value of business, is not with

Canadian subsidiaries of American companies but with Canadians who are not subsidiaries of American companies.

Mr. MORE (*Regina City*): Then your original premise has not held in regard to the operation so far?

Mr. RASMINSKY: That is right, sir; yes.

Mr. MORE (*Regina City*): The other question I had was on the matter of confidentiality in meeting with the officials. You feel that the danger attaching to these meetings is much greater because it is an American subsidiary rather than the previous owners. Was there not the same danger there?

Mr. RASMINSKY: May I say, first of all, Mr. More, that the word "confidential" is not one that appears in my own memorandum—

Mr. MORE (*Regina City*): No; I see that it does in Mr. MacFadden's memorandum.

Mr. RASMINSKY: —of the conversation.

Mr. MORE (*Regina City*): It appears with regard to his meeting with Mr. Gordon; I believe that is where I saw it.

Mr. RASMINSKY: Yes. I am trying to see how I described this. May I read a paragraph from my full note of the meeting of June 20 dealing with this point. I said that the aspect of the thing which I, as governor of the central bank, would naturally be concerned with, would be the effect of their coming in on the operation of the financial system. As he knew, if he had read my evidence before the Royal Commission, I was in favour of competition, including competition within the banking system. I would also, of course, be concerned with the possible effects, on the relationship between the central bank and the chartered banks, of the introduction of one or more strong American banks into the system. These relations were now quite intimate. I saw the presidents and general managers quite frequently and talked with them informally. I regarded these conversations as valuable, and I would have to consider whether the character of the relationship would change if I had to feel that anything I said at these meetings which was regarded as being of particular interest was, quite properly, reported to the head office in New York.

I do not think it is a matter of confidentiality in the ordinary sense, Mr. More. It is what I thought at the time. It may be that in the light of experience I would attach somewhat less importance to this point now; but what I thought at the time was simply that even if you do not have guilty secrets, you do talk about your affairs a bit more frankly to members of your own family than you do in the presence of someone who is not a member of your own family.

Mr. MORE (*Regina City*): Mercantile has never been a member of our family, has it? They have been present, I take it, at previous meetings?

Mr. RASMINSKY: That is right; although these meetings had started only shortly before. When I became governor of the bank the main, formal contacts between the central bank and the chartered banks were through the attendance of the governor at quarterly meetings of the executive council of the Canadian Bankers' Association—

Mr. MORE (*Regina City*): Was that for the purposes of education?

Mr. RASMINSKY: Yes; the executive council of the Canadian Bankers' Association consists of the general managers of the banks. After a while it seemed to me desirable that the governor of the central bank should be meeting with the chief executive officers of the chartered banks, particularly since at the time the relations between the central bank and the chartered banks had been subjected to a certain amount of strain. Therefore I inaugurated the procedure of meeting three times a year with the chief executive officers of the institutions, and I think only two or three such meetings had been held at this time.

I think it is very useful to have these meetings on a routine basis, so that when occasion arises, when you really have to see the heads of the banks about something, it is not a crisis that brings you together; it is not regarded as a crisis. As a matter of fact I have had, quite fortuitously, two specific experiences of that. There happened to be a meeting in June 1962, and I think, as a matter of fact, that this was the first meeting of this type with the chartered banks; I think it was just after the exchange crisis had come to a head. It was very useful to have that scheduled meeting with them, which permitted me to make my first exercise in moral suasion; that is one of the occasions when I asked the banks to do certain things. The other occasion was in June of 1965, a couple of days after the Atlantic Acceptance affair, when there was a regular scheduled meeting; at that time I was able to talk to the banks and explain to them why I wanted them to behave in a certain way.

Mr. MORE (*Regina City*): Would it be in order to ask you if the Mercantile attended the meeting following the exchange crisis and, if so, as a result of their attendance you were not precluded from expressing your views in any way.

Mr. RASMINSKY: No sir. I do not know whether I have said this before—I meant to indicate it in the previous answer—but in respect of my meeting with the chief executive officers of the bank or my own meetings with the general managers of the banks, it has not been my experience that the presence of the representatives of the Mercantile has been a detriment, either before or after the acquisition of the stock by the Citibank, to the character of the discussions.

Mr. MORE (*Regina City*): I have just one more question. Am I right in my thought that there is now no possibility of any other chartered bank in Canada being taken over in this matter by foreign interests.

Mr. RASMINSKY: I do not know.

Mr. MORE (*Regina City*): Is there not some law, or it is not embodied in this—

Mr. RASMINSKY: There is a bill before this committee which would, as I understand it, limit the non-resident ownership of any bank to 25 per cent of the share capital.

Mr. MORE (*Regina City*): And this would preclude a take-over of this nature.

Mr. RASMINSKY: That is right.

Mr. MORE (*Regina City*): You spoke of your concern that this might start a stampede—perhaps that is not the right word, or might lead the way for more foreign bank operations in Canada; but if the present legislation passed, would this not be precluded also?

Mr. RASMINSKY: Yes, that concern was expressed, as you realize, in 1963 before this legislation—

Mr. MORE (*Regina City*): The present legislation would remove this concern; the opening would not be there unless we adopted some agency provision.

Mr. RASMINSKY: That is right.

Mr. MORE (*Regina City*): I think I am right in saying that the chartered banks, in their advice to us, indicated that they felt quite competent to compete in the banking field in Canada with a foreign bank operation, if you want to call it that. Do you disagree in any way with that? Do you think that they likely would be weakened through competition as a result of American subsidiary companies operating here?

Mr. RASMINSKY: No. None of the concern that I expressed to Mr. MacFadden or none of the considerations that I expressed here this evening are at all related to the competitive position of the Canadian banks.

The CHAIRMAN: I recognize Mr. Davis.

Mr. DAVIS: Mr. Rasminsky, looking ahead and assuming the Bank Act in its present draft form becomes law, I am still concerned about the degree of control that Citibank, for example, would have over the Mercantile Bank. Assuming it wanted to grow, it would own 25 per cent of the stock. What percentage of the stock of any chartered bank is necessary in the hands of one group in order to control its policy? The Bank Act as it is now drafted would limit all other banks in Canada, as I understand, to a maximum of 10 per cent. In this particular case there could be as much as 25 per cent concentration in the hands of one group—let us assume the Citibank of New York; can the Citibank of New York still control the policy of the Mercantile Bank and of course grow, under the Act as revised; and are we still up against many of the same problems you mentioned earlier this evening.

Mr. RASMINSKY: There are so many problems to worry about, Mr. Davis, that worrying about the situation that will prevail when the stockholdings of the Citibank are reduced to 25 per cent, seems a somewhat remote problem.

Mr. DAVIS: I would still like to get your comment on the degree of concentration. What is the maximum concentration of any one bank in Canada today? I think it is less than 10 per cent.

Mr. RASMINSKY: It is certainly less than 10 per cent, but I have no specific information on that Mr. Davis. I imagine the Inspector General would have the answer to that question, but I do know that it is substantially less than 10 per cent. If the shareholdings of the Citibank in the Mercantile are 25 per cent, and the maximum shareholdings of anyone else are 10 per cent or less, I do not think there is any doubt that Citibank will exercise a very important influence in the conduct of the affairs of the Mercantile. That is apparently contemplated in the legislation.

The CHAIRMAN: I recognize Mr. Johnston, followed by Mr. Munro.

Mr. JOHNSTON: Mr. Chairman, on reading Mr. MacFadden's memorandum the last day, it seemed to me that reasons (a) and (b) were perhaps somewhat speculative and that it is just possible that Citibank had not given them too

much weight. Listening to Mr. Rasminsky's explanation this evening, it seems to me they have become in a way increasingly speculative.

I wonder, Mr. Rasminsky, if you had any comment on item two of Mr. MacFadden's memorandum where he said he strongly recommended that going the route of the Mercantile was easier for them, but did not back away from a charter application on their own.

The CHAIRMAN: Have you concluded your question, Mr. Johnston?

Mr. JOHNSTON: I was wondering about the idea expressed there. Did you feel at the time that it would be possible for Citibank to ignore Mercantile and simply apply for a charter to operate a bank in Canada.

Mr. RASMINSKY: My own notes do not cover this point, Mr. Johnston. As I indicated before, I told Mr. MacFadden that it was, in my opinion, not certain—by no means certain that if Citibank applied for a charter they would be successful in getting one. It therefore followed from that, I suppose, that the only method they had of owning a bank in Canada was to acquire an existing bank.

Mr. JOHNSTON: Would this not then virtually invalidate (a) of the two points that were mentioned later on, which you spent some time on, knowing the recent history of the attempt on the part of the Bank of British Columbia, for example, to obtain a charter. You have referred to a few on a very large scale coming in. Did you feel it a possibility even that applications by a few large American banks would have any chance of being accepted.

Mr. RASMINSKY: No, I would feel the same way. The view that I just expressed was not specific to the Citibank; it was general. I thought it would be likely that if the Citibank acquired the Mercantile, this would increase the desire of the Citibank's competitors in the United States to come into Canada and that it would increase the pressure from others to apply for charters here.

Mr. JOHNSTON: In a way I still cannot see the problem that would arise. Would you feel it too embarrassing to Canada to keep rejecting these applications as they came up. How would this constitute a problem?

Mr. RASMINSKY: Yes, I think it would be a problem to keep rejecting applications of American banking institutions for charters here.

The CHAIRMAN: Do you have a supplementary question, Mr. Laflamme, if Mr. Johnston would yield.

Mr. JOHNSTON: I am finished.

The CHAIRMAN: I will accept the supplementary question of Mr. Laflamme. Then we have Mr. Munro.

Mr. LAFLAMME: Mr. Rasminsky, have you heard of any reason for the Dutch people deciding to sell their bank to the Citibank?

Mr. RASMINSKY: I imagine that they may have better use for their money.

Mr. LAFLAMME: You did not hear anything about that before?

Mr. RASMINSKY: No.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I ask a supplementary question?

The CHAIRMAN: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): My supplementary, Mr. Rasminsky, is in respect of the questions asked by Mr. More. Why did you have a different attitude towards the Mercantile when it was in the hands of the Dutch interest and when it became a subsidiary of the National City Bank. Did you have in mind, not so much the relative size of the banks, as the relative size of the economies in which they were established, the fact that one was established in a rather small nation with a rather modest sized economy and the other one based in the largest and most powerful economy in the world, which already has many branches in Canada.

Mr. RASMINSKY: That was probably a consideration in my mind, Mr. Cameron. I would like to make it clear that I was not then urging Mr. MacFadden not to come in here; the urging consisted of urging him to see the Minister of Finance before he came in here. I felt that their coming in here would create quite a stir, and I was anxious that they should realize that at the beginning and not be confronted with an unpleasant situation later. For that reason I raised the problems. I told them quite frankly in the conversation of the problems that would be raised in my mind by their coming and as I say, I urged them to go to see the Minister of Finance to make sure that they knew where they stood.

Mr. MUNRO: Mr. Rasminsky, were you aware at any time during this period in 1963 or 1962 of American interests indicating a desire to buy out or to buy a substantial portion of the shares of any of our chartered banks.

Mr. RASMINSKY: Not in any concrete way, Mr. Munro. I cannot be specific about this because it was never sufficiently documented to really get down to cases on it, but I did hear market rumours from time to time that one or another American bank was interested in acquiring interests in the banking field in Canada.

Mr. MUNRO: Did the fact that this possibility might become a reality concern you at all.

Mr. RASMINSKY: Did this concern me? I do not recall taking these reports seriously enough to have focused on the question, Mr. Munro, until June 20, 1963.

Mr. MUNRO: And the fact that American interests indicated an interest in the Mercantile gave some credence to the possibility that they might be interested in other areas?

Mr. RASMINSKY: I am sorry, I did not hear your question.

Mr. MUNRO: The fact that they were interested in the Mercantile Bank lent more weight to the possibility that they might be interested in acquiring shares in other of our chartered banks. Is this the feeling you had?

Mr. RASMINSKY: Do you mean that other banks would acquire shares in our chartered banks?

Mr. MUNRO: Yes.

Mr. RASMINSKY: As I have just said in reply to Mr. Johnston, I felt that once the Citibank acquired an interest in Canada this would result in an increase in the interests of other banks and that, therefore, it was difficult to look at the Citibank-Mercantile situation as an isolated case.

Mr. MUNRO: And although you had not given it too much serious consideration, you had heard that American interests were interested in other of our chartered banks in terms of acquisition of shares?

Mr. RASMINSKY: Yes, in a very vague sort of way, Mr. Munro; not in the way that led me to take it seriously.

Mr. MUNRO: If Americans were allowed to move into one of our banking institutions such as the Mercantile or others in an unlimited fashion, without the limitations that are now being considered, what would be your feelings about the possibility of subsidiaries of American corporations in Canada dealing with that particular bank?

Mr. RASMINSKY: That is a very "iffy" sort of question, Mr. Munro. I would imagine that American corporations operating in Canada, like others, would deal with whatever bank they can make the best arrangements with.

Mr. MUNRO: Is it reasonable to assume that there would be certain advantages to subsidiaries of American corporations dealing with banks in Canada in which Americans had a substantial or controlling interest?

Mr. RASMINSKY: I think it is probably reasonable to assume, other things being equal, that if an American corporation has a business in Canada and deals with bank "X" in the United States, and bank "X" has a subsidiary bank in Canada, there probably would be an inclination to direct the Canadian company's banking business to the subsidiary of the American bank. But, of course, the Canadian subsidiary bank has to be in a position to handle the business, and being in a position to handle the business means that it has to be able to offer services which are competitive in price and of corresponding quality—superior quality—to the services of Canadian banks. And it also means that they have to be financially equal; they have to have the resources to offer to handle the business. I think that one would start perhaps with some disposition on the part of subsidiaries to deal with the same bank, so to speak, as their parent company deals with, other things being equal.

If I can just add this, Mr. Munro, I did say in reply to a previous question—or I volunteered this information—that I do not think that that has happened on any substantial scale in the case of the Mercantile. I understand that the great bulk of their business, both by number of accounts and in terms of the value of business in Canada is, in fact, not with subsidiaries of American companies.

Mr. MUNRO: In terms of Mercantile's present position am I correct that it cannot be used as a guide to what the future would be in that connection—that is, in terms of its nebulous position at the moment? Do you feel that because of this inclination that you talk about, Mercantile could hardly be an example of the fact that this could not take place?

Mr. RASMINSKY: Are you asking me a question?

Mr. MUNRO: Yes.

Mr. RASMINSKY: What is the question?

Mr. MUNRO: My question is: In view of Mercantile's nebulous position at the moment, it is hard to use it as an example to prove that this type of possibility could not occur, namely that subsidiaries of American corporations would not

have the inclination to deal with a bank in which American interests had substantial ownership.

Mr. RASMINSKY: I still regard that as an assertion, not a question.

Mr. MORE (*Regina City*): I have a supplementary, Mr. Munro, if you will permit it. Mr. Rasminsky, you answered my question previously, but could I ask you this: In the light of the operation of the Mercantile since its take over and the answer you gave, are you still fearful that if they were allowed unlimited growth this would occur? Do you have any opinion on that?

Mr. RASMINSKY: I think you are now getting into the area of the governmental policy with regard to this, which I really do not think I should be asked questions about.

Mr. MUNRO: Suffice to say that I believe, without putting words in your mouth, that you did indicate that there might be an inclination in this direction. In your summary of your dealings with the National City Bank people, I note that you say in your memorandum of June 20;

> I strongly urged them to see the Minister of Finance and hear his views before concluding their negotiations with the Mercantile.

Some emphasis was lent to the point that Canadian laws, as distinct from governmental policy, did not prevent the acquisition of this bank by the Citibank people. When you voiced this comment to the National City people were you concerned that you did not have any statutory authority, in a narrow sense, to offer this comment?

Mr. RASMINSKY: No, I was not, Mr. Munro. I thought that this was a friendly piece of advice I was giving to the Citibank.

(*Translation*)

Mr. GRÉGOIRE: Mr. Rasminsky, between your conversation of the 20th of June by telephone and the 18th of July, the day of the meeting with Mr. Rockefeller and Mr. MacFadden with the Minister of Finance, did you have an opportunity to meet the Minister of Finance?

Mr. RASMINSKY: Yes, I did.

Mr. GRÉGOIRE: And speak to him of this question in between these two periods?

Mr. RASMINSKY: Yes, certainly.

Mr. GRÉGOIRE: Before Mr. Rockefeller came to see you, the Minister of Finance was already aware of the question?

Mr. RASMINSKY: Yes.

Mr. GRÉGOIRE: Did you remember having said to the Minister of Finance that the First National City Bank would definitely not conclude its agreement without seeing him?

Mr. RASMINSKY: Yes, I gave him an account of my conversations with Mr. MacFadden.

Mr. GRÉGOIRE: Then Mr. Gordon, the Minister of Finance was able to say: "Until they have met me there nothing will be definitely settled".

Mr. RASMINSKY: I cannot reply for the Minister.

Mr. GRÉGOIRE: But following your conversation with him, before the 18th of July?

Mr. RASMINSKY: Yes, I let the Minister of Finance understand that Mr. MacFadden had told me that he had accepted my advice not to undertake anything definite along these lines without having seen the Minister of Finance beforehand.

(*English*)

Mr. MUNRO: Despite the fact that you could not offer any statutory authority for limiting the Mercantile Bank people, you were certainly, both in your conversation of June 20 and July 2, quite emphatic that before the Mercantile people proceeded with their proposed transaction they should consult with the Minister of Finance?

Mr. RASMINSKY: I strongly urged them to do so. That is right, Mr. Munro.

Mr. MUNRO: You assumed, therefore, that despite the absence of any precise wording in a statute, the attitude of the Canadian government on such a proposal would be quite a cogent consideration so far as the acquisition of any bank by foreign interests is concerned?

Mr. RASMINSKY: Yes, I think that that is a clear statement, Mr. Munro.

Mr. MUNRO: And that as early as July 2 you had been advised the deal was firm subject to the approval of the respective boards of directors of the two contracting parties?

Mr. RASMINSKY: To what date do you refer?

Mr. MUNRO: July 2.

Mr. RASMINSKY: Yes, that is right. You say that the deal was firm. The words that were actually used are the words noted in my memorandum, "we have a deal".

Mr. MUNRO: They had a deal.

Mr. RASMINSKY: Subject to the approval of the respective boards of directors.

Mr. MORE (*Regina City*): In other words, Mr. Rasminsky, you felt it was an option; the deal had been concluded but it was more or less an option that could be proceeded with or not after conversations with the Minister of Finance.

Mr. RASMINSKY: I think that that is probably what went through my mind at the time.

Mr. MUNRO: Did you assume that before they completed the deal they would see the Minister of Finance on July 18?

Mr. RASMINSKY: Yes. Mr. MacFadden requested the appointment. He asked me on July 2 to make arrangements for him to see the Minister of Finance on July 18, and my own office record indicates that I saw the Minister of Finance at ten minutes to nine on July 3, and that I telephoned Mr. MacFadden at 11.30 in the morning of July 3. Now I assume, although I have no written record, that the Minister of Finance agreed to see Mr. MacFadden on July 18, and that I communicated that information to him on July 3.

Mr. GRÉGOIRE: Mr. Rasminsky, did you phone Mr. MacFadden on July 3rd to advise him that the meeting would take place on July 18th?

Mr. RASMINSKY: Mr. Grégoire, I think that that is what happened. I must say that I have a record of a telephone call that I made to Mr. MacFadden on July 3rd at 11.30 in the morning. I do not have a clear recollection of what I said to him at that time, but on that same date I sent a memorandum to the Minister of Finance referring to the arrangement made to see Mr. MacFadden and Mr. Rockefeller on July 18th.

Mr. GRÉGOIRE: Mr. Chairman, would my memory be correct in recalling that Mr. MacFadden told this Committee that he heard for the first time about that meeting with the Minister of Finance on the 18th, on the 16th of July.

The CHAIRMAN: I think it would be useful if at this time I referred to a Canadian Press report dated New York which appears to report on a statement given by Mr. Robert MacFadden as a result of his memorandum of the meeting with the Governor having been tabled before this Committee. In the second column of this report—

Mr. GRÉGOIRE: Mr. Chairman, what is in the paper is not evidence. We should get the evidence.

The CHAIRMAN: I think that what I am doing will be helpful both to yourself and—

Mr. GRÉGOIRE: No. That is just a newspaper report and it is not evidence. I think that we should have the record by tomorrow.

The CHAIRMAN: Well, that is quite so, but for the time being perhaps I may read this quotation and the weight given to it can be taken with respect to the source—I mean the press source, and the source in general. As I say, it is a Canadian Press report and it reads—and this is not in quotations:

> MacFadden said Citibank did, in fact, have a meeting with Gordon before signing closing documents. It had been impossible to inform him in advance of the actual reaching of agreement, because the deal advanced very quickly in Rotterdam.

In the next paragraph, again not in quotations:

> Citibank and the Dutch owners reached agreement on June 26th. Citibank's negotiators returned from Holland in a few days and a week-end intervened. But on Monday, July 2nd, Citibank representatives phoned Rasminsky, MacFadden said; he went on—

and the part I am reading now is in quotation marks:—

> We told him of the deal and said that James S. Rockefeller, head of the National Citibank, and I would like to see him. Mr. Rasminsky said he was going on holidays and to get in touch with him again.
>
> On July 16th Mr. Rasminsky was still unable to give us an appointment but made one for us to see Mr. Gordon on July 18th and that meeting took place.

I would gather, Mr. Rasminsky, as you have already told us earlier in this meeting, that Mr. MacFadden had told you in his telephone conversation of July 2nd that he and Mr. Rockefeller were proposing to come here on July 18th

if this was satisfactory. In other words, this date was mentioned by them in their conversation with you on July 2nd.

Mr. RASMINSKY: Right.

The CHAIRMAN: I gather from what you just told us now that you apparently were able to give some confirmation of this appointment on July 3rd. Would that appear to be the case.

Mr. RASMINSKY: Yes, I was, I must say, surprised when I read that report; of course, I do not know whether Mr. MacFadden said the words that are attributed to him in the report. The fact is, as I have already indicated to the Committee and as my note made on July 2nd shows, that the opening paragraph of my note of July 2nd as quoted reads this way:

> MacFadden phoned this afternoon and said that they now had a deal to buy the shares of the Mercantile subject to the approval of both Boards. I said that I assumed that before completing the deal MacFadden planned to see the Minister of Finance, and he replied in the affirmative, saying that he and Rockefeller were proposing to come here on July 18th if this was satisfactory.

The last paragraph of my note of the conversation of July 2nd reads:

> MacFadden thanked me for telling him frankly the questions that were in my mind and said it gave them something that they would have to think about. I undertook to let him know whether the July 18th date would be a satisfactory one.

Well now, being surprised at the statement in this memo—

The CHAIRMAN: You mean the press report.

Mr. RASMINSKY: —I mean the press report—I had my secretary look at the office record and I find as I have said that at ten minutes to nine on July 3rd I went to see the Minister of Finance and at 9.30 I spoke to Mr. Bryce and at 11.55 in the morning I called MacFadden and spoke to him. As I say, I have no distinct recollection at the present time of what I said to him but I think it is a fair—

Mr. GRÉGOIRE: You reconfirmed that visit to the Minister of Finance on the 18th of July by phone to Mr. MacFadden.

Mr. RASMINSKY: I think I must have done so.

Mr. GRÉGOIRE: Could you check to see if you made a phone call.

Mr. RASMINSKY: I have told you Mr. Grégoire, that I phoned MacFadden at 11.55 on July 3rd.

Mr. GRÉGOIRE: But, did you phone him again on July 16th.

Mr. RASMINSKY: No—if I may complete the record on this point: in a memorandum which I wrote to the Minister of Finance on July 3rd, which I certainly do not intend to quote in full,—and I hope the Committee will not ask me to table it—this sentence occurs in the introductory paragraph summarizing the sequence:

> I reminded him of this yesterday, (him is MacFadden in this context) and an appointment has been arranged for Mr. James Stillman Rockefeller, the Chairman and Chief Executive Officer of the bank and MacFadden to see the Minister of Finance on July 18th.

The CHAIRMAN: That is dated when?

Mr. RASMINSKY: That is dated July 3rd. So I assume that this memorandum was written after the telephone conversation with Mr. MacFadden.
As for going away on holidays—

The CHAIRMAN: Perhaps you could clarify that for us.

Mr. RASMINSKY: Yes. I yield to no one in my desire to go away on holidays. But, unfortunately, I was in Ottawa continuously from July 2nd until Friday, July 12th, and I had—again I see from my office records—a very considerable number of business engagements extending over this period and a disconcerting number of social engagements extending over the same period. On July 12th I did go away on holidays and on July 16th I was about 800 miles from here fishing for salmon in a river off the Saguenay. The last thing in the world that I had in mind was making any telephone calls to—

Mr. GRÉGOIRE: Mr. MacFadden was not with you on this fishing trip.

Mr. RASMINSKY: No, he was not.

The CHAIRMAN: The point is, Mr. Rasminsky, you were available until the 12th of July in Ottawa if they had attempted to seek you out.

Mr. RASMINSKY: Yes, indeed.

The CHAIRMAN: I wonder, gentlemen, in fairness to Mr. Munro, if we might not allow him to complete his period of questioning and, unless there is a suggestion from the Committee that we try to go on a little longer this evening —I see there is a consensus in the broadest sense of the term that we do not go on. However, in fairness to Mr. Munro, I think perhaps we might allow him to finish his period of questions.

Mr. MUNRO: As early as July 2nd, you inquired of Mr. MacFadden as to whether he was aware of the duties of the Minister of Finance regarding foreign ownership and particularly control of Canadian chartered banks and you read him a portion of the Royal Commission on Canada's Economic Prospects. You did this by telephone. When you wondered about this—that is, as far as Mr. MacFadden's knowledge of the opinion of the Minister of Finance in this area—what did Mr. MacFadden say? Did he indicate that he had any knowledge whatsoever of the feeling of the Minister of Finance on this question?

Mr. RASMINSKY: Yes. This is the relevant portion of the note that I made at the time:

> I said that I attached great importance to him talking to the Minister of Finance before making a final commitment. I wondered whether they were aware of the views that the Minister of Finance had expressed regarding foreign ownership and control of Canadian chartered banks in the Preliminary Report of the Royal Commission on Canada's Economic Prospects. I read him the full text of Paragraph 20 on Page 93 of this Report.
>
> MacFadden says that they were generally aware of these views and that he thought the basis of them was the attempt at take-over of the (and my note contains the name of an insurance company which I would just as soon not read unless you particularly want me to) such and such

and some other insurance company. I pointed out that the paragraph referred to chartered banks as well as life insurance companies. MacFadden said that all they were proposing to do was take over a bank that was already owned by non-residents. I said that this was the case but that they should be aware that this action would create much more of a stir than the original granting of a charter to the Mercantile had created.

Mr. MUNRO: I noticed you quoted Mr. MacFadden as saying "they". You would not know who he included in "they".

Mr. RASMINSKY: By "they" I meant the officers of the First National City Bank of New York.

Mr. MUNRO: So this Committee can only assume, when Mr. Rockefeller says that as late as July 26th he did not know about this, that Mr. MacFadden had not communicated with Mr. Rockefeller.

Mr. RASMINSKY: He could not have said that, Mr. Munro. On July 26th? He had already seen the Minister on July 18th.

Mr. MUNRO: I am sorry, July 18th.

The CHAIRMAN: Do you usually meet with bank clerks?

Mr. MUNRO: I note too in conclusion, Mr Chairman, that in your memorandum you go back to July 26th; Mr. MacFadden tells you that the Minister of Finance at his meeting on July 18th presumably was fairly tough, indicating to them that he did not wish them to proceed with the transaction but that after serious consideration they had decided to go ahead. Did you take from this conversation on July 26th that the deal was firm or that they had decided as of that time to go ahead despite the conversation with the Minister of Finance.

Mr. RASMINSKY: I am sorry; you have me confused as to the dates you are referring to.

Mr. MUNRO: I am quoting here your conversation with Mr. MacFadden on July 26th and you state that Mr. MacFadden said that after serious consideration they decided to go ahead despite the very tough conversation that they had had with the Minister of Finance. Did you take from that conversation that the deal was not absolutely firm and legally binding but that they decided to go ahead and make it binding?

Mr. RASMINSKY: Mr. Munro, I honestly cannot remember the thoughts that went through my mind on this particular point three and a half years ago. Taking two things together, first, their undertaking to me not to firm up the deal until they had seen the Minister of Finance and, second, the statement that having seen the Minister of Finance and knowing that he did not wish them to proceed with the transaction, after serious consideration they had decided to go ahead—I must have taken it that the decision to go ahead was made after they had seen the Minister of Finance on July 18.

Mr. MUNRO: I take it that the concluding part is your own quotation: they had done this and decided to go ahead?

Mr. RASMINSKY: Yes. That is rather inelegant; they had given the matter serious consideration and had decided to go ahead.

The CHAIRMAN: Mr. Munro, if I may interrupt before any more time elapses, I think we should have a formal motion that the document produced by Mr. Rasminsky headed "Bank of Canada" and dated January 30, 1967 and having to do with extracts from Bank of Canada record, made at the time, of conversations between L. Rasminsky and R. P. MacFadden of First National City Bank of New York regarding consultations with the Minister of Finance with respect to the acquisition of Mercantile Bank, be made a formal part of our record. I would invite a motion.

Mr. CLERMONT: I so move.

Mr. DAVIS: I second the motion.

Motion agreed to.

Mr. MONTEITH: Mr. Chairman, before you adjourn may I ask if the record for January 24 is going to be available tomorrow.

The CHAIRMAN: Yes, it is available. We just have the verbatim transcript which is not edited in any way and has not as yet been fully translated.

Mr. MONTEITH: But we could refer to any previous reference to this July 16th date?

The CHAIRMAN: Oh, I would think so, certainly. The Clerk, at my request, was kind enough to hurry along the transcription staff, and I hope that this will become a precedent; we actually had the transcript less than two or three weeks after the event. Let us hope that this is a hopeful omen.

Mr. MUNRO: Perhaps these records will correct my faulty recollection of the dates. I do believe Mr. Rockefeller stated that he was not aware of the views of the Minister of Finance with respect to foreign ownership and control of our banks until his meeting on July 18. If I am correct in that, Mr. Chairman, I can only assume that the conversation between Mr. Rasminsky and Mr. MacFadden on July 2nd was never communicated to Mr. Rockefeller.

The CHAIRMAN: Well I do not think that it would be fair to ask the Governor to assist you in making that assumption because he would be so remote from the event, unless he feels he can.

Mr. MUNRO: But at no time, I take it, did you have any personal conversations with Mr. Rockefeller; it was always with Mr. MacFadden.

Mr. RASMINSKY: No, I have not had any personal conversations on this subject with Mr. Rockefeller.

The CHAIRMAN: You have answered my own previous question as far as the Governor usually speaking to bank clerks is concerned.

I declare our meeting adjourned until tomorrow morning at 11 o'clock, at which time the Vice-Chairman, Mr. Laflamme will be in the Chair.

APPENDIX "PP"

BANK OF CANADA

January 30, 1967

Extracts from Bank of Canada record, made at the time, of conversations between L. Rasminsky and R. P. MacFadden of First National City Bank of New York regarding consultations with Minister of Finance with respect to acquisition of Mercantile Bank:

1. *Conversation of June 20, 1963*

. . . . . .

"MacFadden indicated that if the Minister of Finance or I expressed very strong views against their coming in, the bank would certainly reconsider their decision. I said that the administration of the Bank Act was a matter for the Government and not the central bank and I strongly urged them to see the Minister of Finance and hear his views before concluding their negotiations with the Mercantile."

. . . . . .

"He (MacFadden) said he had intended to speak to the Minister of Finance at the same time as he spoke to me but as he was involved in the Budget Debate it was clearly impossible to see him. I urged him not to push the matter to a conclusion with the Mercantile before seeing the Minister of Finance, and he undertook that they would not do so."

2. *Telephone conversation of July 2, 1963*

"MacFadden phoned this afternoon and said that they now had a deal to buy the shares of the Mercantile subject to the approval of both boards. I said that I assumed that before completing the deal MacFadden planned to see the Minister of Finance, and he replied in the affirmative, saying that he and Rockefeller were proposing to come here on July 18th if this was satisfactory.

I said that I attached great importance to him talking to the Minister of Finance before making a final commitment. I wondered whether they were aware of the views that the Minister of Finance had expressed regarding foreign ownership and control of Canadian chartered banks in the Preliminary Report of the Royal Commission on Canada's Economic Prospects. I read him the full text of Paragraph 20 on Page 93 of this Report."

. . . . . .

3. *Telephone conversation of July 26, 1963*

"Mr. MacFadden telephoned to report on developments related to the National City's purchase of the shares of the Mercantile Bank. He said

that the Minister of Finance had been fairly tough in indicating to them that he did not wish them to proceed with the transaction but that after serious consideration they had decided to go ahead. They were arranging to see the Minister again on Monday."

.....

"Mr. Rasminsky reminded Mr. MacFadden of his remark at the earlier meeting in Bank of Canada that they would want to have the approval of the authorities before going ahead. Mr. MacFadden said that this had meant they would only go ahead without that approval after very serious consideration. They had done this and decided to go ahead."

.....

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

TO

MINUTES OF PROCEEDINGS AND EVIDENCE

TUESDAY, JANUARY 31, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.

Bill C-222, An Act respecting Banks and Banking.

Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

Representing the Bank of Canada: Mr. Louis Rasminsky, Governor. *Representing The Canadian Bankers' Association:* Messrs. S. T. Peton, President; Léo Levoie, Vice-President; J. H. Coleman, Vice-President; W. T. G. Hackett, Chairman, CBA Bank Act Revision Committee; J. F. Duffy; E. M. Macintosh; G. R. Sharwood; René Leclerc. *And also:* Miss M. E. Francis, Research Assistant to the Committee.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

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Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 41

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ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25639—1

STANDING COMMITTEE
ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Basford,
Cameron (*Nanaimo-Cowichan-The Islands*),
Cashin,
Chrétien,
Clermont,
Coates,
Comtois,
Davis,
Flemming,
Fulton,
Gilbert,
Irvine,
Johnston,
Lambert,
Latulippe,
Lind,
Macaluso,
McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Munro,
Valade,
Wahn—(25).

Dorothy F. Ballantine.
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, January 31, 1967.
(82)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.05 a.m. this day, the Vice-Chairman, Mr. Laflamme, presiding.

Member present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Davis, Flemming, Fulton, Gilbert, Irvine, Johnston, Laflamme, Lambert, Latulippe, Monteith, More (*Regina City*), Wahn—(14).

Also present: Mr. Grégoire.

In attendance: Representing the Bank of Canada: Messrs. Louis Rasminsky, Governor; J. R. Beattie, Deputy Governor; L. Hebert, Deputy Governor; G. K. Bouey, Adviser; R. Johnstone, Deputy Chief, Research Department. *And also:* Miss M. R. Prentis, research assistant.

The Committee resumed consideration of the banking legislation and the witness, Mr. Rasminsky, was questioned.

The questioning continuing, the witnesses were allowed to retire, subject to recall.

At 1.05 p.m. the Committee adjourned until 3.45 p.m. this day.

AFTERNOON SITTING
(83)

The Committee resumed at 3.50 p.m., the Vice-Chairman, Mr. Laflamme, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Comtois, Irvine, Johnston, Laflamme, Lambert, Latulippe, Monteith, More (*Regina City*), Wahn—(11).

Also present: Mr. Grégoire.

In attendance: Messrs. S. T. Paton, President, The Canadian Bankers' Association and Vice-President and Chief General Manager, The Toronto-Dominion Bank; Léo Lavoie, Vice-President, The Canadian Bankers' Association and Vice-President and General Manager, La Banque Provinciale du Canada; J. H. Coleman, Vice-President, The Canadian Bankers' Association and Chief General Manager, The Royal Bank of Canada; W. T. G. Hackett, Chairman of Canadian Bankers' Association Bank Act Revision Committee and General Manager (Investments), Bank of Montreal; Jean Machabée, Assistant General Manager, La Banque Provinciale du Canada; J. F. Duffy, Superintendent, Canadian-Imperial

25639—1½

Bank of Commerce; R. M. MacIntosh, Joint General Manager, Bank of Nova Scotia; G. R. Sharwood, Deputy Chief General Manager, Canadian-Imperial Bank of Commerce; René Leclerc, General Manager, La Banque Canadienne Nationale; Gilles Mercure, Assistant General Manager, La Banque Provinciale du Canada; F. L. Rogers, Chairman, Canadian Bankers' Association Economists Committee and Economic Adviser, The Bank of Nova Scotia; J. H. Perry, Executive Director, The Canadian Bankers' Association; and Miss M. R. Prentis, research assistant.

Messrs. Paton, Coleman and Duffy were questioned.

During his testimony Mr. Paton referred to a memorandum prepared by Miss Prentis for Mr. Clermont on the subject of Bank service charges (*See Appendix T, Issue No. 29*) and tabled copies of a memorandum on the same subject addressed to the Chairman.

On motion of Mr. Clermont, seconded by Mr. Lambert,

Resolved,—That the memorandum tabled by Mr. Paton be distributed to members of the Committee and included in this day's Minutes of Proceedings and Evidence. (*See Appendix QQ*)

With the consent of the Committee, Miss Prentis commented on the Canadian Bankers' Association memorandum.

In the course of questioning on the subject of clearing houses, Mr. Paton tabled a chart entitled *Comparison of Some of the Principal Charges Made to Near Banks* which, on direction of the Committee, is attached hereto as *Appendix RR*.

The questioning continuing, at 5.55 p.m. the Committee adjourned until 8.00 p.m. this day.

EVENING SITTING
(84)

The Committee resumed at 8.12 p.m., the Vice-Chairman, Mr. Laflamme, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Flemming, Fulton, Gray, Johnston, Laflamme, Latulippe, Monteith, Wahn—(10).

Also present: Mr. Grégoire and Mr. Saltsman.

In attendance: The same as at the morning sitting and Messrs. C. F. Elderkin, Special Adviser, Department of Finance, and Denis Baribeau, research assistant.

Questioning of the witnesses was continued.

At 9.35 p.m. the Chairman, Mr. Gray, took the Chair.

The questioning having been concluded, the Chairman thanked the witnesses for their contribution to the deliberations of the Committee. The witnesses then withdrew.

At 10.35 p.m. the Committee adjourned until 11.00 a.m., Thursday, February 2, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, January 31, 1967.

The VICE-CHAIRMAN: Gentlemen, may I call the meeting to order?

I would invite the honourable members to indicate to me their intention to ask questions. The first one I see is Mr. Lambert.

Mr. LAMBERT: Mr. Rasminsky. I am not interested in the "Yes, you did—No, you did not" aspect of the whole of the Mercantile transaction. I think that has consisted of a lot of idle chatter, in many instances. I am more concerned about the long-range implications of the government's proposal, and the future possibility of a money market in Canada.

Do you feel that legislation of this kind, which inhibits the entry into Canada of foreign banking interests on their own, will not effectively preclude the creation of a money market in, say, Toronto or Montreal?

Mr. RASMINSKY: Mr. Lambert, this legislation is, of course, government policy and I am sure that you would not expect me to comment on, or to criticize or even to support, government policy in a field which is not the responsibility of the Bank of Canada.

Mr. LAMBERT: That is a reasonable answer on that point.

Mr. RASMINSKY: You ask whether it is my opinion that legislation of this type will inhibit the creation of a money market in Toronto or Montreal. The implication of that question would appear to be that there is not a money market in Toronto or Montreal, and, with respect, Mr. Lambert, that implication is unwarranted. There is in fact a money market which has been developed over the past few years, more particularly since 1954, with a certain amount of assistance, I may say, from the Bank of Canada—assistance which took the form initially of encouragement to financial institutions to develop a money market, and practical assistance in the form of lines of credit to money market dealers who are recognized as dealers in short term government securities, and who have defined lines of access to central bank credit which they use to back-stop the day-to-day loans that the chartered banks make to money market dealers, which are used for the purpose of carrying money market securities.

I could not agree with the implication of the term "inhibit". Presumably what you had in mind is whether the money market could be improved.

Mr. LAMBERT: I will agree with you that it does exist, but in rather modest proportions.

Mr. RASMINSKY: Its foreign complexion is extremely limited.

Mr. LAMBERT: What I am concerned about, Mr. Rasminsky, is the free development of a full money market.

Mr. RASMINSKY: It depends, Mr. Lambert, on what you mean by "modest proportions". On the most recent Wednesday for which figures are available, which is Wednesday January 25, 1967, included among the assets of the chartered banks are day-to-day loans to money market dealers in the amount of $270,000,000.

Mr. LAMBERT: Yes; but that is the day-to-day money market. I am talking about a full money market, with international dealings.

Mr. RASMINSKY: The investment dealers do engage in arbitrage transactions, Mr. Lambert.

I do not mean to suggest that I think that our money market is incapable of further development. I am sure that, like every institution, it is capable of further development, and I hope that there will be further development. Nor do I mean to suggest that the addition of some institutions, and perhaps foreign institutions, might not help in the process of further development. If, however, the suggestion you are making, Mr. Lambert, is that the presence of non-resident institutions is a pre-requisite to the further development of the Canadian money market, that is an implication with which I would not agree.

Mr. LAMBERT: I would say so, too, because there may be general evolution; but I do not think—and perhaps we part company here—that there will be the development of the full potential of a money market with the restriction on participation by foreign banks that is proposed now.

Mr. RASMINSKY: I might find it easier to reply to your question, Mr. Lambert, if you were to indicate what you think are the deficiencies in the money market at the present time.

Mr. LAMBERT: There have been suggestions that there has not been sufficient access to foreign exchange and to knowledge of such transactions. There has been testimony, before the Committee to this effect and I have also heard it from private sources. My view is that unless there is an absolute beneficial purpose, in imposing restrictions there is no value in imposing them for their own sake. These restrictions, at any time, seem to suggest that there will be a hindrance to evolutionary development.

Mr. RASMINSKY: Mr. Lambert, for the reason which I have indicated I do not think it would be appropriate for me to deal with the last observation you made; however, I am concerned with what the facts are, as regards the size and the scope of the money market.

In our statistical summary each month we publish a compilation, which we make with the help of the Dominion Bureau of Statistics who collect some of the information, of the amount of short-term paper outstanding in Canada. Now, short-term paper is the stock in trade of the money market, and I think it is the best single indicator of the size of the money market. I find in looking at the January, 1967 number of the statistical summary on page 30, that at the end of November 1966, which is the last date available, the amount of short-term paper outstanding—which means paper with an original term of one year or less—issued by Canadian issuers amounted to $1,186,000,000 of which $1,073,000,000 was denominated in Canadian dollars and $113 million in other currencies. This figure had been as high as $1.5 billion.

I suggest to you that figures of this magnitude are not to be despised; that they do indicate the existence of quite a large money market in Canada. As I say, I do not think that this could not be improved upon, either through enlargement or through improved techniques of the money market, but there is no doubt that there is a good—

Mr. LAMBERT: Mr. Rasminsky, you have been describing what I would term a lusty infant, in the knowledge that it started only in 1954. What concerns me is that this money market be allowed to grow to full adulthood.

Mr. RASMINSKY: I certainly hope that it will, Mr. Lambert.

Mr. LAMBERT: Thank you.

(Translation)

Mr. CLERMONT: Mr. Rasminsky, in regard to the international market, one of the obstacles to the existence of international markets in Canada is that Canadian currency is not international currency, in the sense that the American dollar and the English are.

(English)

Mr. RASMINSKY: May I repeat your question in English, Mr. Clermont, to be sure that I have understood it? Did you ask me whether the fact that the Canadian dollar was a domestic currency and not an international currency was an obstacle to the development of Canadian international trade, or have I misunderstood the question?

Mr. CLERMONT: Of a money market.

Mr. RASMINSKY: Of a money market? I think it is the case that if the Canadian dollar were a widely-used international currency there would be more foreign participation in the Canadian money market, and that the Canadian money market would be broader and wider.

I could say the same thing in a different way, that I think it is the case that if Canada were a creditor country in her international transactions, instead of being a debtor country, which would be a necessary condition for the Canadian dollar to be widely used as an international currency, then it would follow that the Canadian money market would be wider. In other words, if Canada were in the same position as the United States it would have a wider money market. I do not think there is any question about that. It is the fact that Canada is a debtor on international account, with large international indebtedness on capital account and a large current account deficit involving the import of capital, that precludes the use of the Canadian dollar as a reserve currency.

This is not a matter of desire, or will; it is a matter of what the facts of the situation are. The United States, of course, is in a completely different position. The United States is a large creditor on international account. She has a large current account surplus notwithstanding the fact that she has some real balance of payments problems. American dollars, as a result of historical evolution, are very widely held as reserves by foreigners. These dollar balances have to be employed somehow in order to earn some interest, and a fair amount of these balances—in fact a great deal of them—is employed in money market transactions, either in loans to the New York call market, or in holdings of money

market securities. This situation results from the underlying economic facts in the American situation, just as the fact that the Canadian dollar is not used as an international currency results from the underlying economic facts in our situation.

Mr. WAHN: Mr. Chairman, with Mr. Clermont's permission, may I ask a supplementary question?

Mr. CLERMONT: Yes.

Mr. WAHN: Mr. Rasminsky, in your view is it desirable that Canada should have a wider and more international money market, and, if so, have you any suggestions on what the Committee could do to encourage the growth of a wider and more international money market?

Mr. RASMINSKY: I do not know that I have any concrete suggestions on that subject. I think, as I indicated in a previous reply to Mr. Lambert, that a fair amount of international arbitrage takes place. Foreigners have a sufficient degree of confidence in the Canadian dollar that they are prepared to move capital into and out of Canada in response to fairly modest interest rate differentials, which helps to increase their participation in our money market.

If one looks at your question from a longer-run point of view, and if it is of great importance that we broaden the international character of our money market, we should be attaching great importance to reducing the deficit in our current account balance of payments and moving away from the position of being so large a debtor into a more balanced position.

Mr. WAHN: Thank you, Mr. Chairman.

(*Translation*)

The VICE-CHAIRMAN: Are you finished, Mr. Clermont?

Mr. CLERMONT: Mr. Rasminsky, last evening in reply to a question put by Mr. Cameron concerning the money supply, you implied that many average banks held foreign capital or that some banks or some big financial institutions on coming on to the Canadian market might exercise some influence on the money situation. Now, the fact that in 1953, when the Mercantile Bank received its charter and the 30th of June, 1962, when the United States bank bought the Mercantile Bank, the total assets of the bank were $84 million and the 30th of October, 1966, the assets of the Mercantile Bank were $224.5 million. Does this not indicate the difference in policy followed by the first directors as compared to that of the present set of proprietors. Does it not indicate that because a big banking institution bought the Mercantile, the activities of the bank on the Canadian market were different, than when managed by the Dutch?

(*English*)

Mr. RASMINSKY: Mr. Clermont, I really do not feel capable of analyzing the reasons for the difference in the size of the balance sheet of the Mercantile Bank on the two dates that you have indicated. It is indeed the case, as you have pointed out, that the total assets of the Mercantile Bank have increased quite considerably over the past several years.

The figures that I have before me and I think they are the same as yours which are taken from the Canada *Gazette* show that on June 30, 1963, the assets

of the Mercantile were $84 million and on October 31, 1966, the assets of the Mercantile were $225 million, approximately. These, of course, are the total assets of the Mercantile, and they include assets which are denominated in foreign currencies as well as those which are denominated in Canadian dollars. The *Canada Gazette* figures distinguish between certain categories of assets, according to the currency in which they are denominated. It is the case that quite a high proportion of the present assets and liabilities of the Mercantile are denominated in currency other than Canadian dollars.

I am afraid I do not know what the situation was in this respect on June 30, 1963.

(*Translation*)

Mr. CLERMONT: According to the figures given us last week by the officials of the Mercantile Bank, of the total assets of $284.5 millions, $111 millions represented foreign currency.

(*English*)

Mr. RASMINSKY: Yes, about 50 per cent; which means that the scope for growth in the Canadian assets is still quite considerable; that is, by way of substitution of Canadian assets for foreign currency assets.

Mr. CLERMONT: Thank you, Mr. Chairman.

The VICE-CHAIRMAN: I will now recognize Mr. Fulton and then Mr. Grégoire.

Mr. FULTON: I want to leave the Mercantile, which seems to me to be a rather arid field of discussion, and come back to some of the other matters.

The VICE-CHAIRMAN: Yes; I fully agree with that.

Mr. MONTEITH: Mr. Chairman, I have just one supplementary question. Did I understand you to say, Mr. Rasminsky, that there would still be quite a reasonable scope for the Mercantile to change some of its foreign-held assets to Canadian?

Mr. RASMINSKY: That would seem to be the case, Mr. Monteith.

Mr. MONTEITH: And that the bill before us would actually limit them to $200 million of Canadian assets?

Mr. RASMINSKY: I do not think the bill draws any distinction between Canadian assets and U.S. assets.

Mr. MONTEITH: Well, may I ask a question purely from a lay standpoint? I do not know how this would work at all. How could the assets be reduced from $225 million to $200 million?

Mr. RASMINSKY: Mr. Monteith, I do not know how that provision of the Bank Act would work or whether it would require any reduction in their assets. I am the wrong person to answer that question.

Mr. MONTEITH: Thank you; that is all, Mr. Chairman.

(*Translation*)

Mr. GRÉGOIRE: I have but one question on the Mercantile Bank.

The VICE-CHAIRMAN (*Mr. Laflamme*): Go ahead.

Mr. GRÉGOIRE: Mr. Rasminsky, the Canadian Bankers' Association have defended the Mercantile Bank and chartered banks' presidents have defended the viewpoint of the Mercantile Bank, even though they might represent serious foreign competition for Canada. It seems to me odd; you, who know these bankers well, could you explain why these bankers defend a competitor from abroad?

(English)

Mr. RASMINSKY: Mr. Grégoire, the last thing in the world I can explain is the purpose of the chartered banks. You might call on them yourself, and put the question to them. But I believe that the Canadian Bankers' Association, as an association, did not take a stand insofar as the Mercantile issue is concerned. I know that a president of one the chartered banks—

The VICE-CHAIRMAN (*Mr. Laflamme*): Mr. Grégoire, the Association will be appearing this afternoon and you can put the question directly to the witnesses.

(English)

Mr. FULTON: I want to come to the matter of deposit insurance, Mr. Rasminsky. We have now seen the government's bill. Am I correct in my understanding of its effect that the deposit insurance corporation will be a separate entity from the Bank of Canada, although the Bank of Canada will be represented on its board, or governors?

Mr. RASMINSKY: I am going to answer that question, Mr. Fulton, but before I do may I say that the deposit insurance bill is government legislation, and I am not qualified to respond to any detailed questions regarding the deposit insurance bill.

Having said that, and in reply to your question, it is the case that the bill which is before the House and, I believe, before the Committee, does propose to set up an institution which will be separate from the Bank of Canada but on the board of which the Governor of the Bank of Canada will *ex officio* be a member.

Mr. FULTON: You express reluctance to answer detailed questions. Is that with respect to policy, or do you also include the field of operations? By that I mean questions on how it will operate and what its effect will be?

Mr. RASMINSKY: Really, basically, both, Mr. Fulton; but I would like to be as helpful as I can. If you wish to put a few questions I will see whether I think it is appropriate for me to answer them; but I certainly cannot answer any questions regarding the field of operation of deposit insurance.

Mr. FULTON: Well, Mr. Rasminsky, you are, or one of your officials, is going to be a member of the board. It is difficult for me to assume, as I think you invite me to, that you really do not know how it is going to operate. Knowing you as well as I do I find it difficult to believe that that would be the case.

Mr. RASMINSKY: I know, in a general way, what the legislation contains, Mr. Fulton. I think I know what the objectives of the legislation are.

When the legislation was being drafted I was asked whether I would be prepared to serve *ex officio* as a member of the board and I indicated that I would. But that is as far as it goes.

My concern with deposit insurance, of course, is its impact on the functioning of the financial system generally. On the question of how it will operate, I would assume that, like other similar institutions, it will operate within the provisions of the act setting it up, if Parliament adopts the bill. There is, I think, a fair amount of detail given in the bill on how it will operate.

Mr. FULTON: What I had wanted to ask you first was with respect to its relationship with, and impact on, the money supply and credit situation in Canada, and then I was going to ask for your views on the feasibility of an extension of the principle of deposit insurance and that aspect of it called the lender-of-last-resort principle, for instance. These would be fair fields. Let me try out a few questions, as you suggested.

Mr. RASMINSKY: Yes.

Mr. FULTON: To the extent that institutions other than the banks subscribe to, or become members of, the deposit insurance system, will this have any bearing upon the money supply and the ability of those institutions to expand it?

Mr. RASMINSKY: I think, Mr. Fulton, the short answer to the question is No; that there is no direct relationship between the deposit insurance system and the money supply. The money supply, basically, is the result of monetary policy. I have indicated in previous evidence before the Committee that I do not regard the money supply as really the main criterion of monetary policy, or the main way in which one should judge what the monetary policy is.

I regard the general characteristics of the credit conditions, the price and availability of credit, as giving a better indication of what the monetary policy is.

In some cases both these criteria would be moving in the same direction, so to speak, but in other cases, of which we have had some recent examples, they could be moving in opposite directions.

May I complete the answer?

Mr. FULTON: Yes, please.

Mr. RASMINSKY: What difference deposit insurance could make, apart from the basic purpose of ensuring, within the limits provided by the act, the safety of the deposits in the insured institutions, is in the distribution of the deposits among various competing institutions in the community, some of which form part of the money supply, technically defined.

I suppose one of the purposes of deposit insurance in that connection, in addition to its main purpose of providing the security for deposits, is to make it somewhat easier for the smaller and newer financial institutions to compete for deposits against the older, better-established institutions. This, of course, is subject to the institutions concerned being willing to come in under the inspection provisions which are a necessary condition of membership in the proposed deposit insurance corporation.

Mr. FULTON: Would it be your opinion that once the system is set up and operating, and assuming that it has a pretty widespread membership—in other words, assuming that the purpose is achieved in fairly substantial part—this would have a bearing upon the readiness and ability to expand credit in Canada?

