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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. 43

MONDAY, FEBRUARY 6, 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; M. C. F. Elderkin, Special Adviser, Department of Finance.

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

25698—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

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

Dorothy F. Ballantine,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

MONDAY, February 6, 1967.
(88)

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 (*Nanimo-Cowichan-The Islands*), Gilbert, Gray, Irvine, Laflamme, Lambert, Latulippe, Lind, McLean (*Charlotte*), Monteith, Wahn—(11).

Also present: Messrs. Grégoire, Lewis and Thompson.

In attendance: The Honourable Mitchell Sharp, Minister of Finance; and Mr. C. F. Elderkin, Special Adviser, Department of Finance.

The Committee resumed consideration of the banking legislation.

The Chairman stated that the Sub-Committee on Agenda and Procedure had met informally earlier this day and had agreed that, in view of the controversy between Mr. James Coyne, President, and Mr. Sinclair Stevens, president, British International Finance (Canada) Limited, the two gentlemen concerned should be called to appear before the Committee tomorrow for questioning. The Committee approved the recommendation of the Sub-Committee.

The Chairman tabled a letter addressed to him from The Canadian Bankers' Association concerning the views of the Association on the interest ceiling which they had not had time to present in their last appearance before the Committee on January 31, 1967.

On motion of Mr. Laflamme, seconded by Mr. Monteith,

Resolved,—That the letter from The Canadian Bankers' Association be included in this day's Minutes of Proceedings and Evidence and that copies be distributed to the members of the Committee. (*See Appendix SS*).

The Committee then resumed questioning of the Minister, who was assisted in answering questions by Mr. Elderkin.

At. 8.55 p.m. the Vice-Chairman took the Chair, and at 9.05 p.m. the Chairman resumed the Chair.

The questioning continuing, at 10.02 p.m. the Committee adjourned until 11.00 a.m., Tuesday, February 7, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

25698—1½

EVIDENCE

(*Recorded by Electronic Apparatus*)

MONDAY, February 6, 1967.

The CHAIRMAN: Gentlemen, I see a quorum. We are now in a position to begin our meeting.

Before we again call on the Minister, I think there are a few procedural matters we should deal with. First of all, I have had delivered to me a letter from Mr. S. T. Paton, President of the Canadian Bankers' Association, containing some supplementary comments with respect to their views on the interest ceiling.

Apparently they felt that it was not convenient late in the evening when they were completing their testimony to go into the question of the interest ceiling at the length they had hoped. They have submitted, in effect, a further memorandum. I would suggest to the Committee we might find it in order if we circulated this memorandum to the Committee so such members would have these further views at this point. It might also be useful when the Minister is before us to be aware of them. We have some additional copies here and I think it would be in order to print it. Perhaps, Miss Ballantine could circulate the memorandum, and when it is circulated I will see if the Committee wishes to have this printed.

While Miss Ballantine is circulating the memorandum, I am going to report on our order of business for tomorrow.

After the topic of the Bank of Western Canada was raised in the House this afternoon I immediately held what I think could be described as an informal meeting of the steering committee in the house itself. As a result of this meeting the steering committee and I were in agreement that we should invite Mr. James Coyne and Mr. Sinclair Stevens, and his group, to appear before us tomorrow to tell us about the matter that was raised in the house, and was reported on at some length in the papers on the week end and today as well. I can report to the Committee that both Mr. Coyne and Mr. Stevens will be available to us tomorrow afternoon. They will not be available in the morning, unfortunately, travel difficulties make it impossible. I think Mr. Coyne will be able to be with us at 4 o'clock, and Mr. Stevens at any time during the afternoon.

I would recommend to the Committee that we might agree at this time that we begin with Mr. Coyne, since he is the one who has made certain allegations, followed by the Steven's group. Now we have the Minister of Finance with us this evening; originally he was to appear before us to continue his testimony on the banking legislation generally. I have taken the liberty of discussing the matter of the appearance of Mr. Coyne and Mr. Stevens, particularly with respect to the matter of his own comments on this particular issue. It would appear to me—and Mr. Sharp may have a comment himself—that it would be more helpful to the Committee, and to the public at large who are interested in

this subject, if Mr. Sharp were in a position to reserve any comments he may have on this West Bank question until we have heard from Mr. Coyne and the Steven's group, and, I presume, also until he has had a chance to have his officials make some further inquiries of their own.

That being the case, this evening I would suggest to the Committee we do limit our questions to the other aspect we had in mind originally to discuss with Mr. Sharp, with the understanding that we would have him come back to testify before us, once we, as a Committee, and Mr. Sharp as well, have had an opportunity to hear what Mr. Coyne and Mr. Stevens have had to say about the matter of controversy we have heard about today and on the week end.

Mr. MONTEITH: Mr. Chairman, I appreciate your approach to the over-all picture, but I have one or two minor questions to ask of Mr. Sharp concerning this affair, which I do not think really would reflect on what is going to be said by the two witnesses who will be appearing before us tomorrow. I would like to be in a position to ask Mr. Sharp these questions this evening.

The CHAIRMAN: Perhaps I should invite some other comments from the Committee: Mr. Cameron?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): There is one point I had in mind, Mr. Chairman. Reference was made in the house this afternoon by Mr. Macaluso to what he wrongly described as an Order in Council which actually was a Treasury Board Minute which gave the number; and the minister in his reply made reference to this. Now, I do not know what the protocol of this is, but is does occur to me that in order that we may estimate the evidence given by Messrs. Coyne and Stevens, we should have the terms of that agreement before us if it could be made available.

The CHAIRMAN: I have already spoken to Mr. Elderkin about this, just before the meeting began, and I have taken the liberty, on behalf of the Committee, to ask him if copies could be made available in both French and English to all of us before these gentlemen appear. I gather from what Mr. Elderkin told me before the meeting that it would be in order and that he is going to instruct his staff to deal with the matter. Am I correct, Mr. Sharp, in saying this is in order?

Hon. MITCHELL SHARP (*Minister of Finance*): Not only so, Mr. Chairman, but I tabled it in the House of Commons.

The CHAIRMAN: Yes, that is correct.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I was not sure whether you had tabled it or not; somebody said you had and somebody said you had not. I was not sure.

Mr. MONTEITH: On January 18.

The CHAIRMAN: Yes, that is right.

Mr. SHARP: I made a short statement on holdings, and I asked at the end of the statement if I might have permission to table the order and permission was granted.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That was an Order in Council, or—

Mr. SHARP: A Treasury Board—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): A Treasury Board minute.

Mr. SHARP: Yes.

The CHAIRMAN: Just before we began our meeting this evening I spoke with Mr. Elderkin and asked him to obtain sufficient copies for the Committee and other interested parties, and to have them distributed to us as soon as possible tomorrow. That again may be another reason for the Committee withholding questions on this issue, until we have had a chance to study this document as well.

Mr. MONTEITH: cannot quite agree; this document has been available, and I do not think they are embarrassing questions to Mr. Sharp, I do not mean them to be, it is just for information. So that I think the Committee would be better prepared to question the witnesses who may come before us tomorrow, if we have answers to certain questions which I would like to ask.

The CHAIRMAN: Yes; well, I wish to make clear that my suggestion is not because I fear the consequences of any questions or answers, but merely to permit us to discuss this matter in the most orderly fashion. It was my impression, from an exploratory discussion with the Minister earlier today, that he himself is most interested in hearing, at first hand, if I may use the phrase, what these people have to say because this will affect his report, if I may put it that way, to the Committee and to parliament.

Mr. SHARP: May I suggest, Mr. Chairman, if Mr. Monteith would like to ask some questions relating to what the law is, questions of this kind, or the administration, I would certainly be very happy to answer them. If it relates to what Mr. Coyne said, or what Mr. Stevens may have said, I would have thought it would have been more orderly to have them here to make their statements, then we will have a better idea of what it is we are dealing with.

Mr. MONTEITH: I have to disagree with the Minister. My statements are purely following up some questions in the House of Commons this afternoon. I leave it on that basis.

Mr. SHARP: May I say, Mr. Chairman, I have no objection to answering any of the questions.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): To give a further point of clarification on this document—there may be some misunderstanding somewhere—I was given the number of the Treasury Board minute, but the Treasury Board officials whom I contacted said they were unable to let me have it; they had been forbidden to distribute it. Now, they may be confused, though I gave them the date and I gave them the number.

Mr. SHARP: Well, ordinarily Treasury Board minutes are not available—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No, that is what I thought.

Mr. SHARP: That is quite possible. But, in this particular case we had already given the Bank of Western Canada the terms of this order. They had published it. So I had no hesitation whatever in laying it before the House on January 18.

The CHAIRMAN: May I suggest a compromise approach which might meet the satisfaction of the Committee. Perhaps we could take a very brief period to have some questions which we might described as being of a prefatory sort to assist us in our questioning of Mr. Coyne and Mr. Stevens. We will have to rely on each others good will in this if we do not, in effect, try to spend the whole evening discussing this issue. Perhaps we can take a brief period beginning with Mr. Monteith and accepting certain supplementaries with the idea that they would be designed to assist us in our questioning of Mr. Coyne and Mr. Stevens tomorrow.

Mr. MONTEITH: This was my intent, Mr. Chairman.

The CHAIRMAN: Yes, well I will recognize you for that purpose.

Mr. MONTEITH: Well, then, if I may start out Mr. Minister, I understand Mr. Coyne phoned—apparently it was Friday morning or in that period—and said he was going to make a statement but gave no indication of what would be in it.

Mr. SHARP: That is right.

Mr. MONTEITH: Well, that is fine. Now, you did indicate in the house—I am not awfully sure of this, but I would like clarification on it—that you had had a discussion with two persons relative to the terms of Treasury Board minute 658534, which was passed on August 3, 1966. Now, I think you said in the house that one of these individuals was Mr. Stevens and that you would have to check on who the other one actually was. Have you refreshed your memory in that respect?

Mr. SHARP: Yes, I have refreshed my memory, and the reason for my hesitation in the house was that my discussion with this other person was not about this matter, and I am not quite certain, but my first impression was that I had said the same to him as I had said to Mr. Stevens, about this Treasury Board order. But, on reflection, I came to the conclusion that I might not have mentioned it to him. At any rate, it is of no consequence, because the person that I wanted to know what my attitude was on this subject was Mr. Stevens, who is the head of that group of companies.

Mr. MONTEITH: Yes.

Mr. SHARP: With respect to the other person involved, we were talking about another matter, and my first recollection was that I did speak to him about the Treasury Board minute. But I did not do so for purposes of conveying any information that he could do anything with.

Mr. MONTEITH: Do you not feel privileged to mention the other person's name?

Mr. SHARP: No, because he was not involved in that sense. We were discussing another matter altogether.

Mr. MONTEITH: Well, then, may I ask upon what date you did discuss the situation with Mr. Stevens.

Mr. SHARP: Today.

Mr. MONTEITH: I beg your pardon?

Mr. SHARP: Today.

Mr. MONTEITH: Today only?

Mr. SHARP: Today only. This is the first conversation I have had with Mr. Stevens.

Mr. MONTEITH: Well, I must apologize Mr. Chairman; I received the impression during the discussion in the house that there had been a discussion earlier than this, concerning the possibility of discussing the terms of Treasury Board minute No. 658534, as to what might have to be done to approach you to consider the implications in the item 2F.

Mr. SHARP: No. If I have mislead Mr. Monteith or anyone else in the house, I did not mean to, and I do not think I did.

Mr. MONTEITH: In other words, you have had no discussion with Mr. Stevens or this other individual, concerning any possibility of these individuals asking you what should be done to approach you on the consequences on these clauses?

Mr. SHARP: That is right. Mr. Chairman, the two conversations that I had were today. Indeed, just to make a point quite clear, there was one thing I might have said in the house that afterwards I regretted that I had not added, during the question period—no it was not during the question period, during the debate, the short debate that took place when Mr. Diefenbaker moved the adjournment of the house, I read the telegram I had received from Mr. Stevens, saying that he would be ready to appear before this Committee. I should have added that I was talking to Mr. Stevens when his telegram arrived.

Mr. MONTEITH: This morning?