Mr. RASMINSKY: Again, Mr. Fulton, I think that it would have a bearing on the credit situation to the extent that it led to higher standards of credit-granting through the inspection provisions, and to the extent that, by creating an atmosphere of confidence, which one would hope would be merited under the inspection provisions, in financial institutions, it avoided periodic difficulties of financial institutions.

These difficulties, as we have seen, do have a bearing on the credit situation. They may, on occasion, result in an undesirable tightening of credit. Therefore, I think that there is some connection there between the credit situation and the establishment of deposit insurance; although, after the establishment of deposit insurance, assuming that Parliament does establish it, I think that basically credit conditions will continue to be influenced mainly by monetary policy.

Mr. FULTON: You have probably answered my question, but I am not sure whether I could conclude from your answer that the deposit insurance corporation can be used as an assist to monetary policy with respect to control over credit, as exercised by the central bank.

Mr. RASMINSKY: I think that if it is broad enough and if it is well run it should contribute to two things, Mr. Fulton. I think that it should contribute to stability in credit conditions, for the reason I have given. Secondly, I think that it should contribute to some deconcentration—if that is the opposite of "concentration"—or dispersion in the present distribution as between the large established institutions and the smaller and newer institutions. In other words, I think that deposit insurance, on the whole, is a factor which tends to offset or to work in some degree—perhaps only in a modest degree—against the concentration of financial resources in the present financial system.

Mr. FULTON: Under the bill the deposit insurance corporation is also to be a lender of last resort for those institutions which belong to the system?

Mr. RASMINSKY: That is right, Mr. Fulton, yes.

Mr. FULTON: As presently drafted it would cover banks, trust companies—all deposit-taking institutions—but not the field of finance companies as they are, generally, presently constituted?

Mr. RASMINSKY: Yes, that is right, Mr. Fulton.

Mr. FULTON: Would you see the possibility of extending the ambit of the deposit insurance corporation, and the control and inspection incidental thereto, to finance companies if it were authorized to act as a lender-of-last-resort in that field?

Mr. RASMINSKY: I find it difficult to answer that question, Mr. Fulton. All the institutions which are at present eligible for membership in the proposed deposit insurance corporation are subject to specific governmental legislation, either federal or provincial, and I think I am right in saying that in all cases the governmental legislation provides for inspection of the companies, including inspection of their assets; so that the governmental authorities are already involved with those institutions. That certainly is the case with the chartered banks, with the Quebec savings banks, with the federally-incorporated trust companies and with the provincially-incorporated trust companies. Inspection is

a necessary part of this process. One is not going to insure everything without being sure that the business is being operated on a sound, efficient basis.

At the present time I am not aware that there are such provisions for governmental inspection in the case of the companies to which you refer. I think it would be a very important consideration indeed, whether it would be appropriate for such institutions to be eligible for membership in the deposit insurance corporation.

Mr. FULTON: I am told that in the field of the finance and acceptance business, in which many companies are long-established and have successful records of operation, one of the very important means by which they feel that they can finance contracts and make acceptances and so on is the extent to which they are able to establish lines of credit with the chartered banks; and that this availability of a line of credit is to them a sort of bedrock which they take into account to a very large extent in deciding the scope of their operation. Is this within your knowledge, correct?

Mr. RASMINSKY: Broadly speaking, I think I would agree that that is the situation, Mr. Fulton.

Mr. FULTON: I have also been told that at times of tight money, or because of changes in the monetary policy, they have found, when they go to the banks —because, perhaps, some of their own paper has come due and has been called when it has been due instead of being renewed—the bank will say, in effect: "But there is tight money now and we cannot extend credit to the full extent of the line".

Mr. RASMINSKY: I have heard that, too. I have also heard the banks say that when some of the finance companies can borrow more cheaply on the open market by the issue of their paper they prefer that source of borrowing; but that when the rates go above the rates at which they can borrow from the banks they come into the banks. In other words, they are foul-weather friends. You hear all sorts of explanations for these things.

Mr. FULTON: Well, I am not here seeking to attribute fault or blame but would not monetary policy have a bearing on the readiness, or the ability, of the banks to extend the full line of credit which, it had been assumed, or had been arranged at some previous time, would be available? The picture I am putting and which has been put to me, is not a fanciful one, I take it? It is a factual situation?

Mr. RASMINSKY: Whether the finance companies have had difficulty in obtaining the funds for lines of credit established—

Mr. FULTON: No; I am putting to you that a bank might well be in a position where, because of a change in monetary policy, or in the money supply, or in the reserves it is required to maintain, it found it was not able to extend the line of credit to the full extent that might have previously been arranged?

Mr. RASMINSKY: That would be as true of finance companies as of any other borrower in Canada, yes, sir.

Mr. FULTON: It has therefore been suggested to me that if these companies had available to them some lender-of-last-resort to meet this kind of situation it would be a very valuable and important thing to them. It is not that they would

expect to go to a lender-of-last-resort on easy terms, because they would expect to pay some penalty—perhaps some higher interest rate—but that it would be an important stabilizing factor in their operations. Would this seem to you to be a reasonable statement?

Mr. RASMINSKY: I am sure that lender-of-last-resort facilities would be useful to any borrower, Mr. Fulton. I think one would want to make a distinction between ordinary operating credits, and there I would see no case whatever for lender-of-last-resort facilities to protect one particular industry against the impact of credit conditions. I think one would want to distinguish between that, on the one hand, and emergency situations, on the other hand, where, because of circumstances beyond the control of the industry—for example, circumstances of the type that arose after the failure of Atlantic Acceptance. There was an inability to renew short-term paper and there was a sharp liquidity crisis created.

Mr. FULTON: Yes, indeed.

Mr. RASMINSKY: In those circumstances it certainly is clear that anyone who found himself in that position would, indeed, derive benefit from lender-of-last-resort facilities.

In actual fact, in the case of the aftermath of the Atlantic Acceptance collapse, and in order to prevent sweeping, undesirable consequences on the credit structure of Atlantic Acceptance, I made a request of the banks, as you know, for them to act, in effect as a lender-of-last-resort for credit-worthy finance companies which found themselves in special difficulties on account of inability to renew maturing short-term paper. On that occasion I am obliged to say that the banks rallied round very well and complied with the request I made of them.

Mr. FULTON: Then it would be reasonable to assume that if a system were devised under which this lender-of-last-resort facility were to be available one would require companies wishing to come in under that system also to agree to, and accept, the level of regulation and inspection that the authority operating the system would impose?

Mr. RASMINSKY: If it were appropriate for an official institution to fill this role, Mr. Fulton, I think that would be absolutely indispensable.

Mr. FULTON: It does hold out the possibility, at least, of bringing these types of institutions under a uniform—and it would be federal—level of inspection and control?

Mr. RASMINSKY: Mr. Fulton, I think that, as a prerequisite, some special legislative framework would have to be established, governing these institutions. Most of them are not federally-incorporated, you know; most of them are provincially-incorporated.

Mr. FULTON: Yes.

Mr. RASMINSKY: They operate under the provincial Companies Acts and normally the acts do not even provide statistical information on their operations let alone any special provision for inspection.

I think that the beginning of the process that you have in mind would have to be a special legislative framework under which the institutions that you are talking about would operate.

Mr. FULTON: I do not understand that there is any special legislative framework contemplated, other than the deposit insurance act itself, to bring them within the ambit of deposit insurance and thereby to extend to these other institutions a system of inspection and control by reason of their membership in the deposit insurance system.

My point is: If this idea were extended through the device of the lender-of-last-resort being made available to finance and acceptance companies it would then be logical to assume that once again, as a price, as it were, of this facility they would have to agree to the same level of inspection and control without any other special legislative device.

You would have your legislation setting up the lender-of-last-resort system, as you now have your legislation setting up the deposit insurance system which, in its present limited field, would also be a lender of last resort; and you could then have your legislation extending "lender-of-last-resort" to cover finance and acceptance companies. Would that not be the umbrella under which you could bring them in with respect to inspection and control?

Mr. RASMINSKY: That is one possible way of going about it, I suppose. I would have thought, myself, that since practically all of these institutions are provincially-incorporated the beginning of the process that you have in mind would lie in the provincial acts under which they operate.

Mr. FULTON: But a large number of those institutions which, it is hoped, will come into the deposit insurance scheme are also provincially-incorporated.

Mr. RASMINSKY: That is right. The acts under which they operate, Mr. Fulton, do provide for inspection and control.

Mr. FULTON: But only at the provincial level.

Mr. RASMINSKY: At the provincial level, yes; which is not the case with the institutions to which you refer.

Mr. FULTON: But as I understand the working of the proposed deposit insurance system, when they subscribe to it they will also be subject to federal inspection and control. That does not wipe out provincial inspection and control. It is additional inspection and control.

Mr. RASMINSKY: That is right.

Mr. FULTON: What I am asking is this: Would not the situation be the same if we extended the umbrella by the lender-of-last resort device?

Mr. RASMINSKY: It would not be quite the same. All the institutions which, it is proposed, are to be allowed into the deposit insurance scheme operate under either federal or provincial pieces of legislation which, apart from inspection and control, lay down certain requirements that they must meet in order to have charters—in order to operate. In the case of the banks these relate to cash reserve requirements and all the other provisions. In the case of provincial trust companies they have provisions regarding the liquid assets that they must maintain, and so on. Over and above that there is the process of inspection and control.

What I am suggesting is that if the situation is to be analogous, and if the companies that you are talking about are to have access to the deposit insurance

scheme, it would seem to me to be natural that there should be either provincial or federal legislation governing the activities of the sales finance companies.

Mr. FULTON: Yes. The legislation with respect to these finance and acceptance companies could be federal if the federal government were extending this facility?

Mr. RASMINSKY: That is right.

Mr. FULTON: In your opinion would it not be desirable to have this whole system for these companies as well?

Mr. RASMINSKY: At this point I come back to where we came in. This is a matter of government policy.

Mr. FULTON: I thought I might slip that in.

The VICE-CHAIRMAN: I am sorry to interrupt you, Mr. Fulton, but I really think that perhaps some of your questions should be directed to the Minister of Finance himself when he appears on Thursday.

Mr. FULTON: They will be; but I was hoping that I might get an indication from Mr. Rasminsky, as well.

The VICE-CHAIRMAN: Mr. Lambert, do you still have your supplementary question?

Mr. LAMBERT: Yes, I have. It refers back to the question of the dispersal of concentration to the non-banking institutions. Is it not rather a paradox that the deposit insurance scheme will strengthen that sector of the banking field over which you have no direct monetary control?

Mr. RASMINSKY: Mr. Lambert, this goes back to a problem that we discussed at considerable length when I was before the Committee in October and November, namely, the problem of whether the control that the Bank of Canada exercises affects only the chartered banks or affects institutions which compete with the chartered banks.

The problem at that time was stated rather differently, and was in this form: Is it necessary to bring these non-bank financial institutions into the central reserve system, to force them to have cash requirements, etc., in order that monetary policy might be effective? The answer that I gave to that question was negative; that I did not then think, and I do not now think, although I do not know what I will think in ten years' time—if I am thinking at all—that it is necessary to bring these institutions into the central system. I think that the influence that the Bank of Canada is able to exercise to obtain the credit conditions that it wants is pervasive enough under the present arrangements that all institutions, whether or not they are in the central reserve system, are in fact affected by our operations.

Mr. LAMBERT: Yes; there is an indirect effect on them, but the net result would be that the pressure of the monetary policy controls on the chartered banks would have to be sharper and more concentrated if you wanted, shall we say, quick responses from the non-chartered bank institutions.

Mr. RASMINSKY: I am not at all sure that that is right, Mr. Lambert.

Mr. LAMBERT: It is an arguable point.

Mr. RASMINSKY: It is a point that has been argued; it is an arguable point; but I have never felt, in my own experience, that the central bank has been particularly inhibited, or frustrated, in bringing about changes in the credit situation of a type that it thought appropriate, on account of the fact that these non-bank financial institutions are not subject to our direct control.

There are other questions involved. I am dealing only with the ones about which you have asked, there are questions of equity as between banks and near-banks. There are questions of relative growth rates, which is perhaps one aspect of equity. There one would have to go into the causes of differential growth rates. But on the particular point that you have in mind, it has not been my experience, either when I worked at it or when I thought about it, that the absence of direct control over the non-bank institutions has kept me, broadly speaking, from carrying out the type of monetary policy that I thought appropriate.

Mr. FULTON: I think that when you answered this question in October—I believe I was covering the field with you then—you modified your reply to a somewhat greater extent than you have this morning, by saying that you would admit—I would just like to test my recollection with yours—that circumstances could be such that you would come to a different conclusion even within ten years. I think you went as far as that.

Mr. RASMINSKY: Oh.

Mr. FULTON: You went so far as to say, "I will not say now that I would be of the same view ten years from now. I might even change it within that period".

Mr. RASMINSKY: I do not recall saying that, but if I did I am willing to repeat it.

Mr. FULTON: It is not a view to which you find yourself unable to subscribe?

Mr. RASMINSKY: No.

(*Translation*)

The VICE-CHAIRMAN: Mr. Grégoire?

Mr. GRÉGOIRE: Mr. Rasminsky, following the same line of thought, when some days ago, the Montreal City and District Savings Bank incident happened, in view of the recognized solidity of the Montreal City and District Savings Bank was the Bank of Canada ready to supply the necessary cash to meet this emergency?

Mr. RASMINSKY: Yes.

Mr. GRÉGOIRE: Up to what sum would the Bank of Canada have supplied?

Mr. RASMINSKY: This is a question we did not have to face, because the position of the Montreal City and District Savings Bank improved, the situation changed very rapidly. This situation only lasted two or three days. Our advances, the total of our advances to the Montreal City and District Savings Bank, were a great deal below what might have been expected and the question did not present itself to us.

Mr. GRÉGOIRE: Above or below?

Mr. RASMINSKY: Below.

Mr. GRÉGOIRE: And if the same thing would happen in the case of another chartered bank, a chartered bank like the Bank of Montreal, for instance, would the Bank of Canada follow the same course of action?

Mr. RASMINSKY: Yes.

Mr. GRÉGOIRE: Up to what amount could the Bank of Canada go without upsetting the economy of the country?

Mr. RASMINSKY: It is so hypothetical a question that truly I cannot reply to it.

Mr. GRÉGOIRE: Following another line of thought, this is a question concerning the mechanism of the Bank of Canada which, to increase or decrease cash in circulation or legal tender in circulation will buy or sell bonds; does the Bank of Canada do this every day or at regular periods or at indeterminate periods?

Mr. RASMINSKY: At indeterminate periods but almost every day.

Mr. GRÉGOIRE: Almost every day?

Mr. RASMINSKY: Yes.

Mr. GRÉGOIRE: And if instead of withdrawing this legal tender, that is the reserves at the chartered banks, you added to them, would you notify the chartered banks before doing so?

Mr. RASMINSKY: No.

Mr. GRÉGOIRE: So that if, at a given moment, you withdraw $5 million from circulation, which would mean an equal reduction of the reserves of the chartered banks as a whole, the chartered banks would have to decrease their deposits and loans 12½ times or by approximately $62 millions?

Mr. RASMINSKY: The relation between cash in circulation, including chartered banks' deposits with us, is not as rigid as you seem to believe. First of all, the chartered banks are not obliged to keep fixed reserves with us, determined each day; it is a monthly average that must be on deposit with us, or in the form of bills in their cash reserves.

Mr. GRÉGOIRE: Do you not think that playing with money reserves without notifying the chartered banks and doing this at indeterminate periods with appreciable sums would have the effect of making it more difficult for the chartered banks to conduct their operations and does it not complicate this constant calculation of the relation between their reserves and their deposits and loans?

Mr. RASMINSKY: No.

Mr. GRÉGOIRE: Does this not make their task any more difficult?

Mr. RASMINSKY: No.

Mr. GRÉGOIRE: Would it not be easier for them if these operations of the Bank of Canada were carried out at determined periods and the chartered banks were notified ahead of time?

Mr. RASMINSKY: This is neither practical nor possible. Generally speaking, our operations, most of our operations are subject to market fluctuations. Generally speaking, we do not decide to take an initiative of any sort, but we act in accordance with circumstances in the market, the bond or stock market, or with quantities of liquid assets of the banks. In any case, it would not be practical

to say that Tuesday, at 3 o'clock in the afternoon, we will operate in a given amount on the market. We cannot act in this manner.

Mr. GRÉGOIRE: For instance, in the Statistical Bulletin of the Bank of Canada, I see, according to the monthly report, that between December 1965 and January 1966, there was a significant decrease in the bills in circulation, about $130 million during one month. Would this not have rather serious repercussions among the—

Mr. RASMINSKY: No, that was after Christmas. But every day in December, if you look at these figures for each year, you will see that every year, in the month of December, there is a very heavy increase in notes in circulation for obvious reasons—and then in January, the stores, the deposit accounts, with their bills and active circulation—

Mr. GRÉGOIRE: But going back to July 1965, the bills in circulation amounted then to a greater amount than in January 1966 and the same goes for each of the months of July, August, September—

Mr. RASMINSKY: Yes, there is a situation which takes place in the summer also. Bills in active circulation are not a significant indication of the monetary policy.

Mr. GRÉGOIRE: But each time you withdraw these bills from circulation, you decrease bank reserves. Is it not true that you oblige the chartered banks to reduce by 12 and a half times their loans and deposits?

Mr. RASMINSKY: Are you asking a question?

Mr. GRÉGOIRE: Yes. Each time you decrease the bank reserve, do you not force the chartered banks to reduce their loans and deposits by 12 and a half times the amount of that reduction?

Mr. RASMINSKY: There is a relationship, laid down under the law, between the cash reserves of the chartered banks and their obligations towards the public, that is, the deposits. If their indebtedness to the public increases, as you will see from the statistics, then the chartered banks are obliged to have more cash reserves in the form of deposits with us or in the form of bills in their own cash reserves.

Mr. GRÉGOIRE: In a ratio of 12 and a half—

Mr. RASMINSKY: 12 and a half, yes.

(*English*)

Mr. WAHN: Mr. Rasminsky, can you or your officials express any opinion on whether there is at the present time effective competition among the Canadian chartered banks in the interest rates that they pay on ordinary deposits? I am talking of the ordinary savings deposit of the ordinary Canadian citizen.

Mr. RASMINSKY: On savings deposits?

Mr. WAHN: Yes?

Mr. RASMINSKY: There certainly is competition, Mr. Wahn, among the banks for savings deposits.

Mr. WAHN: Is there any price competition?

Mr. RASMINSKY: I find it difficult to answer that question, Mr. Wahn, because one might think at first sight that a uniformity of price is an indication of the absence of competition, and I believe that it is the case that the rates paid by the chartered banks on savings deposits are uniform. I am not sure that that is the case but I believe it is. You will have an opportunity to put that question to the Canadian Bankers' Association when they come back.

The difficulty I have in answering the question is that if one were to—It is the case, for example, that there is a world price for wheat, or there is a world price for cotton, where you have a homogeneous commodity which is easily transferable and where there are low transport costs from one place to another and where there are low transport costs it is very likely—indeed, almost inevitable—that there will be a great similarity in the price of the commodity.

Mr. WAHN: The question came to my mind because I gather that some of the trust companies do in fact pay a higher rate of interest on deposits. It struck me as just a little odd that there would be no difference in the rate among the Canadian chartered banks even though rather similar institutions were paying a rather higher rate. In other words, do you have any information on whether or not there is an agreement, written or unwritten, among the Canadian chartered banks to pay the same rate on savings deposits?

Mr. RASMINSKY: I have no knowledge on this subject, Mr. Wahn.

Mr. WAHN: Then looking at the lending aspect of the Canadian chartered bank operations, do you have any views to express to the Committee on whether or not there is effective competition among the Canadian chartered banks in their lending rate on loans made to, say, the small businessman? I am not talking about the type of borrower who can go down to New York and borrow or can go to an outside market, or can raise money by the issuance of debentures. I am talking about the ordinary small businessman who usually finds, whatever bank he goes to, that the rate is more or less the same.

Mr. RASMINSKY: At the present time the rate is the same for not only the small businessman but the big businessman.

I think that it has been so long since the maximum lending rate permitted under the Bank Act was really out of relationship with market rates of interest that it is not at all surprising that you have practically all lending conducted at the maximum rate of interest permitted under the Bank Act.

Previous to that it is my impression, though at the moment I would not be able to document it, that there was a differential between the prime rate of interest and the maximum rate of interest and that to some extent differences in the appraisal that banks made of the credit risk involved in particular borrowers did result in the banks' charging different rates of interest.

Mr. WAHN: I would like to change my line of questioning. I realize that you cannot, or do not wish to, express any point of view on governmental policy, but if it can be done, consistent with governmental policy, is it your view that it would be desirable to have more competition within the Canadian banking system? Can you express a view?

Mr. RASMINSKY: I am quite prepared to say that I am in favour of competition everywhere, including and perhaps even particularly within the Canadian banking system.

Mr. WAHN: If my recollection is correct I believe that evidence has been given to the effect that there is no prohibition, either in the existing Bank Act or in the proposed new bank act, which would prevent any corporation from carrying on a banking business, or banking activities, provided that the corporation did not use the words "bank' 'or "banking". If that is correct, is there not a large loophole in our regulatory legislation?

Perhaps I could take a specific example. Let us suppose that a very large American banking corporation came into Canada and incorporated a company called the "X" Financial Services Limited, a wholly-owned subsidiary of the "X" Corporation, with assets of $16 billion and that deposits and loans were gratefully accepted and made. Under what regulation would such an institution come?

Mr. RASMINSKY: It would depend, Mr. Wahn, on how such an institution was incorporated. That is to say, if the question is whether it is possible for an institution to carry on what is essentially the business of banking under present legislation without being incorporated under the Bank Act, then I think I would reply to that question in the affirmative.

Mr. WAHN: Would you consider that a danger, or a loophole in our law?

Mr. RASMINSKY: I think that it would be desirable that the conditions under which those institutions conduct their affairs under the Bank Act, should be sufficiently similar to the conditions that they would have to fulfil if they did not do so that they would conduct their business under the Bank Act. I believe that the legislation which is before this Committee operates in that direction. I think that it contains several things which should make it more desirable for institutions of the type you have in mind to operate under the Bank Act than to operate in some other way.

If I can enumerate some of those things, and if I can start with what I believe to be the beginning I think that the cash reserve requirements under the proposed bill are somewhat less onerous on banks than they are under existing legislation. I think that if parliament approves the legislation the provisions regarding rates of interest that can be charged on loans will remove one of the disabilities of operating under the Bank Act, and give more flexibility. I think that the proposed legislation that authorizes the chartered banks to issue debentures for the first time is of the same character. I think that the introduction for the first time of the power to make mortgages within certain limits—and limits also apply to the issue of debentures—is of the same character. There may be other things as well, that I cannot think of at the moment.

I would hope that the over-all effect of this legislation would be to reduce the comparative disadvantage that institutions now experience as a result of operating under the Bank Act, and, consequently to do two things; first to give some encouragement to the formation of new banks—I would like to see more banks—and, second, to give some encouragement to financial institutions, now operating under other statutory authorities, to operate under the Bank Act.

Mr. WAHN: I have a question along a different line altogether. Again assuming that it could be done consistent with governmental policy, do you feel that it would be desirable to have a broader and more active money market in Canada, or does it make any difference?

Mr. RASMINSKY: I would like to see a broader and more active money market and a broader and more active capital market. I would like to see a general increase in the depth and efficiency of all our financial institutions.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Rasminsky, I would like to pursue some of the questions Mr. Fulton was asking you with regard to the extension of deposit insurance privileges to the finance companies and his related question about providing them with the lender-of-last-resort privileges.

In the first place, it seems to me that these are institutions which, by definition, do not fall within the type of institutions for which deposit insurance is designed; that is, they are not receivers of deposits from the public as other institutions are. I would like to hear your comment on that. Do you not think that that in itself would exclude them from this type of legislation?

Mr. RASMINSKY: I do not know that I would care to express a categorical view on that, Mr. Cameron. There certainly is something—a good deal, perhaps—in the point that you make. These are not deposit-receiving institutions. On the other hand, I think the line of distinction between deposits and other types of liquid assets is really not a hard-and-fast line. One phases almost imperceptibly into the other.

Bank deposits are of various types. You have current accounts; savings deposits, which are evidenced by entries in a pass book; and deposit certificates, where you get a piece of paper which looks like a security. We also classify as deposits the bearer notes issued by the banks, and the short-term paper issued by finance companies has some similarity to these evidences of deposit issued by banks.

Of course, on the other side of this spectrum it does not stop—and this is a point that should be raised—at instalment finance company papers. The instalment finance companies are not the only non-bank issuers of paper which is purchased by the investing public. Commercial firms also issue paper.

Basically, I think one would have to ask: Where does one draw the line? At what point does one say: this is a type of investment which should qualify for deposit insurance, even though it is not technically a deposit, but the other thing is not that type of investment?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Of course, as Mr. Fulton pointed out, the basic foundation of their operations is their line of credit from the banks. I imagine, although I have not examined it closely, that their other methods of rasing funds are ancillary to that and not as important an item in their consideration in that largely, shall we say, they are in the role of retailers of credit which the banks wholesale to them.

Mr. RASMINSKY: Mr. Cameron, I should like to make two comments. First of all, one of my colleagues has pointed out to me that in responding to your previous question I may have left the impression that membership in the deposit insurance system was the only way in which lender-of-last-resort facilities could be available to finance companies or to anyone else. That is, of course, not the case. If the Government of Canada, or any of the provincial governments, thought it important to provide this protection to instalment financial institutions they could set up separate lender-of-last-resort facilities.

The other thing that I wanted briefly to comment on is the implication in the observation that you were beginning to make that the finance companies depend, to the extent that you indicate, on the lines of credit from the chartered banks. I do not know whether this is so or not. I would not want my silence to indicate that I think that that is, in fact, the situation.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This was the situation when we had the small loan companies before the Committee some ten years ago.

Mr. FULTON: My understanding with respect to the type of company I referred to is that the line of credit with the banks is largely kept in reserve. They normally go elsewhere, but they rely heavily upon this backing. It is when they come to draw on it and find that it has shrunk that they get into trouble.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Let us move on, Mr. Rasminsky, to the question of lender-of-last-resort. I wonder if perhaps you could define a little more precisely the meaning of "lender-of-last-resort"? I had always been under the impression that the term was usually applied to institutions such as the central bank.

Mr. RASMINSKY: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Actually the type of lender-of-last-resort to which you have referred is not technically a lender-of-last-resort in that sense. Does not "lender-of-last-resort" usually imply access to the central credit expansion agency of the country.

Mr. RASMINSKY: I feel a little sensitive on this point of defining "lender-of-last-resort", Mr. Cameron, because in the Per Jacobson Memorial lecture which I delivered in Rome in November, on the subject of the role of the central bank today, I said, among other things, that the traditional function of the central bank to act as lender-of-last-resort was one that was happily very rare these days. I came back, and I have recently found myself acting as a lender of last resort on some scale. I think that what is meant, or at least, what I would mean—and you would probably get different answers from different people, Mr. Cameron—what I would mean by a lender-of-last-resort which, in the past, has normally been the central bank is an institution which is able to meet sudden liquidity requirements that arise in the economy, these could happen for a variety of reasons, the main one of which, I suppose, would normally be a banking crisis that resulted in people wanting to withdraw a lot of cash, and wanting to do that from institutions which were perfectly sound and perfectly solid. It would create difficulties because the assets, although sound, might not be readily available. They might have been invested in some assets of a longer-term type.

The reason that the central bank is traditionally the lender of last resort is that the central bank, under ordinary circumstances, would have no liquidity problem. It is the ultimate source of liquidity, and it would have no liquidity problems of its own. This might not be the situation, of course, if the central bank were operating under a gold standard and if it, in turn, had to hold certain assets against its liabilities.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But under modern conditions that is not the case.

Mr. RASMINSKY: Under modern conditions that is not the case. Traditionally the central bank, as the ultimate source of liquidity, has been the lender of last resort. This is just tradition. It is not inevitable that the central bank should be the institution that operates in this way. It is a function that could just as readily be performed by governments.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes; but at least it could not always be performed by an intermediary institution. The intermediary institution would, in the final analysis, have to have access to the ultimate lender of last resort?

Mr. RASMINSKY: I think that is perfectly correct.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I just wanted to clarify that point. And the institutions that have direct access to the ultimate lender of last resort must be part of the reserve system, must they not?

Mr. RASMINSKY: I do not see how it could operate otherwise, Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): When we speak of providing lender-of-last-resort facilities for institutions that are not part of the reserve system we are really suggesting the provision of facilities by which intermediary institutions that do have access are able to come to the rescue of such companies?

Mr. RASMINSKY: I am sorry; would you mind repeating the question, Mr. Cameron?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes. When the suggestion is made that the privileges of access to the lender of last resort be made available to institutions that now do not have direct access to the ultimate lender, then, really, all that we are suggesting is that the ultimate source—the central bank—should be prepared to enable intermediary institutions to perform that function as, I believe you mentioned just now, is the case when you approach the chartered banks?

Mr. RASMINSKY: Yes; I think that is fair enough. That is the fact, in essence, although it was not put that way. In essence that is what happened in 1965, and, of course, it is the case that if, for any reason, the lender of last resort became the government, then the government can always meet its obligations, and if the lender-of-last-resort facilities through the government created financial problems for the government that is certainly something with which the central bank would have to concern itself.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Now, if I may, I will turn just for a moment to another matter. I do not know if you have had an opportunity to read the evidence of Dr. E. P. Neufeld.

Mr. RASMINSKY: Yes, I have.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You may recall that he had some suggestion that there be what I would call an interim bank charter for trust companies. Upon reading it through I cannot find that he had any very definite views on whether there would be cash reserve requirements.

I wonder if you would make some comment on Dr. Neufeld's suggestion that there be an interim form of charter for the ensuing ten years?

Mr. RASMINSKY: Well, had I known that you were going to ask that question I would have taken the opportunity of studying the evidence more carefully and having it more freshly in mind than I do, Mr. Cameron.

It is the case, of course, that most trust companies are provincially incorporated, and it is also the case that some of the present disadvantages of operating under the Bank Act will be reduced if the proposed legislation is passed. The main function that trust companies—I think that the trust companies have two main functions as the legislation now stands and as it will stand. The main differences, so far as operations are concerned, are that there is one thing that the trust companies are allowed to do now that they would not be allowed to do under the Bank Act, and one that they are not allowed to do now but would be allowed to do under the Bank Act. They now have the power to act as trustees, and banks cannot do that. The other side of it is that they now do not have the power to make commercial loans, and, of course, as banks they could do that.

The main problem would therefore, relate to the trustee powers that they would have to give up. If this turned out to be an obstacle to trust companies operating under the Bank Act I would have a certain amount of sympathy for the notion that their entry under the Bank Act might be facilitated.

Of course, it might be a question of when the transitional period takes place. I think that Professor Neufeld's suggestion was that the transitional period should take place after they had come under the Bank Act, and that they should be obliged to give up these activities within a certain period afterwards. Another way of going about this would be for the trust company, once it had decided that it would prefer to operate under the Bank Act, to prepare for that by gradually giving up the trustee function.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It seemed to me that Dr. Neufeld had the idea not that they would give up their fiduciary functions but that at the end of a ten-year period the banks might well move into that field, too, and that they would be indistinguishable types of institutions.

Mr. RASMINSKY: Oh, I see. I am sorry; I had forgotten that point.

The VICE-CHAIRMAN: Mr. Cameron, I do not want to interrupt your questioning but do you have many more questions? There are other members who have only a few questions to ask and I would just like to know if we could continue with them?

Mr. CAMERON: Yes.

(*Translation*)

The VICE-CHAIRMAN: Mr. Clermont.

Mr. GRÉGOIRE: Have you completed with Mr. Rasminsky?

(*English*)

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, I have just raised the question with our clerk on whether Mr. Rasminsky will be appearing again in connection with the Bank of Canada Act. If he is not, I have some matters I would like to discuss with him as I mentioned to you previously; but if he is returning I could dispose of them at that time and could give him an opportunity to prepare himself for them.

The VICE-CHAIRMAN: The Canadian Bankers' Association has been advised that they will be before the Committee this afternoon. Perhaps we could deal with them and ask Mr. Rasminsky to come to another session?

(*Translation*)

Mr. CLERMONT: Mr. Chairman, why not ask Mr. Rasminsky to come this afternoon, because the representatives of the Bankers' Association will be here this afternoon anyway.

(*English*)

Mr. CAMERON: I did not quite understand that.

Mr. CLERMONT: Mr. Cameron, I think we should continue with Mr. Rasminsky this afternoon. The reason is that if Mr. Rasminsky comes back next week I, for one, will be away with the agriculture committee.

I have a few questions for him, but if it is not possible to ask them—

(*Translation*)

Mr. LATULIPPE: I second the motion, Mr. Chairman, because I, also, have some questions to ask. I have not yet had a turn.

The VICE-CHAIRMAN: It has been arranged that the Canadian Bankers' Association be heard this afternoon. Mr. Rasminsky was told that he would be free this afternoon, and he has another engagement. I think that settles it.

Perhaps it would be preferable to ask Mr. Rasminsky to come to another session.

Mr. CLERMONT: I am very surprised, Mr. Chairman, that the Steering Committee should have thought that only two sessions would be sufficient to free Mr. Rasminsky from this Committee.

Mr. RASMINSKY: What is your estimate, Mr. Clermont?

The VICE-CHAIRMAN: When do you expect to be available, Mr. Rasminsky?

Mr. RASMINSKY: I have engagements this afternoon, and I have to go to Montreal later today and will be away tomorrow. After that I am available.

The VICE-CHAIRMAN: Could we take it for granted that you will be available to the members on Thursday morning

Mr. RASMINSKY: Yes, but I had understood you had made arrangements with the Minister of Finance.

The VICE-CHAIRMAN: Yes, but perhaps you could come as well.

Mr. RASMINSKY: This Thursday? All right, that is fine.

Mr. CLERMONT: Mr. Rasminsky, you asked me for how long?

Mr. RASMINSKY: Yes.

Mr. CLERMONT: Maybe if you give the explanation that Mr. Grégoire wants about that twelve and a half times—

Mr. RASMINSKY: I am prepared to take him to lunch!

The VICE-CHAIRMAN: The meeting is adjourned until 3.45 this afternoon.

AFTERNOON SITTING

The VICE-CHAIRMAN: Gentlemen, I will now call this Committee to order.

We have with us today the representatives of the Canadian Bankers' Association. On my right is Mr. Paton, then Mr. Lavoie and Mr. Coleman. I do not want to interfere with the way you are asking your questions but I would like to

invite the honourable members to try to refrain from asking what might be called repetitious questions, because we have many subjects to deal with today and we have two full sittings scheduled for this afternoon and this evening. Next Thursday we will have the Minister of Finance. As I said before, I would kindly invite the honourable members not to repeat questions that have already been asked by other honourable members.

I now ask the honourable members to indicate their intention to ask questions.

(*Translation*)

Mr. CLERMONT: Mr. Paton, is your Association, or certain members of your Association, aware of Bill C-261, an Act to establish a deposit insurance corporation in Canada and if so, do you have any general comments to make in connection with this Bill?

(*English*)

Mr. S. T. PATON (*President, The Canadian Bankers' Association*): Yes, Mr. Clermont. When we originally appeared before the Committee we submitted a brief in which we gave our views on the legislation as it was then indicated, and since Bill C-261 has had first reading in the House we have had an opportunity to examine it also.

I think the basic approach of The Canadian Bankers' Association in this respect is that there is an inequity in the proposed bill as it relates to the chartered banks. We feel, on the basis of their position alone, that there is clearly no need for participation in a deposit insurance bill. We well realize there is a problem but we feel that the deposit insurance bill is a rather massive operation to correct what might be considered to be a relatively localized problem, notwithstanding the fact that it is a vitally important one. I think we also recognize that our responsibility in the financial world of Canada, and the privileges that we have by virtue of being able to call ourselves banks, perhaps makes it necessary for us to view this legislation from a national standpoint rather than from perhaps a peculiarly selfish one and we well realize that if it is the policy of the government to proceed with this bill, we will co-operate, of course, to the fullest extent of the regulations.

We are concerned, as this is a matter of general public interest, because the cost of setting up this insurance falls squarely on the chartered banks' shoulders. As close an estimate as we can make at the outset of the actual premium is that it will range around $4.5 million to the chartered banks. We also estimate that if there is 100 per cent participation of the provincially-incorporated bodies, their premium might be roughly $1 million per annum. We are inclined to believe that there should be a better balance by way of assessing these premiums, not that they should be particularly weighted towards the smaller, newer and more needy provincially-incorporated bodies, but rather that perhaps the government of Canada should absorb part of the premium instead of directing it at the banking industry.

We feel that the basic problem—and I think this was brought out this morning during the questioning of the Governor of the Bank of Canada—is the question of getting proper supervision and proper regulatory control over all bodies participating in the financial industry of this country.

In general we think that perhaps there should be a more thorough examination of this matter in order to correct the problem, and this should be done in some way other than as incorporated in Bill C-261.

(*Translation*)

Mr. CLERMONT: With regard to the premium, one-thirtieth of one per cent, I believe, what sum would this represent for the members of the Bankers' Association?

(*English*)

Mr. PATON: It would cost the eight chartered banks initially roughly $4.5 million per annum.

(*Translation*)

Mr. CLERMONT: Undoubtedly, you are aware Mr. Paton of Clause 19, sub-clause 5.

(*English*)

Mr. PATON: Was your question, Mr. Clermont, what would it be at one-fortieth?

Mr. CLERMONT: Yes, the first rate is either $500 or one-thirtieth. Is that not right?

Mr. PATON: I am not quite clear, Mr. Clermont; is it clause 19 to which you are referring?

Mr. CLERMONT: Yes.

Mr. PATON: I am having a little trouble with my transmitter.

(*Translation*)

The VICE-CHAIRMAN (*Mr. Laflamme*): Would you please repeat your question, Mr. Clermont?

Mr. CLERMONT: Yes. You said that at the rate of one-thirtieth of one per cent, the total cost, for the eight banks would be $4½ million. But I think that Clause 19, sub-clause 5 indicates a certain easing off respecting this amount, a certain reduction. Sub-clause 5, para (b):

(*English*)

Mr. PATON: I do not know if we have put a pencil to that figure, Mr. Clermont. I am afraid we have not done so. Mr. Perry tells me that according to our estimators it would possibly come down to an annual premium of $2 million after six years, on the basis of this sub section.

(*Translation*)

Mr. CLERMONT: Which would mean a reduction of more than 50 per cent?

(*English*)

Mr. PATON: Correct, after the expiration of six years.

(*Translation*)

Mr. CLERMONT: Nevertheless, for a human being, six years is a long time even though it does not represent too much for a bank. Well, last Tuesday the

officials of the Mercantile Bank came before this Committee and members of the Committee received suggestions from them and a memo of a group of Amherst businessmen, Amherst, Nova Scotia that is, was presented and on Page 1 thereof, I read as follows:

(*English*)

> The demand for the company's services grew and there was also a demand from the contractors and building suppliers for a longer term.

(*Translation*)

According to that letter, Canadian banks could not grant a loan to those firms for a longer period. They went to the Mercantile Bank and got a long term credit accommodation. I was surprised to read such a statement because why, if the Mercantile Bank, which operates in Canada with the same powers and reserves, is able to give a line of credit to these Amherst people over a long period. Why can the other seven Canadian banks not do so?

(*English*)

Mr. PATON: What was the name of the company that received the line of credit, Mr. Clermont?

Mr. CLERMONT: It is not a company, it is a group.

(*Translation*)

These are merchants from Amherst, who grouped together.

(*English*)

They call it the Amherst Central Charge Limited and, according to them, they have a regular line of credit with a bank, I think it is the Royal Bank, for short term loans to building contractors, but they wanted a longer term line of credit and, according to this, the other banks could not do it but Mercantile saw fit to make those kinds of advances.

Mr. PATON: Mr. Clermont, in answer to your question I would say that there is nothing that the Mercantile bank could do that any other chartered bank in Canada could not do. Whether they would or not is perhaps a question of credit judgment but the Canadian chartered banks, other than the Mercantile, are equally facile and equally capable of providing lines of credit to such a group as you suggest. Perhaps Mr. Coleman might supplement my answer, as you brought in the name of the Royal Bank, I think.

Mr. J. H. COLEMAN (*Vice-President, The Canadian Bankers' Association*): Mr. Clermont, I am not familiar with this particular instance. What I think you are saying is that this group acts as a secondary lender. This is a lender who borrows from someone else and lends the money out at a higher rate of interest to other people. I do not think it is the function of a chartered bank to provide long term loans to this type of an institution. I hope we turned it down, if we did. In my opinion it is certainly not the function of a chartered bank to make long term loans available to secondary lenders. There are too many other deserving borrowers in line for these funds.

(*Translation*)

Mr. CLERMONT: When Mr. Pope appeared before the Committee, he made certain statements to the effect that, at the last sale of wheat by the Canadian Wheat Board to Russia, the Canadian banks did not get the foreign exchange business because the rates and costs were too high compared to other banking or financial institutions. You might refer to the Minutes of Proceedings and Evidence, Pages 2207, 2208 and 2209 of No. 34 of the English text and in his Brief, Mr. Pope said that the Canadian banks did not give adequate service to businessmen and industrials to enable them to compete on the international markets. Does your group have any comment on such a statement?

(*English*)

The VICE-CHAIRMAN: Mr. Clermont, I am presently informed that Mr. Pope was completely wrong in asserting that, because the majority of loans for the—

Mr. CLERMONT: Mr. Chairman, I did not believe what Mr. Pope said, but I want the representatives of the Canadian Bankers' Association to give their comments on it.

Mr. PATON: I would be very glad to endorse what Mr. Laflamme said, Mr. Clermont. I completely doubt the veracity of Mr. Pope's statement. I doubted it when I read his evidence, and I would say it was completely without foundation.

Mr. CLERMONT: But did the Canadian banks sell some of that U.S. currency in order to complete that transaction with Russia or not?

Mr. PATON: The Canadian banks participated fully in that transaction, as they have done with similar sales of wheat in the past. I do not have the complete details of this last transaction at my fingertips. In fact, I could not have them as it would be a question of each individual bank's participation in this transaction. I feel quite satisfied and quite safe in saying that we participated satisfactorily and fully in this transaction, as we have done in past sales.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Clermont, would you allow me to ask a supplementary question of Mr. Coleman?

Mr. CLERMONT: With pleasure, Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Coleman, I was interested when you said you did not approve of the bank making loans to secondary lenders.

Mr. COLEMAN: Long term loans.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Clermont was referring to the extension of the line of credit. Now, whether you call that—

Mr. COLEMAN: I thought he said long term loans.

Mr. CLERMONT: Yes. I understand that group obtained a line of credit of about $200,000 on short terms. Now, they wanted longer terms and they were turned down by one bank and then they went to the Mercantile Bank and received it.

Mr. COLEMAN: Our books are full of the short term umbrellas.

(*Translation*)

Mr. CLERMONT: Following your evidence before the Committee we had the visit of other witnesses and we heard the complaint that chartered banks

resorted to, what one could call, a "compensating balance". For instance, if an individual wanted a $100 loan, this company or person has to have 10 per cent of the loan as a deposit, without interest. This statement was made to the Committee at different times and two weeks ago we had representatives of Credit Unions and Caisse Populaires, other than those of the Province of Quebec, and some witnesses of that group made that statement.

(*English*)

Mr. PATON: Mr. Clermont, this is a subject which we touched on in several instances in our previous appearances before this Committee. We have also been conscious of the fact that it has come up rather frequently in the interim. I wonder if I might, perhaps just take a couple of minutes and try to summarize our position with respect to the general approach to compensating balances, as they have become known, and they are conjoined, I think, necessarily with the question of service charges. Some of my remarks will be repetitious, of course, but perhaps we should put them on the record so that we have the complete story.

As you are aware, the charging of a fee to the bank customer for services rendered is a long established practice. This is most general in the form of normal operating accounts: our current accounts, our savings accounts and our personal checking accounts. Relief from the service charge that we apply for the activity of these accounts is provided in relation to the free balances carried by the depositor, and I am referring mainly at the present time to personal accounts. As we have mentioned before, in a current account each $50 of balance is entitled to one free cheque, and in a savings the same is true for a $100 balance. Now as to the activity in our commercial accounts, there is a form—and I think we provided the committee with a copy—which perhaps on the face of it looks somewhat complicated, but once you have had it in practice it is not; it carefully gives credit to the customer for the balances carried and charges him on a fixed basis with the cost of the various services provided.

Also, I think there was a memorandum produced for the committee by one of your advisers with regard to the relative cost of operating an account in a Canadian chartered bank vis-a-vis an American; we, in turn, having had access to that memorandum found that we were not in entire accord with it and we prepared a short brief, a copy of which we provided to the chairman of this committee. We now have a copy available for the committee members.

This brief sets out a number of examples, showing typical cases where the cost of operating an account in Canada is contrasted or compared with the cost of operating an account in the United States. In some instances there is a variance in favour of one and in others a variance in favour of the other, but in balance I think you will find the Canadian chartered banks charges compare very favourably with those of our American counterparts. What we have established is that in both countries service charges and or compensating balances constitute an integral part of the methods of recouping costs.

Now getting to the compensating balances on loan accounts which I think is really the nub of the problem and on which we have had several discussions, we have—and we have testified to this extent—been using these more recently in Canada in connection with borrowing accounts. Following the substantial in-

crease in cost of money and administrative burden, it was necessary for the banks to identify the costs of these borrowing accounts. Some 23 per cent of the complete overhead of all the chartered banks is attributed directly to the supervision of our loan accounts, and it would be entirely unreasonable to have these costs spread across the whole gamut of our accounts without concern as to who was benefiting from the services provided. Therefore, during recent times when interest charges have been limited, due to this rigidity of our ceiling, and the cost of money has increased, we have not been able to recompense ourselves through this medium for the costs of operating these borrowing accounts. If and when the ceiling is removed,—and we hope that will be done in one step—there will be greater flexibility, and then the question of recompense to the banks for the services performed will vary customer by customer. In some cases they will be perhaps under an all-inclusive interest rate; in other cases it may be via service charges; it may be via a commitment fee, and indeed may well be by compensating balances. That sums it up to the best of my ability.

(*Translation*)

Mr. CLERMONT: I think, Sir, that you have mostly commented on the cost of operating, either a loan account or a current account. But the statements before this Committee were that the borrowers had to leave a certain amount as a deposit. I will take as an example, a loan of $100,000 would require a deposit of $10,000 in the account without interest, which could not be touched and my question refers to this. But in your comments, you dealt mostly with the cost of operating accounts, this was really not my question, Mr. Paton.

The question has already been asked of you, by me, for instance. But we have had statements by some witnesses to the effect that it is current practice in banks for a borrower to be compelled to leave such an amount in respect of a loan.

(*English*)

Mr. PATON: What I was trying to say, in reply to your question, Mr. Clermont, was that we gladly state that this situation undoubtedly does exist; it is not a rigid unilateral way of recouping the costs concerning this $100,000 loan. Now just putting a $100,000 loan on our books is not the end of that operation; the continual supervision required to make sure that that $100,000 is still a good loan is of vital importance to the bank and of vital cost to the bank. And if in coming to the banks for this $100,000 loan the bank has the alternative of saying "yes you may have it provided you recoup us with the cost of us operating this account through credit supervision and so on", or "no we cannot provide you with the funds", then the onus would be on the borrowers part to take the loan at the best terms he can get from the bank. It is not necessary that there must be a $10,000 balance held; it might well be through a commitment fee or through a service charge.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, the other item I would like to deal with is this: I believe that chartered banks in Canada have the right to obtain short term loans from the Bank of Canada, for a period of six months. Do banks make use of that right very often?

(*English*)

Mr. PATON: Are you referring to using the Bank of Canada as a lender of last resort, as we were discussing this morning, or a general lender?

(*Translation*)

Mr. CLERMONT: A general lender. I think that under the Bank of Canada Act or the Bank Act, chartered banks have the right to borrow or get advances from the Bank of Canada on security.

(*English*)

Mr. PATON: That is correct. The chartered banks may borrow from the Bank of Canada. I should point out that these are secured loans. These are loans generally against Government of Canada securities. There may be other securities; in fact, acceptable securities are spelled out in the Bank of Canada Act.

Mr. CLERMONT: Do you use that right often?

Mr. PATON: "Often" is a relative term; I would say the answer to that would be "no".

(*Translation*)

Mr. CLERMONT: My last question, Mr. Chairman, is in connection with the clearing house system.

(*English*)

Mr. PATON: Excuse me, Mr. Clermont. Mr. Coleman suggested he would like to clarify one point.

Mr. COLEMAN: Could we clarify one point about Chartered Banks borrowing from the Bank of Canada, Mr. Clermont? This is exactly what we can do and what we cannot do.

Mr. W. T. G. HACKETT (*Chairman, Canadian Bankers' Association Bank Act Revision Committee*): Loans obtained by the chartered banks from the Bank of Canada—and I should add that this accommodation is availed of fairly infrequently—are made by the Bank of Canada on the basis of accommodation for one week. The bank may pay the loan off in a shorter period than a week, but if it does so it is still charged for the full week. Under the procedures of the Central Bank—and this is not a legal matter; it is a procedural matter—any second use by a bank of the lending facilities of the Bank of Canada in any one month, or indeed any renewal of the first loan made in the month, is charged for at a penalty rate over and above the normal rediscount rate or bank rate, whatever it may be at that time.

Mr. CLERMONT: Mr. Chairman, I have sent a copy of the letters that we have received about that special line of credit to Mr. Coleman. Is Mr. Coleman now in a position to add to what he said before?

Mr. COLEMAN: Yes. Thank you for sending this up, Mr. Clermont. I see that we have a line of $200,000 with this group now, and it is on a short term basis. What they have additionally now is a $200,000 five year loan from the Mercantile Bank. And as I said before, in my humble opinion, it is not the function of a chartered bank to provide long-term loans to secondary lenders. I think we must try to the best of our ability to do what the Governor brought out in questioning by Mr. Cameron this morning; we must have lines of credit available when they

are needed, and frequently they are used. I do not think we should make a long-term loan to a secondary lender because I do not think that is the function of a chartered bank. Mr. Paton, I do not know how you feel about that, but that is my personal view.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, my last question is in connection with the clearing house system. Many briefs before this Committee brought out the grievance that they did not have access to the clearing house system, and I think that according to present legislation, only the chartered banks have the right to participate in clearing house services. Would there not be a way, without having to amend the Act, to enable other institutions such as Caisses populaires, credit unions, trust companies to participate, to have the privilege of participating in the clearing house system?

(*English*)

Mr. PATON: We have studied carefully Mr. Clermont, the representations made with respect to the clearing system. We are confident that there is a substantial misunderstanding of just what the clearing system consists of and what privileges are peculiar to the chartered banks. I will see if I can summarise our view point, and if we get into further technical discussion perhaps I might get one of our experts to come up and discuss it more clearly.

The Canadian Bankers Association Act authorises the Canadian Bankers Association to form clearing houses. There are only 51 clearing houses in Canada. No chartered bank must belong to these clearing houses; they may do so but if they wish to refrain from belonging it is their privilege. The actual cost of running these clearing houses is minimal in relation to the complete cost of the clearing system which is the basic method or form for interchanging millions of cheques daily throughout this country. There are some 450 points across Canada which participate in the clearing system. Any place where there are two banks in any town have their clearing system. The cost of this clearing system, the collating of cheques, the transmission of them from source of deposit to source of payment, the clerical salaries, and the equipment cost, amounts to some $33 million per year. The costs of operating the clearing houses is $60,000. The existence of clearing houses is merely a convenience. They are not buildings; in many cases they are basements of branch banks or a manager's office. They are not separate buildings but mere space where bank clerks—I am thinking of the evidence last week; these bank clerks can be pretty important—meet and exchange cheques and settlements for clearing house balances, one bank vis a vis the other.

If any other body of banking institutions or near-bank institutions, wish to set up a clearing system and clearing houses themselves, they have full power to do so. In fact, there are some in existence. Some of the credit unions have them. The Porter Report referred to the possibility of such clearing houses being operated under the Bank of Canada. In our opinion this represented a pretty serious misunderstanding of the functions of a clearing system. All you would be doing would be superimposing on an existing system another system or several systems that would be less efficient; would be costly to the individual groups concerned, and not in any way improve the efficiency of clearing settlements between debtors and creditors as we do currently in Canada.

To my knowledge, no responsible institution has been refused clearing house privileges. There is a responsibility attached to being a member of a clearing house: You must be able to provide evidence that you can meet your clearings. If the clearing house system was thrown wide open then obviously there could be repercussions, and there could be a loss of confidence in the use of the clearing system. The financial responsibility must be there. I think perhaps the near-banks that have raised this question overlook the fact that it is impossible to have free membership in a clearing system.

I was here when the evidence was given by the CUNA people and there was an indication that the charges for clearing houses membership privileges were imposed arbitrarily practically overnight by the chartered banks on members of the CUNA organization. This is far from correct. These charges—which incidentally have not been changed since 1958, when they were assessed after many months of negotiation between the chartered banks and the interested near-banks—were arrived at at a time when, they merely covered the cost of the services being provided. Nine years have elapsed and there has been no change in these charges, which obviously indicates the chartered banks have not been concerned month by month and year by year as to whether or not they are getting recompensed for the services performed. I think a witness from one of the junior trust companies suggested last Thursday that these charges changed every year. This is not so. The table of these charges is available at any time.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This is a complete contradiction of the evidence that we had the other day.

(*Translation*)

The VICE-CHAIRMAN: Mr. Clermont.

Mr. CLERMONT: My proposal, if the Committee has no objections, would be to Mr. Paton who mentioned a schedule of banking costs. Could this schedule not be tabled for the Committe? I think you have a copy of it?

(*English*)

Mr. Paton, I understand that you have a new chart for the bank charges and that the Chairman had one copy.

The VICE-CHAIRMAN: I have not a copy of that.

Mr. CLERMONT: Is that not correct, Mr. Paton.

Mr. PATON: I think we are speaking of two things, Mr. Clermont. I mentioned that we had provided the Chairman with a summary of the relative costs of operating a bank account. We have that available and can distribute that, with the Chairman's permission, at the present time.

Mr. CLERMONT: I will make a motion if there is no objection.