Mr. SHARP: This morning. I may have created the impression that I had not had any other communication with Mr. Stevens, but when Mr. Stevens called me, and while he was talking to me his telegram arrived, and he said "Have you received my telegram?" and I said "I have just received it, it has just been put on my desk."

Mr. MONTEITH: Well, then, am I safe in assuming that you have had no conversation with Mr. Stevens between August 3, 1966, when this Treasury Board Minute was passed, and this morning?

Mr. SHARP: So far as I recollect I never talked to Mr. Stevens during that period, and never about this subject.

Mr. MONTEITH: Well, thank you very much Mr. Sharp: that does clear up a point. Now, if I could move just one step further; the discussion this morning with Mr. Stevens revolved around exactly what point, if I might ask that?

Mr. SHARP: Well, Mr. Stevens phoned me to comment on Mr. Coyne's statement; and his main purpose in phoning me, I think, was to say that he was ready to appear before the Committee. He offered me some comments about Mr. Coyne's statement, and during the conversation he said: "Have you got my telegram saying I would like to appear?", and I said "it has just been put on my desk." During that conversation I thought it well, in the light of what Mr. Coyne had said, to make it clear that the terms of this Treasury Board minute governed the relationship between the Bank of Western Canada and its preferred shareholders, and that I would not exercise my discretion except in very exceptional circumstances, as I said in the house.

Mr. MONTEITH: And you told him this this morning?

Mr. SHARP: I told him that this morning, yes.

Mr. MONTEITH: And there had never been any approach—I am only repeating, I am not cross-examining, please; I am only repeating for complete clarification. You had not discussed this particular point with Mr. Stevens prior to this morning?

Mr. SHARP: As a matter of fact, I said in the house, and I think it was quite clear what I said, that this question had not been raised in my mind at all, until Mr. Coyne made his statement.

Mr. MONTEITH: Well, then, one further question if I may, Mr. Chairman, to Mr. Elderkin: Mr. Elderkin, in evidence before this Committee when we were considering the Bank of Western Canada bill before us, you did state, I seem to recall, that in your estimation there was no reason—how shall I put it—that in your estimation this was a charter which met all intents and purposes of the legislation on which we were basing the subject, and so on; that everything seemed to be completely to your satisfaction at that moment.

Mr. ELDERKIN: That is correct.

Mr. MONTEITH: May I ask the question then, does it still appear so to you, in the light of what has happened?

The CHAIRMAN: I think I would like to intervene at this time. Perhaps I erred on the side of kindliness or courtesy—

Mr. MONTEITH: I do not think so at all, Mr. Chairman, we are getting to the point of the discussion.

Mr. ELDERKIN: Well that is really what—

Mr. MONTEITH: Is there anything wrong with me asking Mr. Elderkin if he still feels this way?

The CHAIRMAN: No, I do not think so at all. But I am wondering whether or not we are getting to the position where we now will have to permit every other member of the Committee to pursue this topic at complete length before hearing Mr. Coyne and Mr. Stevens, and having a very complete discussion with Mr. Sharp, and Mr. Elderkin in the light of what these gentlemen—

Mr. MONTEITH: If you had allowed me to ask my question of Mr. Elderkin, we would be finished as far as I am concerned.

The CHAIRMAN: Fine, well now that we have that established perhaps Mr. Elderkin—

Mr. MONTEITH: I just wondered if Mr. Elderkin felt exactly the same way.

Mr. ELDERKIN: Mr. Monteith, there is nothing that has occurred that has been any violation of any terms of the charter.

Mr. MONTEITH: I pass.

The CHAIRMAN: Well, rather than begin a right wheel turn of questions, the understanding was that we would permit Mr. Monteith particularly to ask some questions with a view to assisting us and himself in our questioning of Mr. Coyne and Mr. Stevens tomorrow. I think rather than giving a regular turn of questioning I might invite the members to pose any supplementary questions they consider very important in the light of the basis for raising this topic at this time.

Mr. THOMPSON: I just have a single question for Mr. Sharp. In the various interviews that you had with Mr. Stevens in the past, or in any of the evidence that he has given, to you or to the committee, have you had any reason to be apprehensive about the financial arrangement and share arrangement of the Bank of Western Canada, or has this come as a surprise to you?

Mr. SHARP: The particular question about the propriety of the Bank of Western Canada making any loans to its subsidiaries had never been raised with me until Mr. Coyne raised it. I had no information that led me to believe that the bank was contemplating making any loans to any of its preferred shareholders; so the question had never been raised in the past.

Mr. MONTEITH: I do not like to interject Mr. Chairman, but may I, just for clarification purposes ask this: Until Mr. Coyne raised it in his statement?

Mr. SHARP: That is it, in his statement, yes.

Mr. THOMPSON: And you had no pre-warning on this.

Mr. SHARP: I had no warning about this, and of course the statement that I made today about the exercise of my discretion is the first time that I have ever made a statement about that subject. I assumed that the order spoke for itself on the intent of the granting of a certificate.

The CHAIRMAN: Are there any further supplementary questions of this kind? There are none, I think therefore that we should take it that the committee has agreed that further questions to the Minister on this topic we can reserve until after we have heard from Messrs. Coyne and Stevens and any of their associates, if they care to be involved in this matter tomorrow.

When the committee adjourned on Thursday evening, we were discussing the proposed amendment, brought to our attention by the Minister, with respect to the defining and disclosing of the cost of borrowing. If I am not mistaken —perhaps Miss Ballantyne will refresh my memory—the last person we heard from was Mr. Lind; but before we get to that aspect, we have all had a chance to glance over the letter to me from the Canadian Bankers Association with respect to their further views on the interest ceiling formula, and that being the case, could I have your views on whether this should be made a part of our record.

Mr. LAFLAMME: I so move.

Mr. MONTEITH: I second the motion.

Motion agreed to.

The CHAIRMAN: If I am mistaken, and Mr. Lind has already completed his questions on the proposed amendment with respect to the cost of borrowing, I will invite other members who may still have questions on this issue to signify their desire to me. Are there any further questions on this? If not, I would like to ask something very quickly, and perhaps Mr. Elderkin can deal with it. Subparagraph 6 of the amendment refers to an express agreement between the bank and the customer. Do you know if this has been interpreted as needing to be in writing?

Mr. ELDERKIN: That is right.

The CHAIRMAN: That is the significance of the word "express".

Mr. ELDERKIN: That is correct.

The CHAIRMAN: With respect to clause 92(1)(5)(ii), reference to charges, is that intended to apply to what is known as the compensating balance?

Mr. ELDERKIN: A continuation of that clause, Mr. Chairman, I think covers the point.

The CHAIRMAN: Is the cost of keeping an account included in the cost of borrowing, under this clause?

Mr. ELDERKIN: Normally the cost of keeping an account is a subject matter of service charges which is included in that clause and which in turn is just a repetition of what is subclause (3) of clause 93 of the bill. It has simply been moved from one place to another.

The CHAIRMAN: If there are no further questions on the proposed amendment with respect to the cost of borrowing, definition and disclosure, then we have finished our discussion on the topics the Minister wished to raise with us. We are now open for a general discussion. Perhaps it may be easier—rather than trying to limit this discussion to a specific topic—simply to recognize the members in turn and permit them to pursue whatever avenues they see fit. Does the Committee agree that this would be the easiest way to deal with the matter? If so, then I would be prepared to recognize Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I wonder, Mr. Sharp, if you have had the opportunity to read this supplementary submission by the Bankers' Association.

Mr. SHARP: I have had a similar letter, I think, from the Bankers' Association itself but I have not read the letter now before us.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It would be the same one, I presume.

Mr. SHARP: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I wonder if you have any comment on it. I am thinking particularly if you have any comment to make on their suggestion that we should adopt the proposals made, I think, by Dr. Neufeld one of our witnesses, about the increase of one per cent in the first year followed by—first of all, could I ask your comment on the Bankers' Association's suggestion as to the uncertainty of the present formula and whether it is a valid objection or not. I would like to have your opinion on that.

Mr. SHARP: Mr. Chairman, I have not had the time I would like to have had to consider the implications of this letter. I have had other distractions in the meantime of various kinds. I am impressed, however with the practical application of the varying ceiling. It has been the intent of the legislation in a general way to work towards freedom; in other words, the process would consist of two stages: First of all, a controlled increase in rates followed, I hoped, as interest rates fell, to freedom which I think is desirable in the interests, particularly, of the smaller borrowers. I am conscious of the fact that if the ceiling were, in fact, to come down before it came off that it introduces a rather arbitrary kind of control that does not have very much purpose. Therefore, in a general way, I have felt that the Bankers' Association put forward a valid suggestion

that wherever the ceiling is fixed, as a result of the first calculation, should remain the minimum ceiling. Then when the interest rates fall to the trigger point, the ceiling should be removed altogether. That is the only general comment I would like to make. This, I do not think, is a point of absolutely first rate importance, but I do believe the Committee should give consideration to the point raised by the Bankers' Association because I do not think that we want to introduce unnecessary complications into the business of making loans and borrowing money from the banks.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Thank you, that is all.

Mr. MCLEAN (*Charlotte*): Mr. Sharp, the formula here would rest with the Bank of Canada rate? Does that have something to do with the Bank of Canada rate?

Mr. SHARP: No; except in a very indirect way. I should think that the Bank of Canada rate would move generally with interest rates but the figure is not related to the Bank of Canada rate.

Mr. MCLEAN (*Charlotte*): I was going to say that it seems that the various nations, including Canada, have come to the conclusion that high interest rates are not curing the heated economy in the way they should. It seems that the United States has taken the lead recently and the various interested nations have gathered together and have decreased the rate by the central banks all around. Is this going to affect the interest rate that you are going to set up by this formula?

Mr. SHARP: Mr. Chairman, I am very happy to see that steps are being taken around the world to reduce interest rates because, like you, I believe that interest rates rose to too high levels throughout the world. I would suggest, however, in this particular case that as far as the bank rate is concerned, Canada moved ahead of the United States because so far as I know, the United States has not changed the federal reserve official discount rate recently and the Bank of Canada has reduced the Bank rate from 5¼ per cent to 5 per cent. In other parts of the world there have been some reductions but we happen to be ahead of the United States. I say that without knowing whether the Americans are going to change their rate.

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

The CHAIRMAN: Will you yield, doctor, for a supplementary?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It is true, however, is it not, Mr. Sharp, that in the United States they have attempted to tackle it from the other end in placing a limit on what may be paid on deposits?

Mr. SHARP: The United States has never had, as you know, a ceiling on interest rates that may be charged. They have had controls in some jurisdictions upon the rate that may be paid for deposits.

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

Mr. SHARP: Indeed, I do not think there are any other big countries that have a ceiling on interest rates paid by borrowers. Canada is an exception, whether honourable or otherwise, to that rule. At any rate it is an exception. I am not sure why the United States adopted that form of regulation. It may have

something to do with the internal conditions of the United States. Mr. Elderkin may have much more expert knowledge of the reason for the American policy.

Mr. ELDERKIN: The federal reserve under its powers issued a regulation, the so-called regulation Q, which governs the rates which may be paid on deposits, and this has been carried across to not only federal institutions but institutions, for instance, insured under the Federal Deposit Insurance Corporation. This rate was kept substantially lower than what one might call world rates for two or three years, and possibly one of the results that came from that was an outflow of U.S. funds—a very substantial outflow of funds—into a more lucrative market, namely the Euro dollar market. A short time ago—I cannot give you the exact date—they raised the rate under Schedule Q to permit the American banks to be more competitive in the world market in the securing of deposits and this has had quite a substantial effect on repatriating funds.

Mr. SHARP: May I add just this, Mr. Cameron: I do not think if we had had power to keep a ceiling on interest rates paid by the Canadian chartered banks that we would ever have had any reason to exercise it. I do not think they have paid excessive rates.

Mr. MACALUSO: Perhaps we had better put something underneath the floor instead of a ceiling.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I was wondering if Mr. Elderkin could tell me does he think that one of the purposes of this was to affect the rates that would be charged for loans in the United States? Was there a connection there?

Mr. ELDERKIN: It would have an indirect effect, I think, but I think the reason for it, if one could guess at it, would be to stop the outflow of United States dollars into other markets.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That was the reason for raising it from 5 per cent to 7 per cent but I was wondering what was their reason for the original imposition of the 5 per cent?