The VICE-CHAIRMAN: Personally I have no objection to this memo being circulated among the members, but if it is going to be part of our proceedings I think we might have a look at it and hear any comments members may wish to make. I have no objection to having those papers distributed among the members but I am not prepared to have them printed.

Mr. CLERMONT: Why not?

(*Translation*)

I have moved it, but if I have no seconder—

(*English*)

Mr. LAMBERT: I will second Mr. Clermont's motion.

Mr. CLERMONT: I have moved a motion, Mr. Chairman, and it has been seconded by Mr. Lambert.

The VICE-CHAIRMAN: Mr. Clermont has moved, seconded by Mr. Lambert, that this document form part of our records.

Motion agreed to.

The VICE-CHAIRMAN: With your permission I now will ask Miss Prentis to make some comments on the papers that are going to be part of our proceedings.

Miss M. R. PRENTIS (*Research Adviser to Committee*): Thank you, Mr. Chairman. I have only one brief comment of this memo. I would like to say that from my own point of view I appreciate the work that has been done. I feel that this additional information represents a great deal of work which would have been impossible for us to do with our limited resources. I would say that in general the letter that the Canadian Bankers' Association has sent the Chairman supports, in general, the points I made in my own very brief summary based on the work that I was able to do. The only point on which I tend to disagree with the Canadian Bankers' Association is that they suggest that judgment is not possible on page 4. I quote:

> It follows that it is just as impossible to make a comparison of the general level of service charges in U.S. banks with the general level of service charges in Canadian banks.

I think that some judgment is reasonable and possible on the basis of the material available to us. Those of us who work in the field of statistics know that you just cannot wait for enough statistics to make a sound judgment that is absolutely incontrovertible; you have to make judgments on the basis of inadequate statistics a great deal of the time. I tend to feel that it is possible to make judgments on the basis of the material that we have. Thank you, Mr. Chairman.

Mr. LAMBERT: Mr. Paton, undoutedly you have had drawn to your attention the testimony of Professor Caterina with regard to disclosure of information in banks' financial statements. I was wondering whether you are in a position to comment on these remarks or observations of Professor Caterina and whether the banks had ever considered that they could make their published public statements much more meaningful for the ordinary investor and for the public as a whole. Also, perhaps you would like to comment on the remarks made by Professor Caterina with regard to the disclosure of drawings on inner reserves and other matters so that you can really tell whether a bank is operating efficiently or not?

Mr. PATON: We have noted Professor Caterina's brief and also his evidence, Mr. Lambert. The banks are perfectly willing to provide the information. I am not talking about reserves at the moment; I am talking about a breakdown of the assets and liabilities, which is one of the areas on which he concentrated. I think he indicated that perhaps the personal loans of the Canadian banks might be

shown separately from general loans. That was one of the areas that he referred to in his evidence; and also a suggestion, perhaps, that the investments and the securities held might be broken down into one or more classes. I think it is very largely a question of how far does one go to reach whatever goal is required. If the Inspector General in his wisdom would wish us to produce statements in more detail with respect to a breakdown of the respective assets and liabilities then I doubt very much that there would be very strong opposition from the chartered banks. I think there is an area of usefulness that has to be weighed against the time required to go into this greater detail. The more information that is required, the more costly the operation. I am not saying that perhaps this would suddenly inflate the banks' costs but in general the whole trend seems to be perhaps, a desire to get information rather than whether or not is particularly germane to any specific purpose.

Mr. LAMBERT: I think somehow you got the wrong impression of what Professor Caterina was after and which personnally, I have a lot of sympathy for. You already do it as a matter of internal management; of this I am sure, or else there is something wrong with bank management. Maybe the banks are their own worst enemies in this regard, but they are too reticent in advising the public of their operations—not only the public at large but their shareholders. There is a way of telling the story of your operations. Instead of these great big box car figures, which ultimately defeat any meaningful purpose, you should break them down because you have something to sell. I have always wondered why the banks take the attitude that they do not have to sell something. They could sell themselves by doing it through much more meaningful and up to date forms of financial statements.

I would put it to you that there is not this amount of work. They are the published statements that you put out at the end of the year, and I have not them all here. But we see this in the many more business corporations that are giving us a much truer picture, which the ordinary layman can understand—and I include in there all Members of Parliament who are sitting on banking committees as well as the great majority of bank staffs too, managers and district office personnel. This is what Professor Caterina was after, in addition to which you could make appropriate statistical studies of the performance of our own banking system. And this is what I am after. I think he has a very good point here, and it is not something that the Inspector General requires. I would think the banks would be the first ones to come forward and do this rather than be forced into it by law or by the Inspector General. I do not think it is a matter of control or inspection, Mr. Paton, it is a question of selling yourselves to the public. That is the point I would like to make. I am sorry if I am making the point, but you are not.

Mr. PATON: I would just like to express my appreciation for your making that point. I think, speaking for myself and I am sure for the others, Mr. Lambert, that we know of our shortcomings in this respect. We have talked of them. We have heard on more than one occasion about them and I think I am correct in saying that there is a trend toward correcting this deficiency.

Mr. LAMBERT: Of course Professor Caterina included in that the question of inner reserves. We have not discussed that and I have not brought that up. Now,

you have seen the pros and cons of the arguments that he has made in connection with the disclosure of the drawings on inner reserves. What are your comments, or are your views still the same as you expressed them initially? We heard of one of the large banks—it may have been the Morgan Bank—in the process of putting out a prospectus, sustained a rather serious loss on which they had to draw on inner reserves, and the question was whether they should or should not disclose it? They disclosed it but in that way I think they took the public into their confidence. Would not the disclosure of drawings from inner reserves without impinging, shall we say, on the solid position of a bank, be a question of public relations and taking the public into your confidence? I am rather impressed with the idea that if you put up walls and curtains around everything you breed suspicion. I have made my comments; what are yours?

The VICE-CHAIRMAN: Do you have any comments?

Mr. PATON: Yes, I think I probably should have, Mr. Chairman. The short answer to the initial part of your question, Mr. Lambert, is that our stand is unchanged from the one we took when we were here before, with regard to the suggestion that our inner reserves in total should be disclosed. I think that this was the topic we discussed specifically in our previous evidence. Bill No. C-222 covers new schedules O and P which were not hitherto in the Bank Act. Schedule O covers the disposition of the earnings year by year and the full transactions involved in this connection. Schedule P covers the complete statement of the inner reserve position of the banks individually. Each bank would have to complete both forms.

I think the Association would like me to take the approach that for the reasons that were covered quite extensively in previous Bank Act revisions it would be inimical—not necessarily in the banks' interests primarily but in the interests of the public—to have the information as requested in Schedule P provided.

Perhaps I will have Mr. Coleman and Mr. Lavoie comment on this point also because there might be a slight difference of opinion in this connection. Speaking for myself I am less inclined to oppose schedule O, which is the schedule that covers the disposition of each bank's earnings year by year. Mr. Coleman, would you like to comment on that, please?

Mr. COLEMAN: It is very hard to disagree with Mr. Lambert's very eloquent presentation. I think the trend is toward more disclosures in all business. I think banks are in a rather peculiar position in this regard and there have been good reasons. This subject has been argued pro by, at least one Minister of Finance and by at least one Inspector General and other people more eminent than myself, and I think with good reason. I do feel that the trend is toward more disclosure. I think—and this is a personal opinion—as time goes on that you certainly will see some of the banks disclosing more and more all the time. However, I think that there have been very good reasons now as in the past for the disclosure of some information not being made to the public.

Mr. PATON: Mr. Lambert, Mr. Perry has just handed me an official Congressional report on the actual position in the United States which might be of

interest. It shows that perhaps the Canadian banks are somewhat more advanced than their counterparts. I will quote this, if I may:

> Furthermore, stockholders of banks in many cases receive little or no information concerning the financial results of their bank's operations. Less than 50 per cent of all the banks publish annual reports. Of those who do publish annual reports, 29 per cent do not report the size of their valuation reserves. Although non-reporting is primarily a characteristic of the smaller banks, there are substantial numbers of the large banks who do not publish annual reports and even if they do, they may not reveal the size of their valuation reserves.

Mr. LAMBERT: But you would agree, Mr. Paton, that so many of the smaller banks in the United States are closely-controlled family operations or controlled by a handful of shareholders in a small city. They play their cards pretty close to their chests; but they are not widely held public bodies like our own chartered banks?

Mr. PATON: That is correct but they do refer to large banks too.

Mr. COLEMAN: Perhaps, Mr. Chairman, I should have mentioned one other point which may be well known to members of the committee but not be generally known by the public and that is that nothing is held back from the Inspector General—nothing. He knows everything that goes on in our different banks; every account that is the least bit risky. He is fully knowledgeable of everything that goes on in all the banks.

Mr. LAMBERT: I think you would agree, Mr. Coleman, that the office of the Inspector General is as loquacious as a beartrap.

Mr. COLEMAN: Well I thought I should perhaps make the point in case in some area it might be felt that the banks have information that they disclose to no one. Now I know that you know differently.

Mr. LAMBERT: I do not think it has ever been suggested otherwise in this Committee. While these disclosures are made to the Inspector General it stops there.

Mr. COLEMAN: Well, from the standpoint of the safety of the depositors he is the guardian of the depositors' funds; he is the man who ensures that the depositors funds are safe by a very critical and detailed examination of each bank's affairs.

Mr. LAMBERT: If I may switch to another subject, Mr. Chairman, there was some discussion about the changes brought about by clause 88(5) and one or two witnesses—particularly witnesses appearing on behalf of the Federation of Agriculture—suggest that there should be much wider application of the so-called trust on behalf of the producer involved in clause 88. This is a contention, of course, which I think is highly questionable. What would your comments be as to the effect upon more and more, shall we say, restrictions on bank security under clause 88 and what the effect of such restrictions would be as to the volume of lending or whether it would just be something that, in the end, would be a dead article in the act if it went as far as is suggested by some of the witnesses.

Mr. PATON: We feel, Mr. Lambert, that clause 88 is a very, very worthwhile piece of security in the operation of the banking industry in financing the Canadian economy. It is a long-dated and important section of the Bank Act which has been up for many revisions, and we would deplore any further effort to widen the priorities that are already shown in Bill No. C-222. We have gone into this quite extensively. When Bill No. C-5 was being considered by this committee some years ago we appeared before the committee and gave our thoughts on the legislation. Since then we have had meetings and discussions in connection with this particular problem, and I think I am correct in saying that we are quite prepared to live with the priority presently included in Bill No. C-222. In doing so I have to say that in assessing the relative credit we would be prepared to extend the processes involved in this area we must be consciously aware that there would be a substantial additional preferred creditor in existence at all times. That is really the feeling that we have with respect to this legislation. We are satisfied to continue operating under it and feel that we can still do a particularly satisfactory job in the area of financing under the security, but I think it stands to reason that the more inroads that are made into the security and the more inhibitions that are written in must have an effect on our judgment in considering applications for credit under this section.

Mr. LAMBERT: Now dealing again with clause 88, Mr. Ziegel did make some comments about the description of the property being more particularized under a Notice of Intention to grant credit. I notice in looking over the various notices of assignment or whatever you want to call them, as required in Bill C-222, that these do provide for a description of the property and the designation of the place or places where it is located. But it seems that there must be some occasions where because very, very general terms are used the farmer granting the security under clause 88 comes up against a requirement for credit on another source and he is simply told that "you are covered, everything is covered", because maybe a credit bureau has picked up the notice either through a Dun and Bradstreet bulletin or by regular visits to the Bank of Canada office where you file the notices under clause 88. What have you to say in regard to that? What if a man were to say that he was giving cattle as security but it was described merely as "farm animals". Could not his hogs or other farm property become involved.

Mr. PATON: I wonder, with your permission, Mr. Chairman, could I ask Mr. Duffy to join me? Mr. Duffy is closer to the actual operation of clause 88, security.

The VICE-CHAIRMAN: Mr. Duffy, would you care to make a statement?

Mr. PATON: Mr. Duffy is the Superintendent of the Canadian Imperial Bank of Commerce.

The VICE-CHAIRMAN: Did you understand the question asked by Mr. Lambert?

Mr. J. F. DUFFY (*Superintendent, Canadian Imperial Bank of Commerce*): Yes.

The VICE-CHAIRMAN: So you are prepared to answer it?

Mr. DUFFY: Yes. Under the Bank Act the bank is required to register and give the Notice of Intention to borrow under clause 88 and the bank is required

to register this Notice of Intention at the Bank of Canada, so that the public record shows that the borrower is borrowing from the bank under clause 88, and the information as to the extent the security is covered is contained on the assignment of the merchandise which is held by the bank. Therefore, if you are dealing with a bank borrower who is borrowing under clause 88, you could ascertain this from the public record of his Notice of Intention to give security. As to the details, if your interest went further, in the manner in which Mr. Lambert mentions, where one wants to know precisely what security the bank was holding from this borrower, then this information is always held by the bank. I will grant you that the details of the security the bank holds on the merchandise which is pledged is not the sort of information that the bank will give out to any casual enquirer at the counter because this is a matter of confidential relationship between the bank and its customer. Perhaps I am going too far here but I would suggest that if the party who is interested had a right to know exactly what merchandise was covered, or for purposes of furthering his business transactions with the borrower it was necessary for him to know, I presume that they could go to the banker together and the borrower could give the banker permission to tell his prospective creditor what the extent was of his liability at the bank in the way of what merchandise is pledged. Does that answer your question Mr. Lambert?

Mr. LAMBERT: Yes. It exactly confirms the point that I want to make in that I do not think that this is right. I agree with Mr. Ziegel; it should be no more difficult for the individual to go along to any district Registry Office where there is filed a chattel mortgage which spells out precisely the assets that are covered by chattel mortgage and obtain the nature of the security that was assigned to the bank than it is for myself, as a solicitor, or any interested party willing to pay the inspection fee. For instance, department stores have to file conditional sale agreements on major appliances. Finance companies do it in order to protect the priorities, in the same way that the banks do in order to protect the priorities. Because they have to file a copy of the actual mortgaging document, the public knows immediately what goods are covered by a security and, therefore, the creditor is not guilty of holding out to the public in general that the one in possession has got these goods and is the owner thereof. I find it a little difficult that, say, an individual dealing with a farmer who has given security under clause 88, has to instruct his solicitor or himself go to the Central Registry of the Bank of Canada in that locality, see that there is a notice, then go back and get an authorization to visit a branch bank to get the details.

Mr. DUFFY: I did not suggest that this happens very often, Mr. Lambert. I did not suggest that we were faced very often with customers coming in and asking for the description of the security we hold from an individual borrower. Also, a further point I would make is that as opposed to the individual appliance or vehicle, where description is rather a simple process, the main purpose of clause 88 is to handle, in an assigned way as a security, a wide variety of goods in the manufacturing process of a changing nature, and where the machinery of always providing an adequate or complete description would be a very heavy imposition on the bank or the borrower because of the continuing changing nature of your security.

Mr. LAMBERT: This might be so in the case of a manufacturing concern but I am thinking of the farmer, for instance. It is no more onerous to file an extra copy of the assignment that he gives in that form and the act of filing that along with the Notice of Intention.

Mr. DUFFY: I think it would add greatly to the burden where you were required to give details of an individual appliance or an individual piece of security. But I can think of many very large manufacturing operations being conducted under clause 88 where it would be difficult for the bank to keep up with the changing nature of its security and always insuring that a description of the security was on record, if that is what you mean. In fact, I think the process would get very burdensome. I am thinking of a lumber manufacturing operation, from the logs through to the finished product—to the toothpicks that somebody mentioned the other day. At the moment we show that the customer is borrowing from the bank, under clause 88, and a request for details of the bank security from week to week would quite likely show quite a different picture.

Mr. LAMBERT: I do not want to engage in a quibble here, but I still feel that it does not go beyond the powers of description in general terms of the nature of the assets that are being covered.

Mr. DUFFY: In general terms, yes.

Mr. LAMBERT: In general terms, it could be in the form of lumber in process or something like that—just general terms. I do not want to make any more of it, but I think that something better could be done in this regard, in so far as the public is concerned. I do not want to get into a legal dissertation here but the bank by leaving the goods in the hands of the individual is really holding out to the public that the individual who has them in his possession is quite likely the owner and unencumbered.

Mr. DUFFY: He is the owner is he not?

Mr. LAMBERT: Yes, he is the owner. This is part of the doctrine of holding out and this is why you have to register chattel mortgages and other things at a central registry and define them very carefully so as to, shall we say, withdraw yourself from having held out to the general public that Mr. X is the owner and has a clear title to certain chattels.

Mr. DUFFY: I think the only other comment that I could make that I have not made up until now is this. Taking the United States as an example, where for years they encountered difficulties in inventory financing by reason of the fact that there was a great variety of state laws, some eight or ten years ago certain legal minds and bankers, taking section 88 as a guide, introduced the uniform commercial code, which was largely aimed in the direction of simplifying lien procedures to make it more convenient for banks and other lenders to finance inventory in the process of manufacture.

Mr. LAMBERT: I have another question, Mr. Chairman, respecting deposit insurance but I am prepared to yield to anyone else who has a question to ask.

The VICE-CHAIRMAN: Perhaps there are some supplementary questions. Mr. Cameron?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, Mr. Chairman.

Mr. Paton I would like to bring you back to the question of the clearing house arrangements which we were speaking about just now. I understoood you to tell us just a few minutes ago that the charges for clearing house facilities that are made by the Bankers' Association to other institutions were not imposed by the Bankers' Association but as a result of consultations with these other institutions. Did I understand you correctly?

Mr. PATON: That is correct. Consultations between the Bankers' Association and the near-banks concerned.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Have you read the proceedings or were you present at the time of the appearance of the CUNA representatives?

Mr. PATON: I was here, Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Then I suppose you will recall what appears on page 2530 of our proceedings of January 17th when the Chairman, Mr. Gray, said to Mr. Tendler, who is the manager of the Saskatchewan Co-Operative Credit Society and Vice-President of the Canadian Co-Operative Credit Society the following:

> I would like to clarify one or two points myself. At the moment, with respect to the regulations, charges and limitations involved in the clearing house system, you have no voice whatsoever in the decisions?
>
> Mr. TENDLER: That is right.
>
> The CHAIRMAN: You are just told what you are going to have to put up with?
>
> Mr. TENDLER: We were presented with a schedule of charges, which I referred to as Schedule B; this was presented across Canada to the various credit union organizations and these are the charges which will be made.
>
> The CHAIRMAN: You are not represented in any executive which is in charge of managing the clearing system?
>
> Mr. TENDLER: No.

Then Mr. Tendler was later asked if he had any way of knowing to what extent the charges imposed by the chartered banks for clearing represent only the cost of the services rendered, or to what extent they may include a profit in addition to the cost. Mr. Tendler said:

> No, Mr. Chairman, we have no way of knowing. We said we would be interested in paying our share of the cost; if it is more that is fine, and if it is less that is fine.
>
> The Chairman: Have you asked them?
>
> Mr. Tendler: Not recently.

And another witness said:

> The question was certainly asked originally and the chartered banks indicated that this was simply a recovery of their own costs.
>
> The Chairman: Did you ask them to show you the figures?
>
> Mr. Ingram: Yes, but these were not available.
>
> The Chairman: Do you mean it was not available in general, or they

would not show them to you?

Mr. Tendler: Well, they were not available.

Mr. Ingram: They just made this report available.

The Chairman: To whom?

Mr. Ingram: Well, to our group, or our delegation, that has met with officials of the Canadian Bankers' Association at that time.

Now, it would appear that according to these witnesses, Mr. Paton, although they met with you, they apparently had no opportunity to discuss the charges that were to be made. They were merely presented with a scale of charges, and that was that. I am wondering how you can explain the discrepancy between your evidence and that of Mr. Tendler and Mr. Ingram.

Mr. PATON: My interpretation of the evidence as I listened to it, Mr. Cameron, was that this arrangement had been very summarily presented to the members of this particular body, the credit union, and there was relatively little, if any, discussion. The point that I would like to make is that was not so.

I have in front of me a letter dated November 17, 1958, addressed to Mr. W. E. McLaughlin, then assistant general manager of the Royal Bank. Perhaps, as it is a relatively short letter, I might read it to you in its entirety rather than just read certain extracts.

> May I on behalf of the provincial central credit unions and co-operative credit societies express to you and through you to the members of your Committee of the Canadian Bankers' Association, our thanks for the kind hospitality which was extended to us during our meeting on the 10th of November in Toronto.
>
> The members of our group have asked me to acknowledge the pleasant atmosphere in which all the negotiations were conducted since it was first agreed that we should meet for this purpose following our meeting in Toronto on the 27th of October. We are particularly appreciative of the arrangements which you made for that October meeting on such very short notice, and we extend our thanks to Mr. Smith and the other members of the Toronto section of your Committee for the friendly and understanding hearings which they gave us.
>
> Although our common and prime purpose was to conclude an agreement satisfactory to both groups, we were particularly heartened by your opening remarks, as Chairman, of the goodwill and understanding of the banks towards the credit union movement. Your assurance that the Canadian Bankers' Association recognizes the place of credit unions in the Canadian economy, and that you completely refuted any suggestions that the bankers were unfriendly towards the issuing of orders by individuals upon their credit unions, served not only as an important contribution to our mutual understanding, but also established a sound foundation upon which negotiations could be conducted.
>
> It was suggested by one of the members of your group that our respective purposes might be well served by the establishment of some liaison between us. In our opinion there is sufficient merit in this that we are prepared to consider the appointment of a small committee for this

purpose. Certainly this should make for a broader understanding of each other's functions.

Mr. McLeod indicated at our meeting that he might be good enough to send a draft of the revised proposal to us. We would welcome an opportunity to review it before the final form is drawn and instructions issued. You will appreciate that we are presently in the throes of preparing instructions to member organizations for release when your branch offices have been advised. It is rather important that we are "on all fours" before this takes place, and we would be pleased to hear from you at your earliest convenience,

Yours truly,

J. R. Robinson,
Manager of the British Columbia
Central Credit Union.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This is the British Columbia credit union?

Mr. PATON: Yes, the B.C. Central Credit Union.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This was nine years ago?

Mr. PATON: November 17, 1958.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Eight years ago.

Mr. PATON: Yes, at which time these charges were instituted, after numerous negotiations had been satisfactorily conducted.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You have no similar correspondence from other sections of the credit union movement in Saskatchewan?

Mr. PATON: Mr. Perry says that Mr. Robinson was acting as head of the group that were negotiating for the credit unions across the country.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): At that time what they referred to as Schedule B was enacted and decided upon?

Mr. PATON: Enacted and decided upon and has remained in status quo since that time.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Have there been any further meetings or further negotiations to change the rate they pay?

Mr. PATON: No. There have been no further negotiations to my knowledge with respect to adjustment of these rates.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Another piece of evidence that Mr. Tendler gave us which I would like your comment on was in answer to a question by Mr. More:

> Mr. More (*Regina City*): Gentlemen, you referred to Schedule "B"; is this a special schedule that is presented to you, or is this the same schedule required of near banks in their clearing?
>
> Mr. Tendler: No, I would have to say it differs; the caisses populaires have a different one than we do.

Now, can you explain why that is so? I presume that Mr. Tendler knew what he was talking about as they were here representing both caisses populaires and credit unions.

Mr. PATON: I have no knowledge which schedule is the better one in so far as the participating members are concerned, Mr. Cameron, but I would say that the schedules eventually decided upon for each body were the subject of lengthy negotiations along the lines indicated by this member of the credit union with each group.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But you have no idea what the difference may be between the treatment of the caisses populaires and the treatment of the credit unions, and why there is a difference?

Mr. PATON: The variance in the charges, Mr. Cameron, is related to other factors, such as credit balances, etc., carried by the different groups. We do have, and I am not sure if the Committee has this, a comparative schedule here which covers the charges to credit unions, caisses populaires, mortgage loans and trust companies, and we would be very pleased to submit this to you if you would like—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): And that was made available to the various institutions?

Mr. PATON: It was not necessarily comparative; that is to say, the over-all charges were not necessarily provided to each group of institutions.

The VICE-CHAIRMAN: Mr. Cameron, would you agree to having this comparative schedule of the principal charges made to near-banks become part of the record?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Oh yes, certainly.

The VICE-CHAIRMAN: It is agreed.

Mr. PATON: I might say that this information was shown in our submission to the Royal Commission at the time we produced that document.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I notice in the evidence of the credit unions that the witness said that they had no means of knowing whether these charges merely represented a recovery of costs, because the banks provided them with no figures to indicate what the costs were. Do the banks have in their possession any figures that would indicate what it costs them to operate the clearing systems?

Mr. PATON: We have the totals. You want to know if we have the make-up of these totals, Mr. Cameron. As I mentioned earlier, the total cost is $3.6 millions, according to our calculations, as opposed to a revenue from this source of $1.8 million. Those are the latest figures. I do not have with me, nor do we have available—and I stand to be corrected—the working papers that produced these costs. I can assure you that in any costs we do produce we endeavour to be completely factual.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You made two comments earlier, Mr. Paton, when this matter was brought up that interested me. I understood that one was that credit unions can and indeed have in certain areas set up their own clearing system. Did I understand you correctly?

Mr. PATON: That is correct.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Do they not at some point have to deal with the clearing system of the chartered banks?

Mr. PATON: Yes, that is correct.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): So actually they cannot set up their own clearing system?

Mr. PATON: Well, I would disagree there. They can set up their own clearing system to produce a certain effect and if they so wished, Mr. Cameron, they could proceed to the final conclusion of obtaining settlement of all bank orders, etc., if they wished to do it in a very cumbersome manner. I think the benefits derived from using the clearing system which is the result of our widespread branch operation would so far outweigh any possibility of their being competitive that it would be the essence of poor judgment to try to complete their own system right through to the final end of obtaining settlement.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The other statement which you made was that one of the prerequisites of being a member of the clearing house association would have to be that the individual institution would be able to guarantee that its cheques would be met. Is there no means by which the Bankers' Association could admit such organizations as credit unions or trust companies that are under almost as rigid supervision as your own? It struck me as rather strange that you should place such emphasis on this when we were talking about institutions that are extremely sound. Would you object to an amendment being made to the Bankers' Association act which would permit the membership of the credit unions' central organizations?

Mr. PATON: I would certainly hope that there was no inference in the comments I made as to the creditability of credit unions throughout Canada. At no time would I want to be on record as even implying that, because I am fully aware that this is not the case, Mr. Cameron. What I was trying to get at is that there are some 230 non-members of the clearing house. The financial responsibility attached to this membership has to be considered at all times and this is without reflection on any part or any segment of this group.

There have to be credit balances carried by these members—I do not like to refer to them as near-banks—with some institution, and in this case a chartered bank. The alternative would be for them to carry balances with the Bank of Canada and provide their settlement through the same media as the chartered banks. I think it would be very largely a question of the ability or the desire of these indirect members of the clearing house to absorb their share of the costs of this clearing system. I think it would be inequitable if they should come in directly as members of the clearing system and participate, with relatively little contribution to the costs, in the full benefits of a system that is provided by the chartered banking group.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No. Certainly the position that Mr. Tendler took was that they certainly were prepared to do this. They would be interested in paying their share if they could find out what their share should be.

Mr. PATON: I think I could assure Mr. Tendler that the costs would be very, very much in excess of what they are looking at under the present situation. I would like to assure you that there has been no effort at any time by the chartered banks to sit on top of this whole situation and dispense favours. We are very happy to provide these privileges. It is a developing operation, as is evidenced by the number of members which there are on this basis.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I conclude this part of my questioning, Mr. Paton, with this question. As you apparently are operating an onerous and expensive operation, I suppose, the Bankers' Association would support the recommendation of the Porter Commission that the central bank should undertake this onerous and expensive function?

Mr. PATON: No, sir, we would not support it. We would feel—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You have a yen for martyrdom?

Mr. PATON: Not particularly, but I keep coming back to the comment that you made yourself in prior hearings once or twice that we have to pay for the privilege for having the word "bank" after our name. I think you commented on that on more than one occasion.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not quite see its relevance to this particular proposition. I admit I am a little puzzled, Mr. Paton. You have laid great emphasis on the fact that it is extremely expensive for the banks, that you lose money on it, and yet you tell me that you are opposed to being relieved of the burden. Now, this raises a question in my mind. What is the purpose for which you want to keep control of this operation?

Mr. PATON: I think the answer, Mr. Cameron, is that this is the banking system. This is the banking operation. This is our function.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This is part of it. The other part of it is the central bank.

Mr. PATON: Correct. But we are also completely convinced that there is no other system that could be substituted for the present system, as it is presently constituted, at a lesser cost to the participants in the system, which inevitably means a lesser cost to the Canadian public.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This still leaves me with that question in my mind, Mr. Paton. I can only conclude that you have a masochistic desire to punish yourselves and keep this onerous and expensive burden, which you have told us it is and that you do not make a nickel, and I am quite prepared to agree that this is probably the case, but I would like to know why you want to retain this particular operation in your hands?

Mr. PATON: I would say, quite unreservedly, Mr. Cameron, that if there is a better system available in which we can participate at a lesser cost and which will be equally effective, we would be delighted to co-operate in producing such a system.

Mr. COLEMAN: I will vote for it. Perhaps you may have missed one part of Mr. Paton's comment, Mr. Cameron. I think you said, Mr. Paton, that you felt that the Porter Commission may have been labouring under a misapprehension when they suggested that the Bank of Canada would take over the clearing system. There are only nine or ten Bank of Canada points in Canada. I think from there it does not take too much imagination—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): How many clearing house points do the chartered banks operate in Canada?

Mr. PATON: There are 51 clearing house points. There are 450 clearing points.

Mr. COLEMAN: I think you can see that it would be a rather awkward situation.

Mr. MONTEITH: Could I have some clarification of this 450 and 51. What are those numbers again, and how do they apply?

Mr. PATON: There are 450 points in Canada where there is more than one bank.

Mr. MONTEITH: So there is a clearing between those two banks?

Mr. PATON: There is a clearing between those banks. They constitute the 450. Then there are 51 points where there is an organized clearing house along the lines of the by-laws of the Canadian Bankers' Association which are approved by Treasury Board, in which there is a physical area, be it a basement or a manager's office, where clerks exchange cheques and make settlement for balances between the banks involved. Then you go down to your nine Bank of Canada points, where settlement is then made daily between the banks by drawing on their Bank of Canada accounts or, alternatively, crediting the Bank of Canada accounts.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Has there been any development of computer operations in this field which might have the tendency to reduce the necessity for quite so many individual points?

Mr. PATON: The computer operations are developing just as rapidly as it is economical for us to have them expand. Up to this point they are limited to four or five major cities in Canada, and each bank has its own operation. This will develop as the volume grows and it may well make the clearing system more efficient, but at the moment I think it is reasonable to say that it is in the embyro stage and as yet it has not made a material difference to the actual cost of clearing the exchange of pieces of paper between one bank and another.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Would this perhaps be one of the reasons, Mr. Paton, that we sometimes hear the charge that the Canadian banking system is rather old fashioned?

Mr. PATON: No, sir, I would most definitely refute that. I do not believe it on any count.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I now turn to an equally awkward matter. Is my time up, Mr. Chairman?

The VICE-CHAIRMAN: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You are saved for the moment, Mr. Paton.

The Vice-CHAIRMAN: It will give him some relief. I now recognize Mr. Wahn.

Mr. WAHN: Clause 73 of the proposed Bank Act, Mr. Paton, refers to the issurance of bank notes, I think, by Canadian chartered banks for use outside Canada. As a matter of interest, do any of the Canadian banks issue bank notes now for use outside Canada?

Mr. PATON: My answer to that would be no, Mr. Wahn.

Mr. WAHN: Perhaps I misunderstood the clause. What does clause 73 refer to, then? Clause 73 reads:

(1) Where the bank has issued its notes for circulation in a country outside Canada, it is liable to redeem them at par—

and the clause goes on at some length to prescribe what should be done. Is that completely unnecessary now?

Mr. PATON: I must confess it is a section of the Bank Act to which I have paid very little attention.

Mr. WAHN: Of course, I was just curious.

Mr. PATON: I think the purpose of it is exactly as you indicate, that it would give this privilege to the banks, but to my knowledge no bank exercises this privilege. Is that right, Mr. Coleman?

Mr. WAHN: Do you see any necessity for the clause, then, or could it be deleted, or does it matter?

Mr. PATON: My reaction to that is that it does not matter, but I would hesitate to make an official comment of the association because it is really something I have not discussed.

Mr. WAHN: It may be a source of revenue and it would help defray the costs of that clearing house that seems to worry Mr. Cameron.

Mr. PATON: Thank you for the suggestion, Mr. Wahn.

Mr. WAHN: Mr. Rasminsky in his evidence this morning indicated that on several occasions it had been necessary for him to ask the Canadian chartered banks to take certain action which was necessary in the circumstances, and that the Canadian chartered banks had done this voluntarily. He also indicated it was not a type of procedure that he particularly liked but on these particular occasions he felt it was necessary and that the Canadian chartered banks had complied, but that he really had no legal authority under the existing Bank Act, or under the proposed new Bank Act, to require them to comply. Is it a desirable procedure in your view to rely upon voluntary compliance in those circumstances, or would it be better if the Committee were to recommend in the new act the inclusion of a clause which would extend the legal power to the Governor of the Bank of Canada or to the government to require compliance in these circumstances, or when necessary for monetary reasons, I presume, or do you have any views on that subject?

Mr. PATON: Yes, sir, I think our views would be that we are eminently satisfied with the present situation where, in the judgment of the Governor of the Bank of Canada in consultation with the management of the respective banks, they arrive at a mutual agreement. It is true that in many cases this is initiated by the Governor or it is a case where he has had no difficulty in getting the concurrence of the chartered banks if it was a suitable procedure to follow under the conditions existing at the time. They have worked well in the past on various occasions and by keeping it out of legislation, Mr. Whan, it retains a certain flexibility which I think perhaps would be preferable to endeavouring to spell out in the act certain legal authority that the Governor might be given.

Mr. WAHN: You do not see any problem then, Mr. Paton, in the future, when you may have a larger number of chartered banks to contend with than you have at the present time?

Mr. PATON: I do not think so. These occasions are not frequent. They do not occur at regular intervals, they occur at times when there is perhaps a serious change or fluctuation in economic conditions. The usage of them is quite infrequent and I think it is quite satisfactory on the present basis.

Mr. WAHN: Mr. Paton, clause 76 of the proposed new act prohibits, as I read it, a bank owning more than 10 per cent of the shares of other Canadian corporations, with certain exceptions. One of the exceptions is a bank service corporation. A bank service corporation is defined, among other things, as including:

> A corporation engaging in the business of providing a service incidental or ancillary to, or used in the carrying on of, the business of the bank.

Do you think that definition of a bank service corporation is rather broad and indefinite, particularly in view of the lack of definition of the business of a bank? Should it be more specific?

Mr. PATON: I think we like to see it as broad as it can be made, Mr. Wahn. I think you are aware that clause 76 is not one of the more favoured clauses in the Canadian Bankers' Association's considerations, and the wider exemptions there are to this clause the better we would be pleased. I think this particular wording has been arrived at after very, very careful consultation on the purpose of this clause.

Mr. WAHN: What do the bank service corporations actually do, if this is not an embarrassing question?

Mr. PATON: I think it refers basically to the real estate companies. In our case, for example, it is the Toronto-Dominion Realty Company. There is also the Royal Bank's realty company, and the other banks own realty companies.

Mr. WAHN: That is dealt with earlier and it refers specifically in the definition to a corporation owning or leasing real or immovable property. What are these other incidental functions that are referred to? This is what concerns me from the standpoint of vagueness.

Mr. PATON: Is that subclause (C), "ancillary", to which you have particularly referred?

Mr. WAHN: Yes.

Mr. PATON: We had a discussion on that. Mr. Cate, counsel for the association, gave some evidence on the question as to what was covered by this subclause (C). At that time I think he was asked whether or not this would cover companies such as RoyNat, UNAS and Kinross, and he replied that in his opinion the answer was no. I am not too sure if he gave any opinion as to what it would cover.

Mr. WAHN: What do you want it for? Apart from real estate holding companies, which I dealt with earlier; what do you use it for now?

Mr. PATON: I am just not in a position to answer that.

Mr. WAHN: You have companies, for example, which hold securities for the bank but they are usually partnerships, are they not?

Mr. PATON: These are nominee companies which engaged in holding securities for nominees. All the banks have them, but I do not think these are items which are covered under subclause (c).

Mr. WAHN: Right. I would now like to skip over to another clause, which may not be one of your favourites, clause 138. This is the clause, Mr. Paton, which prohibits agreements with other banks with respect to interest rates, and that sort of thing. Do you have any feeling with regard to this clause? This is a new clause and, as I understand it, the Combines Investigation Act in the past has not been considered as applying to banks. This clause is completely new. I gather that in the past agreements among banks with regard to interest rates has not been illegal or considered anti-social, as far as that goes. Do you have any feeling with regard to this clause? Do you consider it is a desirable clause to have in the new Bank Act?

Mr. PATON: We have no objection to it whatsoever, Mr. Wahn.

Mr. WAHN: Ordinarily this type of thing, in my experience, is not dealt with by formal legal agreements. It is more usual to do it by so-called gentlemen's agreements or unwritten understandings, and a person who violates the unwritten code is considered a bit of a chiseller and is subject to certain social opprobrium. If you have no objection to this particular clause, would you be in favour of extending it to unwritten understandings or this type of gentlemen's agreement to which I referred?

Mr. PATON: I think it is quite specific here in its intent. It ties in, of course, hopefully with the removal of the interest ceiling. I think possibly it would be wrong to expand it on a general basis such as you suggest.

Mr. WAHN: In the past the interest rate paid to ordinary savings depositors in Canadian chartered banks has been rather similar from bank to bank. Would you anticipate that if this clause is passed and it becomes part of the law that there would be any difference in the future? Do you think the Canadian public generally would have the advantage, if it is an advantage, of a greater variety of interest rates on savings deposits?

Mr. PATON: There could be a greater variety of instruments of deposit, of various types of certificates, but in general the interest rate on ordinary savings accounts as we know them today would undoubtedly be uniform throughout.

Mr. WAHN: You would not anticipate that this clause would make any difference in that?

Mr. PATON: No, I think the Governor of the Bank of Canada covered that point quite adequately this morning and I would associate myself with the comments he made on that subject.

Mr. WAHN: We have had evidence that, if possible, it would be desirable to have a broader and more active money market and capital market in Canada. We also had evidence last week, and earlier as well, that one way of securing this would be to have broader participation in the banking business by providing in some way for participation, perhaps under controls, by foreign banks or foreign financial institutions. I realize the Canadian Bankers' Association has no official

views on this point, but I think it would be interesting and helpful to the members if we could get the individual points of view of the bankers with regard to this rather basic question. Would it be possible for individual bankers to express their points of view on this question?

Mr. PATON: Certainly if the Committee wishes this it could be done, Mr. Wahn. I think the subject has only been referred to once before during our association's hearings.

The VICE-CHAIRMAN: I think, Mr. Wahn, as it is close to six o'clock, and we are reaching the point of foreign banks and the question of reciprocity between foreign banks and Canadian banks, if you will allow me I will suggest that you start these questions when we resume our sitting at eight o'clock. When Mr. Wahn has finished, I will recognize Mr. Latulippe and then Mr. Johnston.

This meeting is adjourned until eight o'clock this evening.

EVENING SITTING

The VICE-CHAIRMAN: May I call this meeting to order. Mr. Wahn will you resume your questioning.

Mr. WAHN: Mr. Paton, my question is one which I put to you before the recess, namely, whether the bankers have any suggestions as to methods of making our money market broader, better, and more responsive; and the desirability of foreign participation in some form in the money market.

Mr. PATON: Mr. Wahn, the specific question with respect to the participation of foreign agencies in the banking community in Canada is one on which the association has not expressed a unanimous opinion. If I recollect correctly, the subject was briefly referred to at one time, in our previous hearings and I think you raised the question yourself. At that time I indicated that there was not unanimity among all the members of the association with respect to this question. In making that statement I was not intending to indicate that there were sharp clashes of opinion with respect to the admission or otherwise of foreign agencies into Canada; rather it was a question of shades of opinion as to how best this should be considered. I think this is still true and it would not be within my purview at the present time to endeavour to speak on behalf of the association in this connection.

With your permission, perhaps I could give my personal views, speaking as an official of the Toronto-Dominion Bank, and perhaps other general managers who are with us tonight would also wish to comment after I have summarized my thinking.

The VICE-CHAIRMAN: You say now, Mr. Paton, that you are talking only on behalf of your own bank.

Mr. PATON: Yes, I am not endeavouring to give you a consensus of the association.

The VICE-CHAIRMAN: The reason I asked the question is that I was told that Mr. MacIntosh, on behalf of the Bank of Nova Scotia, wanted to add some comments, Is it agreed, after Mr. Paton has finished his statement on behalf of

his own bank, that we ask Mr. MacIntosh on behalf of the Bank of Nova Scotia, and others, if they so desire, to express their views?

Some hon. MEMBERS: Agreed.

The VICE-CHAIRMAN: Mr. MacIntosh, would you like to give your comments on behalf of your own bank at this time.

Mr. R. M. MACINTOSH (*Joint General Manager, Bank of Nova Scotia*): Mr. Chairman, the view of the Bank of Nova Scotia, which I am going to express to you now—and I want to make it clear that this is the view of our bank and not the association—is that the recent discussion which has taken place in this Committee concerning section 75(2)(g) has tended to cloud and obscure discussion of the real issue. In our view, there still is a real problem with regard to the reciprocal treatment of foreign banks in Canada. There is a question of the national interest involved in so far as our treatment of foreign banks here will affect the position of Canadian financial institutions, specifically of the chartered banks abroad. More generally, it will affect the posture of the Canadian government in its dealings in international economic affairs in the world as a whole.

The present government follows a policy which might be termed, an "open economy". The nature of our policy is essentially to have an open view of the world to deal in international affairs in a way which leads to the reduction of tariff barriers and barriers in the movement of goods of capital and of people. Therefore, we feel that an uncompromisingly restrictive approach, a nationalistic approach, to the treatment of foreign banks will ultimately act against the general interest and the general nature of Canadian policy.

We feel also that while the case has been made in this Committee from time to time on the subject of admitting agencies to Canada, that the subject has not been fully explored with regard to the admission of branches of foreign banks. We noted in Mr. Rasminsky's remarks yesterday that he did not take a categorical view with regard to the subject of agencies and branches. He asked a number of questions with regard to how they would have to be treated; as to whether they would come under the Bank Act; as to whether they would be subject to specific rules and regulations regarding cash reserves and so forth. Our view is that while it would be very difficult to make a provision regarding foreign banking in Bill No. C-222 at this stage, it would not be impossible to write separate legislation dealing with the subject of branches and agencies in such a way that Canada should provide reciprocal treatment to other countries. Most specifically, it is our view that the Canadian banks, which themselves operate extensive branch systems abroad, should be prepared, under certain conditions, to see, in Canada, branches of foreign banks operating. We point out that there are 229 branches of Canadian banks in 39 foreign jurisdictions. Only six of those 229 branches are agencies; the rest are all full branches of the parent companies.

What we say then is that agencies do not provide a sufficient degree of reciprocity for some jurisdictions, although we recognize that in the case of some jurisdictions, most specifically at this time—New York and California—the agency treatment would, under present law and failing the passage of federal legislation in the United States, provide a sufficient degree of reciprocity. We say that the problem is not confined to the United States, that the Canadian banks,

in fact, operate in many countries of the world, and that to focus discussion wholly on Canadian-American inter-relationships here, is to miss the fact that Canadian banks are expanding in the developing countries of the world, in the common market, and possibly elsewhere.

With regard to the degree of control that can be exercised over a foreign branch or agency system in Canada, we have this to say: We recognize that it might be necessary to limit branches or agencies to one or two major cities in Canada—perhaps Toronto, Montreal, and Vancouver; that it might be necessary to provide for an annual license—in fact we regard the annual licensing of a foreign branch as a means of effective control in the hands of the Canadian authorities, so that behavior relating to foreign exchange transactions, to monetary policy, to the general acceptance of credit conditions as imposed by the central bank, would be observed, in fact, by foreign jurisdictions. We do not think that there is, in fact, a serious problem with regard to compelling or persuading foreign banking institutions to observe domestic restraints. It is our view that any international bank would not behave in its own best interest and in fact, would behave in a most shortsighted way if it were to attempt to thwart the wishes of the monetary authorities either in matters of domestic monetary policy or in matters of exchange transactions.

We recognize that at the present time there are large U.S. dollar currency transactions placed in the books of the New York banks without agencies or branches here, and that there might be some tendency for those to increase; but this disadvantage, from the point of view of our own narrow interest, has to be weighed against the interest of the country from the point of view of having representation here in our major cities of the offices of foreign banks which would permit them to engage in foreign exchange market operations, and perhaps to assist in the financing of foreign trade. We do not visualize that branches which are brought under this degree of control would necessarily invade the major retail markets of the Canadian banks. We feel that they would nevertheless be a useful addition; and, we say again, that on the other side of the equation, we have these large interests abroad which are truly threatened by the failure to provide for reciprocity in Canada.

We also point out that the United States banks which cannot operate here under federal jurisdiction are quite capable of acquiring provincial trust and loan companies in Canada. In fact, there are two such cases that I know of at the moment. Therefore, it would be beyond the powers of the federal government to control these operations. There is a choice, then, of admitting such institutions directly under federal banking legislation, or indirectly through vehicles which the federal government cannot control.

Finally, we observe that the Canadian banks contribute both foreign exchange earnings and tax revenues, through their foreign operations; that it is the policy of the Canadian government at the present time to encourage export activities of industrial manufacturing concerns in Canada and, therefore, why should it not also be consistent with Canadian policy to encourage the foreign exchange earnings of service industry such as ours.

I perhaps have taken as much time as it is fair to take, Mr. Chairman, but if there is any further point which you would like us to elaborate on, we would be glad to do so.

The VICE-CHAIRMAN: Before representatives of some of the other banks express their opinions on behalf of their own banks and before members begin their questioning I will ask Mr. Coleman, on behalf of the Royal Bank of Canada, to add his comments.

Mr. J. H. COLEMAN (*Vice-President, The Canadian Bankers' Association and Chief General Manager, The Royal Bank of Canada*): Mr. Chairman, I will try not to be repetitive here. I think the first consideration is that the government of Canada seeks to maintain a broad measure of control over the financial institutions in the country, and I do not quarrel with that. What I think we need here is a study in depth of what is best for the country, and I question that this has been done.

I think what we need is a positive rather than a negative attitude. I think we all recognize that the Canadian banking system derives a great deal of its strength from its foreign operations, and that the foreign operations of Canadian banks have contributed greatly to the Canadian financial scene.

I do not know what the answer is, frankly; I wish I did. You might say: allow one or two agencies. Here I can see regional pressures; if you say, "let a foreign bank open and agency in Montreal and Toronto", I can see pressure coming from others who will say "well why not in this province"; and the same thing if you said, "we will let them open one or two banks".

In conclusion, I want to emphasize that we should try to be positive, and I think that unless this Committee feels that they have had sufficient evidence before it, and feels that they are now in a position to make a recommendation to the government, that perhaps some sort of a Committee should be set up with knowledgeable men to study this problem in depth; then they could come back to this Committee with recommendations, and they could go on from there.

The VICE-CHAIRMAN: Thank you, Mr. Coleman. Mr. Sharwood, on behalf of the Bank of Commerce, wishes to give his opinion on this subject.

Mr. G. R. SHARWOOD (*Deputy Chief General Manager, Canadian Imperial Bank of Commerce*): Mr. Chairman, I would broadly endorse what the two previous spokesmen for the banking industry have said. For our part I think that we endorse generally the view expressed in the Porter Commission report on he subject of agencies. I think that there are some things that should be mentioned in this context. Mr. MacIntosh, in his previous remarks, did point out, as an example, the problem of regulating foreign banking institutions along similar lines to the Canadian chartered banks. In this respect, of course, there are certain restrictions which will still be imposed on the Canadian banks if Bill No. C-222 goes forward as proposed. You have heard our opposition to some of them, such as the interest rate ceiling and section 76, and so forth. We point out also that the U.S. banks, as one example only—and this is true of other banking institutions in the world—do have powers which have not so far been given to the Canadian banks. In this respect, I am talking about trust and fiduciary powers.

From the competitive viewpoint—and I know this is something that interests you, Mr. Wahn—we feel that if the Canadian banks were set free to

compete, which would include giving the Canadian banks trust and fiduciary powers, that we would have no hesitation in U.S. or foreign banks generally having branches in this country; but such branches, if they are full branches, would normally carry the the same kinds of powers as the parent, and this is certainly something that we feel the Committee should consider.

The VICE-CHAIRMAN: Thank you, Mr. Sharwood, for your suggestions. Now, Mr. Hackett, on behalf of the Bank of Montreal, wishes to comment on this.

Mr. W. T. G. HACKETT (*General Manager (Investments), Bank of Montreal and Chairman of Canadian Bankers' Association Bank Act Revision Committee*): Mr. Chairman, my statement, which is very brief, deals broadly with the matter of principle. Our thinking, thus far, has led us to the conclusion that there would be merit in sensibly limited reciprocal arrangements with respect to the operation of agencies of foreign banks in this country.

I should go on to clarify the term "reciprocal", we would regard it as applying specifically to the jurisdiction which would have power to give the entrée to the agency of a Canadian bank in the other country concerned. For example, I am quite sure that we would not favour the granting of even a limited agency licence to a bank from a state in the United States, which did not offer similar or reciprocal facilities to a Canadian bank.

I think that is the only comment I have to make on this, Mr. Chairman.

The VICE-CHAIRMAN: Thank you very much, Mr. Hackett. Mr. Paton, you have expressed an intention to say a few words on behalf of your own bank?

Mr. PATON: Mr. Chairman, I am very pleased to do so. I think, in general summation of what has been said before, that there has been an indication of a feeling with which we concur, viz that we cannot expect to do an increasingly important international business ourselves without in some measure giving *quid pro quo*.

Our feeling is that it would be premature of the Canadian government, in considering the current legislation, to introduce into the bill positive legislation with respect to permitting access to a non-resident bank—I think we have to consider mainly the influx of American bank agencies or branches—without having any concrete knowledge of what is being contemplated by the government of the United States with respect to their legislation, which we read of as being currently under consideration. I think it is very difficult when you are dealing with two economies of such substantial difference, both in size and in influence; remembering too, that in the United States there is a dual banking system wherein the federal authorities simply do not have the power to dictate as to where non-resident banks can locate in he United States, as contrasted with our system in Canada where jurisdiction is solely under the federal authority. Indeed, as Mr. Coleman pointed out, you might well find that the provincial jurisdictions were vying with each other with regard to permitting access of non-resident agencies.

In short, we recognize that it is an important question. We feel that it needs considerable more study than it has been given, and that it would be premature to move at this time. We see no problem if, subsequently, it is found desirable to implement arrangements; this could be done separately, as was done, for exam-

ple, some 10 or 12 years ago when the NHA provisions were brought in without any actual amendment to the Bank Act.

That, in general, would be our approach to this question, Mr. Chairman. Thank you.

Mr. WAHN: May I ask one final question?

(*Translation*)

Mr. CLERMONT: Could we not have the opinion of a bank such as the Provincial Bank and the National Canadian Bank?

Mr. LÉO LAVOIE (*Vice-President, the Canadian Bankers' Association and Vice-President and General Manager, La Banque Provinciale du Canada*): Certainly, Mr. Clermont. The bank I represent is certainly less concerned than the other banks, whose represenatives have expressed their opinions. As far as we are concerned, we would be in favour of banking operations in Canada remaining under the control of the country's citizens, and to reach this goal the new Bill contains Clauses 52 to 57 which mention that only 25 percent of the capital of chartered banks should be controlled by foreigners. In the Province of Quebec, we have French companies established in Montreal with provincial charters and carrying out banking operations, taking deposits and making commercial loans. We already had to face this competition. We would prefer to see a new Bill of the Federal Government which would bring these establishments under the control of the Federal Government with regulations which could be well determined in advance. There is also the question of reciprocity. I am thinking that when you establish reciprocity you should take into account the size of foreign banks which may come and settle in Canada and compete with our Canadian banks.

The VICE-CHAIRMAN: And now it has been pointed out to me that Mr. Leclerc on behalf of the National Canadian Bank would also like to express the views of his bank on this important problem. Would you please come up, Mr. Leclerc and speak into the microphone?

Mr. RENÉ LECLERC (*General Manager, La Banque Canadienne Nationale*): I do not want to repeat what Mr. Lavoie has said about competition we get in Quebec and at the risk of identifying myself with the Royal Bank, I think we should first make a thorough study of the question and with the statistics now available. We would see no objection to permitting the establishment of agencies, not of branches, of foreign banks. And when I say foreign banks, I am not just talking about American banks. As it was said here before, but on condition that the number of them be very limited, in the main cities of the country and also, that they be subject to the same obligations as are the chartered banks in Canada. And if a thorough study proved that this is not possible, well, we could then change our opinion, but for the time being, from what we know, we would not have too serious objections to this being done but in very limited number and subject to the same obligations as those imposed on the chartered banks of Canada.

The VICE-CHAIRMAN: I thank you, sir, and for the benefit of the transcription of the Proceedings, would you please give us your first name and your position in the bank?

Mr. LECLERC: My name is René and I am General Manager of the National Canadian Bank.

The VICE-CHAIRMAN: Thank you very much.

(*English*)

Mr. Wahn, will you proceed with your question now.

Mr. WAHN: Mr. Chairman, bearing in mind the fact that the Bank Act will not be revised for another 10 years, the question occurred to me whether the bankers here would think it sensible to simply add a provision which would authorize the Governor in Council, after proper study and on a reciprocal basis, to extend reciprocal privileges in Canada, or is there any objection to such a provision?

Mr. PATON: In answer to that, Mr. Wahn, I will initiate the discussion and perhaps Mr. Coleman may wish to supplement what I say.

I think it would be premature to introduce this provision into the Bank Act basically because of the difficulty in defining just what reciprocity would mean. I think the sphere of influence of the various countries that would be interested in bringing agencies into Canada or making application to provide agencies in Canada would vary according to the individual country. I feel that as there is nothing in Bill No. C-222 which precludes foreign agency applications being made at the present time, it would be to some extent superfluous at this stage to commit ourselves—and when I say "ourselves" I am speaking of the Canadian people—to a prescribed line of action.

Mr. J. H. COLEMAN (*Vice-President, Canadian Bankers' Association*): Mr. Wahn, I should make it clear that my feeling is that we should not shelve this problem; I think we should get at it right away. I am a layman and I bow to you on this, but I just wonder if it would be possible to put a clause in that would do what I think you intend to suggest. It seems to me that it might be the responsibility of this Committee to examine this very carefully, whatever the conclusions are. I would think that it would have to come to this Committee and then go to the government. I am not suggesting that the Bank Act should be held up; I do not think that is necessary and I would hope that it would not be. However, it seems to me that there must be some way, after the problem is studied and you gentlemen make your decision and come up with your recommendation, that enabling legislation could be put in to make it law.

The VICE-CHAIRMAN: Mr. Grégoire, did you have a supplementary question?

(*Translation*)

Mr. GRÉGOIRE: Mr. Chairman, do we have to ask questions in connection with this subject now?

The VICE-CHAIRMAN: Not necessarily.

Mr. GRÉGOIRE: Mr. Paton I think that recently the average yield of Government short term bonds was lower than 5 per cent, is this not right?

(*English*)

Mr. PATON: The average yield of short-term government bonds went below 5 per cent?

Mr. GRÉGOIRE: Five per cent.

Mr. PATON: I thought you said 7 per cent.

Mr. GRÉGOIRE: No, 5 per cent.

Mr. PATON: Five per cent; that is correct.

(*Translation*)

Mr. GRÉGOIRE: If under the new Act, you took this average yield which is inferior to 5 per cent and added the 1¼ per cent granted to you under the Act, you could then charge approximately 6¾ per cent. Would this prevent you, under those circumstances, granting loans on mortgages when the rate of interest was raised to 7¼ per cent by C.M.H.C. sometime before Christmas?

(*English*)

Mr. PATON: The answer is no, it would not prevent us under the new act in participating in NHA mortgage lending. These are exempt from that section.

(*Translation*)

Mr. GRÉGOIRE: But under the former act you did not have the right to do this? Under the old legislation, when you loaned at 6 per cent, you were not allowed to do so.

(*English*)

Mr. PATON: That is correct.

(*Translation*)

Mr. GRÉGOIRE: I would like to ask questions and I will not take long, seven or eight minutes. I just want an answer to a problem. I noticed in the Statistics of the Bank of Canada that each time cash reserves of the whole chartered bank system are on the increase, your deposits and your loans also increase, and always according to a ratio of 12½ to one, which means that when the Bank of Canada allows you, let us say, a dollar in bank notes, this dollar bank note will contribute to the chartered banks' reserves. As soon as this happens, the chartered banks multiply this by 12½ by lending it, which constitute increased deposits which will increase by $12.50 for $1.00. Is this not the case under our present banking system?

The VICE-CHAIRMAN: Mr. Grégoire, I have no objection to this question on reading the Proceedings, but I have the impression that you will find that answers have been given to similar questions at least ten times.

Mr. GRÉGOIRE: I have read them and note that never has an answer been given to that question.

The VICE-CHAIRMAN: Maybe you never had a satisfactory answer, but answers have been given.

Mr. GRÉGOIRE: Possibly my question could be answered by a simple affirmative. Because this question has never been put in this manner. Is it not so, that when the Bank of Canada increases the number of its bank notes and every time one dollar of the Bank of Canada is added to your cash reserves, is it not so, that you grant loans in sufficient amounts so that the deposits in all chartered banks are increased by 12½ per cent, is this so or not?

(*English*)

Mr. PATON: Mr. Grégoire, I follow the question and I think I am inclined to agree with Mr. Laflamme, that a somewhat similar question has been asked at least once before, and several witnesses, including myself, rather haltingly, have endeavoured to give you an answer which I gather perhaps has not been satisfactory to you.

Mr. GRÉGOIRE: But, Mr. Paton this, question always has been put to Mr. MacIntosh, my good friend. I remember once asking him questions for 20 minutes and at the end of that period—Mr. Laflamme was the Chairman—I asked you the same question and then I received the answer for the first time. However, for 20 minutes I did not get an answer. We have a good witness here in the person of the president.

Mr. PATON: Mr. Grégoire, that is why I am sitting here; I can let Mr. MacIntosh do the work, and I get the glory.

Mr. GRÉGOIRE: Mr. Paton, I would like to have your answer. You are the president of the Canadian Bankers' Association. Is it a fact—yes or no?

Mr. PATON: Do you wish the short answer?

Mr. GRÉGOIRE: Yes.

Mr. PATON: No.

Mr. GRÉGOIRE: Then how can you explain the statistics published by the Bank of Canada, that every time the cash reserves increase by $1 your Canadian dollar deposits are increased by $12½. Is it a fact—yes or no. These figures and statistics are not mine; they are yours and the Bank of Canada's.

Mr. PATON: Mr. Grégoire, I think perhaps that I should say all through our testimony we have endeavoured to be as frank and as knowledgeable as we are able to be. Where we had felt that we—and I am using this editorial "we", meaning myself—were getting somewhat out of our depth, we have not hesitated to call on our expert advisers, with the concurrence of the Chairman. I should like to defer your query to Mr. MacIntosh, your friend and my friend.

Mr. GRÉGOIRE: Mr. Paton, perhaps you have missed the point. Any time we have questions about the banking system everybody is afraid to give direct answers and I am surprised at that. I quote your statistics not mine—The Bank of Canada's statistics—and I ask, is it a fact that every time the cash reserves in the chartered banks increased by $1 at the same time the Canadian dollar deposits increased by 12½ times this dollar. Is that a fact? These are the statistics.

Mr. MACINTOSH: Mr. Grégoire, you cannot explain cause and effect with statistics: If I tell you what is a fact: that the rate of increase of liquor consumption in Canada is at about the same rate of growth as the number of clergymen in Canada do you therefore conclude that the rate of liquor consumption is going up because of the number of clergymen. This is known as a spurious correlation, and this is what you are introducing here.

Mr. GRÉGOIRE: I would like to point out though that everywhere these statistics are published there is a direct relation pointed out between one and the other. Here the relation is the average cash reserve ratio which is published immediately in the following column, bringing a close relationship between the

two of them. I have made the point that there is a close relationship because there is a close relationship in the statistics of the book.

Mr. MACINTOSH: Mr. Grégoire, I gave you the long answer.

The VICE-CHAIRMAN: I do not want, as Chairman, to leave the impression that any member is not allowed to make a statement but any member here who asks witnesses questions must accept the answers given.

Mr. GRÉGOIRE: I agree with that.

The VICE-CHAIRMAN: Yes, but since Mr. Paton has asked Mr. MacIntosh to answer, I think you should allow Mr. MacIntosh, in very short terms, to give his own answer. I really think that Mr. MacIntosh should perhaps read some of the evidence he already has given before us.

Mr. MACINTOSH: I gave the long answer before and when I was not here I think you received a short answer from the President of the Royal Bank of Canada, which you said, according to the evidence, satisfied you; therefore, since you have had a short answer which satisfied you I have nothing to add to what Mr. McLaughlin said.

Mr. GRÉGOIRE: I would like to follow up this evidence. Remember, we have only 20 minutes. Mr. McLaughlin made the point, I think, that every time they have one dollar they can loan 12½ times that. The increase in your loans and deposits is 12½ times the amount of your cash reserves. If you increase it by 12½ times when the cash reserves are increased, is it correct that when they are reduced you have to reduce at the same time your deposits by 12½ times, every time your cash reserves are reduced by one dollar?

Mr. MACINTOSH: As Mr. Rasminsky said last night, the relationship is not so rigid as that. We are on a monthly averaging basis.

Mr. GRÉGOIRE: Yes, that is correct. If you can increase or decrease by 12½ times your cash reserves, is not new credit created every time you increase your cash reserves, because of the loans that you are making at that time. Is that not the main operation of the chartered banks?

Mr. MACINTOSH: Mr. Grégoire, we cannot increase our cash reserves. The Bank of Canada can increase them, but we cannot.

Mr. GRÉGOIRE: I mean every time your cash reserves are increased because the Bank of Canada puts more into circulation?

Mr. MACINTOSH: If the Bank of Canada puts more cash reserves into circulation, yes, we can then expand our credit.

Mr. GRÉGOIRE: That is what can be called a creation of new credit?

Mr. MACINTOSH: I suppose you can call the expansion of cash reserves by the Bank of Canada a creation in their case; I do not think you can use that word with us.

Mr. GRÉGOIRE: Would it be a creation of credit by the chartered banks?

Mr. MACINTOSH: I think I have been here before! I do not have much to add, Mr. Chairman, to what I have been saying here for many hours. That is about all I can say.

Mr. GRÉGOIRE: This is the first time I have asked you a question which you do not want to answer. Is it because the question is too close to the truth?

Mr. MACINTOSH: No, it is because I tried before and failed.

Mr. GRÉGOIRE: Well then, I pass. I think it is evident they do not want to answer the straight questions we are asking.

The VICE-CHAIRMAN: For the benefit of the record, as you have stated, Mr. MacIntosh, when members or anyone else reads this present evidence I think they should refer to the record of the meeting of December 6 for the testimony of Mr. McLaughlin as Chairman and President of the Royal Bank of Canada. I will now recognize Mr. Latulippe.

(Translation)

Mr. LATULIPPE: Mr. Chairman, I have a few rather general questions to ask with regard to public debts and private debts and the consequences of such debts. I would like to find a way to get out of them, because there are debts in all ranks of society and there should be a way of getting out of these debts, and it is on this that I want to center my arguments. First, could you tell us, in substance, whether it would be possible and logical for the financial credit of a country or of a province to correspond to its true credit and its capacity for production?

(English)

Mr. PATON: I regret, Mr. Latulippe, that I am not in a position to answer. I do not quite understand the question you have asked. Would you mind repeating it? I might suggest that perhaps Mr. MacIntosh would take careful note of this question as I feel I may need him.

(Translation)

Mr. LATULIPPE: I will repeat it because it was not clear. Could you tell us, Mr. MacIntosh, whether it would be possible or logical for the financial credit of a country or of a province, to correspond to its true credit and to its capacity for production, to produce and to deliver goods?

(English)

The VICE CHAIRMAN: Will you answer the question?

Mr. MACINTOSH: I will try. Yes, the amount of credit and production in a country are always related.

(Translation)

Mr. LATULIPPE: So when banks lend money, do they bear in mind the capacity for production of a person, of an individual or of a province, or do they base their loans on the confidence they have in the personality of the person with whom they are doing business?

(English)

Mr. MACINTOSH: I am not sure that question is really meant for me. Certainly the personality and the quality of the management is taken into account when making loans, yes.

Mr. PATON: That is a direct—

(Translation)

Mr. LATULIPPE: You take into account personality, but you do not take into account the volume of products which may develop in a country or in a province. And this is what I would like to bring to light, because it seems to me that in Canada there are many things physically possible, but because credit is distributed or loans made on the basis of the confidence you have in people, the banks are not taking into account the true credit of the country for the true development of a country or of a province or of a municipality, for that matter.

(English)

Mr. MACINTOSH: Mr. Latulippe, our capacity to produce is only limited by the size of the population and the number of hours in the day during which they want to work and the resources which they have available to them and which are given to them by nature on which to work. Those are the only things that limit capacity, and the volume of credit which is provided by the central bank is so adjusted that it attempts to encourage a steady growth of production at full capacity, but without inflation or recession. Those are the objects of monetary policy.

(Translation)

Mr. LATULIPPE: The Central Bank exists but it does not take into account the true development capacity of a country, because when the Bank of Canada gets money out, it is because the chartered banks are asking for it. The central Bank does not put money in circulation if it is not asked to do so by the chartered banks? Is this not right?

(English)

Mr. MACINTOSH: No, that is not the case. The central bank makes up its own mind about the amount of credit it deems appropriate. Certainly they do not give us all we would ask for because we would certainly ask for unlimited amounts. At least, this is what we would do for our bank; I do not care about the other fellows.

(Translation)

Mr. LATULIPPE: In that case, would it be possible by appropriate bookkeeping to put this credit at the disposal of the people without changing it into debts for the individual or for governments. Every time there are credits they turn into debts either for the government or for the people. Could a formula be found so that social capital might be financed at lower rates than the rates that are presently charged everybody?

(English)

Mr. MACINTOSH: Whenever a credit is created a debt is also created. They are on opposite sides of the same coin, to coin a phrase.

(Translation)

Mr. LATULIPPE: Would it be possible for the banks to take steps to grant preferential rates to social capital, because in that field many things are not income bearing; for instance a sidewalk, a bridge, a road, do not yield anything towards production; these are real things, things that are put at the disposal of

the citizens but which do not bring in any revenue. It seems to me that the banks, in order to finance this social capital, should give preferential rates to help the municipalities, the provinces and even federal enterprises. Would it be possible to set up reasonable rates? Would it be possible to study this question?

(*English*)

Mr. MACINTOSH: I think the short answer to that is that all social capital has to be paid for out of savings like any other capital and, in fact, if you study the provisions of the Canada and Quebec pension plans you will find that there are preferential rates for these purposes for long term capital.

(*Translation*)

Mr. LATULIPPE: Could you tell us what makes up the public debt and also tell us why it is always increasing.

(*English*)

Mr. MACINTOSH: The public debt of the federal government has not really been increasing very much in the last 20 years. I would think it is lower now than it was 20 years ago. Practically all of the increase in public debt is provincial and municipal, and obviously it has increased because of the terrific rate of spending on roads, schools, hospitals and whatever you care to name in the way of social capital; public utilities, hydro facilities, universities, whatever you like.

(*Translation*)

Mr. LATULIPPE: I think, judging from the statistics I have seen in the Canada Year Book, that the federal public debt has increased. In view of the increase in the population it is claimed that the debt has been reduced; but because the population has increased. So, the debt has also increased, but in proportion, one might think that the debt has gone down, but according to these statistics the debt has not been decreasing. Why should the interests on the same debt be always increasing and why should taxes always be on the increase and why should the taxpayers' pockets be forever empty?

(*English*)

Mr. MACINTOSH: I think, Mr. Latulippe, you are asking the wrong person why the national debt is increasing and why the budget and taxes are increasing. I think your witness on Thursday might be able to provide you with a more authoritative answer.

(*Translation*)

Mr. LATULIPPE: Do you consider, Mr. McIntosh, that the Government could reimburse all its debts, all it has promised and all it will promise under the present system?

The VICE-CHAIRMAN (*Mr. Laflamme*): Mr. Latulippe, with regard to public loans and the national debt, the Minister of Finance will be here Thursday. I think this is really more the responsibility of the federal government and of the Minister of Finance. Because, presently, we have, as witnesses, representatives of the various Canadian banks and I am wondering if these questions dealing with the part played by the banks in the monetary system should not be directed to the Minister of Finance on Thursday.

Mr. LATULIPPE: I know the Minister of Finance is going to come but there are factors which are contributing towards increasing debt and I think it would be a good thing to get the comments of these gentlemen who are aware of the monetary system in the country and know what debt is; I think that these people who control the finances and economies of the country could, if they wanted to, solve many problems.

The VICE-CHAIRMAN: Well, if you only have one or two questions in that field, I have no objection to letting you ask them but if you want to continue, I think I shall have to ask you to change the subject or to wait until Thursday to ask these questions, because we still have questions, interesting and significant questions to discuss.

Mr. LATULIPPE: I would like to ask Mr. MacIntosh whether the public debt is not composed in part of money which does not exist, although it is still being distributed by the banks?

(*English*)

Mr. MACINTOSH: I do not think so. No, I am not aware of that.

(*Translation*)

Mr. LATULIPPE: There is certainly something wrong here, because if the government wanted to pay its debts to-morrow morning, there would be a shortage of money throughout the country and this would empty the banks and only the federal debt would be paid. The other debts would still be outstanding. There would be a shortage of money to meet the obligations we have in respect to the banks. The money supply is but 2 billions out of 28 billions; there is only $3 billions of legal money and we do not know exactly what the difference consists of and when we query this difference the answers are rather vague. The debt of all Canadians amounts to $88 billions and there is only $3 billions in circulation and I am wondering if there is some false money around or if only bonds and securities count. Bonds and securities are not money. This is not clear in my mind. I find it difficult to describe and explain and I would like to enquire from you people and find out about such things.

The VICE-CHAIRMAN: What can be well understood can be well stated. Do you have any more questions, Mr. Latulippe?

Mr. LATULIPPE: Yes, I am wondering if there is some false money around, or is it only bonds and securities that count? Bonds and securities are not money. This is not clear in my mind. I find it difficult to understand and explain. I would like to enquire from you people and find out about such things.

The VICE-CHAIRMAN: What is well understood can be well stated. Do you have any more questions, Mr. Latulippe?

Mr. LATULIPPE: Yes. Why is it that the banks have in hand the instrument to get hold of all the wealth? Are banks really and directly taking over our wealth since, when one considers all the mortgages and the total debt of the country represented by private debts and public debts, these greatly exceed all the wealth. This is what I wanted to explain to you previously and about which I wanted an answer. Private debts and public debts are far greater than the total amount of the wealth.

(*English*)

Mr. MACINTOSH: All I can say is that the deposits owned by our depositors in the banking system are only a fraction of the total assets in the economy. They are not by any means all of it; they are just a small fraction.

(*Translation*)

Mr. LATULIPPE: The total debts in the country make up the credit of financial institutions; they are therefore indirectly owners of all the wealth in Canada. Do these financial institutions collect interest on all these assets?

(*English*)

Mr. MACINTOSH: Even all the financial institutions together do not represent all the wealth of the country. Much of the wealth is owned by private individuals, free and clear.

(*Translation*)

Mr. LATULIPPE: All the wealth of the country is mortgaged, and who owns these mortgages?

The VICE-CHAIRMAN: I would like to ask you how this ties in with the Canadian banking system? And I am wondering whether I should not ask you to submit your questions to another committee or to other witnesses. Because, I just cannot see how the questions you are asking concern chartered banks. I would therefore ask you to please ask questions on other subjects, and if you have any more similar to the ones you asked previously; go ahead.

Mr. LATULIPPE: Mr. Chairman, I like asking questions. I was talking about general matters and I notice that we are not talking any more about general questions. Every time I am trying to ask questions, we are never dealing with general matters. Mr. Chairman, I would therefore ask you to be indulgent, because questions such as these—no one has dared to ask.

The VICE-CHAIRMAN: Well, I have no intention—

Mr. LATULIPPE: I dare to do so, Mr. Chairman and I will do it.

The VICE-CHAIRMAN: Order, order.

Mr. LATULIPPE: I also am representing the people, not only the world of finance. I have my right to speak.

Mr. CLERMONT: Mr. Chairman, the way that Mr. Latulippe has spoken, according to him, the other members here are representing finance, I object. I would like to say that I am representing the people just as much as Mr. Latulippe is. If some questions have not been asked, I will ask them.

The VICE-CHAIRMAN: Order. Do you have any more questions to ask?

Mr. LATULIPPE: Yes, sir. Could you tell us whether financial credit should reflect real credit and correspond with economic facts and the consumers' requirements?

(*English*)

Mr. MACINTOSH: Financial credit always represents real goods unless people make bad loans.

(*Translation*)

Mr. LATULIPPE: Therefore, is it wrong to say that all new money comes from a bank in the form of a loan and that all money in circulation was initially loaned by a bank and that in the present system all money is a debt and bears interest?

(*English*)

Mr. MACINTOSH: No, the banks do not have all the money supply. They have only a part of it. Much of it is held by the near-banks.

(*Translation*)

Mr. LATULIPPE: If the money in circulation, all the money in circulation, has not been issued by others than the banks, because no one else has the right to issue money, than the Bank of Canada and the chartered banks, then the money in existence is necessarily the property of the banks, belongs to the banks, and should return to the banks, and with interest. Is this the case?

(*English*)

Mr. MACINTOSH: Interest must always be paid on loans, we hope; yes.

(*Translation*)

Mr. LATULIPPE: Therefore, there is interest on all money in existence. There is not one red penny that does not bear interest. Therefore, how do you want the government or the people, one day, to pay back their debts when the initial amount is loaned and the interest is not loaned but the interest is claimed. How can you explain that this system can carry on and that the Canadian economy can carry on? This is something I do not understand.

(*English*)

Mr. MACINTOSH: I guess the short answer is that it works. Interest has to be paid out of earnings, as with any other form of payment. This is only one form of expenditure of families and corporations, and it has to be paid out of income.

(*Translation*)

Mr. LATULIPPE: Mr. MacIntosh, I think it would be logical and even praiseworthy to pay interest on things that exist but to pay interest on created things, on straw money, on money that does not exist; it seems to me illogical to pay interest on such things.

(*English*)

Mr. MACINTOSH: Interest is paid for the use of money, and the money is spent on things, so that there is something real there when money is borrowed.

(*Translation*)

Mr. LATULIPPE: But when only straw money is borrowed accountancy money, ledger entries, billions, 99 percent of the money in circulation is not true money. One cannot feel it. It is only a book transaction. And you are withdrawing money while you are creating it with such transactions.

The VICE-CHAIRMAN: I do not want to interrupt you, but we have allotted a twenty-minute period to each member of the Committee, and I must tell you

that your period of twenty minutes has expired. Therefore, if you have one or two other questions, I will grant you the further privilege. But if you have many more, I would ask you to give up the floor.

Mr. LATULIPPE: I would like to ask a few more questions, Mr. Chairman, I have not had the opportunity of asking all my questions, I did not ask any this morning. Other people have spoken four or five times. I have not spoken at all.

The VICE-CHAIRMAN: You should never have given up your turn to Mr. Grégoire.

Mr. LATULIPPE: Mr. Grégoire did not delay me. I could have the opportunity—

The VICE-CHAIRMAN: Go to it. A few more questions.

Mr. LATULIPPE: If government bonds entered in the bankers' books become money could they become money in the government books? Could the government take control and take part of this money to finance goods that are not income-bearing? Could this be a logical transaction?

(*English*)

Mr. MACINTOSH: No, sir; the government could not borrow from itself without inflating the currency. Although governments have been known to do such a thing deliberately I do not think we could consider it an advisable policy. You can take out the printing machines and print money. This is borrowing from yourself, and governments can do that, but I do not think that I would recommend it to Mr. Rasminsky.

(*Translation*)

Mr. LATULIPPE: In that case, it would not be logical for the government to create new credit and finance its social capital through this new credit? Would it not be logical for the government to do that?

(*English*)

Mr. MACINTOSH: This is a private enterprise economy, by and large, Mr. Latulippe, and to some extent the government does borrow to create social capital; but, on the whole, most of the resources are directed through the private sector of the economy.

(*Translation*)

Mr. LATULIPPE: One more question. Could you tell us if, at the present time, capital works are financed by private capital?

(*English*)

Mr. MACINTOSH: A large part of them is financed by private capital, but there is also a large part financed by the public sector, particularly provincial and municipal.

(*Translation*)

Mr. LATULIPPE: Do you agree that this is probably what deprives Canadian industry, and that is what obliges it to go looking for capital from foreigners and

this is what makes our economy dependent on foreign interests. Do you agree with this?

(*English*)

Mr. MACINTOSH: No, sir, I do not.

(*Translation*)

Mr. LATULIPPE: I have much more to say but feel I should not take up someone else's time.

The VICE-CHAIRMAN: Thank you.

(*English*)

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, if I may, I would like to spend a minute or two again in exploring this question of foreign agencies and foreign banks.

The VICE-CHAIRMAN: Yes, please.

Mr. JOHNSTON: On a point of order, Mr. Chairman, I was after Mr. Latulippe in the list of questioners.

The VICE-CHAIRMAN: Yes; I am very sorry. I have made a mistake.

Mr. JOHNSTON: Thank you. I do not know whether I can live up to your advance billing about the very interesting questions still to be asked, but recalling the evidence that you gave to the committee, Mr. Paton, when you were here previously, it seems to me that you argued that the general bank interest rate should be allowed to rise, partly in order that the banks then could charge a higher rate of interest on the deposits that they held and would thus be able to attract more deposits and so compete on a more equal basis with the near-banks.

Mr. PATON: There is just the one word I would change. You refer to "charging" interest on deposits. It should be "paying" interest on deposits.

Mr. JOHNSTON: Paying, yes; I was wondering whether you were aware of an article that appeared in the August 1966 issue of the Canadian Journal of Economics and Political Science entitled "The Competition for Personal Savings Deposits in Canada" written by Vladimir Salyzyn of the University of Alberta?

Mr. PATON: No I am not familiar with this particular article, Mr. Johnston.

Mr. JOHNSTON: Mr. Salyzyn has written this article partly because of statements that appeared in the report of the Royal Commission on Banking and Finance, which, in speaking of the influence of the interest rate on deposits, commented that the fact that the banks have not paid as high rates as their competitors on personal savings deposits has, without question, contributed to their relatively slow rate of growth.

What Mr. Salyzyn has done in this article is to refuse to accept without question part of that statement from the Royal Commission report. It is a rather lengthy and extremely technical article, and one that I would recommend, but I would like to skip over to the conclusions if I may, because they are rather queer. If I may, Mr. Chairman, I will quote the principal conclusion and my purpose is to ask for a comment on it by Mr. Paton.

> The principal conclusion to be drawn from this analysis is that a substantial portion of the ability of credit unions and trust companies to

compete successfully with chartered banks for personal savings deposits is attributable to product competition (through shifts in demand) rather than price competition. This suggests not only that the rates of interest paid on personal savings deposits may not be "very important" in contributing to the relative decline of chartered banks, but also that there may even be some question whether they have contributed to the decline at all. Although the results are obviously highly tentative they do suggest that the role of interest rates in deposit competition may have been greatly exaggerated in the past.

Mr. PATON: I would comment on that conclusion, Mr. Johnston, in this way, that, I have not had an opportunity to read the preliminary reasoning leading up to the conclusions, but I would very much like to be given the opportunity, through the complete removal of the interest rate ceiling, to prove that these conclusions are incorrect.

In short, we have been living under a situation of an artificially-imposed ceiling which has certainly been, in our minds, the main contributing factor to the relative decline.

We have found over the past year or so that the various banks have initiated new forms of savings certificates at a higher rate than we pay on ordinary savings accounts which are chequable, as you are aware, and we have found that these have had quite a successful growth, which doees indicate that if we were able to proceed generally, with freedom in coming up with different items which would be attractive to the public, we could compete much more aggressively for their deposits.

From the limited experience we have had with these certificates I would be very much inclined to take issue with our learned friend on this article. I feel confident that the major hindrance to us in getting what we consider to be our fair share of the savings of the Canadian public is directly attributable to our inability to compete on an interest basis.

Mr. JOHNSTON: I have one other question. Has the Bankers' Association commissioned any equivalent studies on this question, or would you consider commissioning such a study?

Mr. PATON: There are no existing studies in the technical depth of the one to which you are presently referring.

Our clear conviction has been previously stated, and it remains equally strong at the present time, that we feel that immediate and complete removal of any interest rate ceiling is undoubtedly in the best interests of the Canadian public and that this would result directly in our being able to offer more attractive rates of interest.

Mr. JOHNSTON: Considering the importance that the whole question has been given in the Committee hearings and the stature of the journal involved I would recommend the article to you, Mr. Paton.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have just two matters that I want to bring up with Mr. Paton, Mr. Chairman. They deal with this question of compensating balances and so on; and I am not attempting to go back and cite refuting evidence, or anything of that sort.

The question I want to put to you is this, Mr. Paton. Do you not really think that if the banks were to make some attempt to state their charges in terms of an interest rate, it would, in the first place, be extremely good for the banks' public relations, because there is a lot of muttering about these types of additional charges that are not expressed in interest terms? I wonder if it would not be possible when this act goes through and when, at least in the beginning, the ceiling will rise to 7¼ per cent, for the banks to make some attempt to do this, and to cut down on the demand for compensating balances and the various service charges and so on which I think, from the former evidence you gave us, are related to interest rates?

It is all part of the cost of money. Could you make some comment on that and whether you think that the banks would be prepared to do that, or whether it would be worth their while to do that?

Mr. PATON: Yes, Mr. Cameron, I would say quite unequivocally that the banks would be quite prepared to conform to any suggestion, any legislation that might be written or, requiring the expression, on an interest rate per annum basis, of the cost to borrowers of any loans that they may receive from the banks.

I should, perhaps, express a word of caution, that this might well serve the purpose required in connection with the public relations of the chartered banks in dealing with their customers if this could be confined to loans to other than corporations who are sophisticated borrowers operating their lines of credit on a fluctuating basis throughout the year, and are well aware of the cost to them of the funds they borrow.

My reason for that is not that we have any hesitation in including them, but that it would conceivably mean a substantial increase in the routine operation of their accounts.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Of course, you are speaking of fairly large corporations. You are not speaking of small or medium-sized businesses?

Mr. PATON: I am not speaking of small or medium-sized businesses; that is correct.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But for small or medium-sized businesses you think it would be quite feasible to express the costs in terms of an interest rate?

Mr. PATON: Yes; it would be quite feasible to do so.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): My next question deals with another matter—

Mr. MONTEITH: If I may interject, Mr. Cameron, I would like to be sure that I understand your question and the answer. The answer applied if and when the interest rate goes to 7¼ per cent maximum. Is this what you meant?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That is the reason I asked the question.

Mr. PATON: If I may interject with something that is relevant but not directly answering your question in connection with the removal of the ceiling, Mr. Monteith, under the proposed formula, as included in Bill No. C-222, the

interest rate ceiling may well come back down, on the basis of the formula. In other words, you cannot be sure that once the interest ceiling has reached 7¼ per cent it will stay there.

I might also, perhaps, interject at this time that if the formula is ultimately decided on perhaps this amendment could well be included and that the maximum rate attainable under the formula would remain as the ceiling. In other words, the ceiling should not come down very six months if the bond market interest rates come down.

There is one very vital situation that prompts me to say this, which is that a rate of 7¼ per cent, for example, would permit the banks to take on loans of a certain risk character. These loans undoubtedly would spill over into an ensuing interest period. If interest rates generally in the bond market had come down at that time it is conceivable that the ceiling would drop from, say, 7¼ per cent to 6¾ per cent, and that that would make that loan an unattractive piece of lending in so far as the banks are concerned.

Therefore, faced with this uncertainty of a changing interest ceiling every six months the banks, I am sure, would feel quite inhibited in their opportunity to enlarge their borrowing sphere and to bring under their umbrella borrowers who presently are going out and getting their money at substantially higher rates.

Mr. MONTEITH: I see that point, but again, just to clarify Mr. Cameron's question, I thought his question was to the effect that you would be willing in the case of small and medium-sized borrowers to state an over-all interest rate, whether it was charged by compensating balance or otherwise, providing the interest rate went to 7¼ per cent. I think that was the question, but I am not sure.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It was on the basis that after the passage of this act it will, in effect, go to 7¼ per cent unless there is some great change in the bond market.

The CHAIRMAN (*Mr. Gray*): Mr. Cameron, may I ask one quick question based on a press report that I saw, which indicated that chartered banks in Nova Scotia are going to resist compliance with some acts of the Nova Scotia legislature calling upon the disclosing of costs of borrowing? I presume that these acts will be in existence after April 1 when I trust we will be in a position to have this in some form of final law.

One answer occurs to me immediately, and perhaps might be of interest to the Committee to know something about why you are resisting compliance with these laws?

Mr. PATON: I would say, Mr. Chairman, that the chartered banks are not resisting conforming to the province of Nova Scotia's legislation. In our reply to them we have pointed out that our counsel has advised us that this legislation is not applicable to the chartered banks and that we are, therefore, precluded from agreeing to coming under their legislation; but concurrently we advised them that legislation of a similar type was currently being considered during the hearings of this Committee and that it was expected that there would be produced federally some similar form of legislation with which the chartered banks had already indicated their willingness to conform.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): My other question, Mr. Paton, comes back to a problem that has been concerning the Committee ever since the hearings began, which is the question of what to do with the near-banks, and what is their future?

Again I would refer you to Dr. Neufeld's paper in which he has proposals for what I call a sort of interim period charter for such institutions, with the suggestion that at the end of 10 years the operations of banks and trust companies would become indistinguishable.

I wonder if you could make some comment on that. Do you think that this would be an improvement in the over-all control of the monetary institutions of the country?

Mr. PATON: Yes, I think it would be an improvement. I think the stand that we have taken, both when we appeared before the Porter Commission and subsequently, has been that we welcome competition. We have also stated that in welcoming this competition we would expect our new competitors to be subject to the responsibilities, as well as the advantages, of being a chartered bank, or of being a bank chartered under an act perhaps similar to the Bank Act. If it is necessary to attain this by two steps it would still be advantageous, but I doubt whether it is necessary, if the feeling is that this is legislation that should be passed, to have it done on a two-stage operation as Professor Neufeld has suggested.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Do you think, instead, that the trust companies should divest themselves of their fiduciary functions and apply for bank charters, or that the banks should be permitted to assume fiduciary funds?

Mr. PATON: No; I do not necessarily feel that the trust companies should be asked to divest themselves of their trust powers. Perhaps the other side of the coin is the preferable one that the banks be given fiduciary powers. This is not something that we have pressed for, I do not think, in any of our presentations.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Thank you. These are all the questions I have at present, Mr. Chairman.

The CHAIRMAN: I now recognize Mr. Clermont, followed by Mr. Fulton.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, one of the witnesses before the Committee maintained that boards of directors of banks were too large and that it was you, the bank officials who were really running the banks. And he recommended that boards of directors be smaller but more effective and one even maintained that most of the directors were but "rubber stamps." Do you agree with this?

(*English*)

Mr. PATON: No, sir; I do not agree with this, and I am not particularly thinking of my own job when I make that statement.

(*Translation*)

Mr. CLERMONT: With regard to the great number of directors on the Boards of most of our banks, are the numbers satisfactory for the requirements. Do they give satisfaction?

(*English*)

Mr. PATON: I would say yes. I would say that these boards are very representative of the business community of Canada and I know from my own bank and I am quite sure that it applies to the other banks, that these board meetings, which, I think, most of the banks hold every second week, are attended very regularly and very religiously by substantial majority of the board. As you are well aware, I think, that when annual meeting proxies are sent out, a list of the attendance of each director is attached to the notice of the annual meeting, showing how many meetings they have attended both at the head office of the bank and at their own divisional offices or the divisional regions from whence they come. I would say that the boards as of today are very representative. Speaking for myself, they are not too large and they perform a very necessary and useful function in the operation of the banks.

(*Translation*)

Mr. CLERMONT: You stated that the presence of directors was mentioned when you send proxies: Do directors attend the meetings to approve *en bloc* the recommendations of the Executive? I daresay you can answer without disclosing any board secrets.

(*English*)

Mr. PATON: The matters discussed at each board meeting would reflect each individual bank's practice, but I think I am quite safe in saying that it is not by any means a mere routine, automatic operation.

(*Translation*)

Mr. CLERMONT: Mr. Paton, if Clause 91, with regard to the rate of interest, carries in Parliament and, for instance, the rate of interest would be 7¼ percent, what would happen to consumer loans? Presently, the rate of interest is 6 percent and for various banks, this can go to 10 or 11 percent, actually. This is a hypothetical question—is it the intention of the banks to add the banking costs to the legal rate of interest you will be able to charge?

(*English*)

Mr. PATON: I think what you are suggesting, Mr. Clermont, is that if the rate were 7¼ per cent and, incidentally, on the present bond rates that we have today this ceiling would not be 7¼ per cent, as you are aware, but assuming it were—

Mr. CLERMONT: Say, 7 per cent.

Mr. PATON: If it were 7 per cent, it would not be the intention of the chartered banks to automatically increase their interest rate on consumer financing from the present approximate 10 per cent level to 11 per cent; in other words, it would not be the intention to add on the full one per cent at the time.

(*Translation*)

Mr. CLERMONT: Mr. Paton, I believe it was the representative of the Imperial Bank of Commerce who mentioned, regarding the agencies and branches of Canadian banks abroad, that the Canadian banks did not benefit from all of the advantages that the American banks benefitted from, and I think you have certain advantages in Canada that American banks do not have. For instance,

you do not have a ceiling on the rate of interest you can pay for short term deposits. I think this is one of the complaints that the American banks have made to the Canadian agencies in New York. They can pay the rates of interest they want on short term deposits while the American banks cannot.

(*English*)

Mr. PATON: The Canadian agencies, Mr. Clermont, cannot solicit deposits, in New York. In the case of competition with the American banks for the U.S. dollar outside of the U.S.—in other words, the Euro dollar—it is my understanding that there is no limitation on what the Americans can pay, and, therefore, they compete with us on even terms in that respect.

(*Translation*)

Mr. CLERMONT: I regret that I do not agree with you. American banks in the State of New York have a ceiling on the rate of interest they can pay to depositors on short-term deposits and Canadian agencies in New York cannot accept deposits from people in the State of New York but they can accept deposits from people in the State of Illinois, for instance, or Michigan.

(*English*)

The CHAIRMAN: I think he is referring to regulations under regulation 2.

Mr. PATON: In the United States.

The CHAIRMAN: Yes.

Mr. PATON: Yes, I am aware of that, and I know that you are correct in the assertion that they are limited on the interest they can pay.

I think it is true, Mr. Clermont, that strictly legally we could attract deposits say in the State of Illinois, but in practice I do not believe that this is done.

I am not sure whether that is a correct statement, and I stand to be corrected by any other members of the Bankers' Association who are here. That is a field with which I am not completely familiar.

Mr. COLEMAN: My understanding is that we cannot accept deposits from residents of the State of New York.

Mr. CLERMONT: I agree with that 100 per cent; you are not allowed.

(*Translation*)

But when we had before us the officials of the Mercantile Bank, who were also officials of the City Bank, they brought up the objection that you were not restricted by a ceiling on the rate of interest to depositors. I also think that here, in Canada, you are not restricted regarding the number of branches you can open throughout Canada but I think the American banks, especially those that operate as branches, cannot operate as many branches as they wish, unless the banking laws specify that in such a place you may have one and in other place you cannot.

(*English*)

Mr. PATON: That is correct. That illustrates one of the advantages of our branch banking system.

(*Translation*)

Mr. CLERMONT: What I wanted to bring out was that the Canadian banking system has nothing to envy from the banking system in the United States or any foreign banks for that matter.

That is all, Sir.

(*English*)

The CHAIRMAN: I now recognize Mr. Fulton.

Mr. FULTON: Mr. Paton, since we met here first you have attended a large number of sessions at which I am quite sure you have heard the discussion about the desirability or otherwise of defining "the business of banks" and "banking". Has your Association any opinion to offer to this Committee on that general question.

Mr. PATON: I think it is correct to say that we share the general concern about the lack of a definition of "banking", Mr. Fulton.

We recognize the jurisdictional problems that are involved. We feel that they are capable of solution and that it is possible, perhaps, to come up with a definition of "banking". Perhaps the best approach would be to try to do this, and have it referred to legal authorities for approval or otherwise; all of which, of course, would take considerable time.

Mr. FULTON: I do not know if you are aware of a suggestion made by Mr. David Lewis in the House of Commons about Monday of this week. I would classify it in the category of things I wish I had said myself. He suggested to the Minister that he might possibly ask the officials to include a section in the draft revision of the Bank Act, and that he take that section out and refer it to the Supreme Court of Canada for an opinion. Do you have any comment on that?

Mr. PATON: I noted this suggestion, and I think that it has merit.

Mr. FULTON: Would your association support such a proposal and be prepared to appear before the Supreme Court? Would you welcome such a reference?

Mr. PATON: I would say yes, Mr. Fulton.

Mr. FULTON: I will now proceed to my second line of questioning.

You have also been present when there has been discussion of the desirability or otherwise of bringing all non-bank financial institutions—which include, as I understand it, a number of trust companies and a number of finance and acceptance companies—under the general umbrella of federal inspection and regulation. You have heard the arguments and discussions for and against that. As head of your association, have you any opinion or advice to offer this Committee on that matter?

Mr. PATON: I think it would be consistent with the approach that we have taken, and with the evidence that we have given, to say that we feel that this would be a desirable development; that, in short, all institutions operating in a similar, if not identical, field, although not necessarily of the same size, should have the same standards of supervisory and regulatory procedures. I think this should be the ultimate goal, without any question.

Mr. FULTON: You are aware, of course, of the sensitivity, to a number of Members of Parliament and others, of the question of competition. Do you feel that application of the general regulatory and control standards would reduce the ability to compete?

Mr. PATON: It is possible, I presume, that it might reduce the number of competitors, but I think that it would equally intensify the competition between those continuing. I think there is no doubt at all that, by the very existence of these high standards of operation, the management required to run these institutions and to keep them at that standard will be capable of providing a competitive atmosphere that could be greater than it is currently.

Mr. FULTON: Then, are you prepared to see other institutions enter into the banking field provided that they are subject to the same general regulations and control features as yourself?

Mr. PATON: Yes, we are prepared to welcome into the field additional chartered banks or institutions operating under an act which would be parallel with the act governing chartered banks.

Mr. FULTON: In my third area of questioning—and I realize this is somewhat generalized, because we are approaching the end of our hearing of your association—I want to return to deposit insurance.

I am aware of the general position of your association with respect to the burden deposit insurance imposes upon the chartered banks under the present proposed legislation. I really want to ask you this question, Mr. Paton, and I would ask you to consider it carefully. Insofar as it is a device which may have the effect of bringing a number of competing, and presently, apparently, relatively unregulated institutions under the umbrella of regulation and control, do you regard it as a desirable objective? It is going to impose burdens on you, but what about the objective?

Mr. PATON: I think I probably covered that point earlier today, Mr. Fulton, in my evidence on this particular subject, that we recognize our responsibilities as an integral and very substantial part of the financial community of the country, and that it might be very difficult for us to take the position that we must be excluded, or should be excluded, from the umbrella anticipated by this deposit insurance.

We do feel strongly that it is an inequitable burden on us from the point of view of cost as indicated in the legislation proposed. We are concerned, perhaps, that chartered banks in Canada, which have operated with an unblemished record for so long, and which are possibly the envy of quite a number of countries, suddenly are faced with the obligatory requirement that they must come under deposit insurance. What would be the international reaction, perhaps, to a situation like that? We must always remember that deposit insurance was created in the United States at a time of crisis and at a time of catastrophe.

Mr. FULTON: Have we not faced at least a couple of minor crises here in Canada?

Mr. PATON: We have faced—

Mr. FULTON: Not with respect to the banks, but with respect to—

Mr. PATON: No; I would say that they have been completely localized in a certain section of the financial community and perhaps the proper approach is that the cure should be applied directly to that section.

Mr. FULTON: I take it, then, that you would rather see it compulsory than voluntary?

Mr. PATON: Compulsory to the orgnizations that are envisaged as coming under it voluntarily under this bill?

Mr. FULTON: Yes.

Mr. PATON: I think that would be a fair statement.

Mr. FULTON: Have you had a legal opinion upon the ability to make it compulsory?

Mr. PATON: No, we have not.

Mr. FULTON: So that you are not able to offer us any advice on that?

Mr. PATON: No, I think not.

Mr. FULTON: Then it is a matter of policy between us and you and the Minister of Finance?

The CHAIRMAN: My question may have been asked earlier in the evening when Mr. Laflamme was in the Chair, and if so I am sure you will tell me.

How do you reconcile your comment in reply to Mr. Fulton indicating that in effect, the banks are so sound that they do not need deposit insurance, with your ealier suggestion that inner reserves should be kept secret because the banks could suffer losses so great that disclosure of them would shake public confidence in the banks?

An hon. MEMBER: Is that what he said?

The CHAIRMAN: This may not apply to you, but I think that earlier in the hearings, I can summarize it fairly, part of the argument of the banks against disclosing inner reserves was that from time to time they have losses which, if made known, might lead to some question of the confidence of the general public in the chartered banks. Now, you have told Mr. Fulton and earlier, I suppose, others as well, that, in effect, the banks are so sound that there is no reason why they should have to have deposit insurance. What I am trying to get at, sir, is that if the banks could suffer losses—and in the course of their business this is understandable; they have to make judgments in lending money—so great that if the inner reserves were disclosed public confidence could be shaken, would it not be in the interest of the banks that public confidence should not run the risk of being shaken through the provision of deposit insurance for your institutions?

Mr. PATON: This thought has occurred to me, Mr. Gray. I do not think there is a direct relationship between the purpose of the deposit insurance legislation and the stand that we have taken with respect to disclosure of our inner reserves which, as we are all aware, is substantially a repetition of the stand that has been taken over the past four or five Bank Act revisions.

The CHAIRMAN: Mr. Paton, these hearings have been given fairly wide prominence through the attendance of the press, and your explanation of why

inner reserves should not be disclosed is not only a matter of public record here but may very well have been mentioned in various articles in the press. I have not seen them all. Since you have indicated that banks might have losses which, if they were known, would shake public confidence, would there not now remain a possible suspicion in the minds of the public unless they also knew that you would now be part of the same deposit insurance scheme?

Mr. FULTON: Is that really what Mr. Paton has said? I do not recall his having said that in those terms.

The CHAIRMAN: Not in direct reply to you; I am just mentioning the two concepts. I could be wrong, because I have not examined the exact records. If I am not summarizing Mr. Paton's views correctly I am sure he will straighten me out.

Mr. PATON: I think if I recall correctly, in discussing the question of inner reserves previously I attempted to justify the existence of these on the basis that loans made by banking institutions under certain economic conditions are good loans. As the cycle changes—and as the cycle has changed—we find, possibly that loans which originally were first-class loans have been affected detrimentally by changing conditions, so that the loss you encounter today is probably against a loan that you made 5 years ago.

I think I also said that companies do not fail on averages; they concentrate their failures, perhaps, in a specific and within a limited period of time. The experience of one bank could be quite different from the experience of another. Losses encountered in any one year on loans made in prior years might well be quite substantial, and might well need quite a substantial adjustment to the reserves of any specific bank involved.

With these inner reserves—which, as we all know, are well-controlled and limited by the Minister of Finance—such sharp fluctuations in the quality of our assets can be absorbed quietly and effectively. If the full information on these losses was made known to the public and related to the reserves of the individual bank concerned I believe I said that confidence in that bank could be affected, and could affect the banking fraternity generally. As I recall, in essence that was the evidence that I gave at the time.

The need for deposit insurance, the time at which a bank would avail itself of deposit insurance would have to be when a bank was, in effect, insolvent. This would be after all reserves of the bank had been utilized in meeting its obligations. Therefore, to my mind—and perhaps I really have not had an opportunity to study the question in depth—there is no direct connection between the suggested need for deposit insurance and the advisability of the banks' maintaining internally a cushion to offset any violent fluctuation in the economy.

Mr. FULTON: I have one final question, and I would ask Mr. Paton to bear in mind its relation to all the other discussions we have had and the views that have been at least suggested here by me—and I speak for myself, and not for my colleagues—on whether it should be made compulsory rather than voluntary, whether it should be made subject to the consent of the provincial governments, and so on. I ask you to bear all that in mind when I ask you this question: are you, as the Bankers Association, speaking for the banks, prepared to pay the premium of deposit insurance as the price of extending a desirable measure of

federal inspection and control over those non-bank institutions which, at the present time, are not subject to the kind of uniform system of inspection and control that I am speaking of? What is your reaction, as a banker, to that question?

Mr. PATON: My reaction to that, Mr. Fulton, is that deposit insurance is envisaged for the protection of the Canadian public, and, therefore, it is inequitable to have such a substantial portion of the cost centred on the segment of the financial community that perhaps is best able to withstand it, or to meet it, but also has the least need for it. Therefore, it seems to me that the government of Canada might well be prepared to meet a substantially greater part of the premium than is indicated.

In short, our figures roughly indicate that we have a 4½ million premium facing us in the banking system for the initial five of six years of the legislation. Perhaps it would be reasonable to suggest that the chartered banks would be more than meeting their obligation as a member of the financial community if this were—and I offer this as a suggestion—perhaps cut in two.

Mr. FULTON: A lower premium—a lower percentage for the banks?

Mr. PATON: Yes. How this could be arrived at I have not figured out, but I think it is our feeling that this proposed premium we are looking at, which has to be met from one source or another and the ultimate source, of course, is the consumer in the form of the bank customer might well be spread more equitably over the people who will be benefiting from the legislation.

Mr. FULTON: Is it fair to say, then, that your position is that you do not oppose deposit insurance as a device for the purposes for which it is introduced, but, that you suggest that there should be a more equitable apportionment of the cost?

Mr. PATON: Yes; I think that is a fair summation of our position.

Mr. Coleman, would you care to disagree with me on that.

Mr. COLEMAN: I think I would disagree on this point, that I think we, as a bank, feel that it should be voluntary rather than compulsory.

Mr. MONTEITH: For the bank, you mean?

Mr. COLEMAN: For anyone; I think that what come first are proper inspection and regulation and strict supervision, and I think one of the reasons that the Canadian banks are in the position they are in is that they have been very strictly supervised. I hope there has been good management, but I think that the strict supervision by the Inspector General has played a very big part in this. This is probably the reason that we do not need deposit insurance today; and I think that if we had the same, or similar, regulation and supervision in the provinces and in other federal institutions we would not need deposit insurance. I suggest that what should come first from the different jurisdictions are adequate and strict supervision and regulation, and that then we should make deposit insurance available to those deposit taking institutions that feel that they would like to have it in addition.

Mr. FULTON: Far be it for me to argue the case of the present federal government in detail, but given the fact that events have illustrated that

governments of Canada have not yet devised a sufficiently adequate scheme of control and inspection—and recent events have indicated that this situation should not be allowed to continue—surely it is not the position of the Bankers' Association that the federal government should not take some emergency measures?

Mr. COLEMAN: Well, deposit insurance, Mr. Fulton, will not be the answer if they do not provide supervision and control.

Mr. FULTON: They go hand and hand, do they not?

Mr. COLEMAN: I would suggest that you should first have proper supervision, and I see no great difficulties here: The banks are a good example, I think of the fact that we have been very strictly supervised. This is the reason, I think, for your chartered banking system being in the position in which it is today. I suggest that if any one of the provinces had this to regulate their provincially-incorporated, deposit-taking institutions they would have nothing to fear today.

Mr. FULTON: Oh, yes; that is true, Mr. Coleman; if all of us had a perfect system we would have no problems, but we do not have a perfect system.

Mr. COLEMAN: I agree; and I certainly agree that something should be done to protect the depositor. I am not arguing that point. We have had several unfortunate experiences to prove this. However, I, personally, and we, as a bank, think that we are going about it in the wrong way. We think that the system of regulation and supervision should come first, and that deposit insurance should be voluntary after that.

The CHAIRMAN: How can you have compulsory inspection and voluntary deposit insurance?

Mr. COLEMAN: If you have a system of deposit insurance there are certain standards that a company would have to meet in order to come under the umbrella of deposit insurance. I suggest that it would help them to be able to put in their window that they had deposit insurance; so that they would have to meet these standards before they would qualify.

The CHAIRMAN: Well, I would agree with what you just said, but it is my understanding that this is the scheme contemplated by the bill. For the moment I am putting aside whether it should go further.

Mr. COLEMAN: Well, I hope that is right.

The CHAIRMAN: It is my impression that what you have just said is what the government is proposing; would you agree with me?

Mr. FULTON: I have differences with the government on whether it goes far enough—

The CHAIRMAN: That is a legitimate point.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, Mr. Paton stated that deposit insurance, in the United States, was set up at a critical period, but surely this crisis has been over some time.

The CHAIRMAN: Mr. Clermont, I am sorry but the translator has left.

Mr. CLERMONT: That is all right. Mr. Paton, you mentioned in your reply to, I think Mr. Fulton, that the insurance deposit scheme in the United States was established during a crisis. That crisis passed many, many years ago, and they still have that insurance plan. I remember reading a memorandum stating that the success of the insurance plan was because there were stiff regulations and supervision, and that that was what has made it a success in the United States. I do not see why the same result should not be obtained from an insurance deposit plan in Canada.

Mr. PATON: Well, you are dealing, Mr. Clermont, with an entirely different banking context. You have nine chartered banks in Canada operating under identically the same strict supervision. In the U.S.A. this is not the case. One wonders, if there was any justification for having deposit insurance for the banks, why it was not put in—

Mr. CLERMONT: In the reply that you gave to Mr. Fulton what concerned me most was the cost.

Mr. PATON: Mr. Clermont, there is only one place that this cost can go and that is to the public; and as you know—

Mr. CLERMONT: Yes; but you mentioned to Mr. Fulton a cost of $4½ million; and I could add that you, or somebody from your organization, agred that after five years the cost will come down to $2½ million.

Mr. PATON: That is correct, sir; but five times $4½ million is still a substantial figure.

Mr. CLERMONT: Yes; but with the privilege, or the right, to increase your interest rate on loans—

The CHAIRMAN: Perhaps we should continue for a few more moments so that Mr. Monteith can ask some questions.

Mr. MONTEITH: I have not asked any all day except as interjections. I shall be very brief.

Mr. Paton, as you are undoubtedly aware, the Minister of Labour made an announcement in the House yesterday concerning housing money. I think he intimated—although I do not have the copy of *Hansard* here—that he hoped for assistance from the banks in this respect. Can you see the banks being in a position to be of material assistance in providing loans?

Mr. PATON: The comment in the *Globe and Mail* this morning, Mr. Monteith—

Mr. MONTEITH: Oh, was it discussed this morning?

The CHAIRMAN: I think I should say, to assist Mr. Paton, that he was the star performer at a panel discussion sponsored by the Homebuilders at their conference and I guess that his remarks were quoted. I think that is what he means.

Mr. PATON: Yesterday at lunch in Toronto the Minister of Finance spoke at the luncheon of the National House Builders Association, following which there was a panel which included Mr. Hignett and a representative from the Life Insurance Companies and myself.

The CHAIRMAN: Perhaps you can refresh our memory on what was said.

Mr. PATON: Well, on that panel I said that undoubtedly the Canadian chartered banks welcomed this new provision in the bank bill, which would enable them to participate once again in NHA mortgages and also now in conventional mortgages. I cautioned the group that they should not look for an immediate resurgence of the banks' participation in the mortgage market to the extent that we had in 1959, at which time we constituted a very substantial part of the NHA market. I said that we had gained considerable expertise over these years in which we participated in the mortgage lending field which was still with us and that, therefore, when we resumed this type of lending we would be starting on a more experienced base than we did in 1954 when we first took it on.