Mr. ELDERKIN: I think possibly an attempt, in general, to keep interest rates under control on both sides.

Mr. SHARP: I would have thought—if I may just speculate for a moment —that it probably was an attempt to prevent competition between institutions for savings that could have produced undesirable distortions in the availability of money in various institutions. By keeping a ceiling on the rates that could be paid on deposits, the flow of funds into various kinds of institutions could be better controlled. I doubt very much whether that had anything more than an indirect effect upon the rates being charged to borrowers. Certainly it could have the effect of increasing the profitability of loans and, therefore, I find it difficult to believe that that could be the primary purpose of the regulations.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I was asking because there were some suggestions at the time they raised it to 7 per cent that this was their method of indirectly affecting the interest rates charged. I was curious to know how that could have that effect.

Mr. ELDERKIN: I do not think the deposit rate was ever raised to 7 per cent. The deposit rate on certain types of deposits was raised to 5 per cent and on some others to 5¼ per cent.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It was raised to 7 per cent on some of the deposits.

Mr. ELDERKIN: I do not think on the deposit side it ever reached 7 per cent.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): On what could be paid on deposits.

Mr. ELDERKIN: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I may be mistaken on that.

Mr. ELDERKIN: As the Minister said, certainly one of the very important points was to protect the savings and loan associations so that the larger institutions could not outbid them for deposits.

The CHAIRMAN: Dr. McLean do you have any further questions?

Mr. MCLEAN (*Charlotte*): Yes. As money is international and flows back and forth, how can we keep a ceiling rate here in Canada if we are going to recognize money as international. I think I read in the press that apparently, $174 million had gone down to the United States in American stocks and money flows back and forth. The Chase Manhattan Bank reduced their borrowing rates to 5½ per cent, but how can we control the rate here in Canada if we are putting a lid on at 6 per cent or 6½ per cent or 7 per cent?

Mr. SHARP: Mr. Chairman, quite obviously a ceiling on the rates charged by banks does not necessarily affect the whole structure of interest rates as we have seen. As mortgages have risen very sharply, as the rates in the money markets have increased, I found it necessary a few months ago to pay what I consider very high rates on government of Canada borrowings and the fact that the banks were under a nominal ceiling of 6 per cent did not seem to protect me very much and I am sure it did not protect very many other people who had to go into the market to raise money. It is true that there must be a certain relationship between interest rates in Canada and in the United States, in particular. After all, Canada is one of the biggest borrowers of capital in the world, and therefore, our interest rates must be in such a relationship with the United States that we have the necessary inflow of capital in order to finance our balance of payments deficit.

Mr. MCLEAN (*Charlotte*): A company as a borrower could go down and borrow from the Chase Manhattan Bank at 5½ per cent. Does this 30 per cent raise in the States affect the borrowings from Canada?

Mr. SHARP: We are exempted from the interest equalization tax, which is the tax to which you refer, on long term borrowings in the United States. We obtained this position as a result of giving undertakings that we would not use this freedom in order to increase our exchange reserves.

The other question about whether there is unlimited freedom to borrow from banks in the United States, I leave to Mr. Elderkin who can be much more precise than I can.

Mr. ELDERKIN: Yes, there is unlimited freedom from our side for banks in the United States.

Mr. McLEAN (*Charlotte*): Well, I was thinking of competition. The Chase has 5½ per cent to borrowers and we have a 6 per cent here. A borrower could go down and borrowed at 5½ per cent from the Chase. Are they subject to this 30 per cent.

Mr. ELDERKIN: No, they are not subject to this. I think, Dr. McLean, that 5½ per cent is their so-called quoted prime rate which is often qualified a bit by compensating balances.

Mr. McLEAN (*Charlotte*): Yes; I have had experience with that.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): And also on the American dollar.

Mr. McLEAN (*Charlotte*): But what I was looking at was the competition that the Canadian banks would get from the American banks.

Mr. SHARP: Mr. Chairman, there is such competition today. One of the points that should be considered, when we get around to the question of foreign agencies, is whether in fact the establishment of foreign agencies makes very much difference to the availibility of American dollars to Canadian borrowers.

At the present time, there are Canadian businesses that are financing in the United States by borrowing from American banks. However, you have to bear in mind, first of all, that it is in American dollars that you pay whatever the American bank wants to charge and secondly, you have to repay in American dollars, so that there is an exchange risk involved. These are the reasons why Canadian banks continue to do the great bulk of financing of Canadian business.

Mr. McLEAN (*Charlotte*): But I understand that this 15 per cent that was on interfered with the borrowing by Canadian customers from American banks.

Mr. SHARP: That is not my understanding, Mr. Chairman. The interest equalization tax does interfere with the purchase by Americans of outstanding Canadian securities upon which that tax is payable.

Mr. McLEAN (*Charlotte*): I know some years ago when I was active in business, it came up with the Chase Manhattan Bank that the change in the law over there interfered with Canadians Borrowing. I am just asking the question. I know that previously the American banks were very competitive if you wanted to borrow against Canadian banks. When this law went into effect it seemed to throw everything out.

Mr. SHARP: Mr. Chairman, I can assure you that there are salesmen for American banks going around today competing with Canadian banks for business. So far as I know, they are doing this business free of the interest equalization tax. The United States government, of course, has given some advice to many people, including banks, to do everything possible to protect the United States from an undesirable outflow of funds because the United States has a balance of payments problem. I am pretty sure that the interest equalization tax does not apply to those borrowers.

Mr. McLEAN (*Charlotte*): It was my understanding that the Chase bank had to account to Ottawa for any interest they received.

The CHAIRMAN: To Ottawa?

Mr. McLEAN (*Charlotte*): Yes. They had to report it.

Mr. SHARP: I do not think so, Mr. Chairman.

The CHAIRMAN: Mr. Thompson, I gather Dr. McLean has no objection to your asking a question.

Mr. THOMPSON: This business that you refer to is business being done out of hotel rooms, in offices?

Mr. SHARP: I think it is being done in the offices of business corporations in Canada. I do not think that the salesmen for the American banks in Canada have any shyness about doing their business in smoke filled rooms. They do it quite openly.

The CHAIRMAN: Dr. McLean, have you completed your questioning; if so, I will hear Mr. Laflamme followed by Mr. Grégoire.