In general I gave an indication that we would be very anxious to participate to the extent that we could, bearing in mind the very substantial demand that currently existed for loans generally.

I also made reference to the potential debenture facility that we have, which, being long-term funds, conceivably, or at least notionally, could be allocated toward long-term lending.

Mr. MONTEITH: I have one other question, Mr. Chairman. Mr. Paton, what are the assets of your bank now, in round figures?

Mr. PATON: $3 billion.

Mr. MONTEITH: How would you go about reducing those assets by 10 per cent if you were forced to by law?

Mr. PATON: I would look around for a partner.

Mr. MONTEITH: I am asking a very serious question because it applies in the case of the Mercantile Bank, if they have to come down to $200 million from $225 million.

Mr. PATON: I have never given consideration to the problem, Mr. Monteith, but I think if I had to, it is something that I could do reasonably quickly.

Mr. COLEMAN: We would be glad to take it.

The CHAIRMAN: Do you have any further questions, Mr. Monteith?

Mr. MONTEITH: No.

The CHAIRMAN: This may have been dealt with earlier but I think this, perhaps, fits in with what you just asked. What does a chartered bank do if it does not have a branch in a particular community and wants to extend service to a customer who lives in that community? In other words, say a person is a customer in Toronto of a particular bank and he has business in another community where that bank does not have a branch. What is done?

Mr. PATON: Assuming that a manufacturer doing business in Toronto opens a plant elsewhere in Ontario where the bank concerned does not have a branch?

The CHAIRMAN: Yes.

Mr. PATON: In all probability, Mr. Gray, the major account of that customer would still be maintained in Toronto at the head office. Their payroll and petty cash operation would be handled by one of the banks or the bank in the area concerned. If the new location was one which had attraction to the bank holding

the account and if this particular client's business was sufficiently large to provide the necessary further incentive to go in, then it is quite possible that the bank holding the account would open a branch in this community.

The CHAIRMAN: Mr. Monteith just made reference to the Mercantile. I understand that they have only seven branches at this time. Who represents the Mercantile in other places in Canada where they may have dealings?

Mr. PATON: I am not in a position to answer that question, Mr. Gray; I do not know whether any of my colleagues could.

Mr. COLEMAN: I would say, Mr. Chairman, that no particular bank does. I would think a customer having his principal account with the Mercantile, say in Montreal, and has an operation in, let us say, Sydney, Nova Scotia where there is no Mercantile, it would probably go to whatever bank was the most convenient for it.

The CHAIRMAN: I see.

Mr. COLEMAN: I doubt whether the Mercantile would try to direct that business to a particular bank.

The CHAIRMAN: It has been suggested to me—and this information may be completely erroneous—that in most communities where the Mercantile Bank does not have its own branch, one particular chartered bank represents it, namely the Bank of Montreal.

Mr. COLEMAN: I have never heard of that but it is quite possible.

Mr. PATON: I can neither support that nor refute it, Mr. Chairman.

Mr. T. HACKETT: This is the first time that this has been adduced in my hearing.

The CHAIRMAN: There is no one here who can provide the information on that question?

Mr. PATON: I would say not. No one here knows whether or not that is a correct statement.

Mr. COLEMAN: I have never heard the slightest suggestion of that.

The CHAIRMAN: Well, if my information in that regard is not correct I want to say I certainly am not attempting to put it forward as a definite fact. I was curious.

Mr. FULTON: I hope then, Mr. Chairman, that you will put on record that you have no evidence to support that contention, unless you have.

The CHAIRMAN: Well, somebody had communicated the suggestion to me and I want to make very clear—

Mr. FULTON: This is not really good enough.

The CHAIRMAN Yes, I will be quite prepared to accept your reservation along the lines you put it. I think you are quite right in that regard.

Mr. PATON: Mr. Hackett would like to make a statement.

Mr. FULTON: It has certain implications with respect to evidence which was given by an individual before this committee.

Mr. HACKETT: I think it is appropriate, Mr. Chairman, that in the light of that comment I should introduce another comment that may bear on this rumour. It is known that the Chairman and President of the Bank of Montreal presented a brief, I think it was on the 1st of December, which had to do with clause 75(2)(g), and I think that brief is Appendix S to the proceedings of that day. Speaking from memory, I think it is section F of that brief where—the Chairman and President of the Bank of Montreal said—and you will forgive me because this is a quotation from memory: "I hold no brief for the Mercantile Bank or its parent concern but to me there is a basic matter of principle involved here. That is why I am so strongly opposed to clause 75(2)(g)." Now I think that observation probably becomes relevant at this point. Thank you.

The CHAIRMAN: I did not attempt to suggest otherwise. When I was absent earlier in the day were there discussions about having the Canadian Bankers' Association return at any particular time?

An hon. MEMBER: No.

Mr. LAFLAMME: Mr. Chairman, it is not because we would not like to see them back but because we have to get through with the bill.

Mr. FULTON: They may have other business to do.

The CHAIRMAN: I am sure they have. Perhaps they want to get ready for the extra opportunities and responsibilities they will have if the House adopts the government's proposals wholly or in part.

Gentlemen, we should thank you for again submitting yourselves to our further questioning arising out of our study of other suggestions brought forth by other witnesses. Certainly you have been more than patient. I think you have added to the store of knowledge of all of us on the committee, I am sure it will assist us in our own deliberations. In saying this, I am sure I speak for the entire committee.

However, I understand that the committee did suggest that the Governor of the Bank of Canada come back Thursday morning, with the Minister of Finance to follow when the committee had finished questioning the governor as they were not able to complete their questioning this morning. Am I correct in this?

Mr. LAFLAMME: Mr. Chairman, I think 30 minutes should be sufficient for the governor to finish answering questions because only one or two members indicated that they had a few questions left to ask.

The CHAIRMAN: Your comments have been noted, and I am sure those of us that were here throughout the day will be happy to remind others who may have forgotten that this is, in fact, the case.

Mr. CLERMONT: Mr. Chairman, I think I am one of the two or three. If the other two want to withdraw I have no objection; but I am speaking only for myself.

The CHAIRMAN: I am informed that the governor is quite prepared to return for a period Thursday morning; that being the case, Mr. Clermont, I think, you should have the opportunity, with the others, to ask your questions. I think we are agreed on that.

We will adjourn until Thursday morning at 11 o'clock.

APPENDIX "QQ"

THE CANADIAN BANKERS' ASSOCIATION
50 King Street West Toronto 1, Ontario

January 23, 1967.

Herb Gray, Esq., M.P.,
Chairman, Standing Committee on
Finance, Trade and Economic Affairs,
Parliament Buildings,
West Block, Room 331,
Ottawa, Canada.

Dear Mr. Gray:

Canadian-United States Comparison of Bank Service Charges

We wish to submit for the attention of yourself and the other members of your Committee a few comments on the memorandum of November 29, 1966, on the subject of bank service charges prepared by Miss Prentis for Mr. Clermont. It is the comparison between Canadian and United States charges in particular on which we would like to enter reservations.

Service charges in the U.S. vary from bank to bank not only in individual rates but also in the complexity and comprehensiveness of rate structures and the extent to which charges are actually applied to and collected from customers, Up-to-date and comprehensive information on such charges is very inadequate, our own recent enquiries from banking associations there having brought replies to the effect that no surveys have been made for many years and that current and reliable information on the subject is not available. We attempt to keep reasonably well informed in the Association and have excellent contacts both directly and through our members with banks in the United States, and we would express the view based on our own experience that an adequate study of the subject would require many months' work by a Canadian researcher. Our main present purpose therefore is to enter a strong note of caution regarding the degree of authenticity to be attached to conclusions that could be drawn from an over-simplified presentation such as that now before you. We also wish to bring to your attention some errors of fact and some significant omissions in that presentation.

In order to establish the point we are making we have in recent weeks attempted to obtain up-to-date information from individual and representative U.S. banks and later use this material to demonstrate the type of calculation that would have to be made on a large scale to obtain a comprehensive comparison of U.S. and Canadian pricing for bank services. However, before presenting these calculations there are some observations we would make on specific points in the memorandum in question.

It is stated in the second paragraph that there is a wide range of charges for the same service as between banks in the U.S. This is true, but what is more important is that there is also a very wide variety of types of charges. It is

therefore not reasonable to pick one or two individual items out of context and compare these items. In order to arrive at any worthwhile conclusion it is necessary to examine the total transactions of a representative sample of bank customers and determine the cost to each of them of the whole of their depositor/bank relationship. Under this sort of examination some U.S. banks when compared with others would be discovered to be expensive to some types of customers and cheaper to other types of customers, and the same would be found to apply as between U.S. banks and Canadian banks. As the foregoing is mainly applicable to commercial accounts for convenience in developing this thought the various types of accounts are dealt with separately hereunder.

Savings Accounts

Savings accounts in Canada cannot be compared with savings accounts in the U.S. as the latter are true savings accounts and are therefore noncheckable.

Personal Chequing Accounts

In both countries service charges for the routine operation of personal chequing accounts (generally known in the U.S. as special checking accounts) are usually collected by means of one charge expressed as a rate per cheque issued. In Canada this is 10 cents per cheque—in the U.S. it ranges upwards from 10 cents to 25 cents per cheque. In addition certain other charges may be made in both countries and typical schedules of rates are compared in the attached Table I. Some U.S. banks employ a minimum balance technique beginning with no charge for a limited number of cheques if a certain minimum balance is maintained. The minimum balance requirement may be as low as $100 or as high as $500. If the required minimum balance is not maintained most banks make a flat monthly charge which varies from $1 to $4. Per item charges as low as 6 cents and as high as 10 cents are assessed where the number of cheques issued exceed the number of free debits which are allowed for the minimum balance which the customer keeps in his account. A few banks make a straight per item charge for each cheque plus a flat charge for maintenance fee and then allow a reduction in the monthly service charge for each $100 of average monthly balance at rates which vary from a low of 10 cents to a high of 36 cents per $100 per month.

This is the area of greatest comparability in service charges between Canadian and U.S. banks and in this connection the following extract from a report of a limited survey of banks in the Niagara Falls area of New York and Ontario made by Adler F. Jung, Associate Professor of Marketing, Graduate School of Business, University of Chicago and published in the March 1965 issue of The National Banking Review is of interest:

Commercial Bank Charges

"III Conclusion

The banks in Niagara Falls, Ontario offered significantly lower rates than Niagara Falls, New York, banks on the three services studied; automobile loans, personal unsecured loans and personal checking accounts. Some have

contended that because of the limited number of banks in Canada due to nationwide branching, competition is lessened and the consumer pays more for banking services. This hypothesis does not appear to hold true on the Niagara frontier, and a spot check revealed that charges for similar services at Buffalo banks were above the charges for these services at Toronto banks."

Current Accounts

Current accounts in Canada are generally operated for business purposes and are the equivalent of the Regular Checking Accounts in the U.S. banks which are also operated generally for business purposes. When considering service charges it is necessary to divide these accounts into two parts the first part containing accounts subject to a direct charge and the second part containing accounts subject to analysis. It is not possible to define exactly the type of account included in each part but in general direct charge accounts are those with simple uncomplicated deposits and less than a total of 100 debit and credit entries per month. Accounts subject to analysis are usually analyzed periodically to determine the amount of monthly remuneration required and this amount remains unchanged until the next analysis. In the U.S.A. the rates used for direct charge or account analysis purposes are usually the same whereas in Canada the rates are different.

There is a tremendously wide variety of regular checking account plans, rates and allowances in use by U.S. banks and in the attached Table II some of the more usual items of charge are compared with those of Canadian banks. You will note that the table shows separately rates used for direct charge accounts and for accounts subject to analysis. Some of the rates differ from those shown in the table attached to the memorandum and in the case of the Canadian rates this is due to misinterpretation in the table.

Although omitted from the table, except for the mention in the footnote, the rates allowed as earnings credits on balances maintained are shown on Table II as these are important factors in determining the total amount of charges paid. Low rates of unit service charges and low rates of earnings credit can in similar cases result in exactly the same total service charge as high rates of unit service charges and high rates of earnings credit.

For accounts subject to analysis the combinations of various rates and allowances are so many that it is next to impossible to make general statements about the level of service charges in the U.S. or about one bank as compared with another. Comparisons between banks can only be made by the use of typical cases, comparing the total charge that would be paid in each case in one bank with the total charge that would be paid in the same case in another bank. It follows that it is just as impossible to make a comparison of the general level of service charges in U.S. banks with the general level of service charges in Canadian banks.

An attempt has been made in the attached Table III to illustrate these difficulties by using a few typical cases comparing the charges that would be incurred in a Canadian bank with those that would be incurred in a major New York City bank. These cases clearly show that whether the advantage is with the

customer of a Canadian bank or the customer of the U.S. bank depends upon the particular pattern of business of each customer.

It is true that in the U.S. there is evidence that the costs of providing services substantially exceed the corresponding charges as almost every issue of U.S. banking publications contain articles to that effect by bankers, management consultants and academicians. The memorandum however omits to mention the counterbalancing fact that the U.S. banks allow too low an earnings credit rate on balances when analyzing accounts for service charge purposes. As will be seen from the attached calculations this is frequently a sufficiently important difference to offset the lower rate of service charges. Incidentally, Canadian banks also follow the practice of charging less than the cost of providing services.

As Miss Prentis states Canadian banks are now applying service charges more meticulously than in the past and this tendency is also apparent in the U.S. as a perusal of U.S. banking literature will attest. In both countries this trend has been forced by rising cost of doing business and the impossibility of continuing to provide services on a free basis. This is not of course peculiar to banks and there are numerous instances of other industries charging for erstwhile free services.

The practice of requiring clients to maintain minimum balances in their accounts has always been widespread but the requirements are probably subject to better supervision these days. These balances are in fact the "demand deposit balances" that have appeared as liabilities in the banks' balance sheets ever since banks have existed.

In recent years there has been a tendency in the U.S. for corporations to keep these balances as low as possible and this is aided and abetted by the ingrained habit of U.S. banks in under-pricing for services and under-crediting for balances, as is exemplified in the cases used as examples in Table II. However, there is no conscious movement on the part of U.S. banks to drop the practice of requiring balances to be maintained in compensation for services rendered. In fact the contrary is true in that the banks are constantly endeavouring to raise the amount of the interest free demand deposits left with them but are hindered in this by the habit previously quoted. If there is any trend away from compensating balances it is certainly not out of any charitable motives on the part of the U.S. banks, but rather is a recognition of the fact that realistic service charges are a more certain form of revenue than a required minimum balance, the maintenance of which frequently requires considerable policing on the part of the bank. Thus any trend that there is indicates a desire for a larger and more certain revenue—not the reverse.

There is also a tendency on the part of U.S. banks to keep new services, particularly those associated with computers, quite separate from those directly related to the operation of a demand deposit account and to keep them on a fee for service basis. However, as we have said, for the traditional services related to a demand deposit account the preference of U.S. banks apparently is still to require the maintenance of balances rather than the payment of fees. This assertion is amply supported by the statements of various bankers given in response to recent enquiries addressed to them on the subject (Schedule A).

The statement on exchange charges on out-of-town cheques made in the final sentence is incorrect but the error is shared by some well-known academicians. Section 92 refers only to discounted items and to the charges for collecting such items. When a bill or note is discounted it is equivalent to a loan being made for the term of the instrument and the amount of discount is equivalent to interest for the period. In addition the instrument has to be collected in the same manner as a bill of exchange which is given to the bank for collection and the charges under Section 92 are analogous to the collection charges on a collection item. Out-of-town cheques are neither discounted nor collected but are deposited and cleared. Out-of-town exchange charges apply only to clearing items not collection items and the charge itself has a long history antedating the first Bank Act by many years. Like most other common charges for banking services the charge for exchange on out-of-town cheques is not specifically spelt out in the Act.

We trust that this memorandum will assist the Committee in its very important task. A copy is being given also to Miss Prentis, and if you wish all members of the Committee to have it we will be glad to supply the necessary number.

Yours sincerely,

(Signed) "J. H. Perry",
Executive Director.

TABLE I

PERSONAL CHEQUING ACCOUNTS IN CANADA COMPARED WITH SPECIAL CHECKING ACCOUNTS IN THE U.S.A.

Typical Schedules of Service Charges

	Canada	U.S.A.
Deposits credited to account	Nil	Nil
Items included on deposits:		
Cheques	Nil	Nil
Currency	Nil	Nil
Cash	Nil	Nil
Cheques debited to account	10¢ each	10¢ each
Cheques drawn on account returned NSF	$2.00 each	$2.00 each
Cheques drawn on account returned as "Drawn against Uncollected Funds"	Not applicable	$2.00 each
Cheques drawn on account paid against Uncollected Funds	Nil	$2.50 each
Cheques included on deposits returned unpaid from other banks	Nil	.50¢ each
Stop Payment Orders	Nil	$2.00 each
Certification	Nil	.50¢ each
Cheques drawn on incorrect form	Nil	.50¢ each
Maintenance	Nil	.50¢ per month
Earnings Allowance on Balances maintained	Nil	Nil

CURRENT ACCOUNTS IN CANADA COMPARED WITH REGULAR CHECKING ACCOUNTS IN THE U.S.A.

Some Examples of Service Charges

	Canada		U.S.A.
	For "Direct Charge" Accounts	For Accounts subject to analysis	For "Direct Charge Accounts" and Accounts subject to analysis
Deposits credited to account	10¢ each	10¢ each	5¢ to 35¢ each
Items included on deposits:			
Cheques "on us"	Nil	(1) Nil	1¢ to 5¢ each
—other	Nil	4¢ each	2¢ to 5¢ each
Currency	Nil	(2) 45¢ or 95¢ per $M	(3) 10¢ to 75¢ per $M or $5.00 per hour
Coin	Nil	(2) $1.00 or $1.80 per $C	(3) 10¢ to 40¢ per $C or $5.00 per hour
Cheques debited to account	10¢ each	(4) 8¢ or 10¢ each	4¢ to 9¢ each
Cheques drawn on account returned N.S.F.	$2.00 each	$2.00 each	$1.00 to $4.00 each
Cheques drawn on account returned as "Drawn against "Uncollected Funds"	Not applicable	Not applicable	$2.00 to $3.00 each
Cheques drawn on account paid against "Uncollected Funds"	Nil	Nil	(5) $2.00 to $2.50 each
Cheques included on deposits returned unpaid	Nil	Nil	25¢ to 60¢ each
Stop Payment Orders	Nil	Nil	$1.00 to $6.00 each
Certification	Nil	Nil	25¢ to $2.00 each
Maintenance	Nil	Nil	50¢ to $3.50 per month
Earnings Allowance on Balances maintained	2.4%	3.00%	1.2% to 3.6%

NOTES:

(1) Cheques drawn on the branch where deposited.

(2) This charge is only made when accounts are substantial, $100,000 per month of currency and $5,000 per month of coin. The lower rates apply when the deposit is in good order requiring little culling, etc.

(3) The rates par $M apply to small amounts deposited and the rates per hour to large amounts deposited. Some U.S. banks make no charge for small amounts of currency or coin deposited.

(4) The lower rate applies where more than 500 items are debited in one month.

(5) Some banks charge interest on amount of the cheque in addition.

TABLE III

Comparison of service charges on Current Accounts in Canada with service charges on "Regular Checking Accounts" in a large New York City Bank using typical cases.

CASE A: SMALL COMMERCIAL ACCOUNT ON DIRECT CHARGE BASIS

		Canada		New York	
Deposits credited to account....	20	at 10¢ each	$2.00	N/C	
Items included on deposits:					
Cheques—"On us".....	20	N/C	—	at 3¢ each	.60
—Other.....	120	at 4¢ aech	$4.80	at 3¢ each	3.60
Currency.....	$4,000	N/C	—	at 60¢ per $M	2.40
Coin.....	$ 100	N/C	—	at 40¢	.40
Cheques debited to account....	60	at 10¢ each	$6.00	at 6¢ each	3.60
Cheques deposited returned unpaid.....	2	N/C	—	at 50¢ each	1.00
Stop Payments.....	1	N/C	—	at $1.00	1.00
Maintenance Charge.....			—		.75
Total Charges for month.....			$12.80		$13.35
Less Earnings Credit on $3,000 Balances Maintained.....		at 2.4% P.A.	6.00	at 1.56% p.a.	3.90
ACTUAL CHARGE MADE TO CUSTOMER.....			$ 6.80		$ 9.45

CASE B: SMALL COMMERCIAL ACCOUNT ON DIRECT CHARGE BASIS

		Canada		New York	
Deposits credited to account....	10	at 10¢ each	$1.00	N/C	—
Items included on deposits:					
Cheques—"On us".....	10	N/C	—	at 3¢ each	.30
—Other.....	60	at 4¢ each	$2.40	at 3¢ each	1.80
Currency.....	Nil	N/C	—	at 60¢ per $M	—
Coin.....	Nil	N/C	—	at 40¢ per $C	—
Cheques debited to account....	40	at 10¢ each	$4.00	at 6¢ each	2.40
Maintenance.....			—		.75
Total Charges for month.....			$7.40		$5.25
Less earnings Credit on $2,000 Balance maintained.....		at 2.4%	4.00	at 1.56%	2.60
ACTUAL CHARGE MADE TO CUSTOMER.....			$3.40		$2.65

TABLE III (Continued)

Comparison of service charges on Current Accounts in Canada with service charges on "Regular Checking Accounts" in a large New York City Bank using typical cases

CASE C—SMALL COMMERCIAL ACCOUNT ON DIRECT CHARGE BASIS

		Canada		New York	
Deposits credited to account....	5	at 10¢ each	$ .50	N/C	
Items included on deposits:					
Cheques—"On Us".....	10	N/C	—	at 3¢ each	.30
—Other.....	5	at 4¢ each	.20	at 3¢ each	.15
Currency.....	$3,000	N/C	—	at 60¢ per $M	1.80
Coin.....	$ 50	N/C	—	at 40¢ per $C	.20
Cheques debited to account....	20	at 10¢ each	2.00	at 6¢ each	1.20
Cheques paid against "Uncollected Funds".....	2	N/C	—	at $2.50 each	5.00
Total Charge for month.....			$2.70		$8.65
Less Earnings Credit on $1,000 Balance maintained.....		at 2.40 p.a.	2.00	at 1.56% p.a.	1.30
ACTUAL CHARGE MADE TO CUSTOMER.....			$ .70		$7.35

CASE D—COMMERCIAL ACCOUNT SUBJECT TO ANALYSIS

		Canada		New York	
Deposits credited to account....	20	at 10¢ each	$ 2.00	N/C	—
Items included on deposits:					
Cheques—"On Us".....	1,000	N/C	—	at 3¢ each	$ 30.00
—Other.....	6,000	at 4¢ each	240.00	at 3¢ each	180.00
Currency.....	$4,000	N/C	—	at 60¢ per $M	2.40
Coin.....	$ 200	N/C	—	at 40¢ per $C	.80
Cheques debited to account....	2,500	at 8¢ each	200.00	at 6¢ each	150.00
Cheques deposited returned unpaid.....	2	N/C	—	at 50¢ each	1.00
Maintenance Fee.....			—		.75
Total Charge for month.....			$442.00		$364.95
Less Earnings Credit on $80,000 Balance maintained.....		at 3.00% p.a.	200.00	at 1.56% p.a.	104.00
ACTUAL CHARGE MADE TO CUSTOMER.....			$242.00		$260.95

TABLE III (Continued)

Comparison of service charges on Current Accounts in Canada with service charges on "Regular Checking Accounts" in a large New York City Bank using typical cases

CASE E—COMMERCIAL ACCOUNT SUBJECT TO ANALYSIS

	Canada		New York	
Activity the same as in Case D: Total Charge for month (as per Case D).		$442.00		$364.95
Less Earnings Credit on $60,000 Balance maintained	at 3.00% p.a.	150.00	at 1.56% p.a.	78.00
ACTUAL CHARGE MADE TO CUSTOMER		$292.00		$286.95

CASE F—COMMERCIAL ACCOUNT SUBJECT TO ANALYSIS

	Canada		New York	
Activity the same as in Case D: Total Charge for month (as per Case D).		$442.00		$364.95
Less Earnings Credit on $100,000 Balance maintained	at 3.00% p.a.	250.00	at 1.56% p.a.	130.00
ACTUAL CHARGE MADE TO CUSTOMER		$192.00		$234.95

CASE G—COMMERCIAL ACCOUNT SUBJECT TO ANALYSIS

	Canada		New York	
Activity and balance maintained same as in Case D except that 40 cheques paid against "Uncollected Funds" Total Charge for month (as per Case D).		$442.00		$364.95
40 cheques paid against "Uncollected Funds"	N/C	—	at $2.50 each	100.00
Total Charge for month		$442.00		$464.95
Less Earnings Credit on $80,000 Balance maintained	at 3.00% p.a.	200.00	at 1.56% p.a.	104.00
ACTUAL CHARGE MADE TO CUSTOMER		$242.00		$360.95

Comparison of service charges on Current Accounts in Canada with service charges on "Regular Checking Accounts" in a large New York City Bank using typical cases

Summary of Actual Charges made to Customers

Case	Canada $ per month	New York $ per month
A	6.80	9.45
B	3.40	2.65
C	.70	7.35
D	242.00	260.95
E	292.00	286.95
F	192.00	234.95
G	242.00	360.95

SUMMARY OF VIEWS EXPRESSED BY UNITED STATES BANKERS ON QUESTION OF COMPENSATING BALANCES OR DIRECT FEES FOR SERVICES

"As remuneration for service rendered, a bank can require that adequate working balances be maintained on deposit or in lieu of such balances can impose direct fees for its various services. What is the practice in your State and are bankers abandoning the working balance arrangement in favour of realistic pricing of services?"

New York State

Banks are striving to make a reasonable profit on all services performed by requiring either balances or fees. The only trend toward greater use of fees is associated with new services which utilize electronic data processing where the bank prefers to be compensated by way of a fee. In casual discussions with the banks we were unable to detect any trend of abandoning the concept of requiring free working balances in favour of the payment of fees.

One large bank would rather forego a fee on a commercial account in the hope they could convince the customer to maintain adequate compensating balances. They do not want the customer to think he can pay for banking services by other than the compensating balance method and they would go so far as to request removal of an account for lack of compensating balances before instituting a fee arrangement.

California

The practice for services rendered, particularly those of a computer oriented nature, is to charge for the services on a cost basis rather than on a compensating balance relationship. Many banks are still operating on the compensating balance theory, however they are gradually converting to a direct cost assessment, particularly for any new arrangements with customers.

Illinois

The compensating balance feature appears to receive different interpretation among the banks. Charges for computer services tend to be assessed on a "per item" basis whereas charges for some other services are being handled on the compensating balance basis.

Accounts are rated mainly by balance considerations and other collateral advantages and in cases where a trend is developing toward per item charges (instead of compensating balances) it is because high money market rates have led corporate treasurers to reduce the level of free balances and because computer analysis permits closer cost accounting by banks and facilitates per item charging.

Texas

Both banks say there is a definite tendency to pricing of computer-oriented services and their customers find this preferable. On the other hand, for services such as lock box, maintenance of compensating balances is customary. Prompted in part by tight money condition which is leading to generally reduced balances, more emphasis is being placed on pricing of services.

Washington State

There has been no move on the part of banks in the area to abandon or ease requirements with respect to compensating balances. Quite to the contrary, it is believed there is a stiffening of the attitude of the banks in cases where corporate treasurers have begun moving in the direction of reduced free balances. In cases where compensating balances are waived, loan rates are increasd proportionately and where a compensating balance agreement is not adhered to by the customer a deficiency charge is applied.

The President of the Federal Reserve Bank, Twelfth District, with headquarters in San Franciso (the District includes the States of California, Nevada, Idaho, Montana, Oregon, Alaska and Washington) says that while there were exceptions from bank to bank the maintenance of compensating balances remains a feature of the American banking picture. He ventured the opinion too that due to tight money conditions the banks were currently adopting a firmer attitude toward compensating balances.

APPENDIX "RR"

COMPARISON OF SOME OF THE PRINCIPAL CHARGES MADE TO NEAR BANKS

Charges Made for:—	Credit Unions			Caisse Populaire		Mortgage, Loan and Trust Companies
	Plan A	Plan B				
	Local Unions	Local Unions	Centrals	Local Caisses	Central Caisses	
Clearing Orders	5¢ per item plus $100 annually	5¢ per item	5¢ per item	5¢ per item	5¢ per item*	5¢ per item plus $100 annually
Clearing House Fees (Annual)	Toronto $300 Montreal $300 Vancouver $150 Other C.H. Points $100	None	None	None	None	Toronto $300 Montreal $300 Vancouver $150 Other C.H. Points $100
Clearing Local Cheques and Other Local Items Deposited	2–½¢ per item after allowing 4 free items for each $50 of minimum monthly balance	2–½¢ per item after allowing 4 free items for each $50 of minimum monthly balance	2–½¢ per item after allowing 4 free items for each $50 of minimum monthly balance	2–½¢ per item after allowing 4 free items for each $50 of minimum monthly balance	2–½¢ per item after allowing 4 free items for each $50 of minimum monthly balance	None
Exchange on Out of Town Cheques and Other Out of Town Items Deposited	Up to $1,000 1/8% Minimum 15¢ $1,000 to $2,500 1/10% Minimum $1.25 Over $2,500 11/6% Minimum $2.50	Not Applicable	Up to $5,000 5¢ ea. plus 1/10% on daily total Over $5,000 1/16% Minimum $5 each item	Not Applicable	Up to $5,000 5¢ each plus 1/10% on daily total Over $5,000 1/16% Minimum $5 each item	Up to $2,500 1/8% Minimum 20¢ $2,500 to $10,000 1/10% Minimum $3.15 Over $10,000 subject to negotiation Minimum $10
Service Charges on Accounts	10¢ per entry after allowing one free entry for each $50 of minimum monthly balance (counting 4 local items deposited or 4 orders debited as 1 entry)	10¢ per entry after allowing one free entry for each $50 of minimum monthly balance (counting 4 local items deposited or 4 orders debited as 1 entry)	None	10¢ per entry after allowirg one free entry for each $50 of minimum monthly balance (counting 4 local items deposited or 4 orders debited as 1 entry)	None	None specially applicable to clearing privileges

*For the clearing of orders drawn on outside points Central Caisses at Montreal and Quebec charge banks 1/16% on the daily total, without minimum.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 42

THURSDAY, FEBRUARY 2, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.
Bill C-222, An Act respecting Banks and Banking.
Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

The Hon. Mitchell Sharp, Minister of Finance; Mr. C. F. Elderkin, Special Adviser, Department of Finance.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25641—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Basford,
Cameron (*Nanaimo-Cowichan-The Islands*),
Cashin,
Chrétien,
Clermont,
Coates,
Comtois,
Davis,
Flemming,
Fulton,
Gilbert,
Irvine,
Lambert,
Latulippe,
Leboe,
Lind,
Macaluso,
McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Munro,
Valade,
Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

ORDER OF REFERENCE

WEDNESDAY, February 1, 1967.

Ordered,—That the name of Mr. Leboe be substituted for that of Mr. Johnston on the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

25641—1½

MINUTES OF PROCEEDINGS

THURSDAY, February 2, 1967.

(85)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.10 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Clermont, Comtois, Davis, Gilbert, Gray, Irvine, Laflamme, Lambert, Latulippe, Monteith, Valade—(13).

Also present: Messrs. Mackasey and Patterson.

In attendance: The Honourable Mitchell Sharp, Minister of Finance; Mr. C. F. Elderkin, Special Adviser, Department of Finance; and Miss M. R. Prentis, research assistant.

The Committee resumed consideration of the banking legislation.

The Minister made an opening statement dealing with a definition of "banking" and with the clearing system, and was questioned. He was assisted in answering questions by Mr. Elderkin.

The questioning continuing, the Committee adjourned at 12.50 p.m. until 3.45 p.m. this day.

AFTERNOON SITTING

(86)

The Committee resumed at 3.45 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Clermont, Comtois, Davis, Flemming, Fulton, Gilbert, Gray, Irvine, Laflamme, Lambert, Latulippe, Lind, Monteith, More (*Regina City*), Valade—(17).

Also present: Messrs. Mackasey and Thompson.

In attendance: The same as at the morning sitting.

The Minister made a statement on the subject of agencies or branches of foreign banks and was questioned, being assisted by Mr. Elderkin in answering questions.

The questioning continuing, the Committee adjourned at 6.00 p.m. until 8.00 p.m. this day.

EVENING SITTING
(87)

The Committee resumed at 8.10 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Clermont, Comtois, Flemming, Fulton, Gilbert, Gray, Lambert, Latulippe, Lind, Monteith, More (*Regina City*)—(13).

Also present: Messrs. Mackasey and Thompson.

In attendance: The same as at the morning and afternoon sittings.

Questioning of the Minister was resumed, following which the Minister made a statement on three proposed amendments to Bill C-222.

The Minister stated that the first two amendments, dealing respectively with foreign ownership and limitation in ownership of chartered banks in other corporations, have not yet been drafted but he discussed them in principle and was questioned thereon.

The third proposed amendment introduced by the Minister is as follows:

That Bill C-222, An Act respecting Banks and Banking be amended

(a) by inserting immediately after line 22 on page 76 thereof the following:

Definitions. "Cost of borrowing."

"92. (1) In subsections (2) to (5),

(a) "cost of borrowing" means, in relation to a loan or advance,

(i) the interest or discount thereon, and

(ii) any charges in connection therewith that are payable by the borrower to the bank or to any person from whom the bank receives any part of such charges directly or indirectly;

"Credit."

(b) "credit" means an arrangement for obtaining loans or advances; and

"Prescribed."

(c) "prescribed" means prescribed by regulations made under this section.

Application.

(2) Subsections (1) to (5) do not apply in respect of a credit granted or a loan or advance made to a corporation, partnership or association.

Disclosure of cost of borrowing.

(3) Where, after the coming into force of this subsection, the bank grants to a person a credit in respect of loans or advances repayable in Canada or makes to a person a loan or advance repayable in Canada, the cost of borrowing, is calculated and expressed in accordance with subsection (4), shall be disclosed by the bank, or otherwise as prescribed, to such person in the manner prescribed and at the time when the credit is granted or the loan or advance is made otherwise than under a credit, as the case may be; but this subsection does not apply in respect of any class of loans or advances that are prescribed as not being subject to its provisions.

(4) The cost of borrowing shall be calculated, in the manner prescribed, on the basis of all obligations of the borrower being duly fulfilled, and shall be expressed as a rate per annum and, under the circumstances prescribed, as an amount in dollars and cents. Calculation of cost of borrowing.

(5) The Minister may make regulations Regulations.

(a) respecting the manner in which the cost of borrowing shall be disclosed to a borrower;

(b) respecting the manner of calculating the cost of borrowing;

(c) respecting the circumstances under which the cost of borrowing is to be expressed also as an amount in dollars and cents;

(d) specifying any class of loans or advances that are not to be subject to the provisions of subsection (3); and

(e) respecting such other matters or things as may be necessary to carry out the purpose of this section.

(6) The bank shall not, directly or indirectly, charge or receive any sum for the keeping of an account unless the charge is made by express agreement between the bank and the customer, nor, except by express agreement between the bank and the borrower, shall be making of a loan or advance be subject to a condition that the borrower maintain a minimum credit balance with the bank. Account charges and minimum balance.

(7) Subsections (1) to (5) shall come into force six months after the coming into force of this Act or on such earlier day as the Governor in Council may fix by proclamation."; Coming into force.

(b) by renumbering clause 92 on page 76 thereof as subclause (1) of clause 93 and by renumbering subclause (1) of clause 93 on page 76 thereof as subclause (2);

(c) by striking out line 1 on page 77 thereof and by substituting therefor the following: "(3) Nothing in subsection (2) shall be con-"; and

(d) by striking out line 6 to 9, inclusive, on page 77 thereof.

Copies of the proposed amendment were distributed to the members and the Minister was questioned, assisted by Mr. Elderkin.

At 9.30 p.m., the division bells having rung, the Committee adjourned until 8.00 p.m., Monday, February 6, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

Dorothy F. Ballantine,
Clerk of the Committee.

At 8.30 p.m., the division bells having rung, the Committee adjourned until 8.00 p.m., Monday, February 9, 1967.

Copies of the proposed amendment were distributed to the members and the Minister was questioned, assisted by Mr. Eldertkin.

(b) by renumbering clause 83 on page 78 thereof as subclause (1) of clause 83 and by renumbering subclause (1) of clause 83 on page 78 thereof as subclause (3);

(c) by striking out line 1 on page 79 thereof and by substituting therefor the following: "(3) Nothing in subsection (2) shall be con-"; and

(d) by striking out line 6 to 9, inclusive, on page 79 thereof.

(4) The cost of borrowing shall be calculated, in the manner prescribed, on the basis of all obligations of the borrower being duly fulfilled, and shall be expressed as a rate per annum and, under the circumstances prescribed, as an amount in dollars and cents. Calculation of cost of borrowing.

(5) The Minister may make regulations Regulations.

(a) respecting the manner in which the cost of borrowing shall be disclosed to a borrower;

(b) respecting the manner of calculating the cost of borrowing;

(c) respecting the circumstances under which the cost of borrowing is to be expressed also as an amount in dollars and cents;

(d) respecting any class of loans or advances that are not to be subject to the provisions of subsection (2); and

(e) respecting such other matters or things as may be necessary to carry out the purpose of this section.

(6) The bank shall not directly or indirectly charge or receive Amount of charges and minimum balances. any sum for the keeping of an account unless the charge is made by express agreement between the bank and the customer, nor, except by express agreement between the bank and the borrower, shall the bank make or advance by set-off a credit to a customer or the borrower, the borrower maintains a minimum credit balance with the bank.

(7) Subsections (1) to (6) shall come into force six months Coming into force. after the coming into force of this Act or on such earlier day as the Governor in Council may fix by proclamation.

EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, February 2, 1967.

The CHAIRMAN: Gentlemen, I see a quorum and I think we are in a position to call our meeting to order. Our witness this morning is the hon. Mitchell Sharp, Minister of Finance. I believe he has some introductory remarks and therefore I will call upon Mr. Sharp at this time.

Hon. MITCHELL SHARP (*Minister of Finance*): Thank you, Mr. Chairman. I have been following very closely and with a great deal of interest the proceedings of this committee. I would like to congratulate the members for the thorough way in which they are examining this legislation. I have not been able to read all the briefs that have been submitted but I have read about some of them and talked about some of them, many of which are very thoughful and interesting presentations.

I would, of course, be prepared to proceed as the committee wishes, Mr. Chairman, but I thought, if it is agreeable to you, that you might first appreciate some remarks about certain subjects that are not covered in the bills before you but are related to banking legislation.

I have in mind, for example, the question of a definition of banking and its implications, the clearing system and the question of agencies or branches of foreign banks. Those are matters which are not covered in the legislation itself but about which there has been a good deal of discussion.

We might then, if it is satisfactory to the committee, discuss those provisions of the bill upon which you might wish to have my comments, and when doing so I am going to suggest for your consideration amendments to the bill relating to three subjects in particular.

First, a restriction on the transfer of shares of a bank to a non-resident when more than 25 per cent of the shares are then owned by one non-resident. Second, holdings by a bank of more than 10 per cent of the shares of certain Canadian corporations. I will have some amendments to suggest for your consideration in relation to that matter. Third, I would like to put before you for your consideration draft amendments relating to the disclosure of the cost of loans, including all interest and charges.

Mr. Chairman, that briefly is the procedure I would like to follow. I would like to know if this is agreeable to the committee and then I might make some comments on the first three subjects at least.

The CHAIRMAN: I would invite comment from the committee on the order of discussion suggested by the minister. It would appear to fall into an orderly category. I believe he has some comments to make on the three general topics he has mentioned, all of which are of great interest to us, and then he has these particular amendments to suggest. Mr. Lambert, do you have a suggestion?

Mr. LAMBERT: Well, I was hoping, as this is going to take the form of, shall we say, reasoned comment, that we could have copies of the minister's remarks so we can follow them and be able to question him on his actual words. I think this would help a great deal. Otherwise we are completely defeated.

Mr. SHARP: May I speak on this point, Mr. Chairman. In so far as the amendments are concerned I hope to be able to put draft amendments before you relating to certain of these matters. On the general questions that I referred to that have been raised I do not propose to place any amendments before you, and therefore I shall be placing before you the reasons for the policy that the government is following. I do not have extensive notes; I merely have a few notes to guide me in my remarks.

The CHAIRMAN: Are there any other comments on the order of discussion that is proposed by the minister?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I am not quite clear, Mr. Chairman, on the order the minister is suggesting. He gave us three or four areas. I only got two of them down; the definition of banking and the clearing houses, and I think there were two others.

The CHAIRMAN: The third topic, as I understood it, was the question of agencies or branches of foreign banks.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Agencies or branches.

The CHAIRMAN: Yes, and then he proposed to move from there into a presentation of certain specific amendments which deal with other aspects of the legislation.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But he will be dealing with these three topics first?

The CHAIRMAN: Yes.

Mr. GILBERT: Mr. Chairman, is the minister going to deal with deposit insurance?

Mr. SHARP: I would be prepared to do so if the committee wishes. It is not directly related to this bill but I am aware of the interest of the committee in this matter. I am hopeful that the legislation itself will be before the house on second reading very soon.

The CHAIRMAN: May I make a suggestion to the committee, if this will not inconvenience the minister. The question of deposit insurance is linked, in my opinion at least, in a certain way with the concept of a definition of banking and perhaps it would be convenient, if we have questions or points to make with the minister in the area of deposit insurance, to raise them when we are discussing the concept or definition of banking because I think they are interrelated in various ways.

Mr. MONTEITH: I am wondering, Mr. Chairman, as this is a separate bill might it not be better to clear up what the minister has suggested first and then consider deposit insurance?

The CHAIRMAN: Well, we could do it that way. The reason I made this suggestion, and I am certainly not attempting to be firm on it, is that if we do not have the bill as such before us the minister may feel he is not in a position to

discuss the particular clauses in a detailed way. I have certainly taken the attitude that our order of reference is wide enough to permit a very wide discussion of deposit insurance but if we—

Mr. MONTEITH: Could it not be discussed by reference?

The CHAIRMAN: I certainly feel that would be all right. My only suggestion is that we may want to do it while we are discussing the definition of banking. If the committee prefers to do it separately, I think that is equally acceptable.

Mr. MONTEITH: It seems to me they are both fairly lengthy subjects and I really think it would be better to keep them separate.

The CHAIRMAN: Is the committe in accord with keeping them separate? We could do it that way.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): As long as we do not overlap on occasion.

The CHAIRMAN: I certainly think we cannot be rigid on that.

Now, Mr. Sharp, perhaps for a start you could make your comments on the topics you have mentioned, and then we can continue with our discussion.

Mr. SHARP: Mr. Chairman, both from hearing your proceedings here and from the questions that have been directed to me in the house, I understand the great interest of the committee in the question of the jurisdiction that parliament possesses by reason of its powers to legislate with respect to banking.

My first comment is one that I made in reply to a question in the House of Commons the other day, namely, that I have been advised by law officers of the Crown and other lawyers to whom I have spoken that parliament cannot define banking. This is a clause in the British North America Act and therefore parliament cannot say what the British North American Act means; that is reserved for the courts. All that parliament can do is pass legislation which purports to regulate banking and define the term for the purposes of that act.

I believe that if we are going to exercise the powers given to parliament by the British North America Act in the field of banking—going beyond the scope of present legislation—this should not be done by amendments to the Bank Act but by separate legislation. I illustrate this by reference to the problem that we are all concerned about, and that is the activities of the so-called near-banks. I do not think it takes more than a very cursory examination of the Bank Act to realize that the terms of the Bank Act as they now stand could not be applied to many of these institutions that are now carrying on what I would call near-banking operations. I believe that if we are going to extend our supervision and our laws to those institutions, we should do so by special legislation which deals with them. I would like to say to the committee, as I said in the House of Commons, that the government has not decided in the negative on this matter. In other words, the question of how far the jurisdiction of parliament extends over these institutions is still open in our minds and is under very active consideration.

I do not believe that it would be in the public interest to jeopardize the Bank Act by putting into it clauses that might be of doubtful validity in the courts. This is another reason why I would not like to see the Bank Act amended to purport to extend the jurisdiction of parliament over the near-banking

institutions. If we did that, it is just conceivable that the courts might decide that we did not have that jurisdiction and the Bank Act itself, as it is now constituted, might be in jeopardy. This is why I have said on a number of occasions that I do not want to found any legislation that deals with what is now the accepted jurisdiction of parliament upon anything that could be challenged in the courts.

So, for these two reasons I suggest to the committee that the question of extending the jurisdiction of parliament over near-banks should be considered in separate legislation and I can assure you, as far as the government is concerned, that we are examining this question.

I think those are my preliminary comments at any rate, Mr. Chairman.

The CHAIRMAN: Gentlemen, would you find it more convenient to discuss this topic now and then go on to the other two separately, or shall we have the comments on the other two now? I think we would prefer to discuss this topic first, and I recognize Mr. Lambert followed by Mr. Laflamme, Mr. Cameron, and Mr. Monteith.

Mr. LAMBERT: Mr. Chairman, the remarks which the minister has made have been made by him, of course, on previous occasions. There has been no change of view. May I say that I respectfully dissent from some of the views that he has expressed. In other sectors of government parliament has decided to define some of the powers that have been given to it or taken by it under the constitution. For instance, one which comes to mind, is the definition of broadcasting. There are many others. In any event, I must say that I also do not think that the whole of the Bank Act would be jeopardized if certain provisions therein were challenged by some organization or by some government. The burden would be upon them to prove that the jurisdiction of the government of Canada is not exclusive. In other words, they would have to assert that they have some jurisdiction, because jurisdiction cannot exist *in vacuo* and therefore the provisions in the constitution having to do with banking, currency and interest are more than ample. They are reserved exclusively for the government of Canada. They are more than ample to cover banking activities.

Now, has it not been felt that a general definition of banking and banking practices could be incorporated in the act and that anyone who wishes to participate in those activities would then have to conform?

Mr. SHARP: If I may say so, Mr. Chairman, that is precisely what the Bank Act now says. It says that chartered banks have certain powers. One may apply to parliament for a charter and if a charter is granted the Bank Act applies. A procedure is established for becoming a chartered bank under the Bank Act.

Mr. LAMBERT: But the only prohibition under the Bank Act is that you cannot use the name "bank" or "banker" and that is all. It will be very interesting to see the results of the case of Green v. Treasury Branch of Alberta when it comes to the Supreme Court of Canada, because that case proclaims that the activities of the treasury branches can be carried on because the Bank Act does not forbid it. In other words, the present Bank Act, and the act as proposed, leaves a whole area in a vacuum that anybody can move into. I do not for one moment support the view that this is right and that by default there are certain activities that are carried on outside the banking practices which are also carried on outside the purview of the Bank Act.

Mr. SHARP: I am not disagreeing with this, Mr. Lambert. The only point I would like to make to the committee is that I do not think the Bank Act should be used for the purpose of bringing these other activities under parliamentary control. I believe there should be legislation which deals with those institutions that are carrying on a form of banking business, and I am not arguing against your main premise at all.

Mr. LAMBERT: Was consideration not given to, shall we say, drafting the proposed Bank Act in two parts; one part applying to chartered commercial banking operations and the other to the regulatory provisions which deal with people who wish to engage in any one of the many banking practices?

Mr. SHARP: Yes, consideration was given to it, Mr. Chairman, but the decision was made to proceed by separate legislation, if we can find a way of proceeding. As you very well know, the legal concept is a very difficult one and not all lawyers are agreed, and not all jurisdictions are agreed, upon the definition of the business of banking.

Mr. LAMBERT: Well, may I put it to you, Mr. Minister, that is the burden of proof not upon those who assert the lack of exclusive jurisdiction on the Crown in Canada?

Mr. SHARP: It may be.

Mr. LAMBERT: And that there are many other examples where there have been provincial rights of incorporation of companies and where there are statutory requirements under the Corporations Act concerning annual returns, and so on and so forth, but that not one iota of the activities of companies such as broadcasting companies and aircraft operating companies come under provincial jurisdiction. I am sure if we went through the gambit of activities that we would find this to be true. Is there not a parallel in this cases?

Mr. SHARP: Well, I am not really having an argument with you, Mr. Lambert, on the question of the desirability of legislation of this kind; I believe that this matter needs urgent consideration. I only suggest to you that the Bank Act should not be used for this purpose.

Mr. LAMBERT: What concerns me is that by your parallel development we immediately come to deposit insurance, and in that part of the bill dealing with deposit insurance there is this phrase, "with the consent of the provincial governments", and I deny that any province has the right to control banking or banking practices. You may say well, we want three, four or five years in which to prepare and put through the appropriate ancillary legislation and that in the interval, in order to take care of a very serious situation, we are going to provide a stopgap with deposit insurance which grants by statute the right of a province to come into the field of banking and banking practices. Once the deposit insurance bill is passed in its present form the government of Canada has conceded the right of a province to come into the field of banking. I feel this is a fatal argument to the position taken by the government.

Mr. SHARP: I do not agree, Mr. Lambert. The purpose of the government in introducing deposit insurance at the present time is to make it effective as quickly as possible over as wide a range as possible, and for this purpose we felt it was highly desirable there should be no dispute with the provinces on this matter because the question again arises whether you want to have legislation

that is effective immediately or whether you want to be subject to a long court action, during which time everything is in jeopardy and in doubt. Therefore we chose what I believe is the practical and the useful thing in the public interest. I am confident indeed that deposit insurance is going to provide the very effective coverage which is so urgently needed.

Mr. LAMBERT: Well, I will not deny that deposit insurance can remedy a certain need, but are you not purchasing it at the price of agreeing that the provinces have a right to come into the field of banking?

Mr. SHARP: I believe not, Mr. Lambert.

Mr. LAMBERT: Well, I must very definitely disagree with you, Mr. Minister, because it states in the act, «with the consent of the provinces». I would hope, there have been some suggestions. I suppose you have read the suggestions of Dr. Slater and Dr. Neufeld, and there have been others. I think there are Privy Council cases which show that it is possible to arrive at a definition of banking.

Mr. SHARP: Mr. Chairman, may I just say in conclusion that Mr. Lambert and I are not really talking at cross-purposes here. I am talking about the most practical and useful step which we can take immediately and Mr. Lambert is talking about the desirability of bringing all forms of banking activity under the supervision of parliament and with that basic objective I agree.

Mr. LAMBERT: We disagree on the procedures.

The CHAIRMAN: Mr. Laflamme, do you have a question?

Mr. LAFLAMME: Mr. Minister, am I right in assuming that the purpose in having a definition of banking is to restrain other financial institutions from doing business that could be done better by banks, or is it to have those institutions become banks?

Mr. SHARP: I believe that the purpose of additional legislation to extend the jurisdiction of parliament would be to bring all legal types of banking under the rule of parliament rather than under provincial jurisdiction, because I do not think that banking can be regulated successfully by individual provinces. It is obviously of importance to all Canadians and therefore should be regulated by the federal authority. The question you have asked illustrated the difficulty of amending the Bank Act for this purpose. The Bank Act defines a particular kind of banking activity. The kinds of activities that are carried on by the near-banks are not the same; they are similar but they are not the same. You have asked whether we would then want to give all these institutions the right to be called banks. I believe that is a question that ought to be looked at very carefully before we decide. It may be possible that the present institutions could retain their present names and in which there may be some value, but in their banking activities they should, nevertheless, be under the supervision of the federal authorities.

Mr. LAFLAMME: I can not see in the argument advanced by Mr. Lambert where the effectiveness of a definition of banking would be such that it could interfere with the provincially chartered financial institutions which are doing business fully in accordance with the B.N.A. Act. Is it the wish of the government to have more banking businesses within the framework of chartered banks?

Mr. SHARP: The arm of the government in all these matters is to increase the efficiency of the banking services available to the Canadian public. The amendments to the Bank Act that you are now considering in this Committee were designed for this purpose and deposit insurance is designed for this purpose. In my view we should carefully examine the question of extending jurisdiction over forms of banking activity other than those covered by the Bank Act. As I said to Mr. Lambert, this is not an easy question. There are many doubts about the meaning of banking and, not being a lawyer, I would not attempt to define it. I know, after talking to jurists and lawyers, that there is no common consent in this matter. If one looks around, there is no country in the world that has defined the business of banking successfully. We are not talking about something that can be done overnight. There is bound to be contention and there are bound to be cases in the courts and I do not want to bring in legislation designed to meet urgent problems that might be subject to long delays in the courts.

Mr. LAFLAMME: Thank you, Mr. Minister.

The CHAIRMAN: I will now recognize Mr. Cameron. Are there others who are interested in discussing this topic with the Minister? If so, will they please signify so that I may note them while we are proceeding. I have noted you, Mr. Gilbert. Are there others at this time?

(*Translation*)

The CHAIRMAN: Mr. Clermont, would you have a series of questions on this subject?

Mr. CLERMONT: I will yield the floor to . . .

The CHAIRMAN: Oh, you are yielding to Mr. Gilbert.

(*English*)

Mr. GILBERT: Mr. Sharp, you indicated your desire for separate legislation in order to define these other financial institutions. This separate legislation would have to be based on the B. N. A. Act, is that not so?

Mr. SHARP: Yes:

Mr. GILBERT: Is it your intention in this separate legislation to embrace the operations of all near-banks?

Mr. SHARP: This is something that the courts would have to decide. What we would purport to do would be to bring under regulation the activities that we have indicated in the bill. It would be for the courts to decide whether those activities were banking. We cannot define banking. Let me give you an example. One of the common definitions that is put forward which might stand up in the courts is that banking consists of accepting deposits that are payable on notice or on demand. That is a possible definition of banking. Presumably, then, if we accept that definition, all institutions that carry on that kind of activity are subjet to this law, but it would be for the courts to decide, first of all, whether that was banking and, secondly, which of the institutions was carrying on these activities.

Mr. GILBERT: What you are really saying is that you would leave it to the courts to decide whether you have jurisdiction over these institutions?

Mr. SHARP: The courts always have to decide on the meaning of the British North America Act. It is not given to us as members of parliament, to decide that.