Mr. LAFLAMME: Mr. Sharp, regarding the interest rate ceiling, should the interest rate ceiling be completely removed while chartered banks as we know legally claim service charges. Are you of the opinion that interest rates would decrease if the ceiling were completely removed?

Mr. SHARP: This is a question that ought to be directed more to the banks than to me; but my impression, and indeed, the reason why the government felt that it was in the public interest to move towards a removal of the ceiling is that there will be no longer just a single rate by banks; that there will be a greater spread of interest rates, taking into account the nature of the business that is being done. It seemed to me that this was a desirable freedom so that the banks would be in a position to give the kind of service to their customers that they wished to do, being able to take into account the cost of doing business and the relative risks involved.

(*Translation*)

Mr. GRÉGOIRE: Mr. Chairman, if I understand right, we can ask questions on any subject related to the bill?

The CHAIRMAN: Exactly.

Mr. GRÉGOIRE: Mr. Sharp, I would like to know what authority you have, as Minister of Finance, on the volume of money supply?

(*English*)

Mr. SHARP: Mr. Chairman, I think you had better cut me off after the first hour. I will give a short answer to that question, and say that the government of Canada accepts the responsibility for monetary policy and that monetary policy in general is implemented through the operations of the Bank of Canada in the money market.

There was a time, I gather, under a previous administration when there was some doubt whether the government was responsible for monetary policy. I will not be any more specific than that. I believe all these doubts have now been clarified and I have no hesitation whatever in saying that monetary policy is a matter of government policy and that I take full responsibility for the actions of the Bank of Canada and its Governor.

Mr. MONTEITH: Was it the administration before the last administration? I remember Walter Harris on more than one occasion—

Mr. SHARP: La même chose.

(*Translation*)

Mr. GRÉGOIRE: Mr. Minister, I think you did not quite understand my question. Maybe it was not properly interpreted. I said: what is your authority, as Minister of Finance, on the volume of the money supply and not the monetary policy generally—your authority over the volume of the money supply.

(*English*)

Mr. SHARP: The authority for the operations of the Bank of Canada which carries out the monetary policy that in turn influences the volume of money is contained in the Bank of Canada Act. It is now recognized, and indeed, will soon be formalized by the amendments which will be before us in the Bank of Canada Act, that these operations which do affect the volume of money are made by the Bank of Canada and in consultation with the Minister and the government itself takes responsibility for the actions of the Governor and of the bank.

Mr. GRÉGOIRE: Then you have full responsibility for the volume of money in circulation as well as legal tender or credit money.

Mr. SHARP: Well, let me put it this way. The Bank of Canada has authority to operate in the money market to influence the volume of money and credit. I would hesitate to say, however, that it has complete control because,—shall I put it this way—when there is a very great demand for money and credit, the Bank of Canada has greater control than when there is a deficient demand for money and credit. It is much easier to put a ceiling on the money supply than it is to create the demand for money and credit. All that the Bank of Canada can do in order to stimulate the demand for money and credit is to take action that will result in a plentiful supply of cash, and in that way to influence the level of interest rates: but the Bank of Canada cannot direct a businessman to go out and borrow money in order to expand his factory.

(*Translation*)

Mr. GRÉGOIRE: If you have authority over the volume of money supply, on what do you base your decisions to set the money supply at a given level?

(*English*)

Mr. SHARP: When a Governor of the Bank of England, Lord Norman, was once asked that question by J. M. Keynes, he said, "I do it by feel and flair" and I do think that to some extent that it remains a question of judgment. There is no mathematical formula by which the money supply can be regulated.

I was asking Mr. Elderkin if he had a copy of the Bank of Canada Act, because at the beginning of the act is given some direction to the bank on how they are to exercise their powers, but unfortunately I have not one.

Mr. GRÉGOIRE: You proceed by feeling on this question of the volume of money supply. It is a question of feelings.

Mr. SHARP: It is a question of judgment.

Mr. GRÉGOIRE: Of judgment?

Mr. SHARP: Yes.

Mr. GRÉGOIRE: You quote a former president of the Bank of Great Britain, I think. There is another economist, Mr. Samuelson, from Harvard University who said that the economics is a science. How can you reconcile these two definitions when you say you proceed by a question of judgment, when the economy is supposed to be a question of science, and science is supposed to be based on statistics?

Mr. SHARP: May I say, Mr. Vice-Chairman, that every time I bring in a budget in which I am concerned about the fiscal policies of the government, I do my very best to try to forecast conditions and on that basis to make judgments about government spending and government taxing. Notwithstanding the great progress in economic science, I still find that there is a vast area of uncertainty. I am always criticized by the Opposition in the House of Commons for exercising my judgment very badly indeed.

Mr. MONTEITH: Do you mean the judgment is bad or the criticism is bad?

Mr. SHARP: Well, that depends on where you sit.

Mr. GRÉGOIRE: Mr. Sharp, I am not talking about a budget which is a forecast of what is to come but I am talking about the volume of money. I wonder if you take into consideration when you make your forecast the actual situation in Canada; I mean the total goods and services available which is, in fact, what is behind the volume of money. Does it become a question of judgment or a question of statistics?

Mr. SHARP: Every time the Bank of Canada operates in the money market in its day to day transactions, it is having to make a judgment not only about the quantity of money and credit available now, but it has to make a judgment on whether the existing situation is going to be sufficiently encouraging or discouraging, as the case may be, to influence the course of events in the future. After all, the most important decisions that are made affecting the volume of business and the level of employment, are the decisions that are made in the business sector as to the volume of capital investment. This is one of the big, powerful influences. So that every day Mr. Rasminsky has to concern himself not only with whether his policies are consonant with the present situation, but also whether they are consonant with the kind of situation that he believes is developing. His aim, as is the aim of the government in fiscal policy, is the maintenance of a high and stable level of employment, stability of prices and a viable balance of payment situation. Each of these considerations has to be taken into account in every decision which is made either in the monetary field or in the fiscal field. I only wish, Mr. Grégoire, that I had a computer that could take all these factors into account and then could come out with an answer, not only about the present but about the future. I can guarantee you that the Minister of Finance would stay in power forever and whatever government he belonged to could go to the people with an unblemished record.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Have you ever thought of investing in a crystal ball?