Mr. GILBERT: Rather than taking the initiative at this moment, you would prefer to do it by way of separate legislation?

Mr. SHARP: I would.

Mr. MONTEITH: Your question again. What was your question again, Mr. Gilbert, please? I did not hear it.

Mr. GILBERT: I said rather than the government taking the initiative at this time, they are waiting to bring down separate legislation and let the courts define the jurisdiction.

Mr. SHARP: I hope that the point is clearer than that. We cannot define the business of banking. All we can do is pass laws in relation to what we consider to be the business of banking. It is for the courts to decide whether we have exercised our jurisdiction properly.

The CHAIRMAN: Mr. Sharp, perhaps these questions may not be the easiest for you because, as you say, you are a layman in this rather esoteric field of law, but perhaps your legal advisers might help you in telling us the difference between passing a law defining banking and passing a law in which you attempt to regulate or outline certain aspects of banking. What is the difference, really? In each case you are defining something in the B. N. A. Act one way or another.

Mr. SHARP: Mr. Chairman, I will ask my legal advisers about this, but on one point they were very clear and that is that parliament cannot define a section of the British North America Act, because in doing so it would perhaps alter the meaning of our consitution, and this we cannot do.

The CHAIRMAN: Mr. Sharp, this again is something you may want to consult your advisers on, but it may be suggested that any time you put a definition section in any federal act you are attempting to define a portion of the B. N. A. Act.

Mr. SHARP: No, you are only defining the meaning of that term within that act, not within the British North America Act.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But if the act rests on the B.N.A. Act, Mr. Sharp, are you not defining the meaning of the B.N.A. Act?

Mr. SHARP: Only if the courts sustain you.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Could I ask a supplementary question? Mr. Sharp, in connection with this special legislation which you speak of, would one of its purposes be to attach these institutions to the reserve system?

Mr. SHARP: This is one of the questions that would have to be examined carefully. I would think that if you were to bring these institutions under federal regulation that it might be desirable to require them to have cash reserves like banks, but whether they would be in exactly the same form is a question that I would hesitate to answer now. I say this for a very practical reason; that is, if we are going to try to improve the competitiveness, the efficiency and the safety of our banking institutions, whether it be those that are now under the Bank Act or

those who are carrying on activities otherwise, we want to proceed in such a way as to improve the standards. It might not be in the public interest over night to impose conditions upon institutions that they could not meet and that, therefore, they would have to go out of business. This is one of the reasons that I favour a gradual approach to this matter. The Committee may have noted in my remarks on the introduction of the resolution on deposit insurance that I spoke about the same problem in connection with the insurance of deposits.

The CHAIRMAN: Mr. Gilbert, have you completed your questions?

Mr. GILBERT: Mr. Chairman, you have certainly helped me complete it by your questioning. I have just one short question for Mr. Sharp. In this intended special legislation do you contemplate including trust or loan companies and finance companies—Caisse Populaire and credit unions?

Mr. SHARP: Whatever our intention might be, the question will be decided, first, by the ambit of our legislation—that is, the definition that we use for purposes of bringing in organizations under the law and, secondly, by the attitude that the courts take toward the exercise of our jurisdiction. The courts might decide that finance companies were not carrying on banking business; they might decide that trust and loan companies in so far as their intermediary business is concerned are carrying on banking but are not carrying on banking in relation to their fiduciary activities; they might decide that Caisses Populaires are banks or they might decide that they are co-operatives. These are the difficult questions that have to be settled before we can have legislation to deal adequately with these problems.

Mr. GILBERT: Mr. Chairman, those are all the questions I have.

The CHAIRMAN: I now recognize Mr. Monteith.

Mr. MONTEITH: Mr. Sharp, you said that in order for it to be effective the courts would have to make a decision, and that you wished to take a gradual approach. I am wondering if you are in a position to outline just what steps you propose to take toward eventually bringing in legislation of this kind, whether you propose to refer it to the Supreme Court of Canada or elsewhere. What is the mechanics of eventually developing separate legislation in this respect.

Mr. SHARP: Sir, we have not made any decisions yet.

Mr. MONTEITH: That is all.

The CHAIRMAN: Do you have any further questions on this particular topic? I now recognize Mr. Latulippe followed by Mr. Valade.

(*Translation*)

Mr. LATULIPPE: Mr. Minister, I should like to say all my appreciation for your intention to bring in legislation regarding chartered banks. Could you say whether the Government has the intention to keep a certain sovereignty, because presently you will admit, as all people in this room do, that in respect of; constitution and the privileges in the Bank Act, the Government has not too much sovereignty or at any rate does not use it very much. Has the Government the intention, for instance, to reduce the period of years which is now ten years, at the end of which the banks must renew their charter? Could the Government reduce this period to five years? Has the Government the intention to allow the

financing by the banks of a certain part of its activities in the field of construction or in all fields, with the exception of consumption? I think the field of production, should come under the banks and the field of consumption should be controlled by the Government, because it is precisely in the field of consumption that the present system is not fulfilling its function, and the Government could render important services if it could have nearly exclusive control in the field of consumption. In the field of production, I do not think we have anything to say, because we have all the products we need and in more than sufficient quantity, but in the field of consumption we cannot say the same thing. Would it be the intention of the Government in this new legislation or its new reorganization of banks to do something along these lines?

The CHAIRMAN: Mr. Latulippe, I will ask the Minister to try and answer your questions, your very interesting questions, in the general framework of the definition of banking because the members had agreed that we should discuss, first of all, the definition of the word "banking" or "banks". But you have brought into your interesting questions, other subjects.

Mr. LATULIPPE: They deal mostly with activities which the Government—

The CHAIRMAN: You will certainly have the opportunity of discussing these questions later today.

(English)

Mr. Sharp, perhaps you have some comment to make on Mr. Latulippe's question.

Mr. SHARP: Yes. Mr. Chairman, the first question raised by Mr. Latulippe was whether the Bank Act could be renewed for a term shorter than 10 years, and the answer to that, of course, is yes. But I do not recommend it. I believe that it is desirable that the general reviews of the operations of the banks should not take place too frequently; there should be at least a pattern established for a period of years. Of course it may be that because of the increasing complexity of these matters amendments to the Bank Act will be made more frequently than 10 years, but I do not believe it is necessary to have such a thorough going review of the whole legislation at intervals shorter than every 10 years.

The CHAIRMAN: There is also the question of the stamina of the members of the Finance Committee of the day.

Mr. SHARP: Yes. No Minister expects to be around twice for this procedure; perhaps other members of parliament do.

The CHAIRMAN: We have at least one on the Committee, Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I hope I can go around three times.

Mr. SHARP: On the other questions of financing of production and consumption, I suppose the main activity of the banks has to do with financing of production. However, in recent years we have seen the banks moving also into the financing of consumption, so that I would imagine that in the future the banks and the near-banks and all the other institutions that are engaged in financing will be financing all forms of activity in which loans have to be raised

and in which there should be a convenient place to make deposits or make investments on short-term.

(*Translation*)

The CHAIRMAN: Do you have any other questions regarding this definition?

Mr. LATULIPPE: In that case the Government does not intend to exert its sovereignty in consumption because when one considers all the activity in the field of banking economy one realizes that the money supply distributed through loans and through production, cannot finance the whole field of consumption; this is why we have a surplus of products and the more this goes on, the more we will have a greater surplus of products, and there will be the problem of regulating and distributing this over production which is produced for the population and which the population has need of.

(*English*)

The CHAIRMAN: Do you feel you can make any comment upon Mr. Latulippe's suggestion.

Mr. SHARP: Mr. Chairman, not really. Mr. Latulippe is raising some fundamental questions not of banking policy but of the general economic and financial policy of the government or of governments. He is making what I recognize as a traditional Social Credit approach to this question. I would be very interested to carry on the discussion, but if we are going to get through the revisions of the Bank Act I think it might be carried on elsewhere.

(*Translation*)

The CHAIRMAN: Do you have any more questions on this subject, Mr. Latulippe?

Mr. LATULIPPE: I will come back to other questions later.

The CHAIRMAN: Now, I will give the floor to Mr. Valade.

(*English*)

Mr. VALADE: Mr. Chairman, since we are on the introductory remarks by the Minister I wonder if he would care to comment on the statement made recently by the president of the Banque Canadienne Nationale, Mr. Louis Hébert. If you will allow me, I will just read the main introductory statement by Mr. Hébert—This is in French so I will just cite it in French.

(*Translation*)

The CHAIRMAN: There are difficulties in this Committee.

(*English*)

Mr. VALADE: I know that the Minister is perfectly bilingual. These remarks are in reference to the Porter Royal Commission which was established to examine and study the banking system in Canada. Mr. Hébert's remarks are as follows:

(*Translation*)

"They had reason to believe that the main recommendations of the Porter Commission which numbered, among its members, some expert economists, would be accepted by the Government. Many of them, unfortunately, were ignored in the preparation of this Bill."

(*English*)

Mr. VALADE: This is the end of the quotation. I wonder if the Minister would care to comment on this very involved matter. In fact, it is accusing the government of not being sufficiently interested in the recommendations of the Porter Commission.

Mr. SHARP: Mr. Chairman, I would suggest that the government has given greater attention to the recommendations of the Porter Commission than it has to almost any royal commission I can think of. Most royal commissions have very little effect whatsoever upon government policy.

Mr. MONTEITH: Are you speaking for the government?

Mr. SHARP: I am speaking for all governments, past and present.

The CHAIRMAN: You are making a general observation.

Mr. SHARP: I am making a general observation which relates just as much to the administration that left office in 1963 as to the government that preceded it and even the one that is now in office.

Mr. LAMBERT: We will remember that when the next commission is set-up.

Mr. SHARP: The government has adopted really quite a high proportion of the main recommendations of the Porter Commission. It has not accepted all of them and recommended them to parliament, and I think the reasons have been set out from time to time either by my predecessor in office or by myself.

The one main recommendation that the Porter Commission made that we have not acted upon was behind the question raised by Mr. Lambert and other members of the House and this Committee, namely the extension of the jurisdiction of parliament over the near-banking activities. As I have said, the government still has this under consideration; it has not rejected this recommendation. However, it has not felt it possible to proceed as yet with legislation because of the great uncertainties that exist. That is one of the reasons we decided to proceed with deposit insurance; this is a practical step that can be taken to raise the standards of deposit-taking institutions—which are most of the organizations the Porter Commission refer to when talking about near-banking activities. We believe that we can do this in a way that is well within the recognized bounds of our jurisdiction; that it will be effective immediately, and will not be challenged in the courts.

Mr. VALADE: Mr. Chairman, I do not want to quarrel with the minister because I am not an expert on banking affairs. Although the minister mentioned that only one important recommendation was not really looked into by the government or given consideration, the president of a very important banking organization has categorically said that many of these recommendations have not been considered. Of course, these recommendations refer to the interest ceiling and many other problems. Does the minister consider all the other recommendations unimportant? I am trying to find out which is in the best interests of the banking system, the opinion of the presidents of the different banks or the minister's opinion as to the importance of the recommendations of the Porter commission. It seems that the President of the Banque Canadienne Nationale does not agree with the importance of the recommendations as expressed by the minister. I do not want to quarrel with this; it may be a question of appreciation. I am sure that the people in banking would be very interested to know why

certain recommendations of the Porter commission were not implemented or considered when the bill was drawn. I would like the minister to give a more extensive answer.

Mr. Chairman, the minister made a statement to the effect that if any banking system wants to recall the definition of "banking" by the government or by parliament it can be defined by the courts. Do you think that the courts should define the authority of parliament and, if so, do you consider a superior court or the Supreme Court of Canada a suitable body to define "banking"? The Prime Minister of Quebec said not long ago, in referring to the B.N.A. Act, that the Supreme Court of Canada was not the body to judge the difficulties between provincial and federal jurisdiction. Would the minister consider the formation of a constitutional tribunal with a view to clarifying this definition so as not to contradict the spirit of the B.N.A. Act in this respect.

Mr. SHARP: Mr. Chairman, Mr. Valade has raised two questions. The first one is a question of fact. My impression is that the government has adopted a great many of the recommendations of the Porter commission on banking. I know that when I was reviewing our recommendations I had before me a summary of the recommendations of the Porter commission itself. We certainly followed the spirit of that report and adopted quite a number of the specific recommendations that were made. As I say, the one main recommendation that they made—I want to make it quite clear that I was not saying that this was the only one we did not accept—on which we have not acted has been the extension of the jurisdiction of parliament over near-banking activities and, as I said, this is still under consideration.

On your second question, I am only the Minister of Finance and I cannot speak for all the members of this parliament or even for all members of the government. The procedures for dealing with disputes or for clarifying the law are laid down in the British North America Act; as far as I am concerned, there is no other instrument available and one would have to be created by the action of the Canadian people, either through their parliament, through their legislatures or through some other body. These are all hypothetical questions. If a dispute arose as to the jurisdiction of parliament over some particular activity which was regarded as coming within the British North America Act because it related to banking, that matter would be settled in the courts. Presumably it would start at a lower court and finally reach the Supreme Court, where the final decision would be made. That is the law.

Mr. VALADE: Sir, my question relates to the difficulty of the government in not being able to define "banking". I do not know how the government can really set up a set of rules in line with the very basic premise if it cannot define the term to which it refers. We are revising the Bank Act which refers to "bank" and we cannot define this first term. I think some form of action is needed by the government whereby a definition of this term is made clear because the Bank Act is revised only every ten years, if I am not mistaken, and this means that ten years from now or until that term of ten years has expired we will be in the same predicament or dilemma of having a Bank Act in which the term "bank" is not defined and cannot be defined. I wonder if this does not involve the responsibility of the government and that a recommendation by the Minister of Finance, since he is involved in this situation, should be made to the government that something should be done. This could be presented to parliament for action.

Mr. SHARP: Mr. Chairman, may I say, in reply to Mr. Valade, that there are many clauses of the British North America Act whose meanings are uncertain. As a former minister of trade and commerce, I can assure him that the meaning of the regulation of trade and commerce is by no means clear and that attempts by parliament to exercise its authority under the trade and commerce clause were found by the then highest tribunal, the Privy Council, to be beyond the scope of parliamentary action. It was decided by the court that parliament had gone beyond its powers. So the meaning of the British North America Act emerges from court decisions or from practice. This will be so of banking. If one of the chartered banks were to challenge our right to regulate them, the question of whether we had the right of regulation would be settled in the courts. That would give us a better definition of banking presumably. Mr. Lambert has referred to a case that is before a court in Alberta and now down here, involving the Alberta treasury branches. Out of that decision is emerging a clearer idea of the jurisdiction of parliament.

Mr. VALADE: We are not in a clearer position today in parliament than we were before.

Mr. MONTEITH: I have a supplementary to my own previous question. I Mr. Minister, that you said no decision had been reached yet as to the type of procedure that is going to be followed, and so on. I think you will probably admit that there is some urgency to this matter and I am wondering if you, as minister, have any timetable as to when you might be in a position to take these further steps to come up with some subsequent legislation concerning banking.

Mr. SHARP: No, I have not yet, Mr. Chairman.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): In your thinking about the special legislation to which you made reference, Mr. Sharp, has the government had in mind the framing of that legislation in such a way that a reference of it by the government to the Supreme Court of Canada might result in an emergence of a definition of banking which could then later be applied to the powers under the Bank Act?

Mr. SHARP: I understood this to also be behind Mr. Monteith's question and I said that we had not made a decision.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Not made a decision.

Mr. SHARP: We have not made a decision as to how to proceed. Whether we would bring the legislation before parliament and get it into effect and await a challenge or whether we would proceed as sometimes is done by referring questions to the courts for a decision in advance, I am not certain.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You are anticipating and perhaps hoping that this legislation will be made the cause of the Supreme Court decision.

Mr. SHARP: It would be very desirable I should think for all concerned that the sooner we know the ambit of our jurisdiction the better. Whether that could be effected more quickly by having a challenge in the courts or whether it could be effected more quickly by asking the court questions, I am not certain.

(Translation)

Mr. LATULIPPE: I have another question.

The CHAIRMAN: Mr. Latulippe, I have allowed supplementary questions from some members but it is now Mr. Clermont's turn.

Mr. CLERMONT: I will give my turn to Mr. Latulippe, to enable him to ask a supplementary question.

Mr. LATULIPPE: I have a supplementary question deriving from what has been said. The Minister spoke of deposit insurance and he, therefore, seems to think and even has the conviction that deposit insurance is necessary and I would ask the Minister in this connection whether he intends to do away with the banks' inner reserves?

(English)

Mr. SHARP: I am sorry; I do not understand what is meant. If Mr. Latulippe is suggesting that we are going to substitute our supervision in connection with deposit insurance for the supervision that we are now exercising under the Bank Act, the answer to that question is No. The Inspector General of Banks will continue to exercise his authority under the Bank Act as he does today. The supervision under deposit insurance will be separate from that. May I say that the attitude that is being shown toward our proposal for deposit insurance is becoming much more enthusiastic than it was at the beginning, particularly by the Montreal City and District Savings Bank which now realizes how useful it would have been if deposit insurance had been in effect. There was a quite unnecessary run on the bank that would not have taken place if the depositors had known that their deposits were insured. One can never tell when some untoward event like this will take place.

(Translation)

The CHAIRMAN: And I now give the floor to Mr. Clermont.

Mr. LATULIPPE: I would just like to complete my questioning if Mr. Clermont will allow me.

The CHAIRMAN: Mr. Clermont will you give your turn to Mr. Latulippe.

Mr. LATULIPPE: I have one supplementary question. If banks keep reserves, and they say it is for bad debts, why should they have deposit insurance? This is also to provide for bad debts or whatever may happen in the banking business, so why have the two?

(English)

Mr. SHARP: There are two separate questions involved here. One is the insurance to relatively small depositors of the return of their deposits and the second is the general interest in having strong financial institutions which will meet all their obligations, including the larger depositors, and which will also be able to fulfil their function in the Canadian economy. These are two quite separate questions. The Inspector General of Banks has been concerned in his supervision under the Bank Act of the activities of the banking institutions not only with the safety of deposits, but also with the general conduct of the operations of the banks themselves.

(*Translation*)

The CHAIRMAN: Do you want to begin, Mr. Clermont?

Mr. CLERMONT: Mr. Chairman, will the Minister comment on the Porter recommendations concerning the definition of the word "bank" such as it appears in Chapter 18, Page 16 and Chapter 19, Page 3. The Porter Commission's definition.

(*English*)

Chapter 18, and chapter 19 gives a definition by the Porter commission regarding a bank.

Mr. SHARP: I have not found this reference; I am sorry.

Mr. CLERMONT: Mr. Minister, no doubt you have read what the Porter commission have in mind as to the definition of a bank.

Mr. SHARP: I have been reading so many definitions recently that I have forgotten what the Porter commission recommended.

Mr. CLERMONT: According to the report, "banking"

> ...should encompass all financial institutions issuing demand liabilities, transferable and short-term deposits, and other short-term banking claims...

This definition includes.

> ...all term deposits, whatever their formal name, and other claims on institutions maturing, or redeemable at a fixed price within 100 days of the time of original issue or of the time at which notice of withdrawal is given by the customer.

Mr. SHARP: Mr. Chairman, naturally I would not want to say now what form our legislation may take in the future.

I just would say this, that the kind of institutions covered by that definition will be covered by deposit insurance. Indeed, it may be necessary to define "deposits" even more widely than is suggested by the Porter commission so that, generally speaking, insurance will cover the institutions that the Porter commission has defined. Whether those are banks, or whether we will purport to bring them under the jurisdiction of Parliament under the banking clause, I cannot answer now because we have not made any decisions in this field as yet.

(*Translation*)

Mr. CLERMONT: In a reply you gave Mr. Valade, the Member for Sainte-Marie, in Montreal, concerning the Porter recommendations regarding chartered banks, you mentioned that a good portion of the recommendations were accepted. Among those that were accepted and were incorporated in Bill C-222 some are not appreciated by the banks. For instance, the 10 percent limit on any shares held in other financial institutions. The Porter Commission also recommended that there should be no charges made for cheques drawn on branches outside the area. The banks do not appreciate this. There are many other recommendations made by the Commission which were incorporated in the Bill and which the banks do not appreciate.

(*English*)

Mr. SHARP: That is right. The Porter commission intended to increase the efficiency and not the comfort of the banking system.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Sharp, you mentioned that deposit insurance, even when it goes into effect, will cover the institutions as defined by the Porter commission, but would you not agree that it will cover them only in respect to the safety of the depositors? No other form of regulation will be imposed on their operations.

Mr. SHARP: Yes; the purpose of deposit insurance legislation will be, first to give the smaller depositors an assurance that they will get their money back, and, secondly, to bring the institutions under supervision and control so that they do not fail. Those are two quite separate questions.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): They are two separate questions, but, of course, the control of banks goes beyond that.

Mr. SHARP: It does; and that is why I want to make it quite clear that I am not suggesting that deposit insurance is a substitute for adequate legislation in this field; but I do feel that it is the first and absolutely essential practical step.

(*Translation*)

The CHAIRMAN: Mr. Clermont.

Mr. CLERMONT: The definition of a bank, Sir...

The CHAIRMAN: Your questions are finished on this subject?

(*English*)

Are there other members who have not had an initial opportunity of questioning and who would like to participate on this subject?

Mr. VALADE: I want to raise a point of order. Mr. Sharp has made the remark which leaves an impression which I am sure he does not wish to leave. He said, in reply to a question by Mr. Clermont, that the Bank Act was not for the comfort but for the efficiency of the banks. This was in reference to the Porter commission. I am sure that the Porter commission, which was a royal commission, certainly was not set up with a view to ensuring the comfort of banks. I am sure it was not the Minister's intention to leave that inference, nor is it mine. I am sure that the recommendations of the Porter commission were directed toward the efficiency of the banking system as a whole.

Mr. SHARP: I agree.

(*Translation*)

The CHAIRMAN: Having accepted this comment from Mr. Valade, we will start our second series of questions on this item, and I shall give the floor to Mr. Lambert.

(*English*)

Mr. LAMBERT: As a result of the answers given by Mr. Sharp. I am wondering whether I have a clear picture in my mind.

Do the Minister and the government feel, with respect to the definition of "banking" and the control of near-banks, that it is to be preferred to, shall we

say, play safe? In other words, that they seek to bring in the bank bill, which has not been challenged at any time in its slightly, shall we say, modified form, and then to venture out on what is considered to be thinner ice, because they fear that if they do step out of its framework the whole bill will be called into question.

This, I must say, is a rather novel procedure. I would have thought that there was never any question that the control of the chartered banks would ever be in jeopardy even if there were a definition of "banking" which might be called into question by some other organization or provincial government. The government is hesitant in stepping out with the result that it brings in deposit insurance as a temporary palliative.

Mr. SHARP: No, it will always be necessary.

Mr. LAMBERT: Or it is the interim measure.

Mr. SHARP: I agree with that.

Mr. LAMBERT: Yes. So long as I can see the picture of what the government is thinking—

Mr. SHARP: Am I permitted to ask Mr. Lambert a question?

The CHAIRMAN: Witnesses attempt to do this quite regularly. If you want to phrase your thought as a comment, of course I think we would have to accept it.

Mr. SHARP: I will dispense with the pleasure.

Mr. DAVIS: The Minister of Finance said that deposit insurance would always be necessary, and then he agreed with Mr. Lambert's comment that it might be just an interim measure. Perhaps he would like to clarify that.

Mr. SHARP: What I meant by "interim measure" is that it is a step that does help in the supervision of these near-banking activities and therefore in that sense it is an interim step; in other words, a step toward adequate regulation of all banking activities in Canada.

Mr. DAVIS: Might it not always be the case, though, that some of these finance companies, for economic and other reasons, should have a form of insurance.

Mr. SHARP: It is my view that deposit insurance can be defended on its own merits and, indeed, I think it is regrettable that it was not introduced some years ago. I think it would have been very useful today if deposit insurance had been introduced ten years ago.

Mr. DAVIS: In that sense it could become a permanent feature.

Mr. SHARP: It is intended to be a permanent feature.

Mr. LAMBERT: Is it fair to paraphrase the statement in this way: Control by insurance, but not necessarily control?

The CHAIRMAN: That has a familiar ring.

Are there any further questions at this point on the topic of the definition of "banking"?

Mr. MACKASEY: I am a little confused. Just to sum up our discussion about courts, you are not afraid of the Supreme Court challenging your jurisdiction

over the chartered banks, but you are being cautious that nothing is included in Bill No. 222, would you hold up the whole bill.

Mr. SHARP: It is just as simple as that.

The question I was going to put to Mr. Lambert—and I will now put it as a comment so that he will not be able to reply to it—is simply that although he does not agree with the government it is the practical thing to do.

Mr. LAMBERT: It is the first time that I have known that one clause could throw out a whole bill.

Mr. SHARP: Well, it depends on the nature of the clause.

The CHAIRMAN: What Mr. Lambert is raising, I think, is the extent to which the courts will apply the doctrine of severability in the case of legislation. I think that was your point, Mr. Lambert.

Do we have further questions on this topic of the definition of "banking"?

If not, I will invite Mr. Sharp to make his preliminary comments on the topic of the clearing system.

Mr. SHARP: The Porter commission recommended that the clearing system be taken over by the Bank of Canada. At present it is operated, as the Committee knows, by the Canadian Bankers' Association. Other institutions such as a trust companies or credit unions have clearing privileges through a chartered bank on payment of an arranged fee.

It has been suggested that the legislation required to make the change, that is, to transfer the clearing from the Bankers' Association to the Bank of Canada, could also provide that only institutions that were federally-incorporated or licensed should be given clearing privileges, and that all cheques and other instruments drawn on members should be cleared at par.

The first of these suggestions, namely, that only institutions that were federally-incorporated or licensed should be given clearing privileges, would mean that provincial institutions extending chequing privileges would have to obtain federal licences and presumably submit to federal inspection and supervision if they wished to continue to accept transferable deposits.

As far as the government is concerned, we are looking at this question along with the more general question of the extension of the jurisdiction of Parliament over banking operations, and if anything is to be done in that field, for reasons the same as I have given in connection with the legislation extending to the near-banks I believe it should be the subject of separate legislation and should not be put in the Bank Act itself. It should be looked at on its merits, and I believe it should be looked at in relation to the general question of the operations of the near-banks.

On the second question I have only a comment, and that is that very large amounts of revenue are involved in the charges that are made for the cashing of cheques and that this would affect the profitability, I am told, of hundreds of branches in smaller communities throughout the country. Therefore, it would have an influence upon the service the banks performed in those smaller areas.

Those are the only general comments I would like to make at this time.

The CHAIRMAN: Perhaps the members who wish to ask questions and make comments about the clearing system would signify their intention to me. Mr. Cameron followed by Mr. Clermont.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Sharp, I was questioning a witness from the Canadian Bankers' Association the other day on this matter and I must confess that I told the witness I still was left with a question in my mind about why they wished to retain this function if they were sure that they lost money on it. Perhaps I am unduly sceptical but I find it rather difficult to believe that banks, uniquely in this world, like to lose money. Therefore, I was left with a question in my mind on why they wish to retain the function.

The question of the practicality of the Porter Commission recommendation came up, and it was pointed out, as you have now pointed out, the number of branches of clearing houses that would have to be established. Again I am left with a question in my mind on whether a lot of that is not the result of failure to develop modern communications systems within the banking system.

I would like to know if you have any opinion, sir, on why they want to retain it?

I have in mind—and perhaps I am unduly suspicious in this regard— that very many years ago, before most members of the committee were born, a bank in the city of Vancouver was put out of business by the refusal of the existing banks to accord it clearing house privileges. Eventually it was bought out at fire sale rates, I believe.

Now, I do not know if this the idea; whether the feeling is that they can control the operations of near-banks which have to rely on them for clearing house privileges. Could this be one of the reasons?

The CHAIRMAN: I think, perhaps, Mr. Sharp is going to call upon Mr. Elderkin to deal with this.

Mr. SHARP: Yes. Would you like to make some comments on this, Mr. Elderkin?

Mr. C. F. ELDERKIN (*Special Adviser*): I would not like to be dogmatic about it, Mr. Chairman, but if my recollection is correct the reason that Vancouver bank was put out of business was because they could not meet their clearing.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That was not the story I heard at the time, Mr. Elderkin. It was a different story that was current at the period.

Mr. SHARP: This is the cause of the failure of many institutions. They cannot meet their obligations.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I think history has been ameliorated since then.

Mr. ELDERKIN: Perhaps I can temper that by saying that the bank itself could not meet its clearing.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That might be somewhat different.

The CHAIRMAN: There is a very delicate nuance there.

Do you have any further questions?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I was quite frankly puzzled to know why they were not prepared to consider the relegation of this function to the central bank, as recommended by the Porter Commission.

It does seem to me that if we are going to deal with these near-banks, many of whom now have a checking system, they should not be left completely dependent upon the chartered banks for their operations, as they are at the present time. I am not suggesting that they are overcharged, or anything of that sort, but it does leave them dependent upon these institutions.

I think it is something we should consider. If we are going to ask them to submit to some controls—and I gather that we are—then I think we should make some provision that would enable them to be sure always of their clearing house privileges.

Mr. ELDERKIN: I think, Mr. Cameron, this would also involve their having cash clearing reserves with the central bank.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I would think so, too.

Mr. ELDERKIN: Which is really what they are doing today. They have cash clearing balances with the bank which is taking care of their accounts.

Mr. MONTEITH: May I ask a supplementary of Mr. Elderkin? In these clearing houses, does the bank that is handling it in a certain town or city actually maintain clearing balances from all other banks?

Mr. ELDERKIN: I am not quite sure I understand your question, Mr. Monteith. If you mean as between banks; but not between banks and so-called near-banks or trust companies; there is quite a difference. These clearing balances would not be carried necessarily in that town; they might be carried at head office.

Mr. MONTEITH: Are there clearing balances carried from the near-banks?

Mr. ELDERKIN: Yes.

(*Translation*)

The CHAIRMAN: Now, I recognize Mr. Clermont.

Mr. CLERMONT: Mr. Minister, is there a possibility that due to the clearing system, Trust companies and other companies having a federal charter might not agree as a result of the amendment to the Act which establishes the Canadian Bankers Association?

(*English*)

The CHAIRMAN: This is the basis for the present clearing system, I gather.

Mr. CLERMONT: Yes.

Mr. SHARP: Could you clarify your question, please?

Mr. CLERMONT: As it is now, according to the Canadian Bankers' Association by-law, only banks can be members of the clearing house. Is that right or wrong, Mr. Sharp?

Mr. SHARP: That is right.

Mr. CLERMONT: Can this by-law be amended to allow trust companies, or other federally-chartered corporations, to belong to the clearing house facility?

Mr. SHARP: Perhaps I could put it this way: They Canadian Bankers' Association can lay down the rules for the operation of the clearing and they could give access to the clearing to whomever they wish.

Mr. CLERMONT: I think if I remember correctly that by-law says that only banks can be members of the clearing houses.

Mr. ELDERKIN: It is only banks, Mr. Clermont, that can be members of the Canadian Bankers' Association, but the clearing house rules come under separate by-laws. Presumably they do not have to be members of the Canadian Bankers' Association to become members of the clearing house if they saw fit to do so.

Mr. SHARP: Mr. Chairman, I gather what Mr. Clermont is suggesting is that legislation might be passed which required the bankers' association to allow cheques of near-banks, or non-chartered banks, to be cleared. Now, that is a separate question, and I would have thought, under those circumstances, that it would be wiser to move towards the recommendations of the Porter Commission and to take the clearing away from the bankers' association and put it in the hands of the Bank of Canada.

Mr. CLERMONT: A similar question was put to the Governor of the Bank of Canada on that subject and he claimed that it would not be an easy matter for the Bank of Canada because unless their facilities were very, very much enlarged they would not be able to do so.

Mr. SHARP: It would reduce the profits of the Bank of Canada. I was going to say it would add to the expenses of the government.

Mr. CLERMONT: Another recommendation that the Porter Commission made on clearing houses was that the banks should be paid for all cheques cashed for the government of Canada.

Mr. SHARP: Did the banks suggest that we should pay?

Mr. CLERMONT: No; not the banks, but the Porter Commission.

Mr. SHARP: It suggested that we should?

Mr. CLERMONT: That the banks should receive some compensation for all government cheques which are cashed.

Mr. SHARP: As Minister of Finance, I do not agree. I think that the balance of advantage and disadvantage in our accounts with the chartered banks is such that the banks do not lose any money in dealing with the federal government.

Mr. CLERMONT: The Porter Commission took that into consideration also, but their recommendation was that the banks should receive compensation. However, your answer as Minister of Finance is No.

Mr. SHARP: No; I was just going to say to Mr. Valade that this is perhaps one of the reasons why the president of that bank felt that we had not carried out all the recommendations of the Porter Commission and had some complaints. I have to admit that this is one of the recommendations that we did not accept, because it is our judgment that in our relations with the chartered banks we are not requiring the banks to do work for the government and people of Canada without adequate compensation.

(*Translation*)

The CHAIRMAN: Have you finished your questions, Mr. Clermont?

Mr. CLERMONT: Yes.

The CHAIRMAN: I now recognize Mr. Laflamme.

(*English*)

Mr. LAFLAMME: I have only one question regarding this clearing house system. One of the first purposes of trying to have a definition of "banking" is to bring more financial institutions within the framework of the banking system. I think that if we allow the other financial institutions to take advantage of the facilities of the clearing system we are working in a completely different way from the first point which is to seek to have the other institutions as part of the framework of the banking system.

Mr. SHARP: I am inclined to agree with this remark. I believe that if we are going to give these institutions access to the clearing system it ought to be because we are satisfied that they are institutions which are carrying on the business of banking under adequate rules.

I quite agree with the comment.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): They do keep banks together, do they not?

Mr. SHARP: To some extent they do.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not want to suggest that they should not band together.

Mr. LAMBERT: In that regard, Mr. Chairman, I suppose I agree that if they come in under the umbrella of banking then they would come into a clearing system. It might add a little bit to the administration of the clearing system but I have never heard any administrative objection to the admission of near-banks into the clearing system. Therefore, if you are going to bring them in under the Bank Act by the definition of "banking" and your control of them, I cannot see that you should then keep them out of the clearing system.

The CHAIRMAN: Do we have any further questions at this time on the clearing system?

I wonder if I might draw to the attention of the Committee an interesting clarification that was suggested by the minister's introductory comments on this topic? One member stated that the banks said that they lose money on their operation of the clearing system. At the same time, however, one reason given by the Minister for the Bank of Canada not operating the system is that there is a valuable revenue derived by many chartered bank branches, which they would lose to the Bank of Canada.

Mr. SHARP: Yes; but this is a question of clearing at par.

The CHAIRMAN: It is a question of clearing at par?

Mr. SHARP: Yes.

The CHAIRMAN: I wonder also, Mr. Sharp, if you have developed any views on what is another aspect.

Many members of the Committee questioned the bankers' association on numerous occasions about why the near-banks which have to use clearing facilities are not able to take part, day-to-day, or month-to-month, in the administration of the system. They apparently have no voice and they have some difficulty getting information on the cost factors of its operation. It would appear that the information comes out only when the bankers come before this Committee at rather irregular intervals.

Do you have any views on why it would appear that these other institutions are linked to the system at present only on sufferance rather than by having some voice in its operation, even under the present set up?

Mr. SHARP: Well, I hesitate to comment on what is obviously an internal matter for the banks in relation to their customers, but, the near-banks are in the clearing only in association with various chartered banks. They consider this a very valuable access, of course, otherwise it would be very difficult for them to carry on.

The question really is. Do the banks consider them valuable enough customers to give them more information than they are now getting? I would think that this is a matter which would not really be appropriate for me to comment on. If we are going to establish a clearing system to which not only banks but other institutions are going to have access then I have an interest, or the government has an interest, but in this clearing association which is run by the Canadian Bankers' Association the rules must necessarily be made by them unless the public interest is being jeopardized in some way. That may be the case, but I have not yet heard any evidence that has moved me to suggest action.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I ask a supplementary question on this?

Mr. Sharp, you referred to the banks' relations with their customers. Although it is true that some of these institutions can, on occasion, be classified as customers of the banks their main function is that of competitors to the banks. Does that not alter your position?

Mr. SHARP: I am sure that the banks sometimes cannot quite make up their minds whether they are investments, whether they are customers, or whether they are competitors. One of the purposes of the legislation that we are considering here today is to try to clarify these things and to separate these functions so that the other deposit-taking institutions are clearly in the category of competitors working at arms' length.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well, in light, Mr. Sharp, of your repeated statements, in the House and elsewhere, that you are in favour of competition within the banking system, are you not concerned about the position in which you leave many of the competitors of the banks—because they are competitive in many functions—with regard to clearing houses?

Mr. SHARP: Yes; and that is why I said in my opening remarks that this question of the clearing should be considered in relation to the larger question of the extension of Parliament's jurisdiction over the near-banks.

The CHAIRMAN: But in the short run, while this is being worked out, do you see anything really objectionable in the near-banks; because they are competing with the banks and using the facilities of the clearing system only because they have to, being able to engage in regular consultation with their banking competitors in relation to the clearing system?

Mr. SHARP: May I offer a little advice here to the banks?

The CHAIRMAN: Yes.

Mr. SHARP: I think they ought to be more forthcoming and give the near-banks access to all reasonable amounts of information. I think it is very much in

their interest. It is going to prevent the sorts of comments and questioning that have gone on here in the Committee.

Mr. LAMBERT: But, Mr. Chairman, might it not be reasonable to ask the Minister whether other valuable customers of the banks might not ask for the same privilege?

Mr. MONTEITH: You mean large borrowers?

Mr. SHARP: I have heard that access to the clearing by certain large institutions in the United States has been a very useful means of helping to finance their operations there. I do not think that it is a pattern we would want to copy in this country.

Mr. LAMBERT: The main complaint of many of those who are not associated members of the clearing house—although they get that status, I suppose—has been that they would like to have a say in the formulation of the rules and regulations. I am just wondering whether a case might not be made for a major corporation that carries on very extensive use of the banking system. Such a corporation might say: "Well these rules affect us a great deal, and we would like to get in on the making of these rules, too". Where does this stop?

Mr. SHARP: Well, I hope that the bankers listen to your comments.

The CHAIRMAN: Are there any further questions or comments on the topic of the clearing system?

If not, I wish to inform the Committee that the next topic is that of agencies and branches, which is one of major interest and concern. It is now approximately nine minutes to one o'clock. Do we want Mr. Sharp to begin, and then continue after 3.45, or should we recess and begin afresh later in the afternoon? The concensus seems to be for a recess now.

We will recess until 3.45 p.m.

AFTERNOON SITTING

The CHAIRMAN: Gentlemen, I think we can resume our meeting. When we recessed this morning, I believe the Minister was about to make some comments on the topic of the operation of branches and agencies.

Mr. CLERMONT: Would it be possible for me to ask Mr. Elderkin a question so that I may correct an impression I obtained this morning from a reply regarding the clearing house?

The CHAIRMAN: Yes, Mr. Clermont.

Mr. CLERMONT: Did I understand, Mr. Elderkin, that under existing regulations the bank can allow other firms to become members of the clearing houses.

Mr. ELDERKIN: What I said this morning, Mr. Clermont, was that the Canadian Bankers Association Act states that only chartered banks may be members of the association. There is a clearing house bylaw under the Act and they can make their rules subject to approval by Treasury Board at the present time. I think that, at least, the implied, if not the actual legal point in this is that only the members of the Canadian Bankers Association may be full members of the clearing. I think that it would require a change in legislation of their Act.

Mr. CLERMONT: As I understand Article 7 of the Canadian Bankers Association, an amendment to this will be required.

Mr. ELDERKIN: I am under the impression it will too.

Mr. CLERMONT: Thank you, Mr. Chairman.

The CHAIRMAN: Thank you, Mr. Clermont. Mr. Sharp, I believe you have some introductory comments on the topic of agencies and branches.

Mr. SHARP: Mr. Chairman, the Committee will recall that on second reading of the bill that is now before us I asked the Committee to consider the question of providing for the establishment of agencies of foreign banks in Canada, and at that time I set forth briefly the considerations for and against. The Governor of the Bank, I am given to understand, did likewise when he appeared before this Committee, and the representatives of the chartered banks expressed their views at some length, yesterday or the day before, when they appeared before the Committee.

On balance, I am inclined to the view that it would be in Canada's interest to permit the establishment of agencies—not branches but agencies—in Canada under certain conditions. However, I am inclined to think that it would be advisable before taking a decision on this very important question to have some further study of the implications; and I also think that it would be desirable to wait a few months until there has been time for reflection upon the issues raised in connection with the Mercantile Bank both in Canada and outside of Canada.

In the meantime, the government itself will be continuing its study of the idea and of the conditions under which agencies might operate in Canada—and these would have to be very carefully defined—and it would welcome any comments that the Committee may decide to make in its recommendations.

The CHAIRMAN: Thank you, Mr. Sharp. I gather you are through with your introductory comments; that being the case I shall recognize the members of the Committee in the usual way, and I will recognize Mr. Monteith, followed by Mr. Cameron.

Mr. MONTEITH: I just want some clarification at the moment, Mr. Chairman. Mr. Sharp, did you mean that the present bill will stand as is without any amendment, but that you intend after some time to institute studies by the department or by a group other than this Committee itself, which may make recommendations? At any rate, you do not intend to suggest implementing any of the recommendations that may come from this group in this bill.

Mr. SHARP: Yes, Mr. Chairman, what Mr. Monteith has said is correct. We do not intend to make recommendations for amendments that would permit the operation of agencies in Canada. I would like to correct one impression, however, and that is that we have not done any work on the subject. We have; we have done a good deal of work in the department and in the Bank of Canada on the implications of this proposal. However, it has appeared to us, even after this fairly extensive work, that we will have to do some more before we will be in a position to place before Parliament the recommendations that would be based upon a thorough understanding both of the operation of foreign agencies abroad and the possible operation of them in Canada.

Mr. MONTEITH: If I am not mistaken, Mr. Chairman, the Bankers Association suggested a further study of this situation as well as advocated agencies.

Mr. Sharp, who is undertaking this study now? Is it the department or a committee of officials?

Mr. SHARP: The department; the Inspector General's branch, if that is part of the department—I always look upon it as such—and the Bank of Canada.

Mr. MONTEITH: Thank you.

The CHAIRMAN: I will now recognize Mr. Cameron followed by Mr. Clermont and Mr. Lambert.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This morning, Mr. Sharp, in setting out the things that you intended to deal with, you included branches; you said agencies and branches, and now I gather that you are eliminating branches.

Mr. SHARP: I would not be prepared to recommend the establishment of branches, but I am prepared to consider sympathetically the question of the establishment of agencies.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Now, you made a speech in that connection in the House and I must confess I do not recall what it was you said—I should have looked it up. Would it be possible for you to give us very briefly some of the pros and cons on the agencies, or would you rather not do that now.

Mr. SHARP: Well, I have done it in the House and I can do it here but Mr. Rasminsky has set out the considerations much more expertly than I could since he has to operate on the day to day market and the day to day implementation of monetary policy, and I find myself in general agreement with what Mr. Rasminsky has said.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): As I understand it, the Canadian banks which have agencies in the United States are confined to the particular state that has granted tham a license. Would your idea be that in giving reciprocal arrangements for American banks that they would be confined to one area or would they be, as our Canadian banks are, free to set up branch agencies across the country?

Mr. SHARP: I cannot answer the question as to how many offices they might be free to establish if, in fact, Parliament authorized them to operate in Canada. I will only say that there would have to be a limit.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Would you also limit them, with regard to the time—that is to a 12-month license, as one of the Bank representatives the day before yesterday suggested?

Mr. SHARP: Yes, I think that it would be desirable to have relatively short licenses; probably a year is appropriate. It seems to work fairly well in New York State. I think similar provisions would be suitable in Canada.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Thank you. That is all I have.

(*Translation*)

The CHAIRMAN: Now, I recognize Mr. Clermont, followed by Mr. Lambert.

Mr. CLERMONT: You stated that the number of these agencies would be limited. Would this be based on the system in force in the State of New York, where agencies, should the Act be adopted, would not be able to take in deposits?

(*English*)

Mr. SHARP: Yes. This is the essential difference between an agency and a branch. A branch is really an extension of the general banking activities of the parent company in a foreign country, presumably with broadly the same rights of taking deposits and making loans. An agency, at least in the way in which it operates in the United States and the way in which I contemplate it operating in Canada, would not be privileged to take deposits from Canadians.

(*Translation*)

Mr. CLERMONT: But would it be under the supervision of the Inspector General of Banks?

(*English*)

Mr. SHARP: That, I think, would be a suitable arrangement.

Mr. LAMBERT: Mr. Minister, in the light of the proposed amendment, why the complete ban on foreign ownership of banking interests not now owned by foreigners and operating in Canada—excluding the present Canadian chartered banks and leaving aside the Mercantile which I think is a different case. Do you not feel that this has long-range implications with regard to the development and the evolution of money markets here in Canada?

Mr. SHARP: I wish you would rephrase the question, Mr. Lambert. I got a little lost. It may be my inattention.

Mr. LAMBERT: Leaving aside the case of the chartered banks in Canada, and the Mercantile bank which is a particular matter, do you not feel that the proposed exclusion of foreign ownership of chartered banks in Canada would operate to the long-range detriment of the development of a money market in Canada?

Mr. SHARP: No, Mr. Chairman, I do not. Agencies operating in Canada, as the agencies of Canadian banks operate in the United States, would enable foreign banks that wanted to have such agencies to operate in the foreign exchange market. They would not have the privilege of engaging in banking business based upon the gathering of deposits in Canada, but they would be able to operate in other transactions, in foreign currencies and so forth, which is of the essence of foreign exchange operations. The Canadian banks indeed are so expert in the foreign exchange market, I am told, that they provide a great deal of the competition in New York through agencies and I would think that this is one of the reasons that on balance I am inclined to believe that the importation of agencies into Canada might be in our interests. Certainly I am prepared to look at it from that point of view.

Mr. LAMBERT: But the present bill does not provide for this, and the government is asking us to pass the bill as it now stands.

Mr. SHARP: Yes. I feel that our money market in Canada is not at the present time impeded by the absence of foreign-owned banks in Canada. When we are talking about agencies we are talking about the development of a foreign

exchange market essentilaly. That market can be improved and developed. I do not think that a delay in the establishment of agencies or even a decision not to establish agencies would be a vital factor in the development of that market.

Mr. LAMBERT: Do you feel that the Canadian banks owned by Canadians at the present time must be protected from foreign banks coming into Canada?

Mr. SHARP: My attitude towards this matter is not dictated by such considerations. The principle underlying the Bank Act is to prevent the domination of any of our banks by anyone, whether it is a Canadian or a foreigner. It is not based upon an essentially anti-foreign attitude.

Mr. LAMBERT: There is a considerable change being effected here and so far I have failed to hear the reasons the government wants to make these changes and why it wou'd be an advantage to have the changes. What is wrong with the present situation?

Mr. SHARP: Do you want me to repeat the speeches I have made on the resolution and on second reading in defence of the principle of the Bank Act? I would be glad to do so.

Mr. LAMBERT: No, but with the greatest respect, Mr. Minister, they were delightfully vague. Right now I am asking for concrete reasons because it is the government that is making the changes and I maintain that the government must have reasons for feeling that the changes will be for the better and not merely changes for the sake of change, that they are going to correct something that is wrong.

Mr. SHARP: Until the National City Bank bought the Mercantile the situation was essentially that we have a group of big banks whose ownership was distributed throughout the community. Our studies show that there are no dominating shareholders in any of the banks outside of Mercantile. Although it is true that Mercantile was owned in the Netherlands, it was a minor factor in the situation. I am inclined to think that we would have acted in exactly the same way in respect of this bill even if Mercantile had remained in the hands of its former owners. That is a hypothetical question. No one will ever know the answer to that because in fact before we brought the legislation down the bank had changed hands. I believe, and I still do, that a banking system in which banks are independent and competitive is in the best interests of Canada, and this is the philosophy that underlines the bill in all its parts. It is what lies behind the provisions for separating the ownership of banks and other deposit-taking institutions and behind limiting the investments of banks in other activities. This is all part of an approach that I think is very much in Canada's interest, namely, to have our banks independent both of the influence of any dominant shareholders and also independent in its relationships with its competitors and its customers.

Mr. LAMBERT: Yes, but on the other hand, as the bill now stands, I would put it to you that it imposes a freeze upon the entry of anyone into the banking system from outside of Canada, and just to preserve its status quo.

Mr. SHARP: About to the same extent as it does upon Canadians. The rule is the same for Canadians as for foreigners, that no one or related group of shareholders is to dominate any of our banks, whether he is a Canadian or whether he is a foreigner.

Mr. LAMBERT: With the exception of being permitted a ten year period.

Mr. SHARP: That is right.

Mr. LAMBERT: And would it be permissible for the Mercantile Bank or any bank that was caught by this to expect to have up to ten years to, shall we say, to dispose of its excess interests in order to avoid a fire sale?

Mr. SHARP: I would like to have that question made a little more specific. What are you talking about when you mention time, and for what purpose?

Mr. LAMBERT: For instance, would the present owners of the Mercantile, who are caught in the mesh of these provisions, look forward to say, a period of ten years in order to liquidate their excess holdings?

Mr. SHARP: Well in a sense you could say that the Mercantile Bank has unlimited time to stay where they are; in other words, as long as they do not exceed the limitations in the act, they can remain the sole holders of that Bank forever although I hope that they will have reasons to take a more progressive view. But in so far as the present act is concerned, the Mercantile Bank can remain at its present size, a wholly owned subsidiary of the National City Bank forever.

Mr. LAMBERT: Talk about the devil and the deep blue sea! You give them no choice at all.

Mr. MACKASEY: Mr. Lambert, could I ask a short supplementary question?

Mr. LAMBERT: Yes.

Mr. MACKASEY: Is it not true, sir, that they will not be able to remain in their present position once the act is enacted; they will be expected to return to a 20 to 1 ratio.

Mr. SHARP: Yes, that would have to be done. Their position at the present time, of course, is that if they wanted to return certain of their accounts to their head office they could stay within the 20 to 1 ratio indefinitely. May I make it quite clear on this point that I think that this is not desirable. I believe it would be better to have a healthy growing institution with the Canadians in control than it would be to have a continuation of this limited operation.

Mr. MACKASEY: Mr. Chairman, I will return the floor to Mr. Lambert but this is an avenue I would like to explore when I have an opportunity.

The CHAIRMAN: I have noted your name, on my list following Mr. Laflamme, who follows Mr. Lambert.

Mr. DAVIS: May I ask a supplementary?

Mr. LAMBERT: May I continue? I will be finished on this shortly. This is an effort to "Canadianize" a foreign-owned bank. I am wondering why the same consideration was not shown to it as was shown to *Time* Magazine and *Reader's Digest*, which were Canadianized. They were entirely foreign-owned and have had a far greater impact on the Canadian way of life and the Canadian economy.

Mr. SHARP: Mr. Chairman, it is perfectly possible—whether it is feasible is another question—for the National City Bank to dispose of 75 per cent of its shares in the Mercantile Bank and be free of the restriction under section 75 (2) (g). It can do that at any time. I think that anyone who looks at the situation

realistically, however, has to agree with the owners of the Mercantile Bank that it might be very difficult for them to dispose of the shares as they would wish and to have them widely distributed in the hands of a great many Canadian shareholders. At the present time, as you probably know, they took over a bank that was in very serious condition and it was not earning any profits. I understand that the Mercantile Bank is now getting its house in order clearing up its doubtful accounts and the owners are a bit reluctant about offering shares until they are satisfied that they have a good product to merchandise.

Mr. LAMBERT: So that in the interval there is a complete halter and check-rein on the further development into a healthy viable unit of the Mercantile Bank.

Mr. SHARP: May I say, Mr. Chairman, that when the National City Bank representatives appeared before this Committee they showed no disposition whatever to respond favourably to the suggestions that were made in this Committee that they might, with profit, dispose of a portion of their shares to Canadians. To those questions, although I was not here, I understand the answer was No. It may be, and I have some reason to think so, that the attitude is changing. However, I am not in a position to say anything more than that. But the information that has come to me within the last—

Mr. DAVIS: How long would it be?

Mr. SHARP: It is since the time that I gave the answer in the House of Commons.

Mr. MACKASEY: It is long enough.

Mr. LAMBERT: Do you honestly believe that a responsible official of National City Bank who was sitting where you are now could give a categorical offer of: "Yes, we will dispose of our shares." just from a question out of the blue at this Committee?

Mr. SHARP: I doubt very much whether the question took them by surprise.

Mr. LAMBERT: Oh, but certainly this is not the place to make that sort of an answer, after consideration.

Mr. SHARP: May I say that I made the same suggestion to the National City Bank a very long time ago, and I am sure quite a number of people did too; that is the reason I say that when they appeared here they were not being asked the question for the first time. They had given some consideration to it, presumably.

Mr. LAMBERT: Is it felt that the Canadian banks need protection from foreign-controlled interests?

Mr. SHARP: I think the Canadian banks are going to be institutions which are more independent and competitive if they do not have a dominating shareholder. It is remarkable that the National City Bank itself is so widely held, and I think it is a fact of which they are fairly proud. The National City Bank has been a notably successful bank. I believe some of our chartered banks have been very successful and they have had exactly the same sort of widespread ownership. It is a principle that, in application, has given fairly good results.

Mr. LAMBERT: In the long run.

The CHAIRMAN: I would ask Mr. Lambert if he would yield to Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): While the National City Bank's shareholding may be very widespread, I am sure that you would agree, however, that the National City Bank is firmly in control of the Rockefeller interests.

Mr. SHARP: I cannot answer that one way or another. I do not know.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Rockefeller is sitting on top of the pile.

Mr. MONTEITH: I have a vague recollection that the largest shareholder, as announced by Mr. Rockefeller, only controls a very infinitesimal part of the stock.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I think Mr. Rockefeller is always at the top of the pile.

Mr. LAMBERT: I am not so much interested in the situation with Mercantile as in the general principle. I feel that a general application may have been made to deal with a certain situation. I am concerned at its appearance and that it is a continuation of a certain attitude of mind that prevailed at a certain time.