Mr. GRÉGOIRE: Mr. Sharp, I am not asking you questions about the future. We will discuss this afterwards. I am asking you questions about the after effects of the reports. Do you feel that actually in Canada the money supply is sufficient for the expansion of Canada.

Mr. SHARP: Shall I put it this way? I believe that during the term that I have been in office the money supply has been sometimes more than adequate for the purpose. I have not been concerned about a deficiency of money and credit. Maybe in the future I will be but up until now I have not been.

Mr. GRÉGOIRE: I would just like to ask the Minister to repeat his last answer. You have not been what?

Mr. SHARP: I have not been concerned about a deficiency of money and credit. I may be concerned about that in the future but during my year or so in office I have not been concerned about that problem.

Mr. GRÉGOIRE: And to what do you compare your satisfaction? Is it to actual production of Canada, the actual goods produced in Canada?

Mr. SHARP: It is the pressure upon our resources which arises from the demands upon them. In other words, I have felt that the economy required, for stability, some restraint otherwise governments and private industry and consumers were going to demand more than could be physically produced at the time. I know that there are still, or have been even in this year of unprecedented prosperity and expansion, some unused resources. But those resources have not been available in the places where they could be used. So that is why I say during the year that I have been in office I have not been troubled about a deficiency of money and credit.

Mr. GRÉGOIRE: Mr. Sharp, as Minister of Finance, how can you be satisfied with the volume of money supply compared to the actual goods on the market when everybody has to borrow to buy those goods. Anybody in Canada who wants to buy a cow which is already on the market and already produced has to borrow to buy this cow. It is the same if they want to buy clothing, furniture and every kind of thing which is actually produced and which are assets in the country. But even then, everyone has to borrow or go on a finance plan or to go to the banks to buy those things. How can you be satisfied with the amount of money in circulation when they do not have enough money to buy what they have worked for and they still have to borrow when they are producing?

Mr. SHARP: Mr. Chairman, the whole of our society is built on the foundation of credit. I am not at all happy that there is as much consumer credit in existence as there is, but every transaction in production nowadays involves some credit. Our system would not work very well if this were not so and I am, therefore, not concerned that there is a great volume of credit being used. This is, I think, normal. It is healthy and, indeed, unless there continues to be a rising volume of bank credit, then we would have good reason to be concerned about the future of Canada.

Mr. GRÉGOIRE: Mr. Sharp, I am not talking about the credit. The point I would like to make is this: Canada produces a lot. The people of Canada are working very hard to produce things but once it is produced, when it is finished —when it is for sale, it is a fact that the people of Canada have to borrow or to go on finance plans to pay for what they have built and what they have produced. That is the problem; not the question of credit. It is the fact that they have to borrow to pay for what they have already produced. That is why I am asking you if you are satisfied with the money supply in circulation in Canada.

Mr. SHARP: A short answer to that question is that I am satisfied we have not suffered from a deficiency of money and credit.

Mr. GRÉGOIRE: Not of credit but of money. Mr. Sharp, when, you yourself, or the Bank of Canada decides to increase the money supply which is done almost every year how do you proceed to increase that money supply?

Mr. SHARP: Mr. Chairman, this dissertation on monetary policy is going to lead us far afield, I can see. If it is agreeable to the Committee I will continue the dissertation.

Mr. GRÉGOIRE: I do not want a dissertation.

Mr. LAFLAMME: Mr. Chairman, I do not want to raise a point of order but I would like to tell my hon. friend, Mr. Grégoire, if he persists in questioning in this field we might all leave here with the sharpest Social Credit theory we have ever had.

Mr. GRÉGOIRE: Mr. Sharp, if you do not wish to answer you are not obliged to.

Mr. SHARP: Mr. Chairman, Mr. Grégoire is a great friend of mine and a great—

The CHAIRMAN: —humanitarian.

Mr. SHARP: And a great humanitarian. I would not want him to think that there is anything personal in this. I had felt that there might be other things that the Committee also might wish to question me about. I find this conversation most stimulating because I very seldom have an opportunity of having a discussion with a Social Crediter. I believe those who follow Social Credit might even benefit from the remarks that I make. However, I am quite willing to forgo the pleasure of your education, Mr. Grégoire, unless you persist.

Mr. GRÉGOIRE: Mr. Chairman, I would like to point out that—

The CHAIRMAN: There is a very simple way of resolving the matter. The ordinary period of questioning is 20 minutes and Mr. Grégoire has taken 15 already. Perhaps we should accord him the opportunity of using his last 5 minutes in a profound study of the views he wishes to question the Minister on, following which we will go on to another matter.

Mr. GRÉGOIRE: Mr. Chairman, may I remind you—and I would not like the last five minutes to be taken off my 20 minutes—that during the committee studies of the Bank Act revisions in 1944 and 1954 there were lots of questions and pages and pages of questions were asked on any subject. There were never any objections on the part of other members of the committee. I wonder why Mr. Laflamme, my friend, would like to object to the kind of questioning that has been put to my good friend, the Minister of Finance.

The CHAIRMAN: I think really Mr. Laflamme was merely attempting to inject a note of levity into our very serious deliberations, since they are ordinarily very weighty.

Mr. MONTEITH: I do not mind, but I am inclined to agree with Mr. Grégoire that in the 1954 hearings we had very far ranging discussions.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, could I ask a supplementary?

The CHAIRMAN: I think that we should in this regard accord Mr. Grégoire the same opportunity we accord others in telling us if he wishes to yield and if he does not—

Mr. GRÉGOIRE: Well, it depends.

Mr. MCLEAN (*Charlotte*): But it has something to do with Mr. Grégoire's question.

Mr. GRÉGOIRE: Oh, yes, I am ready to yield.

Mr. MCLEAN (*Charlotte*): Mr. Sharp, if you would arrange to put all this money into supply I would like to know how we would get it—

Mr. SHARP: Mr. McLean, I am sorry I did not hear the question.

Mr. MCLEAN (*Charlotte*): If you were going to increase the money supply as Mr. Grégoire wants you to how would we get it after it is increased?