In view of the fact that the banks themselves had no objection to the operation of the Mercantile, or of any other bank in similar circumstances, and of conditions which may be deemed to prevail, or are expected to prevail, in other countries—because the United States is not the only one who is sort of looking at reciprocity; our Canadian banks have very extensive foreign operations—I am wondering why we are courting this negative nationalism attitude of imposing restrictions?

Mr. SHARP: I do not accept that as the direction of this bill. It is not directed against foreigners. It is directed against the domination of any of our banking institutions by anyone, Canadian or foreign. That is the underlying principle.

Indeed, as I have pointed out already—not in this Committee, but elsewhere—the general rule for the ownership of shares in our banks is a 10-per-cent rule. In the case of the Mercantile they were a wholly-owned subsidiary, and the bill, as it is now before you, requires them to reduce the holdings to 25 per cent before they are free of this restraint.

It is not justifiable to say, or to draw the inference, that this bi'l is directed against foreign domination, as such. It is directed against domination.

Mr. LAMBERT: Mr. Sharp, there are implications in the limitation of foreign domination. I am wondering what your views are about other countries in which Canadian banks operate wholly-owned subsidiaries, or have very extensive holdings in operating subsidiaries. Are they being sort of exposed over a sawhorse as a result of this?

Mr. SHARP: I am not certain about the philosophies that underlie the legislation of other countries.

In the United States there can be no philosophy underlying their banking legislation because it is such a hodge-podge of state laws and federal laws. There is no consistent philosophy underlying the banking laws of the United States.

I know the general philosophy that underlies the banking structure of Britain. I am not quite sure that it is the laws that matter so much there.

I know the general philosophy that animates France.

I think it is the right attitude for Canada, in the light of our experience, to ensure that no one dominates our chartered banks, and that the ownership is widely spread. I believe that if any interests, whether Canadian or foreign, were to dominate the operations of our main banking institutions it would be detrimental to the interests of Canadians and of Canadian industry.

Mr. LAMBERT: That is the point of view that you express but I must say that I have very great reservations about the results on our international development of this particular action.

Mr. MONTEITH: Mr. Chairman, may I just ask a supplementary?

If Canadian banks are limited to 10 per cent ownership in any one set of hands, and this American bank is allowed to expand in a fashion similar to the Canadian banks but is going to be allowed 25 per cent, might one not say that you are discriminating against Canadian banks?

Mr. SHARP: Certainly, if there is any discrimination in this law it discriminates in favour of the National City Bank, who did purchase this bank outright and had 100 per cent ownership of it. The law reflects that fact. It does not require the First National City Bank, which bought this bank, to reduce its ownership in accordance with the 10-per-cent rule that applies in the case of other banks.

Perhaps I ought to add, however, to be perfectly accurate, that the present bill does not require a shareholder who has more than 10 per cent of any of our other banks to reduce his holdings to 10 per cent. All it stipulates is that no one shall accumulate more than 10 per cent. Therefore, to some extent, there is a parallel between the situation in which we are requiring, if this bank wants to expand in Canada, that the owners must reduce their holdings to 25 per cent in Mercantile, and the situation of a shareholder in a chartered bank who does happen to own more than 10 per cent—and we know of one who does, although it is not much more than 10 per cent.

The CHAIRMAN: Before recognizing Mr. Laflamme I wonder if Mr. Elderkin could confirm my reading of section 75(2)(g) that the limitation on growth applies equally to the situation where a non-resident owns more than 25 per cent of the issued shares of the bank and to the situation where a resident owns 25 per cent of the issued shares?

Mr. ELDERKIN: As in the case of the Bank of Western Canada at the present time.

The CHAIRMAN: In other words, I am correct in suggesting that it applies not only to non-residents?

Mr. ELDERKIN: That is right.

Mr. LAFLAMME: I have only a few questions, Mr. Sharp. First of all, I would like to know if there have been any requests in the past for the establishment of foreign agencies in Canada?

Mr. SHARP: Since I have been Minister I have had no such applications.

Mr. LAFLAMME: Do you envisage the setting up of a special bill to establish the rules under which foreign agencies could establish themselves here?

Mr. SHARP: Yes, Mr. Chairman. If we do decide to recommend to the government the establishment of agencies a bill would be brought in for this purpose.

Mr. LAFLAMME: Thank you.

The CHAIRMAN: I now recognize Mr. Latulippe.

(Translation)

Mr. LATULIPPE: A supplementary question, Mr. Chairman.

The CHAIRMAN: Yes, Mr. Latulippe.

Mr. LATULIPPE: I would like to ask the Minister what difference there is between allowing a foreign bank to carry on its transactions in Canada or invest certain capital and other American institutions who come and buy flourishing businesses in Canada and buy up a 100 per cent of their shares. For instance the American Shell Oil who bought the Canadian Oil; what difference is there between these two situations?

(English)

Mr. SHARP: Mr. Chairman, the difference is that banks finance all forms of industry. They are engaged in the financing of industry in general and of consumers in general. Therefore, the effect upon the general competitive position, or upon the independents of our financial institutions, is very much greater in the case of a bank that is dominated by a single shareholder than in the case of a particular industry so dominated. A factory which is entirely foreign-owned is doing a particular kind of business. It is manufacturing and selling goods of a particular kind. A bank, on the other hand, is dealing with industry in general and is dealing with other financial institutions; therefore, a dominating influence in a bank would have a pervasive effect. One that has been mentioned many times, and which I think is very real, is that if it happened that the dominating influence was a foreign bank, particularly one located in the United States, it might, in order to obtain or retain its parent's business, give special attention to the financing of the subsidiaries of that parent in Canada.

That is only one illustration, but it is one that is very important in Canada because of the widespread ownership of our industry by Americans.

The CHAIRMAN: I new recognize Mr. Mackasey.

Mr. MACKASEY: Mr. Sharp, I may ask you to repeat a few of your answers just for my own information and to establish a background.

You did express the opinion a few moments ago that you thought the present act would be drawn up in precisely the same way regardless of whether the Mercantile was Dutch controlled or American controlled.

Mr. SHARP: Yes.

Mr. MACKASEY: In other words, what you are saying is that this bill was not intended to be anti-American in principle.

Mr. SHARP: No, it was not.

Mr. MACKASEY: Nevertheless the problem of Mercantile at the time this bank bill was being drafted was significantly different after the Americans bought it from when the Dutch owned it, for the reason that you have just outlined, I believe, to Mr. Latulippe.

Mr. SHARP: That is correct.

Mr. MACKASEY: That is, the high percentage of American ownership in particular industries such as the petroleum industry.

Mr. Lambert said something which has significance to me and that is the matter of fire sales. I would like to investigate with you, if I may, the avenues open to the Mercantile at the present moment. You have said that all they have to do to be considered as a Canadian chartered bank is to comply with 75 (2) (g), is that correct?

Mr. SHARP: That is correct; to be free of that restriction.

Mr. MACKASEY: They are a Canadian chartered bank, as it is, but they would have to do that to be free of the normal impediments which are restrictive of their growth.

Based on the presumption, which I know is a correct one, that the philosophy behind the bill is not anti-American, but pro-Canadian, perhaps, it seems to me that the Mercantile Bank is in a rather precarious position in that they have ignored advice and proceeded to buy a bank, and because of new provisions, intentionally or unintentionally, they are in a very peculiar position that they can remedy only by disposing of a large number of shares.

This leads me to Mr. Lambert's expression "fire sale". Is it ont a fact that if the Mercantile were to offer these shares tomorrow, the fact that it could take a considerable length of time to make an acceptable disposition of the stock, would mean it would be speculative, rather than be an investment, for Canadians to buy the share in the interval?

Mr. SHARP: That is a very difficult question to answer. The market for Mercantile shares in Canada really depends upon the future of the bank rather than upon its present position. If one were buying the shares of Mercantile Bank one would look at the prospects. One would say, "How long is Mercantile going to be subject to that restriction in the Bank Act which limits their growth and their profits?" If it were going to be subject to that limitation then there are probably better things in which to invest one's money.

Mr. MACKASEY: You have made my point, Mr. Sharp. In other words, the desirability of investing in these shares, if Mercantile sincerely tried to put them into the hands of Canadians, would depend on what future is envisaged for the Mercantile Bank.

Since the bill was not intended to be anti-American, would it not have been in the best interests of Canadians who may be prospective buyers of these shares to make the future of the Mercantile Bank a viable one without, at the same time, leaving any loopholes which would be a threat to the other Canadian banks?

Mr. SHARP: I said on television the other night, Mr. Chairman, in reply to a rather similar question, that I would like to see more competition in the Canadian banking system, and, therefore, I would welcome the competition that

could be provided by another competent, aggressive, well-run bank. Therefore, I hoped that the owners of the Mercantile Bank would decide to sell a sufficient participation in their bank that they would then be free to compete with the other banks on a free and open basis.

Mr. MACKASEY: Mr. Sharp, feel free to interrupt me at any point. My knowledge of banking, as is obvious from my questions, is very limited.

Presuming the shares went on the market tomorrow to Canadians and there was a sincere effort by Mercantile to come down to the percentage we are talking about, but without any assurance that its banking operations would not be considerably limited by the application of this bill in the interval, do you think that any Canadian in his right mind would want to buy these shares? I have their balance sheet here and this is why I have asked you the question.

Mr. SHARP: I cannot answer for Canadians in their right minds.

Mr. MACKASEY: Would you recommend such a purchase?

Mr. SHARP: The Minister of Finance never recommends any purchase.

Mr. MACKASEY: I did not expect to get an answer.

Mr. SHARP: Since the collapse of the Prudential Finance Company I have been getting all sorts of letters from Canadians asking me if it is safe to buy the debentures of various companies. I have refused to answer.

Mr. MACKASEY: The point I am really trying to get to, Mr. Sharp, is that if we are not anti-American, and if we want to maintain the spirit of this law, provided they have a change of heart—and you are the only man who knows whether or not they have had one; but we will presume they have—is there any particular reason why, if they divest themselves of their shares, or if they make Canadians part and parcel of their operation by offering them shares, you cannot provide some relief to them in their particular situation, either by postponing the effective date of the 20 to 1 application—I see Mr. Elderkin nodding; I am sorry, he was just patting his head!—or by giving them an opportunity to increase their capitalization immediately so that Canadians could then buy the shares knowing that one day they will become an investment rather than a speculation? Is there any particular reason that this would defeat the spirit of the bill which you keep referring to as not being anti-American?

Mr. SHARP: Mr. Chairman, if the National City Bank gave evidence that they were prepared to conduct their affairs in the spirit of the bill that is before you—and I cannot really speak for Parliament because I do not know—I would suggest that it might make quite a difference to the attitude of Parliament in dealing with the amendments to the bill.

I might make this quite clear, that from what I have learned of recent developments in the thinking of National City Bank I have not heard that they would like us to change either the spirit or the structure of this bill. I think they are finally convinced that the bill as introduced will be enacted into law.

Mr. MACKASEY: That is the intent of the bill?

Mr. SHARP: Yes, the intent of the bill. I know only in a very general way about this change in thinking that has taken place, and I am not yet in a position to know how much authority lies behind the suggestions I have heard nor

exactly how they would propose to act, but some evidence from the National City Bank that they are prepared to reduce their ownership to 25 per cent would, I believe, change the whole spirit within which this problem is being deliberated.

Mr. MACKASEY: Just to complete that, Mr. Sharp...

The CHAIRMAN: Would tou yield for a supplementary from Mr. Lambert?

Mr. LAMBERT: I wonder if Mr. Sharp might not speculate that the degree of reserve that he has expressed here with regard to what parliament might or might not do might not have been perhaps applied on a previous occasion by his predecessor?

Mr. SHARP: Mr. Chairman, I am puzzled by the question. The problem that was placed before my predecessor was that the National City Bank was contemplating the outright purchase of the Mercantile Bank from the Dutch interests. There may have been some doubt whether they had or had not purchased it at that particular time. These speculations have all been debated *ad nauseam* and I will not go over that again, but that was the proposition. There was, at that time, no consideration of any other kind of transaction, so that I find it very difficult to answer a hypothetical question like that.

Mr. LAMBERT: May I clarify my question?

The CHAIRMAN: Just a moment, Mr. Lambert. We must see if Mr. Mackasey wishes to have the floor back or is willing to allow you to ask further questions.

Mr. MACKASEY: Knowing Mr. Lambert's reputation for brevity I am more than happy to allow him to ask another question.

Mr. LAMBERT: You have just said that you were not too sure how Parliament would deal with this bill, yet your predecessor did say that there was a strong chance that this bank might not have its charter approved at the next renewal. That is why I say that your predecessor might have used the same reserve as you are now using.

Mr. SHARP: I really cannot confirm anything that my predecessor may have said because I was not there to hear it.

Mr. MACKASEY: Mr. Sharp, more for my information and for those of the Committee who may not be aware of it, at the present moment, presuming this bill was not before us, there is no statutory limitation on the ratio between authorized shares and liability. In other words, I believe some banks are up as high as 60 to 1.

Mr. SHARP: Yes; there is no limit, and the relationship varies considerably from bank to bank.

Mr. MACKASEY: In other words, a bank has two media at its disposal to make a profit. One is by this leverage which in some cases is 60, and, of course, the second one is by increasing authorized capital. Am I right there?

Mr. SHARP: That is right.

Mr. MACKASEY: Now, the moment this bill comes into effect, one Canadian chartered bank, the Mercantile, will be expected, because of its corporate structure, to go back to a 20 to 1 ratio, or, for that matter so will any bank that is in that position.

Mr. SHARP: Yes.

Mr. MACKASEY: I keep returning to this point because I am thinking of a potential investor in that bank. If the Mercantile were, as of Monday, to place on the market some of their authorized shares, or obtain permission to increase their authorized shares through the medium of putting them at the disposal of Canadians, why would a Canadian buy these shares, if he was conscious of the possibility that by this effective date they might not have reached the position of 20 to 1 and would forever be restricted until such time as they could get rid of the shares?

Mr. SHARP: Yes, there would be some legitimate doubt.

May I anticipate a little, Mr. Chairman? I did say in my opening remarks that I intended, at a later time, to deal with the question of a restriction on the transfer of shares of a bank to a non-resident when more than 25 per cent of the shares are owned by a non-resident. Perhaps I should make it clear now that I do intend to place before the Committee such an amendment which would have the effect that if the Mercantile Bank, for example, were to offer shares none of those could be taken up by non-residents. They would all have to be offered and held by Canadians.

Mr. MACKASEY: Mr. Sharp, this is all very well, but why would a Canadian shareholder pick up these shares knowing that this 20 to 1 ratio was hanging over his head, or, at least, the effective date of the 20 to 1 ratio?

Mr. SHARP: You are talking about two kinds of circumstances, not one. One circumstance is that the National City Bank disposes of some of its present shares. If it disposes of 75 per cent of its present shares it would then be free of that restriction.

There is another circumstance, under which the bank might offer shares of new stock to the public. That would only be possible by an increase in capital.

Mr. MACKASEY: That is right.

Mr. SHARP: The two processes might have the same terminal result but they are of a different kind.

Mr. MACKASEY: This is my last word, Mr. Sharp. The Committee has been more than fair. I want to finish now because I know Mr. Cameron is anxious to ask some questions.

You accurately pointed out the two methods but you have not solved my problem about why a Canadian would want to buy this increase in authorized shares knowing full well that possibly from January 1, 1968 on the bank will be operating in a very restricted manner until such time as foreign participation in the bank will be down to 25 per cent, which could take a decade?

Mr. SHARP: May I answer the question in general. Mr. Chairman? If the National City Bank had definite plans for reducing its holdings in the Mercantile Bank to 25 per cent I believe it would be in the Canadian interest to facilitate those plans.

Mr. MACKASEY: Have you any short suggestions on how you could facilitate this?

Mr. SHARP: None that I would care to make right now.

Mr. MACKASEY: In conclusion, then, what you are saying is that if the Mercantile have shifted their position of last Thursday, as outlined by Mr. Rockefeller, and indicate that they welcome Canadian participation in the bank, we will not adopt a dog-in-the-manger attitude, particularly in view of the fact that we are not anti-American in our intent?

Mr. SHARP: We will take what I hope is a very good Canadian attitude.

Mr. MACKASEY: Thank you, Mr. Chairman.

Mr. MONTEITH: Can I ask one supplementary to Mr. Mackasey's question?

This has reference to clause 75(2)(g). I would like to follow up Mr. Mackasey's suggestion that if Mercantile is going to dispose of its shares to Canadians they should be attractive. They have to be attractive.

Would it not be reasonable to suggest some other figure than exceeding 20 times its authorized capital stock? I make this suggestion because actually the position of the bank at the moment is that it has exceeded this 20 times, and if there is going to be any possibility of further growth and so on, would an amendment to another figure not be worthy of consideration? You might want to make it 40 times, or something of this nature?

Mr. SHARP: I would not so recommend, Mr. Chairman.

In the first place, as I said earlier, the Mercantile Bank could transfer some of their business on to the books of their parent company and thus ease the situation somewhat.

Mr. MONTEITH: Then this bank would hardly be profitable? It is not profitable now. How can this increase its attractiveness to investing Canadians?

Mr. SHARP: That is not the question you put to me, sir. It may have been the question that you were leading up to but I was answering a specific question about the fact that they were now limited and could not grow.

They could take on more Canadian business without too much difficulty if they wanted to transfer some business that could have been done from the National City Bank just as well as from Mercantile.

Mr. MONTEITH: I know I am usurping someone else's time, Mr. Chairman, but may I just say that this still would not, in my estimation, increase their profitability and make them attractive to Canadian investors.

The CHAIRMAN: Well, Mr. Monteith, perhaps we could put you down as number one for the second round of questioning, and in the meantime we will see if there are any other members who have not had an initial opportunity to pose questions and who wish to do so.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, I might say that when I first took the floor I thought we were confined to discussion of agencies. I did not realize that the whole question of Mercantile was going to be brought up now.

The CHAIRMAN: I took the position that it would be unrealistic to try to approach the matter in any other way. I think it is clear from the direction in which the questions have been going that perhaps this was the most suitable way to do it.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I rather carefully confined myself to discussion of the agencies.

The CHAIRMAN: You deserve some commendation for that, certainly, but—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I want more than commendation.

The CHAIRMAN: The rewards I have are very limited. I was going to suggest that your name would follow that of Mr. Monteith when we began our second round.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I shall have to settle for that, I guess. It was my own folly.

The CHAIRMAN: Of course, they say that virtue brings its own regard.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have never known it to do so, in a long life, Mr. Chairman.

The CHAIRMAN: As a younger person I will have to take your advice very seriously.

Are there others who have not had an initial opportunity to pose questions to Mr. Sharp on this general topic?

(*Translation*)

The CHAIRMAN: Mr. Latulippe?

Mr. LATULIPPE: A supplementary question, on this subject, if I may be allowed.

The CHAIRMAN: Yes.

Mr. LATULIPPE: Mr. Minister, do you feel that there is enough capital in Canada right now?

(*English*)

Mr. SHARP: No, Mr. Chairman.

(*Translation*)

Mr. LATULIPPE: In that case, if we need more capital, why not let in a bank, a foreign bank, an American bank, a neighbour bank, citizens with whom we have close relations, why not invite them to come to Canada and lend us their capital since Canadians have to pay interest on either American, French or English capital. I really do not see much difference. So, if we are lacking capital, why then do our authorities, provincial, municipal, or school, have to travel to various parts of the world, to the United States mostly, to solicit capital? These citizens will deal with the same organizations, the same banks, or the same money lenders to get the required capital to finance the school commissions and municipalities when, were a bank to set up here, it would bring in capital and would give direct service on the spot? It seems to me that this bank could be submitted to the same conditions and have similar privileges to those of Canadian banks with regard to its operations. If we did not lack capital, it would be another story. But if we lack capital, I presume we should do something and I am wondering what the Minister thinks about this.

(*English*)

Mr. SHARP: Mr. Chairman, I do not think the fact that the National City Bank purchased the Mercantile added very much to the availability of capital in Canada. That is not the issue here.

There is no limitation whatever upon the right of Canadians to borrow money in the United States if they wish. Indeed, as the bankers here know, they get a good deal of competition from American banks who are financing Canadian industry today. This is a good thing, I think. I think our banks need a lot more competition than they have. The fact that Mercantile Bank is operating here does not really affect the availability of foreign capital very much because the main activity of the Mercantile Bank will be to gather the savings of Canadians, not the savings of Americans, and to invest them in Canada.

The question of agencies, the original point from which we started on this long detour, is relevant here. Agencies simply facilitate the financing of Canadian business by American banks. They do not add anything to the resources that are available; they simply make them a little more accessible.

There is nothing wrong, per se, with this kind of imported capital as compared with any other kind of imported capital. It is borrowed money; it does not represent an increase in the ownership of Americans of our business; it represents a charge upon it; in one way or another we have to finance our balance of payments deficit, and in some respects this is a preferable way of doing it if it has to be done.

The CHAIRMAN: I think Mr. Fulton indicated that he wished the floor. Perhaps I should recognize him at this point.

Mr. FULTON: Thank you, Mr. Chairman. I understand, Mr. Sharp, that at an earlier stage today in discussion of this matter, you said that you did not contemplate at this time any action by way of legislation to allow the setting up of agencies. May I ask, then, whether we are to infer from that—and, mind you, I am not assuming that your government will be in office for the next ten years—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Not like Mr. Cameron.

Mr. FULTON: Do I infer from that—and if I am wrong will you please correct me—that in your view it would be another ten years before this could be done? Or would you contemplate not necessarily waiting until the next decennial revision?

Mr. SHARP: During your absence I did say that I thought we should look at this problem during the next few months, with the objective of taking a decision then. I do not have in mind waiting until the next decennial revision of the Bank Act. Indeed, my officials are of the view, that it would probably be better to have a piece of legislation separate from the Bank Act for the establishment of agencies. In any event, this particular piece of legislation will not be part of the decennial review of the Bank Act.

Mr. VALADE: I have a question, Mr. Sharp. I was wondering what were the criteria, or if there is any policy designed, for limiting the number of agencies either in units, or in capital, in Canada.

Mr. SHARP: I said, in reply to a similar question, that there would have to be a limitation, I think, both on the number of offices and upon the scope of the operation.

Mr. VALADE: Is there any determined or fixed policy to limit, in the immediate future or later, the amount of units of agencies coming into Canada, either from the United States or from other sources?

Mr. SHARP: Perhaps you misunderstood what I said. I said that any legislation to permit the establishment of agencies should, in my opinion, include a limitation on the number of offices.

Mr. VALADE: But this will be made, Mr. Sharp, only as the demands arise in that field, not in an over-all, designed plan?

Mr. SHARP: This is one of the problems, and this is one of the reasons that I feel we should have a little longer time to consider the situation.

It is very likely that if we did permit the establishment of agencies in Canada there would be very widespread interest. As I have already said, a fair amount of financing of Canadian business is now being done by American banks. Some of those banks, I am sure, would like to have an agency in Canada because it would facilitate the doing of that business. I think we could also expect to have an interest shown from other countries. I think we could expect to have an interest shown by Japanese banks; perhaps by some English banks; and perhaps the odd European bank. This is one of the reasons why I feel that it would be desirable to move with deliberate speed here rather than to take now decisions that would be taken without a full regard for all the implications of such action.

Mr. VALADE: There will have to be some kind of a ceiling calculated for the licencing of these agencies in Canada so as to allow a ratio or proportion of foreign agencies. I have in mind the area of either U.S. agencies or European agencies. If there is to be a certain balance of interest, or investment, in Canada then certainly this proportion, or this balance, must be kept in mind by legislation, otherwise it will be concentrated in one source of investments; and is this not the problem we are facing today in this regard?

Mr. SHARP: Mr. Chairman, I do not know whether the significance of the establishment of agencies is fully understood.

These agencies will not gather the savings of Canadians. They will be lending money from the parent bank. That can now be done. There is nothing at all to prevent Canadian companies from borrowing money in Tokyo, or in New York, or in Chicago, or in San Francisco; and this is done. The agencies, in the main, facilitate the business, and there would be accorded to agencies some privileges that would be very valuable to banks who would establish here. However, this has very little to do with the issue of foreign capital entering the country. The amount of capital that enters Canada is determined by considerations other than the establishment of agencies.

That is the only point I would like to make, Mr. Chairman.

The CHAIRMAN: I gather that what you are saying is that agencies will lend money rather than invest it.

Mr. SHARP: Yes; that is right.

Mr. VALADE: Mr. Sharp, you may correct me if I am wrong, because I am not a professional in banking either, but on the business aspects of the results of

these agencies, will they, in fact, become some kind of barometer, or thermometer, on the climate of investment in Canada so that those agencies will either do their investing on a large or small scale? Will it not have this effect?

Mr. SHARP: No; I do not think that is a proper conclusion. I am sure that when the bankers were before you, although I did not have the privilege of being here, they described how their agencies operate in New York. I understand they do a very profitable business, but they do not gather the savings of Americans to do that.

The CHAIRMAN: Thank you, Mr. Valade.

I think we might now begin our second round.

I might say, just as a point of interest, that before we began our meeting this afternoon I was downtown and I dropped into a small retail store on Sparks Street. The manager approached me and asked where he and his wife might be able to buy some Mercantile Bank shares. You might want to pass this information along to the owners of the bank!

Mr. MACKASEY: I hope the prospectus indicates a true financial position.

The CHAIRMAN: I took the same position as that of the minister and said that I did not think it would be advisable for me even to venture a suggestion.

In any event, to begin our second round of questioning I will recognize Mr. Monteith who, I know, may want to yield to Mr. Lambert.

Mr. MONTEITH: Yes, I would just like to follow up my last question, if I may. Might it not make it more attractive for Canadians to invest in the Mercantile stock if the present owners of the banks decided to divest themselves of 75 percent of their holdings, bearing in mind that this divesting cannot take place over night, and the changes in the Bank Act will be coming into force reasonably soon,—I come back to the qualification—and if, in the meantime, some greater incentive were allowed to enable the bank to go ahead, progress and make money in that interim, such as removing the provision in respect of "20 times the authorized stock", which at the moment has been exceeded.

Mr. SHARP: I can only answer this question, Mr. Chairman, by saying that the government does not intend to change that ratio; and while the National City Bank, of course, asked to be free of all these restrictions, anything that I have heard about the thinking that they have been doing recently does not depend upon a change in that ratio.

Mr. MONTEITH: Well then may I ask just how the figure of 20 was arrived at, rather than 18 or 22, or 15 and 25.

Mr. SHARP: Some figure had to be taken and, if I may venture an opinion as to why the "20 times" was taken, it was considered to be sufficiently high to enable the bank to continue in operation and sufficiently low to be a very strong incentive to dispose of 75 percent of their shares.

Mr. MONTEITH: You say, sufficiently high to have the bank continue in operation but, if it cannot go any higher, it cannot make money, according to that financial statement of Mr. Mackasey.

Mr. SHARP: Well, I will not speak for the affairs of the Mercantile Bank but I understand that the National City Bank inherited some accounts that were not the most profitable. The former managers and owners of the bank had not

conducted a very prudent banking business. Their investments left something to be desired.

Mr. MACKASEY: I hope, Mr. Sharp, that you are not representing the Mercantile.

Mr. SHARP: No...

Mr. MACKASEY: I got that inference and I know it was unintentional.

Mr. SHARP: No, I do not think that could be taken from what I said.

Mr. MACKASEY: I am only kidding. There is still enough money in their undivided profit to look after ten people like myself.

The CHAIRMAN: I said I would recognize Mr. Cameron and I think I should do so, and following him we will move directly to Mr. Lambert.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Sharp, I am going to make a suggestion which I hope you will accept not as a doctrinaire position but as a practical suggestion in the light of the situation we now find ourselves in. Mr. Mackasey has very ably brought out the fact that there may be great difficulty in inducing Canadians to invest in the Mercantile Bank and I must say the same thought occurred to me when I read the report of your hopeful comments about Canadians investing in it. It has occurred to me that this situation cannot be left unresolved for another reason—a much more fundamental reason. If it is not resolved then it is going to be a continuing source of irritation between ourselves and our neighbours. I am sure the Minister is only too well aware of that, and it seems to me we must do something to avoid having an unnecessary exacerbation of our relations with the United States.

Mr. Sharp, have you considered the Canadian government making an offer to the National City Bank for its interest in the Mercantile Bank. In order to buttress my position in this, I would like to, if I may, make some reference to experiences in some other countries. As I have no doubt you are aware, Mr. Minister, the Bank of New Zealand is not only the central bank of New Zealand but also it is the largest commercial bank in that country, and it is owned by the government in New Zealand. They faced a similar problem in connection with one certain bank some years ago, the original bank of New Zealand, which on a number of occasions got into difficulties and had to be bailed out by the government, and finally the government took it over. Since then, as I say, it has become, I think, the largest commercial bank in New Zealand.

A similar experience took place in Australia with which we, as Canadians, have a certain interest as the Commonwealth Bank of Australia was established by a Canadian. It also combined its functions of a central bank with that of commercial banking, and it is the largest bank in that country.

My third instance is France, where the four—which quite recently I believe merged to only three—largest banks in the country are publicly owned, in addition to the Bank of France which in addition to its central banking activities also engages to a limited degree in commercial banking.

I suggest to you, Mr. Minister, that this would be not only a solution to this very serious problem that we have right now—and as a member of the government that has taken quite an uncompromising position on this, I am sure you do not need me to point out that it is extremely difficult for you to retreat—but in addition to that, the operation of the Mercantile Bank, or call it what you will,

as a government chartered bank operating on the same terms as other chartered banks, would provide us, perhaps, with some unequivocal content of competition in our banking system. We might even be able to control some of the actions of the chartered banks that were revealed in a letter I was given today, dated December 2nd, 1966, in which a customer of one of the banks had a letter from the bank saying in part. "Your borrowing account has been individually assessed, as of all others on our books, and after taking all factors into consideration, we find it necessary to charge a service fee of 12½ cents per 100 dollars monthly commencing this month to compensate for the increased costs referred to above. This amounts to an increase in interest rate of 1.5 percent."

I would like you seriously to consider this way out of our impasse and seriously consider this proposition as a useful and valuable injection of a real competitive element within our banking system.

Mr. SHARP: Mr. Chairman, I will agree with at least one statement by Mr. Cameron and that is that I think we should all welcome a resolution of this issue in the interest of our relations with the United States and also more generally in relation to the functioning of our banking system as a whole. This issue undoubtedly has exacerbated relations between Canada and the United States. I do not think it has exacerbated those relationships as much as has sometimes been suggested, but it is not a desirable incident or one that has promoted good relations between our two countries. Therefore I am very strongly of the view that if we can resolve this issue in a constructive way, within the spirit of the legislation that has been put forward, this would be a most desirable outcome. I hope that the Committee as a whole will take the same view as you have on this matter.

The CHAIRMAN: In other words, are you referring to the government seizure or purchase of the—

Mr. SHARP: No; I am talking about the desirability of getting a constructive solution to this problem.

As far as the government entering the banking business is concerned, the government is indirectly in the banking business today through the Industrial Development Bank, in which it is making loans directly to industry through a subsidiary of the Bank of Canada—in this case, fortunately, far enough removed from political control that no one has ever suggested that the I.D.B. acted in anything except the interests of the shareholders, who are the government of Canada and the taxpayers of Canada. I think this has been an operation that has been conducted in an admirable way.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Minister, I think you will agree, however, that the I.D.B. is not a bank in the terms in which we usually regard a bank. It does not accept deposits from the public.

Mr. SHARP: No, but it carries on a business, if not—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It is a lending agency.

Mr. SHARP: Yes, and if not competitive with the banks it is at least complementary to the banks and it provides a place to which borrowers can go who do not have access either to bank credit or to the money market.

I, personally, do not believe that it would be in the public interest for the government of Canada to own a chartered bank and, if I did think that it would

be, this is not the way I would go about it. I would not want to go in by the back door in this way. If I thought that it would be in the public interest for the government to go into the banking business, I think we should establish our own bank.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have no objection to that at all. It was my idea to solve this other problem.

Mr. SHARP: Yes, but I do not think that it would be desirable to take this sort of a decision on the basis of trying to clear up a situation that can be cleared up, in my judgment, by sensible action on the part of the owners of the bank.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Excuse me Mr. Minister, may I add a supplementary question. Surely you realize that no matter what the views may be of those who control the first National City Bank, this outcome cannot be achieved unless the Parliament of Canada alters the legislation that is before us, or unless—and I think this is extremely doubtful, as do other members of the Committee—you are able to persuade the citizens of Canada to invest in the Mercantile Bank as it is at present constituted under the possibility of continuing restrictions. It is not merely up to the National City Bank.

Mr. SHARP: If I may say so, it is possible within the legislative framework now before us to enable the National City Bank to dispose of 75 percent of its shares over a reasonable period of time without altering any of the provisions of the Act as they now are. However, the problem of policy has to be taken into account too. The framework for a solution to this problem is to be found within the bill that is before you and the Bank Act as amended.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well, Mr. Minister, the provisions in the bill before us which permit the Bank of Western Canada to have a clear ten year divesting period do not apply to a bank with foreign ownership, and I cannot see how the bill, unless it is amended, will achieve the purpose you suggest.

Mr. SHARP: I am not suggesting by my answer that it might not be found desirable to make a minor change or two in the bill to facilitate sale of shares. All I want to say is that it is possible within the present Act for a successful offering of shares to be made, in my judgment.

The CHAIRMAN: I will now recognize Mr. Lambert, followed by Mr. More.

Mr. LAMBERT: There are two points I would like to raise, Mr. Chairman. First of all, in connection with the requirement that no more than 25 per cent of its issued shares are held by any one resident or non-resident shareholder, as provided for under clause 75 (2) (g), and again, under clause 53 (1) (a) and related subclasuses, just what is magical about a resident being a Canadian? There has been a good deal of sales to Canadians but I can be a resident of this country and not be a Canadian.

Mr. SHARP: Yes. This word has been used loosely; what is meant is resident.

Mr. MACKASEY: Could you not own it if you lived out of the country and were a Canadian citizen?

Mr. SHARP: It would not apply to a Canadian under those circumstances, and it might be that some non-Canadians who would be residents of Canada would

be eligible to own these shares. The effect in the act, as I understand it, is residence, not citizenship. If I have used the word "Canadian " it has been in that loose sense of a Canadian resident rather than a Canadian citizen.

Mr. LAMBERT: Therefore, there is no guarantee that a bank will not be under majority or almost entirely foreign national control under the provisions of this act?

Mr. SHARP: I see no suggestion that any of them are, except the Mercantile Bank.

Mr. LAMBERT: Yes, but the only point is that it has always been said that this bank shall be controlled by Canadians and all that means is controlled by residents of Canada.

Mr. SHARP: That is right.

Mr. LAMBERT: Now, there is another point that I want to make. The continuation of the present Bank Act expires about the first of April or thereabouts. I take it that the Minister is aware of the provisions of the bill that was proposed by Senator Javits in the 89th Congress and which I understand has or is about to be re-introduced. I am sure that the Minister is aware of the provisions in clause 6, subclause (b) where it states in part—and this is from the Javits bill—

> If at any time, the foreign government under whose laws the parent bank of the agency, branch, or controlled subsidiary is organized, changes its laws or regulations affecting United States banks operating thereunder directly or through subsidiaries the Comptroller of the Currency shall have authority to impose the same conditions upon the foreign banking corporation or its branch, agency, or controlled subsidiary operating within any State.

It is theoretically possible that this act or one similar to it, with this particular provision, could be passed by the time the new Bank Act will have come into force, and I am wondering what cognizance has been taken of this possibility by the Minister in his arriving at the decision that he would defer to some later date, after some months study, legislation that would permit agencies of foreign banks to operate in Canada.

Mr. SHARP: I have not studied the provisions of the Javits bill, which, incidentally, is for the purpose of encouraging the operation of foreign banks in the United States under some sort of uniform rules. That is the purpose of the bill.

The section to which Mr. Lambert has referred is the limitation upon this or one of the qualifications, the qualification of reciprocity, which is not mandatory but, as he had read it, permissive. I would not say that I had the Javits bill particularly in mind in suggesting that we should over the next few months have a good look at the question of agencies, but I did say in my opening remarks that I felt that it would be desirable to make the decision after we have had a chance to reflect upon developments both in Canada and abroad.

Mr. LAMBERT: Of course, I think the Minister is quite cognizant that among all the flowers and the ease, there are these bricks that one can stumble on.

Mr. SHARP: As Minister of Finance, I am more conscious of this than any other member of the House of Commons.

Mr. LAMBERT: Might I also add—and this refers back to something that was said this morning in your opening discussion on the definition of banking—that here is one bill that does try to define the business of banking.

Mr. MORE (*Regina City*): Mr. Chairman, I just want to clear up something that the Minister said, as I understood it, in answering Mr. Cameron about the resolution of the problem that we have with the Mercantile.

Do I understand, Mr. Minister, from what you have said, that if the present bill became law it would still commit you as Minister of Finance to accept the proposal of Mercantile to divest itself, as called for, and give you the right to accept a proposal from them similar to the power you exercised with the Bank of Western Canada?

Mr. SHARP: I do not want to mislead the Committee, Mr. Chairman. I did not say that it would be possible to apply to the Mercantile Bank and the National City Bank the same rules as we have applied to the Bank of Western Canada. That was not the question that I was asked. I was asked a rather different question, and I would answer specifically that it would not be possible under the present bill to apply the same rules to the Mercantile Bank as have been applied to the Bank of Western Canada.

Mr. MORE (*Regina City*): But you would have some discretionary power to deal with the Mercantile situation under this bill.

Mr. SHARP: There is discretionary power in the act, which I am sure everyone is familiar with, that enables the Governor in Council to approve increases in the capital of any bank.

Mr. MORE (*Regina City*): Yes, and that is the only power that there would be in this bill.

Mr. SHARP: That is right.

Mr. MORE (*Regina City*): And is this sufficient to resolve the Mercantile situation?

Mr. SHARP: I can conceive of circumstances under which it would be sufficient.

Mr. MORE (*Regina City*): You can.

Mr. SHARP: Yes, I can.

Mr. MORE (*Regina City*): In other words, as proposed by Mercantile to start to rectify this situation would not bring an exemption from the restriction. In other words, no exemption from that restriction could be granted by the Governor in Council if they made a proposal to divest their interests within a period?

Mr. SHARP: Under the present law, the Treasury Board must approve the capital of any bank. Under the proposed bill that authority is transferred to the Governor in Council, but otherwise I think it remains the same.

Mr. MORE (*Regina City*): I believe you were quoted as saying that you were aware of Canadian residents who would purchase shares of Mercantile?

Mr. SHARP: It has been said to me when I have been visiting some of the great financial centres of this country that the National City Bank might be surprised at the alacrity with which the shares would be taken up if they knew

that the Mercantile Bank, within a measurable time, would not be subject to the restrictions of 75(2) (g).

Mr. MORE (*Regina City*): This is exactly the point, Mr. Minister, that I want to get to. Provided the Mercantile made a proposal to divest itself the people who would buy those shares would want to do so with the understanding that this action would mean no restrictions. Do you really think they could be purchased to such an extent that it would lift the restrictions within one year or two years? Would it not take a period of five years for resident Canadians to make an investment of that nature; and would not the bank have to have freedom to improve its position during that time, if the shares were going to be interesting.

Mr. SHARP: I recognize that the Mercantile Bank and the National City Bank have a very serious problem.

Mr. MORE (*Regina City*): But under this bill, without amendment, would you be in a position to use your discretionary powers to help them solve the problem in the interests of arriving at what we want arrived at by this act. I take it, it would require an amendment.

Mr. SHARP: No. I must answer the question as I answered it originally. I can conceive of an arrangment under which it would be possible without any amendments to the act and to the bill for the Mercantile Bank to make offerings of shares to Canadians. I can also conceive of circumstances under which it would be easier for them to proceed to such a result by minor amendments to the act.

Mr. MORE (*Regina City*): This is what I mean. Amendments would be required to the act; otherwise the only way that they could divest themselves so that the restriction of operation would not apply would be to dump 75 per cent of their shareholdings on the Canadian market.

Mr. SHARP: No, I cannot agree with that statement.

Mr. MORE (*Regina City*): That is not right.

Mr. SHARP: No.

The CHAIRMAN: I gather that the Minister is trying to suggest that a lot depends on the particular type of proposal that is put forward.

Mr. SHARP: That is right. We are talking here in very vague terms, and since everything that I say may have to be read in the context of developments, I want my answers to be as accurate and as specific as possible.

Mr. MORE (*Regina City*): Well, I appreciate that and I am not trying to catch you off base, Mr. Minister, because I have the same concern that you and other members of the Committee have expressed. My thinking was different from Mr. Cameron's. I wondered if they could approach you and say, "We will put 25 per cent of our shareholdings on the Canadian market this year and would be prepared to put another 25 per cent on next year," and then the restriction that apply in the act would not apply. In this way Canadian resident investors would know that in a period of time they would be buying into an institution that was becoming a properly constituted one under the Bank Act, but its growth would not be impeded during this period. This is specifically the sort of thing that I had in mind in putting my questions to you.

Mr. SHARP: Well, Mr. Chairman, the interview that I had with the representatives of the Mercantile Bank did not in itself lead anywhere at all. As I said in the House, we simply reviewed the position. Since that time there has been communicated to me indirectly certain ideas but these are not yet of a form and are not as precise as the honourable member has suggested here. Therefore, I do not feel that I can speculate about them. I must give answers that will not lead to any speculation as to the policies of the government—

Mr. MORE (*Regina City*): I think I would be satisfied, Mr. Sharp, if you could tell me whether the bill, if it is passed in its present form, would permit the proposition I put to you. This is really what I would like to know.

Mr. SHARP: Under certain conditions the proposition you have put forward could be carried out without any amendments to the act, but that proposition has not even been put to me indirectly.

Mr. MORE (*Regina City*): I am not suggesting it was. It came out of my own head. I just wanted to know if the bill would negate any operation of that kind.

The CHAIRMAN: I now recognize Mr. Laflamme followed by Mr. Mackasey.

Mr. LAFLAMME: I have a supplementary question relating to clause 75 (2) (g). Is there a possibility, Mr. Sharp, that the limit could be extended, say, to December 31, 1967, for Mercantile to be disposed of to the extent of 25 per cent of its shares? I realize there are deposit accounts to July of 1966, and where it is still—

Mr. SHARP: I cannot really answer that question other than to simply say that we would consider such a suggestion. However, we have not made any decision of that kind that I am in any position to communicate. In any event, parliament would have to decide whether it wished to allow more time for the developments to take place. I cannot answer the question as to whether I would be disposed to favour such an extension of time because this matter has not been considered by the government, and I am speaking here for the government.

Mr. LAFLAMME: Is it possible for the Mercantile Bank to have an increase in its authorized capital before it disposes of its shares?

Mr. SHARP: Yes, there is no limitation, either in the present bill or in the act as it now exists, upon the right of the Treasury Board or the Governor in Council to increase the capital of any bank. That is solely within the discretion of the Treasury Board or the Governor in Council.

The CHAIRMAN: I now recognize Mr. Mackasey followed by Mr. Thompson.

Mr. MACKASEY: Mr. Sharp, I am a little concerned about the word "resident" as opposed to "citizen". Theoretically, why could not the present owner of Mercantile transfer 10 per cent of the shares to particular people and set them up in Windsor, for instance? In other words, how do you define "resident"?

Mr. SHARP: Perhaps I can refer this to Mr. Elderkin. He is a much more expert witness on this than I am.

Mr. ELDERKIN: That situation will be covered by the associate clause in the act where, if they set up a dummy corporation, et cetera, in Windsor, if you will, under the act it would be an associate of the National City Bank and it would be considered as one shareholder for that purpose.

Mr. MACKASEY: Let us say that they are insidious, they do not set up a corporation. Let us say that the stakes are high enough—and I am not just referring to Mercantile, but to anybody—why do we not tighten it up by saying "citizen" instead of "resident"? How do you define "resident"?

Mr. ELDERKIN: I think "resident" actually means resident address; ordinarily resident in Canada. This was very carefully discussed in the drafting of this bill. If you tried to prove how many of the many thousands of shareholders are actually Canadian citizens it would be a pretty onerous job and possibly almost impossible to prove. We finally decided to adopt the word "resident", and this means ordinarily resident in Canada.

Mr. MACKASEY: Suppose you have a senior citizen who, at the age of 65, decides to go to Florida for reasons of health.

Mr. ELDERKIN: He becomes a non-resident.

Mr. MACKASEY: He is discriminated against to the extent that he must comply with this law.

Mr. ELDERKIN: He becomes a non-resident.

Mr. MACKASEY: So, has fewer privileges than a resident who may have an address in Montreal and comes up here twice a year on a fishing trip.

Mr. ELDERKIN: No, he has to be ordinarily resident in Canada.

Mr. MACKASEY: Yes, but we do not define it.

Mr. ELDERKIN: Yes, we define it.

An hon. MEMBER: The clause defines it.

Mr. SHARP: The same problems arise with the taxing legislation. We have to decide what a resident or a non-resident, is for purposes of assessing tax.

The CHAIRMAN: I gather the term "ordinarily resident in Canada" has been interpreted by the courts over the years, particularly with reference to income tax law.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I ask a supplementary?

The CHAIRMAN: Yes, if Mr. Mackasey will yield.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I just want to get clarification from the Minister of his answer to Mr. More that it would be possible to resolve this problem within the confines of the legislation which is presently before us. Am I right in assuming that the two methods that the Minister has in mind of resolving this are, (1), the use of the powers of the Governor in Council to authorize expanded capital and, (2), the rather more hypothetical proposition that there would be enough Canadians prepared to buy shares while this act is in effect? I am quite puzzled to know how the Minister can take the position that without amendment this act can do what he is suggesting can be done, and without quite serious amendment as far as the Mercantile Bank is concerned.

Mr. SHARP: Mr. Chairman, this is why in one of the interjections I made and, indeed, at the opening of my testimony, I said that I proposed to amend the bill by proposing a restriction on the transfer of shares of a bank to a non-resident when more than 25 per cent of the shares are then owned by one non-resident. I am going to propose that any such tranfers must be to a resident. The bill,

as I gather it has been pointed out in the Committee, is faulty in this respect. During the examination before this Committee, a loophole was discovered whereby it would be possible for these shares, if we did not make this amendment, to be transferred to non-residents. This is not our intention. Our intention is that any shares which are transferred or sold by a bank that is more than 25 per cent owned shall be to Canadians, that is, to residents in Canada. This would then prevent the Governor in Council from increasing the authorized capital of the Mercantile Bank, for example, in such a way as to enable the National City Bank to issue additional shares to itself.

Mr. MACKASEY: May I ask a supplementary? Such an amendment would permit the authorized shares to be increased, provided they remain in the hands of Canadians?

Mr. SHARP: Such an amendment would not prevent the shares being sold to residents of Canada. It would prevent them being sold to residents of the United States, including the present owner of all the shares. However, the decision on whether to permit an increase in capital per se remains within the discretion of the Governor in Council.

Mr. MACKASEY: What you are making sure of is that if he does decide to do this that it will not be to foreign hands, it will be to Canadian hands, and you are taking further action to make sure that those Canadians then do not transfer them to foreigners? In other words, the onus is on Mr. Rockefeller to get rid of some of his marbles that he was talking about the other day and stop playing with them. If he wants to increase the authorized shares of capital, the only way he can do it is to let Canadians participate in his bank.

Mr. SHARP: That is right.

Mr. MACKASEY: Which comes back to Mr. More's problem, and I do not want to get into that and force you into a position where you could be misinterpreted.

The CHAIRMAN: Have you completed your questions, Mr. Mackasey?

Mr. MACKASEY: Yes, Mr. Chairman.

The CHAIRMAN: I just want to draw to the attention of the Committee, and I think Mr. Elderkin will agree, that in clause 52 on page 28 of the English text of the bill there are definitions of "resident" and "non-resident" which bring into account the concept of "ordinarily resident in Canada". Clause 54 would appear to be designed to prevent voting by resident nominees of non-residents.

Mr. FULTON: But at the same time, Mr. Chairman, "resident" means an individual corporation or perhaps it means "not a non-resident". You have to go back to the law as it is interpreted by the courts.

The CHAIRMAN: Mr. Fulton, if you will look higher up on the page, they then define "non-resident" as:

> an individual who is not ordinarily resident in Canada.

Now, as a person who does not spend his time drafting laws, I may wonder why they did not put that concept in the definition of "resident" instead of going about it in a convoluted way like that, but perhaps this is the way parliamentary draftsmen have worked for generations and I suppose it would not be proper for us to attempt to jolt them out of their appointed paths.

Mr. SHARP: Are you suggesting that members of parliament who are lawyers are better draftsmen than civil servants who are lawyers?

The CHAIRMAN: I would exclude myself from any such suggestion, but if we look at people like Mr. Fulton or Mr. Laflamme perhaps we might accept your suggestion.

Mr. SHARP: Yes, but Mr. Fulton was a former Minister of Justice.

Mr. FULTON: I was trained.

Mr. MACKASEY: And Mr. Laflamme may be a future one.

The CHAIRMAN: I now recognize Mr. Thompson.

Mr. THOMPSON: Mr. Chairman, I do not want to be repetitious in any way but clause 75(2)(g) sticks uncomfortably in my craw. The Minister stated today that the government does not intent to amend, delete or change clause 75(2)(g) in any way. I think we all recognize that Mr. Sharp has built up a reputation for himself of being a fair minded man, but do you really feel, Mr. Sharp, that this clause is not discriminatory?

Mr. SHARP: Yes.

Mr. THOMPSON: Without getting into the Mercantile—Gordon—Rasminsky argument again, Mr. Rasminsky's words are not the law of this land and neither are Mr. Gordons', and Mercantile broke no regulations or contravened no law in purchasing a bank that was already foreign-owned. By imposing a restriction on the Mercantile Bank that applies to that bank, only, do you not feel that the law is not fair in the sense of being non-discriminatory? How can you impose a requirement on one bank that you do not impose on another and still say that you are not discriminating?

Mr. SHARP: The short answer, Mr. Chairman, is that we do not only apply this to the Mercantile Bank. It now applies to the Bank of Western Canada. It might even apply to the Bank of British Columbia if they found some difficulty in getting their shareholdings down to a level where no one shareholder had more than 25 per cent, and although the arrangement with the Bank of Western Canada is for purposes of facilitating the transfer of their shares, they are not exempted in any way from the operation of clause 75(2)(g).

Mr. THOMPSON: I believe our Canadian people—and certainly this applies to foreign people who are familiar in any way with the operation of Canadian laws—have confidence that our laws are fair and equitable but I think there is a real danger in this clause, particularly as it relates to our foreign friends, whoever they might be, in that they may regard this type of legislation as discriminatory. While I say that, I recognize that Canada is an autonomous nation and she can pass any laws she wants to, but do you not think, by requiring that no bank be foreign-owned to a greater extent than 25 per cent, that you are actually accomplishing the very thing you want to accomplish anyway without clause 75(2)(g) being in the bill?

Mr. SHARP: Would you repeat that question.

Mr. THOMPSON: In other words, do you not think, by requiring that all banks have not more than 25 per cent foreign ownership, that you are accomplishing the very thing you want to accomplish, without having clause 75(2)(g) in the

bill? In other words, if this new legislation which we are now considering in this bill required that no banking organization present or future be owned by foreigners to a greater extent than 25 per cent, do you think that you would be protecting our own situation as you feel it should be protected, without including a clause such as 75(2)(g)?

Mr. SHARP: If we did not have a clause like 75(2)(g) it would be possible for a wholly-owned subsidiary of the National City Bank to expand to an unlimited degree, except to the extent that the Governor in Council refused to increase their authorized capital.

Mr. THOMPSON: I have not made myself clear, Mr. Sharp. Why do you not just require that all banks operating in Canada that have Canadian charters shall not have foreign ownership exceeding 25 per cent and be through with it? You cannot call that discriminatory because one of the present banks could very well sell 50 per cent of their present shares to American interests, there is nothing to stop them, so you cannot say that clause 53(1)(a) is discriminatory. Why not just make this a compulsory part of the act and let it go at that?

Mr. SHARP: We have made it a compulsory part of the act, if you want to use those terms, by requiring that no one may acquire more than 10 per cent of the shares of any other banking institution. That is part of this bill.

Mr. THOMPSON: I am not arguing against that. I agree with that.

Mr. SHARP: It is every difficult to maintain that position and then permit the wholly-owned subsidiary which owns 100 per cent of this bank to continue to operate as if this were in accord with the spirit underlying the legislation.

Mr. THOMPSON: I am not saying that it should do so. I am saying if you believe that it is essential in order to protect our own financial policy in Canada in the operation of our financial institutions that you should limit the amount of foreign ownership of any bank, why not come in the front door and do it instead of coming in the back door, which you say you oppose, by requiring them to do it through a clause like 75(2) (g)? Why do you not come straight forward and say that?

Mr. SHARP: There would have to be some sanction, Mr. Chairman, in such a law. Certainly it is very fortunate that the share ownership of all our chartered banks, with the exception of the Mercantile Bank is very widely dispersed. Indeed, we have only found one shareholder who owns more than 10 per cent of the shares of any of the other Canadian banks.

Mr. THOMPSON: But I am not arguing with that, Mr. Sharp. I am not arguing with that at all. I am agreeing with you in that regard, but you have said—and I am not quoting you exactly—that you have fears regarding the National City Bank of New York and Mercantile as it is presently set up. I am not arguing with you in any way in this regard but would it not be more of a front door entrance—and I am referring to this because you used these words yourself a while ago—to come out point blank and say that you are going to restrict the foreign ownership of any bank in Canada, including Mercantile, but you are going to give them a reasonable period of time—five years, or whatever might be reasonable—to divest themselves of 75 per cent of the shares of Mercantile, then and delete clause 75(2)(g) altogether, because in effect what you are going to do by placing a limitation on clause 75(2)(g) is force them, I would think, to come

under clause 53(1)(a) anyway. It is a back door approach to applying the law to them. At the same time we are spoiling our own reputation because I believe we are leaving ourselves wide open to the accusation of being discriminatory in this legislation as it is stated in clause 75(2)(g).

Mr. SHARP: I see no difference in the discriminatory or the retroactive character of the legislation if we had a clause somewhere else in the act that said that the National City Bank must, on peril of losing their licence, reduce—

Mr. THOMPSON: You do not say that. All you have to do is to put in a general regulation, because there is no reason at all under the present legislation why one of the present banks cannot divest themselves of their Canadian shares and become foreign-owned.

Mr. SHARP: Mr. Chairman, perhaps I should add that there is nothing in the act which prevents Mercantile from operating in Canada. What clause 75(2)(g) does is to limit their growth in Canada and they—

Mr. THOMPSON: Well, it is the back door approach of using the club.

Mr. SHARP: In either event there is a club if we say that the National City Bank must divest itself of 75 per cent of its shares. It would take offence to that just as it has to clause 75(2)(g) because it would argue—as it has argued in connection with clause 75(2)(g)—that they purchased the Mercantile Bank with the expection of continuing to be the sole owner.

Mr. MACKASEY: Mr. Sharp, is it not also a fact that—following Mr. Thompson's argument—clause 75(2)(g) would not apply anyway?

Mr. THOMPSON: No. Mr. Mackasey, what you are doing here is applying a discriminatory law against one institution that will force them into a position—

Mr. MACKASEY: —where they will have to become Canadians. It is about time, too.

Mr. THOMPSON: Why do we not come in the front door and put down just what we mean, then?

The CHAIRMAN: Gentlemen, perhaps we could save our debate on this issue for the clause-by-clause stage, which we will probably begin in a few days.

Mr. THOMPSON: May I ask one more question, Mr. Chairman?

The CHAIRMAN: Yes. You have the floor as far as questions are concerned.

Mr. THOMPSON: What is there in the legislation that will prevent a Canadian who purchased shares in a Canadian bank from reselling them to an American or to a non-resident?

Mr. SHARP: There are several provisions in the law that limit this right. They can sell if they wish, but the total of the ownership—I suppose it is of the voting shares—

Mr. THOMPSON: Where is it?

The CHAIRMAN: It is clauses 53, 54, 55 and 56.

Mr. SHARP: The general rule in the act, apart from clause 75(2)(g), is that the total of the foreign ownership of any of our chartered banks shall not exceed 25 per cent, and therefore a transfer made to a non-resident which went beyond that would be in contravention and could not be consummated.

Mr. THOMPSON: Then you are saying that up to 25 per cent it would be possible?

Mr. SHARP: Yes. Except that one individual, in any event, must not own more than 10 per cent.

Mr. THOMPSON: Yes, that is quite clear, but there is nothing to prevent a Canadian from selling his shares to a foreigner or a non-resident providing they do not exceed 10 per cent in the case of any individual or 25 per cent in total?

Mr. SHARP: Providing the total of all the shares held by non-residents does not exceed 25 per cent for that institution.

Mr. GILBERT: I have a supplementary question.

The CHAIRMAN: I will recognize Mr. Gilbert if Mr. Thompson will yield for that purpose.

Mr. GILBERT: Mr. Elderkin, just how do you intend to supervise or police these clauses?

Mr. ELDERKIN: The banks themselves are supposed to police them. They are under penalty if they do not.

Mr. FULTON: Mr. Sharp, while we are considering these amendments which will prevent this bank or any other bank from selling more than 25 per cent of its shares in the United States or any other foreign country, unless my understanding is imperfect would we not have to consider the implications of subclause (g) in respect of the possibility of their getting approval for an increase in their authorized stock and not issuing it? I do not believe there is anything in the Bank Act or the Companies Act or any securities regulations in Canada that requires a corporation, if approval for an increase in its authorized capital has been granted, to issue that capital. Usually that is the purpose for which they get it, but they can leave it in the treasury.

Mr. SHARP: Except, Mr. Chairman, that the increase in capital must be approved by Governor in Council, and therefore the Governor in Council can set the conditions for the increase in capital.

Mr. FULTON: Your precise meaning is that you could say that you would not approve it unless the banks undertook to issue it?

Mr. SHARP: Exactly, and to residents, as I will propose.

An hon. MEMBER: And issue it to residents of Canada.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The mere authorization of a capital increase is not sufficient, the shares have to land in the hands of Canadian citizens?

Mr. FULTON: That is not in the act, Mr. Cameron.

Mr. SHARP: I am suggesting that the Governor in Council can fix whatever conditions he wishes for the increase in capital. I am proposing that one of the limitations which should be in the act itself is that shares cannot be issued to non-residents of a bank which is more than 25 per cent owned by any single shareholder and the Governor in Council can ensure—and I am sure will—if it did authorize an increase in capital that the additional share would in fact be issued.

The CHAIRMAN: This is an administrative procedure which does not have to be covered by the act.

Mr. FULTON: I am sure that would be the intention of the Governor in Council in the spirit of what is being done here, but it is rather awkward because when you require that these shares be issued there are all sorts of things that can go wrong and it would enable the bank it seems to me, to raise a genuine difficulty with you if you are going to require in effect a guarantee that these shares will be issued and sold. How do they know the market will absorb them? They have every reason to expect it—

Mr. SHARP: I can think of one method, and that is to bring forward a firm underwriting contract.

Mr. FULTON: Mr. Elderkin, I may be getting into a pretty binding situation with you here—

Mr. MACKASEY: Is this why you have included the words "rest account" in clause 75 (2) (g) in the bracketed area of total liabilities?

Mr. ELDERKIN: Yes. You understand that "rest account" is actually an accounting phrase that is used almost exclusively by banks. It comes down from an old Scottish term, if I understand it correctly, and in most corporations it is usually referred to as "surplus".

Mr. MACKASEY: My interpretation of it on a balance sheet is that it is authorized shares that have not been issued.

Mr. ELDERKIN: No, not at all. No, it is a surplus. For instance, if we are discussing the Mercantile case, it is the surplus, if you will, that arose out of premium on shares issued over and above par.

The CHAIRMAN: Gentlemen, it is six o'clock. I suggest it would be convenient to recess our meeting now until eight o'clock when I hope we can continue moving along to the amendments which the Minister wishes to suggest. We are recessed until eight o'clock this evening.

EVENING SITTING

The CHAIRMAN: Gentlemen, I think we are in a position to resume our meeting. When we recessed for the supper period, I believe that we were discussing with the Minister under the general heading of agencies and branches some rather interesting related matters regarding the scheme of the bill with respect to foreign banking.

Do we have any further questions on this particular issue? We appear to have no further questions at this point on the topic of agencies and branches and the related issue that we were discussing this afternoon. Before inviting the Minister to tell us about the amendments that he has in mind, I understand Mr. Lambert has a question that he had hoped to deal with this morning but was not able to do so because of lack of certain material; I think, as a courtesy to him we might let him pose it at this time.

Mr. LAMBERT: Thank you, Mr. Chairman. I believe this morning, when we were discussing the definition of banking, Mr. Minister, we had resolved the position to the point that the government would like to limit itself to the present

act which it knows and perhaps venture out into the field of control of near-banks under separate legislation, so that it would not invalidate its main act. I was wondering whether it ever had considered the insertion of this particular clause in the main act—I just ran across this during the dinner hour and I think it might be of interest—which says:

> If any provision of this Act, or the application thereof to any person or circumstances is held invalid, the remainder of the Act and the application of the provision to other persons not similarly situated or to other circumstances shall not be affected thereby.

I would commend that wording to the draftsmen for their consideration just to, shall we say, give further protection if the government should decide to be venturesome enough.

Mr. SHARP: Mr. Chairman, I thank Mr. Lambert. He always makes useful and constructive contributions and this is one that we will certainly bear in mind.

The CHAIRMAN: Mr. Sharp, I believe you have some amendments to tell us about?

Mr. SHARP: Yes.

(*Translation*)

Mr. LATULIPPE: Could I ask another question after this?

The CHAIRMAN: What question?

Mr. LATULIPPE: I have a question with regard to reserves.

The CHAIRMAN: It is the intention of the Committee, after we have heard the Minister with regard to amendments, to continue with our questioning.

(*English*)

Mr. SHARP: I was going to raise that very question, Mr. Chairman. I am in the hands of the Committee. If they would like to raise other matters before I move on to these amendments, I would be agreeable, or if you prefer to follow my suggestions and let me reveal the nature of the amendments that I have in mind, I will do that.

The CHAIRMAN: Yes. I think the Committee already had agreed that we should hear about these amendments so we could have them to look over, even while we are going onto other subjects with you afterwards.

Mr. SHARP: Yes. Perhaps now it is not as necessary as it was to explain the background of the first of these amendments, which I have discussed at some length in connection with our discussion of agencies and the Mercantile Bank.

Briefly, I would propose that there should be included in the bill a clause to the following effect. I am not attempting to draft it because I think that this is for a later stage. I put this forward in principle rather than as a matter to be discussed in its legal form. I suggest that there should be a clause to the effect that where a non-resident owns more that 25 per cent of the shares of a bank, no non-resident may acquire any of such shares or any shares of the bank until total foreign ownership is reduced to 25 per cent.

The CHAIRMAN: Just so that this will be clear, you are not attempting to give us the definitive wording.

Mr. SHARP: No.

The CHAIRMAN: And it is for this reason that you do not have a text to distribute to us at this time?

Mr. SHARP: That is right. I put this forward in principle to make it quite clear that our intention was that shares sold by a bank that is owned to the extent of more than 25 per cent by any single shareholder shall be acquired by residents and not by non-residents. Mr. Elderkin, who was the Inspector General of Banks but is no longer, had pointed out to me that in the course of discussions in the Committee, this loophole in the act had been detected, and I can assure the Committee that it had not been the intention of the government to permit such a loophole to be there.

Mr. LAMBERT: I wonder if either the Minister or Mr. Elderkin have given thought to providing within the legislation some yardstick for the determination of competing claims or competing priorities. In the event that there are concurrent transactions, who shall be entitled to be registered once the bank has been able to reduce the foreign holdings to 25 per cent. I ask this because I think you could get competing claims quite innocently, and I would feel that if there were a statutory yardstick, it would be of great assistance to the banks in determining who should have the priority, rather than they themselves setting up their own particular yardsticks.

Mr. ELDERKIN: Yes, Mr. Lambert; this was considered very seriously because we realize it is quite a serious problem. It is presumed that the way the banks would operate on this is that if the bank was any place near such a limit of 25 per cent, they would notify their transfer agents not to make a transfer without checking it with the main shareholders' list. This they actually do every day; normally they check every day with the main shareholders' list and, I suppose, under those circumstances that it would be first come, first served. There is no way that I know of—perhaps you can think of a way—that there could be priority. I think it is a situation that could come into effect, but I do not know how you would determine which one of the applicants would get priority.

Mr. LAMBERT: Well, somewhere it has to be arbitrary, so why not be arbitrary in the act? Then the banks are taken off the hook as being arbitrary themselves.

Mr. ELDERKIN: No; we thought the banks ought to take that.

Mr. LAMBERT: Surely you are creating the possibility of separate standards in different banks?

Mr. ELDERKIN: When you come to the point where you have two or three applicants to transfer, which might, in total, take the limit off the 25 per cent, there has to be a choice made. There is no other way, that I know, around it. I assure you that we have thought of it very deeply, but I cannot think of any statutory way that you could do it, except first come, first served.

Mr. LAMBERT: Well, say so in the act.

Mr. ELDERKIN: Well, we will let the banks determine it.

Mr. MACKASEY: May I ask a question? Again I stress the fact that I know very little about banking, but presuming someone in the United States owns 8,

10 or 12 per cent of the shares—some mighty man might—and drops dead to-morrow, are you telling me that the shares can only be sold to Canadians?

Mr. ELDERKIN: No. There is a provision in the act for an inheritance.

Mr. MACKASEY: Of course I am thinking of the amendment now.

Mr. ELDERKIN: It is a good point, Mr. Mackasey. I do not think this would obstruct the transfer of inheritance, because inheritance is spelled out in the act. I am glad you raised it, because I would be very pleased to discuss it with the draftsman and the Department of Justice.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Because of my ignorance, I suppose, I am not quite sure how this proposed amendment is going to answer the point that was raised by Mr. Fulton earlier. Or does it? Is the Minister relying on an agreement with, we will say, the National City Bank, if they get authorization to increase the capitalization? I do not see any way in which these shares can be forced out of the treasury of the company.

Mr. SHARP: We are talking about a hypothetical situation, but I could imagine circumstances under which the National City Bank could come to the government with an application for an increase in capital, complete with a firm underwriting agreement to dispose of the shares that would be created by the increased capital.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I think this would probably be a prerequisite to action by the Governor in Council.

Mr. SHARP: Yes. I do not want to be held to that, but it certainly is one way in which the government could insure that the shares were in fact sold to Canadians or to residents.

The CHAIRMAN: Are there any further comments or questions.

Mr. LAMBERT: Reverting to the point, I think somewhere an arbitrary yardstick is going to be required. I can think of a case where a bank would stay close to the limit, anywhere between 20 and 25 per cent of foreign ownership, and a substantial Canadian shareholder dies, leaving by wills shares to a non-resident. What then, Mr. Elderkin?

Mr. ELDERKIN: Again it is the point that I think has just been raised by Mr. Mackasey; I think it was well raised and we should look at the question of inheritance. There is a clause in here on inheritance anyway—a freedom of transfer, but this particular amendment that is now being discussed might inhibit that clause and I would like to discuss it with Justice to see that it does not.

Mr. SHARP: One of the reasons that we were a little hesitant at this stage to bring forward a draft was that there might be points to consider that might come out in the course of this Committee's discussions.

The CHAIRMAN: If there are no further questions or comments on the amendment that has been proposed, even though it is only in outline form, I would like the Minister to present the next amendment that he has in mind.

Mr. SHARP: Mr. Chairman, the next amendment, which again I am going to propose in principle, relates to the limitation in the bill upon the right of

chartered banks to own more than 10 per cent of the voting shares of other corporations.

Mr. FULTON: Clause 76?

Mr. SHARP: Yes. We have been giving very careful consideration to this clause in the light of the comments made in this Committee and also made to the government directly by the banks. We are particularly concerned about the effect that this clause might have upon certain institutions like RoyNat, Kinross and UNAS, the three leading examples of enterprises owned by the banks which have been carrying on a business, not in competition with the banks, but supplementary to their other activities. So far as I have been able to learn, these institutions have been doing a useful job of work.

It must be said, however, that when this bill becomes law, the banks will have much less reason to continue to work through institutions like RoyNat or Kinross than they have now. In some respects, RoyNat and Kinross were created because the bank's powers, particularly in the mortgage field, were very limited. Now, it might be that there would be no harm in limiting the banks to 10 per cent of the voting shares of all corporations including that class. On the other hand, the government does not want to make proposals that have an unnecessarily limiting effect upon a useful activity being carried on by the banks through these institutions. So I am proposing that in principle amendments should be made which accomplish the following: that a bank may not hold more than 10 per cent of the voting shares of a Canadian corporation accepting deposits from the public—that represents no change from the intent of the bill; and may not hold more than 10 per cent or $5 million, whichever is the greater, of the shares of any other Canadian corporation.

The effect of the acceptance of this principle would be to enable the banks to continue with their investments in RoyNat, Kinross, and UNAS, but would place some limitation upon their expansion, and would also enable the banks, if the occasion arises, to make relatively small investments in corporations if that happens to be a necessary consequence of their ordinary banking business. This follows, generally speaking, the recommendations of the Porter Commission in this respect. The Porter Commission, I think, said $10 million or $5 million. We believe that all that is necessary by way of exemption is $5 million.

Mr. MACKASEY: In other words, Mr. Sharp, RoyNat does not accept desposits and, therefore, it wou'd be exempt that way, but because of the $5 million clause or the 10 per cent clause, its growth would be limited to a level which you think is desirable.

Mr. SHARP: Perhaps I should clarify that point. The growth of RoyNat would not be limited, but the investment of a bank in RoyNat would be limited.

Mr. MACKASEY: I am sorry; knowing RoyNat I would have never known there was a difference, but there could be in the future, in other words.

Mr. LAMBERT: Mr. Sharp, I take it that this would apply to both portions of clause 76, both in the domestic and the non-Canadian corporations.

Mr. ELDERKIN: The non-Canadian corporations are controlled on'y to the extent that they control Canadian corporations. If you are looking at clause 76(2), this is really only to cover a loophole, Mr. Lambert. If it was not there, all

they would have to do, was to invest in a holding company in the United States and evade the whole clause. So it applies right through.

The CHAIRMAN: Are there any other questions about this proposed amendment?

Mr. LAMBERT: Did I not hear you say that it would apply to any other Canadian corporation, so if subsection (2) applies to non-Canadian corporations, the amendment would not apply to subsection (2).

Mr. ELDERKIN: To the extent that they hold in Canadian corporations.

Mr. FULTON: Mr. Chairman, I would think that the committee would wish to know what the effect is of the second part of the proposal,

> and may not hold more than 10 per cent of $5 million, whichever is greater, of the sares of any other Canadian corporation

because, I confess frankly that at the moment I do not know what the capital structure of RoyNat is. It is before us somewhere, but at the moment I do not have it in mind. What is the effect.

Mr. ELDERKIN: The $5 million will exempt RoyNat and Kinross.

Mr. FULTON: What about UNAS?

Mr. ELDERKIN: And UNAS. You see, whichever is greater, Mr. Fulton, and the $5 million will exempt all three.

Mr. FULTON: Yes, I appreciate that.

Mr. SHARP: But it is not so large that it will permit too large an increase in the investment of these banks in these institutions, because we do not believe that with the enlarged powers of the banks these corporations need be used as extensively as they have been in the past.

Mr. FULTON: Possibly so. What I am concerned about, and I am sure you are too, Mr. Sharp, is the avoidance of compulsory divesting of shares, which brings great problems on the market.

Mr. ELDERKIN: There would be no divesting in the case of the ones that are mentioned. There would be in the case of some of the holdings of the trust companies, because in the first part of the amendment which the minister has put forth, there is no exemption from the 10 per cent in the case of the deposit-taking institutions.

Mr. FULTON: No. I will come back to that, but I am dealing with the second part. The three companies named are presented with no immediate problem except with respect to expansion.

Mr. ELDERKIN: That is right.

Mr. FULTON: And then they will know what their terms of reference are.

Mr. ELDERKIN: That is right.

Mr. FULTON: Coming back to the first part of the proposed amendment, we have had difficulty before about naming the particular companies. Mr. Elderkin, are you in a position to give us a general idea of what is involved?

Mr. ELDERKIN: The first part of that proposal would affect possibly three investments, but may I mention, as you know probably, Mr. Fulton, that they

have five years and a possible two years further to divest themselves, and these all would be ready-marketable stocks.

Mr. FULTON: Stocks now freely traded on the exchange.

Mr. ELDERKIN: That is right. And, in effect, they have probably seven years to bring themselves into line.

Mr. MACKASEY: May I ask a supplementary question. This amendment does not have a date in it. In other words, theoretically could RoyNat go beyond this area and come back by 1971?

Mr. ELDERKIN: The date will be effective from the time that the act comes into force.

Mr. MACKASEY: I am just looking at the date in clause 76(1), which is July 1971.

Mr. ELDERKIN: That would be the divestment section which would apply in the case of investments in deposit-taking institutions, I would say, where the investment is now in excess of the 10 per cent.

Mr. MACKASEY: In other words, if this amendment comes into force with the Bank Act, and RoyNat gets up to $5 million—I am using this as an example—they stay there.

Mr. ELDERKIN: It is exempt right away.

Mr. SHARP: But they could never enlarge their investment beyond $5 million—any particular bank.

The CHAIRMAN: With respect to the definition of deposit-taking institutions, what about a body that takes money from the public through selling some secure type of debentures and reloans the money it takes in in that way through mortgaging?

Mr. ELDERKIN: Mr. Chairman, you are raising a very difficult question, which you will have to face on deposit insurance when it comes to a definition of deposits.

Mr. SHARP: This is one of the reasons that in the legislation we have left considerable discretion to the Governor in Council.

Mr. MONTEITH: It has been mentioned that Kinross, RoyNat and UNAS are exempt because of this amendment. What other institutions are going to be affected by it? Is that a fair question?

Mr. SHARP: This was the burden of the question that was put to Mr. Elderkin.

Mr. MONTEITH: Yes, but I do not have any details as to who they are.

Mr. SHARP: There are three deposit-taking institutions.

Mr. MONTEITH: Is there any reason why we could not have their names.

Mr. SHARP: I do not know how much of this is public knowledge. Mr. Elderkin has knowledge that he gains as a result of his official position.

Mr. MONTEITH: Well, we have bandied about RoyNat, Kinross and so on.

The CHAIRMAN: There is a slight distinction there in that the various banking spokesmen came before us and made specific reference to RoyNat and

Kinross and asked for some relief, whereas I am not sure whether we got into specific details with relation to specific trust companies.

Mr. MONTEITH: In other words, we are taking care of those that have asked for relief, but we are not doing anything about those that may not have.

Mr. SHARP: Perhaps I should explain again, Mr. Chairman, that I do not think there should be any change in the fundamental principle underlying this bill, which is that the banks shall not be shareholders in any competing institution, and deposit-taking institutions compete with the banks. One of the principles of this legislation is to make the banks independent and to promote competition. We are not proposing any change in that respect in the amendment that I have proposed here. RoyNat, Kinross and UNAS are not deposit-taking institutions. They are not carrying on a business in competition with the bank, but a business supplementing the banks. These institutions were created because the banks found them a more convenient way of doing certain kinds of business, partly because of the limitations contained in the act as it now stands.

We are now enlarging the powers of the banks to enable them to do many of the things that RoyNat and Kinross are doing—UNAS is in a rather different category. We see no reason to force the banks to divest themselves, nor do we seen my reason for the banks to enlarge their activities. I might point out that one of the reasons I say that, is that it was possible for RoyNat and Kinross, for example, to issue debt with which they financed their activities. We are now giving the banks powers to issue debentures, but limited powers. We would not want Kinross and RoyNat to be used as a means of avoiding the restriction that is contained in this bill before you, which limits the powers of the banks to issue debentures.

Mr. MONTEITH: May I ask a very simple question. What has caused you to change your mind?

Mr. FULTON: Perhaps the questions asked in this committee.

Mr. SHARP: Yes; many of the representations here have made us look more closely at the general rule.

Mr. MONTEITH: May I congratulate you, Mr. Sharp.

Mr. SHARP: I am a very fair-minded man, and it is a very fair-minded committee.

Mr. MACKASEY: Mr. Sharp, would CED be one of the firms that you do not want to mention?

Mr. SHARP: What is CED?

Mr. MACKASEY: It is Canadian Enterprise Development Corporation.

Mr. SHARP: No.

The CHAIRMAN: If I may make a comment, I personally do not think that anything so terrible would evolve if the names were mentioned, but I think that when we had the bankers' Association before us and they were making general submissions and the question arose to what extent the names of these institutions that might be involved if this amendment carries should be divulged, the argument was made to us, and I think Mr. Fulton, in particular, if my memory does not fail me, either made the point or helped bring out that to disclose them at

this time might be harmful to the maintaining of an orderly market for the shares of these deposit-taking institutions. I make this comment because I personally do not think that anything so terrible is involved in divulging the names, but I think that you yourself made the comment several months ago that it might involve some unfairness.

Mr. FULTON: If you remember, Mr. Chairman, my first inclination was to say that this committee cannot deal with these proposals unless we know precisely what is involved.

The CHAIRMAN: That is right.

Mr. FULTON: We were told, I think in public evidence, that if the bill carries in its present form, there might be certain compulsory divesting of shares, and that those who are concerned in that matter therefore were reluctant to identify the companies by name because the bill before us—and they had no reason to assume that it would not carry—was going to compel them to market those shares and they did not want to have an artificially depressed market. I think we are on the horns of a dilemma here.

The CHAIRMAN: That is right.

Mr. FULTON: Some of us may feel that this provision is ill-advised, ill-conceived. On the other hand, we may also feel that it is going to go through whether we like it or not, and therefore we do not want to make the position of those companies any worse than it otherwise is.

Mr. MONTEITH: I suspect that Mr. Fulton is cautioning both Mr. Mackasey and myself.

Mr. FULTON: I would like to think it over overnight. The minister has indicated how far he is prepared to go and, therefore, that remains a matter of government policy. The maximum 10 per cent holding in the other types of companies, the deposit-taking institutions, remains government policy. I would like to think about it overnight and decide whether we are going to force disclosure of those who are affected or not.

The CHAIRMAN: In fairness to the bankers' association, again, if my memory does not fail me, I do not think they were, in a sense, refusing to divulge information; they probably were going to do so but they brought to our attention the possibility that you have mentioned. Up to now we have not insisted on that particular point. So we might think about it as we continue. Are there further questions with respect to this?

Mr. LIND: With regard to the expansion of the base of RoyNat and Kinross, can they not issue additional debentures? There is no limit to that, is there?

Mr. SHARP: No.

Mr. LIND: Do you limit their capital stock?

Mr. SHARP: Yes. What we are doing here is limiting the investment of a bank in one of these institutions. We have no objection if RoyNat and Kinross continue to grow by bringing in other shareholders, but we did not feel that the investment by a bank should grow without limit nor did we feel there was any reason to compel the banks to divest themselves of these shares. These institutions are performing a useful function. We believe that it will be a less useful

function in the future because the banks will be able to do directly what they are now doing indirectly through these bodies.

Mr. LIND: There is no limit on the amount of debentures, so both companies can grow?

Mr. SHARP: They can gwo, yes, and of course they can acquire other shareholders if they wish.

Mr. LAMBERT: Mr. Sharp, I am concerned about clause 76(2) and I would like to have some reassurance that this would not preclude the ownership by two or perhaps three of the Canadian chartered banks in non-Canadian corporations incorporated in one case in Jamaica and in the other case in the Bahamas, and I believe another one is maybe somewhere in the Caribbean islands, for the purpose of carrying on some of their banking operations both in the Caribbean and in South America.

Mr. ELDERKIN: Mr. Lambert, if you carry through subsection (2) it only refers to corporations holding shares of a Canadian corporation.

Mr. LAMBERT: Yes, but take for example, the Bank of Nova Scotia, that is going so well now. It is re-organizing its holdings in Jamaica and is bringing in some local ownership and local capital, yet it will have more than 10 per cent of that Jamaican corporation, which could hold in its portfolio or otherwise, the entire stock of a Canadian corporation.

Mr. ELDERKIN: Then this provision would take effect then, since the Bank of Nova Scotia can control that, and see that it does not.

Mr. LAMBERT: See that it does not acquire those shares of a Canadian corporation.

Mr. ELDERKIN: Yes, in excess of the 10 per cent.

Mr. LAMBERT: Oh, but what about this "and $5 million".

Mr. ELDERKIN: Oh yes; this would have to be adjusted too.

Mr. LAMBERT: I see; that answers it.

Mr. ELDERKIN: The minister is only presenting a principle here. It will require a couple of amendments.

Mr. LAMBERT: This is the thing that I was worrying about.

Mr. SHARP: This is another of the reasons that we are only presenting this in principle.

The CHAIRMAN: Are there further questions?

Mr. FULTON: There are some companies, I think, quite recently set up by the banks, as referred to by the Porter Commission report; Canadian Enterprise Development Corporation Limited and Charterhouse Group Limited. These were mentioned publicly already. What will their position be under the principle of the amendment proposed?

Mr. ELDERKIN: I think, since they have been mentioned publicly, that neither one of the banks in these cases hold more than $5 million or 10 per cent. They probably would be exempt because they are not deposit-taking institutions, and as an investment, I think, under the proposal that the minister has put forth they would be in an exempted class. I could mention one other because it just

recently appeared in the paper, namely Holborough Investments, which is a Bank of Nova Scotia association with an aluminum company and Greenshields & Company on the financing of prefabricated houses. I can mention that because it is in the *Financial Post* of this week.

Mr. FULTON: It is not intended then to prevent banks, in association with others, from launching this kind of corporation provided they stay within the limits mentioned in part two of your proposal?

Mr. SHARP: That is right.

Mr. MONTEITH: Does this mean there can be new launchings provided they are within these limits?

Mr. ELDERKIN: That is right.

Mr. SHARP: We see no reason to prevent other banks from having a Roy-Nat-type of operation if they feel that it is useful to them in carrying on their business, although we doubt whether it would be.

Mr. MACKASEY: You want to make sure that the chartered banks do not do through the RoyNats what you are preventing them from doing in the bill?

Mr. SHARP: That is right.

Mr. FULTON: When we get down to the section in detail we will have further opportunities to discuss it with you and you will undoutedly have further thoughts, but again one is tempted at least to ask why these limits of 10 per cent or $5 million, which are fairly small you know, in terms of Canada's growing economy?

Mr. SHARP: Our view was that we did not want to make the figure any larger than necessary because the underlying principle of the legislation is that the bank shall carry on a banking business and not go into other business directly or indirectly. We did feel that the $5 million was enough to make it unnecessary for the banks to divest themselves of any of these corporations, but it did not permit them to carry them on to an unlimited extent. The selection of $5 million was purely empirical in the light of what we knew about the investments of the banks.

Mr. FULTON: In other words, Mr. Sharp, I would not be drawing too long a bow if I say you looked at the existing situation and said that you would just set it high enough so as not to force anybody who is now in that position to divest themselves.

Mr. SHARP: And to enable others who maybe have not ventured into this field to carry on operations and to make an investment, if they wish. For the benefit of a member who is not here now, it was another of the Porter Commission recommendations.

Mr. FULTON: They did not set any limitations, did they?

Mr. SHARP: Yes. They said either $10 million of five—

Mr. FULTON: There is quite a difference between those, to my way of figuring.

The CHAIRMAN: It would appear that we are in a position to ask the minister to propose for our consideration the third amendment he had in mind. I believe

there are copies of the third proposed amendment and I will ask our Clerk to assist us in distributing them among the members.

Mr. SHARP: Mr. Chairman, this is a much longer amendment. It carries out an undertaking I made in the House on second reading of the bill, when I said that the government intended to propose amendments to the bill to provide for the disclosure of the costs of loans, both the true rate of interest and the dollars and cents cost. These amendments that have now been distributed to you have been discussed with the provincial representatives. As you may recall some weeks ago I convened a meeting in Ottawa of the provincial ministers concerned on the subject of consumer credit. We have been urging the provinces to bring in uniform legislation to require the disclosure of rates of interest on consumer loans in general, and we said for our part we were prepared to require the same disclosure of those institutions over which we had control, namely the chartered banks. Members of the committee may recall there was some dispute in Nova Scotia as to the right of the province of Nova Scotia to apply its laws to the chartered banks. I will say now that I said to the Nova Scotia minister during our meetings that it was the firm intention of the government to require disclosure by the chartered banks and that I did not think it would be necessary for him even to attempt to apply Nova Scotia law to the banks.

So this legislation carries out that undertaking; I think it speaks for itself and if it does not I am sure that there will be questions.

The CHAIRMAN: Perhaps we can just take a moment to look it over and then I will invite questions from the committee. Mr. Lambert, are you ready to begin?

Mr. LAMBERT: I am wondering how the regulations are going to be able to describe beforehand what shall be a per annum rate of the cost of borrowing on a demand loan.

Mr. ELDERKIN: That is an exceptionally good point, Mr. Lambert, and is one reason the minister is given discretion in these proposals to make regulations regarding the specification of any class of loans or advances that are not to be subject to the provision of this amendment. I might tell you this is a similar provision to that which appears in the Nova Scotia act and in the Ontario act. On a demand loan a bank could quote a rate of annual interest but if could not quote a dollars and cents charge because you do not know how the loan will fluctuate from time to time so you do not know what the cost is going to be. So demand loans under these circumstances, by regulation, it is assumed, would have to have the rate per annum specified but could not have the dollars and cents specified.

Mr. LAMBERT: Nor could it have specified as a percentage, any additional charges that are specified here.

Mr. ELDERKIN: That is correct.

Mr. LAMBERT: It is true that it can be assumed on the basis of one year.

Mr. ELDERKIN: That is all. You can only assume what the rate would be if it was carried on for one year without change.

There is also another point here that falls into that same classification, which I might explain. It is the question of what the banks might call voluntary overdraft; that is, where a charge comes in against the customer's account, a

cheque or a draft, and there is not sufficient money to pay it. The bank, rather than turn that back, not being able to get in touch with the customer at that time or maybe not having him come in until the next day to cover it, says that it will pay it. There is no possible way of saying in advance what the rate of interest is on that particular item. So that is another one of the possible exemptions that have to come under a situation like this.

The CHAIRMAN: Do we have other questions at this point?

Mr. MACKASEY: Could the banks not return to the overdraft system?

Mr. ELDERKIN: Far from it. I do not think the banks would consent to that at all. However, sometimes the banks will permit overdrafts for good customers where, perhaps through no fault of their own something has come through as a charge and they have not yet covered it.

Mr. MONTEITH: Would not be banks be glad to go back to the overdraft system if they were in true competition?

Mr. ELDERKIN: I think you perhaps had better address that question to the banks.

Mr. FULTON: Well, they must be in true competition because they encourage me all the time.

The CHAIRMAN: Mr. Cameron, you are next.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Elderkin, I do not quite recall, because it is some time since I read the Nova Scotia legislation, but does it have a section in it equivalent to clause 6 in this amendment?

Mr. SHARP: No, clause 6 can only relate to a bank.

Mr. ELDERKIN: Clause 6 is a transfer actually from present Section 93. The draftsman felt in doing this that it was better to put all of the question of charges into one section. It is a much easier piece of drafting and a better reference. So you can see in the conclusion of this particular draft which they have put forth, that there has been a transfer of what is presently 92 over into 93, and what is presently 93 back into this 92. This is only a question of drafting.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I realize that, Mr. Elderkin. It occurs to me though that clause 6, the proposed amendment of the idea in the original bill, somewhat negates the purpose of this disclosure.

Mr. ELDERKIN: You mean by asking for express agreement?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well, permitting, shall we say, a private arrangement between the bank and its customer—perhaps not negate the disclosure, but—

Mr. ELDERKIN: It does not negate the disclosure at all, but it does require —as a matter of fact, the balance of it requires disclosure—but it does require the express agreement of the customer to the charge.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): And it has to be expressed in terms of an interest rate, does it not?

Mr. ELDERKIN: It has to be expressed entirely in terms of the agreement, whatever exists. This is exactly the same as the present act in clause 93 (3), the one which you will remember, Mr. Cameron, was proposed by Mr. Coote in 1934.

Mr. SHARP: I might add, Mr. Chairman, that these proposed amendments relate specifically to the question of disclosure, not to the question of regulation.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I know that.

Mr. SHARP: During the discussion with the provinces, it was decided that the first and most urgent problem was to give the public an opportunity of knowing what they were paying before any attempt was made to decide what maximum charges might be appropriate. This was agreed upon as representing an orderly evolution in our laws.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Will clause 4 govern clause 6?

Mr. ELDERKIN: Yes, without a doubt.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You have the expression in terms of an interest rate as well as in absolute terms of dollars and cents.

Mr. FULTON: Could you indicate to us, Mr. Sharp, in general terms the class of transaction which you contemplate as being included in the words in subclause (3) of the proposed amendment "or otherwise as prescribed." A little further along you say: "Does not apply in respect of any class of loans or advances that are prescribed as not being subject to its provisions." Can you answer in general terms?

Mr. ELDERKIN: I answered that a few minues ago, Mr. Fulton.

Mr. FULTON: I am sorry, Mr. Elderkin; I was no doubt reading the clause.

Mr. ELDERKIN: I answered a few minutes ago that we would have to case of demand loans. Some part of them you could not calculate, or you could not state what the dollars and cents cost would be, you can state the rate per annum. We have the case of what I called a few minutes ago of voluntary overdrafts. You could not possibly state that—

Mr. FULTON: That is where I perked up my ears, when I heard that.

Mr. ELDERKIN: —because there is no advance arrangement on it; it is a voluntary service that the bank has. This is the sort of thing that must be left to the Minister to prescribe. In the Nova Scotia act and the Ontario act, a similar provision exists where there is possibility for exemption of any class of loans, by the Governor in Council. In Nova Scotia they do not refer to the Lieutenant Governor; they refer to the Governor. The Lieutenant Governor in Ontario has the power to exempt any classes.

Incidentally, Mr. Fulton, you will also see that this must be done by regulation.

Mr. FULTON: Yes.

Mr. ELDERKIN: And regulations must be published.

Mr. FULTON: I appreciate that, but I was looking for information before we approve the amendment. I would like to thank you for your explanation. Will you tell me the implications of the other words: "of otherwise than under a credit."

Mr. ELDERKIN: If you look up above, a credit means an arrangement for obtaining loans or advances. There may be no advance arrangement, it may be

just a question of an immediate loan being made. There is no advance arrangement so to speak; no written arrangement, if you will, of any kind, it is just a note signed and that is all. This is perhaps just terminology, but this is the closest I can come to explaining the view that there does not necessarily have to be an advance contract of any kind at the time.

Mr. FULTON: In other words, do I understand correctly that the implication of these words and the definition up above that you go to a bank and make an arrangement by agreement, and you may come to an agreement on a higher interest rate, that is an arrangement for a credit, and that is exempted then from the statutory provisions as to disclosure?

Mr. ELDERKIN: Oh, no, it is not. You can have two situations. You might make an arrangement for a credit which, extended over a year, we will say, is for a line of credit as it is commonly known in the banking circles, and in establishing that line of credit, you make your arrangement about what the cost is going to be.

Mr. FULTON: Yes.

Mr. ELDERKIN: Now, another situation may be that you walk into a bank and if the manager is feeling generous that day, you will say: "Will you lend me $1,000," and he does, but you do not establish a line of credit, so to speak, as it is used in the common sense; you just get a loan on that day. He has to disclose at that time what he is going to charge you.

Mr. FULTON: Yes. But where you have gone and made an arrangement for a line of credit, the interest rate is contained in that arrangement.

Mr. ELDERKIN: That is right.

Mr. FULTON: And therefore, it does not require this—

Mr. MONTEITH: Does this include all charges?

Mr. ELDERKIN: That is right, all charges applicable to the loan.

Mr. MONTEITH: To that particular loan?

Mr. ELDERKIN: That is right.

Mr. MONTEITH: I am sorry to interject, Mr. Fulton, but I do not have a legal mind and cannot assimilate all this as quickly as some of these lawyers, but what does this amendment mean in a nutshell as far as disclosure of interest rates goes?

Mr. ELDERKIN: Disclosure of cost of loan. You have two factors in many loans, and particularly in the consumer credit field, and almost entirely in the consumer credit field. You have a factor of interest and you have a factor of service charge; where loans are paid on an instalment basis, this is usally the case. It means that when the borrower buys under a consumer credit loan, the the bank must state to him, not only the interest they are charging him, but the service charge they are charging him on the total loan, and translate that into a rate of cost.

Mr. FULTON: A rate of what?

Mr. ELDERKIN: A rate of cost. I cannot say a rate of interest; it is the rate of cost of the loan.

It is not specified here, but it will be specified in the regulations that on the recommendation of the Department of Insurance, they propose—and the Minister will propose if this comes into effect—one of five accepted rates. The one which the Department of Insurance wishes to use and which I think both Nova Scotia and Ontario wish to use is the so-called nominal annual rate. You will remember possibly, if you read the evidence before the Ontario committee on this particular subject, that the banks expressed themselves as being quite willing to disclose this cost, if someone would tell them how to compute it. There are actually five actuarial ways in which this can be done. By regulation the banks will use a certain method of doing this.

Mr. SHARP: May I add to this, Mr. Chairman. During the discussions with the provincial ministers which I had the privilege of chairing, there was a long discussion about the alternative method of calculating the annual rate. The nominal annual rate was preferred, because it was more easily understood, and although it was not precisely a true interest rate, it was so close an approximation that to all intents and purposes, as long as it was being used generally, it gave the borrower a very good idea of what the true cost of his loan was.

The CHAIRMAN: Are you through, Mr. Fulton. Mr. Clermont is next.

Mr. FULTON: No, Mr. Chairman, Mr. Sharp, are you able to tell us to what extent you anticipate that the finance and loan companies will come into conformity with this, leaving out my idea of bringing them under your umbrella; apart from that, what will be the effect here?

Mr. SHARP: The provincial legislation will, so far as I know, regulate the disclosure of the annual cost of all consumer loans. In some provinces attempts will also be made to obtain a disclosure of the annual cost of instalment purchases from other than financial companies, but this is a matter that must be regulated by the provinces. If it were a matter of regulating interest rates, that would be a different matter, but as far as disclosure is concerned, the field can be covered effectively by the provinces. That is why it is so important that all provinces should move in step if possible.

Mr. FULTON: And your impression is that the major provinces are prepared to move this way?

Mr. SHARP: Indeed, Nova Scotia now has a very effective law in force. Ontario has a law approved, but it has not been proclaimed as yet. It is their intention to proclaim very quickly. All the provinces said that they would move to do likewise, and as I recall the conversation most of them are going to model their acts upon Nova Scotia and Ontario, except the province of Quebec, which has special problems arising out of its system of laws.

Mr. ELDERKIN: There is no such thing as a chattel mortgage in the province of Quebec.

Mr. FULTON: We can pursue this on another occasion.

(*Translation*)

The CHAIRMAN: Mr. Clermont.

Mr. CLERMONT: Mr. Elderkin will these proposed amendments have effect for loans granted to consumers?

(*English*)

Mr. ELDERKIN: Yes.

(*Translation*)

Mr. CLERMONT: Will this increase their costs or reduce them?

(*English*)

Mr. ELDERKIN: I do not think this will have any effect on whether the costs are increased or reduced. It is a question of disclosure of what is being charged.

(*Translation*)

Mr. CLERMONT: Clause 92 (6) states:

"The bank shall not, directly or indirectly, charge or receive any sum for the keeping of an account unless the charge is made by express agreement between the bank and the customer."

This is the point ot which I would have particular reference: "except by express agreement between the bank and the borower, shall the making of a loan or advance . . ."

(*English*)

Mr. Elderkin, as article 6 is proposed, would it have anything to do with what we call compensating balances?

Mr. ELDERKIN: Yes, the last part of it, Mr. Clermont. The first part of it is simply a carryover from subclause (3) of clause 93. There is no change in it. If you look at the bill and the present act, subclause (3) of clause 93, the wording of the first part of this clause 6 is the same.

Mr. CLERMONT: But I thought, Mr. Elderkin, that there was no such thing as compensating balances for a loan.

Mr. ELDERKIN: Well, we are just saying that it is stated that there is.

The CHAIRMAN: Parliament is supreme.

Mr. CLERMONT: That is fine, Mr. Chairman.

Mr. MONTEITH: It has not been for some years.

The CHAIRMAN: There has been a great improvement since the Liberals took office!

Mr. MONTEITH: It is getting worse.

Mr. LIND: This also would have to reveal the true rate of interest for commercial loans?

Mr. ELDERKIN: Yes, well, to individuals.

Mr. LIND: Not to corporations?

Mr. ELDERKIN: This whole thing is based on the individuals exactly the same as the provincial does. These are to individuals.

Mr. SHARP: It is assumed that corporations understand how much they are paying for money.

Mr. ELDERKIN: Then the corporations are always in a position to require it, anyway.

The CHAIRMAN: Mr. Elderkin, if I might pursue a point raised quite effectively. I think by Mr. Lind; there are many businessmen who are incorporated to get certain tax advantages and really they are almost in a sense carrying on a sole proprietorship, except they have adopted the benefits of the corporate form; they are not really much different from the individual who has not gone to a lawyer and used his services to ake out a corporate charter. To what extent is that taken into account in these proposals?

Mr. ELDERKIN: I can only answer that one, Mr. Chairman, by saying that this whole process, started, particularly in the provinces, on the basis of consumer loans. Consumer loans are always to the individual. We have really gone beyond consumer loans in this proposal in that we have picked up commercial loans as well, and even mortgage loans that may be made to an individual; but we have not in this particular proposal nor have they in the acts of Nova Scotia and Ontario, endeavoured to control disclosure to corporations. They felt that if they went to individuals that was as far as it was desirable or necessary at the time. I simply repeat what I said a minute ago to Mr. Lind that there was no reason in the world why the corporate borrower cannot require it. He has the right to require it if he wants it but the act does not force the banks to do so.

The CHAIRMAN: I was just going to leave this with you for consideration as we pursue our study of this legislation, that perhaps the reason for the provincial stand was that they have no authority to regulate commercial lending by banks so there is no need to—

Mr. ELDERKIN: I do not think that this is really a propos. It is disclosure, not regulation.

The CHAIRMAN: I should say it is to regulate disclosure.

Mr. ELDERKIN: Well, they say they have.

The CHAIRMAN: Of commercial loans by banks?

Mr. ELDERKIN: Anything. They claim they have a right to regulate disclosure.

Mr. SHARP: But Mr. Elderkin is not saying that he agrees with that constitutional interpretation.

Mr. ELDERKIN: No.

The CHAIRMAN: Because the banks told us the other day that the reason they were resisting the Nova Scotia law was that they preferred to be under the jurisdiction of the federal statute. But I just wanted to leave for your consideration—

An hon. MEMBER: It is very healthy.

The CHAIRMAN: That is right. —the situation where you have one small businessman who is a sole proprietor and you may have his neighbour in the same business and no bigger sized business who has adopted the corporate form, and the sole proprietor will have certain opportunities under this law with respect to disclosure which the fellow who has adopted the corporate form will not have.

Mr. ELDERKIN: Well, I can only say to that, Mr. Chairman, that the one who has adopted the corporate form can abandon it.

The CHAIRMAN: But he does not have the—

Mr. ELDERKIN: This would bar them. He does not have to demand them.

Mr. MACKASEY: They treat you as an individual anyway, if you are a small corporation. You get a personal endorsation.

The CHAIRMAN: The only point I am making is that the individual who has not adopted the corporate form, the individual small businessman, has the sanction of the law behind him.

Mr. SHARP: Well, Mr. Chairman, your comments may be quite valid and will be looked at. It should be recalled that the purpose here is to protect the individual who, until now, has not been in a position to make a calculation of what the cost of the money that he borrows really is. He has often been grossly misled and in the provinces and here in the Bank Act we are proposing to protect the individual. It is assumed that people who are in business must know exactly what the cost of money is to them, and must work it out very carefully in order to make business decisions; whereas the consumer who is buying an automobile, or is buying some durable, or otherwise borrowing money, is often in the position that he thinks he knows how much it is costing him, but doesn't really know.

Mr. MACKASEY: Mr. Sharp, what you are saying is that if two people walk into the bank tonight, Mr. Fulton, can get 1,200 dollars, I am sure, from the bank, say at 6 per cent and walk in a year later, and the true disclosure will be 6 per cent. The next person, before he gets out of there leaves the first month behind him, which is $100. Then on the first of the month he walks in and deposits another $100. But you are saying that we finally reveal to the public what they are really paying which is a great deal more than 6 per cent.

Mr. SHARP: Exactly.

Mr. MONTEITH: Would it be under 7½ per cent under the new legislation?

Mr. ELDERKIN: No, of course not.

Mr. MONTEITH: Must this disclosure—

Mr. ELDERKIN: No, because when you are talking about the 7¼ per cent or whatever per cent comes out of this, you are talking about interest only. Here we are talking about a combination of interest and service charges.

Mr. MONTEITH: Well, does not section 91 of the Bank Act, more or less limit you to 7¼ per cent?

Mr. ELDERKIN: Of interest.

Mr. FULTON: Mr. Chairman, if I may, I fail to appreciate why this is mandatory in the case of the individual and optional only in the case of the corporation, whether it be large or small. Since so much of the small loans business in the field we are talking about, now is carried on with the private companies, I really fail to see why you make the distinction between statutory disclosure to individuals and corporations.

Mr. SHARP: Mr. Chairman, if I may, this is a matter the Committee might like to consider. We have drawn up these amendments for the primary purpose of protecting the individual by requiring the lender to reveal the true cost. It is

assumed, in the case of people who are in business, that before they borrow any money they make sure how much it is going to cost them and in the nature of their business they have either to calculate it themselves or to ask the bank how much it is costing them. The individual, as we know, does not do this, and at least a good deal of the advertising about the cost of loans is misleading. The purpose of these regulations is to make it impossible for the individual to be misled.

Mr. FULTON: Could we stand this over the course of the next few days and decide whether it should be extended or not. I get your point.

Mr. MACKASEY: This will hurt the small proprietor in the event that the bank had the choice between lending its money to him and a corporation and not going through the problems, and the bookkeeping, of revelation to which the individual is subject. It seems to me that it would work against his interest in the long run. Most bank managers are tough on a Friday morning, about eleven o'clock, when you want your payroll, as it is.

The CHAIRMAN: Do you want to respond to Mr. Mackasey's point? Then I will recognize Mr. Lambert.

Mr. SHARP: No. I think Mr. Mackasey was just making a comment.

Mr. MACKASEY: No. I hate to see the differentiation because it seems to me that everything being equal the bank will then try to evade this particular application wherever possible by loaning their money to corporations rather than to individuals. I think this will happen in the small centres, not the big centres.

Mr. LAMBERT: Mr. Chairman, I think it is an accepted practice in the case of the small corporations; they usually ask for a personal guarantee, and in the regulations that may be made here the Minister might require that in the case where a personal guarantee is taken on a loan to a corporation the true interest rates, the true cost of borrowing shall be disclosed under the terms of the personal guarantee.

Mr. ELDERKIN: It is possible. I would want to discuss it with the draftsman.

Mr. LAMBERT: And that therefore, this would tend to protect the small businessman who is incorporated; whereas if you are a large corporation presumably you have had people who are prepared to really consider the cost of the borrowing.

Mr. ELDERKIN: If I might get back to Mr. Mackasey's comment a minute ago, I think that out of this, Mr. Mackasey, will come quite complete tables, which in effect, as far as the bank manager is concerned, will give him very little difficulty in computing this, just the same as today they all have tables on consumer loans and they only have to look up the amount and the terms and they have their answer. It is not going to, or should not, really result in very much additional work to the banks at all.

Mr. CLERMONT: May I ask a supplementary question, Mr. Chairman. It is supplementary to Mr. Fulton's question. Why do you include associations in the application, corporations partnership and associations.

Mr. ELDERKIN: The reason for that, Mr. Clermont, is there have been so many legal decisions that the word "individual" is not in itself sufficiently defined in all cases of law, and so what they were doing here was really by elimination getting it down to what we consider an individual.

Mr. FULTON: Is this new amendment supposed to cover the case of what we describe normally as consumer loans, because it is not so expressed, Mr. Elderkin.

Mr. ELDERKIN: We thought it was not necessary to mention consumer loans; in discussing this with the provinces we stayed away from consumer loans because in here we are not only covering consumer loans, we are covering mortgage loans.

Mr. FULTON: Then, Mr. Mackasey and I, I think are on common ground. Many small corporations will want precisely this type of loan. If this was an individual going in to buy a stove or a refrigerator for his house—good—excellent, but why confine it only to that?

Mr. ELDERKIN: You are asking, why confine it only to individuals. This is what the Minister said a minute ago that the Committee might consider.

Mr. SHARP: I would suggest that the primary purpose of these amendments is to require the disclosure of, as close as you can get to it, the true annual cost to individuals. But the point that you have raised is that there are some corporations that are in effect individuals. I think that is a point that ought to be taken into account.

The CHAIRMAN: That is why I raised it both for the consideration of the Committee and yourself.

Mr. MONTEITH: Is there any top limit to which this disclosure can reach?

Mr. SHARP: Let me put it this way. In many cased disclosure will reveal very high interest rates and it is hoped that this disclosure will discourage the consumer from taking money from such institutions. The important thing is education.

Mr. MONTEITH: I come back to the Bank Act. We are presumably, and I am taking the figures we have been toying around with here since we have had our hearings, namely 7¼ per cent on January 1. This is not an upper limit of disclosure.

Mr. ELDERKIN: That is right.

Mr. MONTEITH: Is there any upper limit?

Mr. ELDERKIN: No, there is not now, nor ever has there been an upper limit on service charges.

Mr. MONTEITH: So, as a consequence, the legislation, this amendment, is intended to show what it actually is, namely, the upper limit of interest plus service charges, actual costs, what they will be.

Mr. SHARP: That is it. It is meant to educate the consumer to what he is paying for the accommodation that he is receiving.

Mr. MONTEITH: Well, now, Mr. Elderkin just made a statement that there never has been an upper limit on service charges. Did not Section 91 of the

previous Bank Act, the one presently in force, put a limit on which was 6 per cent?

Mr. ELDERKIN: I think we are getting a little bit confused here Mr. Monteith. There was a limit on interest but there never was a limit on service charges.

Mr. FULTON: Do you envisage Mr. Sharp, the drying up of the sources of credit after this—

The CHAIRMAN: Not a sharp drying up.

Mr. ELDERKIN: Mr. Fulton, I think you had evidence before the Committee by the banks that the present combination of interest and service charges runs—depending on terms—from 9½ per cent to 11 per cent. But no place in any document is this particular percentage stated. This will require them to state the percentage as an annual cost, percentage.

Mr. FULTON: May I ask the Minister another question. Will this involve similar or corresponding amendments to the Small Loans Act and the Interest Act?

Mr. SHARP: No, the Small Loans Act is concerned with the regulation of interest rates under the Small Loans Act. The question of revelation of charges will be covered by the provincial requirements of disclosures of those companies within the province.

Mr. ELDERKIN: Not under the Small Loans Act, Mr. Sharp. I am sorry, but this, in effect, to a great extent, follows the Small Loans Act except there they do not talk about interest at all. They talk about the cost of the loan, the same as the phrase we are using in here. The total cost of the loan in the Small Loans Act must be stated, with no other charges outside of that cost per annum.

Mr. SHARP: Perhaps I ought to amend what I said. The Small Loans Act is concerned with the regulation of interest and, therefore, in order to regulate it, it must be disclosed, so nothing has to be done about that act.

Mr. FULTON: I will make a confession here. My office—and I am a member of my firm—processes a large number of them; they come in and you sign them. I am trying to recall whether in any of the contracts I have seen the total cost of the loan disclosed.

Mr. ELDERKIN: Under the Small Loans Act?

An hon. MEMBER: The bell is ringing. There must be a vote in the house.

The CHAIRMAN: Gentlemen, I think we will have to dispense with our meeting because of the bell. We should decide right now whether we want to meet as scheduled tomorrow morning to continue or shall we continue Monday evening?

Mr. MONTEITH: Monday evening.

The CHAIRMAN: Our meeting is adjourned and we will resume on Monday evening at 8 o'clock.