Mr. SHARP: Mr. Chairman, there is nothing easier than to facilitate an inflationary movement in prices. The history of mankind is full of the history of governments that did not hesitate to depreciate the currency. This has been a long standing method of financing government expenditures. But I thought in the modern world we had got a little beyond this and that the purpose of our activities these days was to promote the general welfare and, therefore, to promote high levels of employment and income. This cannot be done simply by printing money. That has been tried many times and it has only one outcome. If I may say so Social Credit seems to me to be a sophisticated form of inflationary finance put forward most skilfully by people like Mr. Grégoire. I do not mind discussing this matter with him and I hope that perhaps while he is trying to influence me I can influence him to recognize the limitations of the purely monetary approach to economic questions. It is very easy to increase the money supply—just print the money. But the people of Canada, I do not think, would be any better off as a result.

Mr. LAMBERT: Mr. Chairman, may I ask a supplementary question. Has the Minister consulted with the Minister without Portfolio—the member for Davenport—who voted for debt free money?

Mr. GRÉGOIRE: Mr. Chairman, since Mr. Sharp made a statement on this question of inflation, I think that the Minister is willing to have a discussion on this point. I think it is the only opportunity we have. Outside this Committee the Minister is much too busy to discuss that problem with me. In the house it is always out of order so we do not have the opportunity to discuss it. Since the Minister is ready to discuss it I think we should do it in this Committee even if it is only after all the other members who have questions to ask have asked their questions. I can see that the Minister does not understand our point. When he thinks that we want to print money and put money like this on the market that is not the point at all. We believe there is inflation when there is too much money in circulation compared to the production of the country. But as long as there is not enough money to buy the whole production of a country when it is needed there is no inflation.

Inflation does not come because of money supply increasing, it comes when you put too much money in circulation compared to production. That is scientific because you compare two statistics: the statistics of production and the statistics

of money supply including the speed of circulation of that money supply. That is statistical and that is why we say economics is a science and that is only a question of feeling. That is why I question your argument that we would cause inflation by putting money in circulation like this. The question is to make it a scientific solution of quantity of money supply compared to the quantity of production, taking into consideration the velocity of this money circulation in the country.

I do not think that is what you said a couple of minutes ago. If you want to discuss this theory with me in this Committee at the time of the Bank Act revisions, which I think is the proper time, you have to quote exactly what is Social Credit and not what Yvon Dupuis or other Liberal candidates cried out loud two elections ago.

Mr. SHARP: Mr. Chairman, may I remind Mr. Grégoire that I was brought up in western Canada where the theories of Social Credit were known almost as well as the theories of J. M. Keynes. It is not by reason of ignorance of the Social Credit theory that I take exception to his arguments. I think that the Social Credit theory is based upon a misunderstanding of the nature of our economic processes and, therefore, I am not arguing in anything except in the same terms as he is and I suggest to him that the theories that he is putting forward would not advance the welfare of the people of Canada. I believe that fundamentally they are inflationary.

Mr. GRÉGOIRE: Mr. Sharp, may I ask you a question.

The CHAIRMAN: Mr. Grégoire, we will let you ask your question and allow the minister to reply, and then, I think, as the 20 minute period seems to be on the verge of going by, we should see if there are other members who have questions they consider equally important to bring forward.

Mr. GRÉGOIRE: Mr. Chairman, I am not in a hurry; I will not even ask this question; I will wait till the next turn and then, if everybody has asked his questions and if they are satisfied, I will ask the Minister of Finance some questions. I am not in a hurry; it might be tomorrow.

An hon. MEMBER: Yes, and the day after.

Mr. GRÉGOIRE: And the day after. The Minister said he is ready and willing to discuss it. As we have the opportunity once every ten years, and it is the first time I have with the Minister of Finance, I am willing.

The CHAIRMAN: I hope that this does not mean you will forgo opportunities usually available during supply motions and budget debates to reflect those things.

Mr. GRÉGOIRE: We do not have opportunities on those occasions. A supply motion is two days and you know that with the situation where I am, I never have the opportunity to talk in those two days.

Mr. SHARP: May I, Mr. Chairman, now that I have the copy of the Bank of Canada Act, read the opening words, which will be a partial answer to Mr. Grégoire's question. The preamble says:

> Whereas it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national

monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion—

Mr. GRÉGOIRE: That I agree with, but what is in the act after that is not the same. I agree with the preamble. The preambles are always fine, but the legislation does not necessarily follow.

Mr. LAFLAMME: What would be the "after that" that would have to be changed.

Mr. GRÉGOIRE: In this act, I think it would have to be article 72, but I will come to that in the next period.

Mr. THOMPSON: Mr. Chairman, I had not intended to ask any questions along this line tonight, but I am quite surprised at one of the answers that Mr. Sharp has given to Mr. Grégoire, and I would like to ask him one or two questions about it. Mr. Sharp, you stated that you have not been concerned about a deficiency in the money supply during the last year. Does that mean that you consider a tight money situation such as we have had, has been desirable for Canada?

Mr. SHARP: Mr. Chairman, this phrase "tight money" may be subject to some misinterpretation. If members of the Committee had taken the trouble to look at the increase in the money supply that has taken place during this last year, I do not think that they would categorize it as tight money. What has happened is that there has been such a rapid increase in the demand for money and credit, that notwithstanding the increases in the money supply that have taken place, interest rates have risen because the demands were even greater than the increase in the supply that took place. If it had not been for the actions of the monetary authorities in keeping the increase in the money supply within limits, then we should have had an even greater increase in prices.

Mr. THOMPSON: But Mr. Sharp, statistics tell us that we are about 22 per cent behind in building houses, taking just one section of the economy alone. That was not because the contractors could not build the houses, or because the people did not want them; that was because there was no money available to build those houses. Are you saying that this is a good situation.

Mr. SHARP: No. I am saying that if the demand for funds for other purposes had not risen as rapidly as it has, there would have been more money available for housing. One of the most unfortunate aspects of the monetary conditions that have prevailed throughout the world in the last year or so, and the last few months in particular, has been that housing has been one of the first casualties, because the nature of housing demand is such that it cannot compete effectively with the demands of other people who want money for other purposes. This is an illustration of the principle that I had been putting forward earlier, of the attempt to do too much too soon. It was not a shortage of money; it was an excessive demand during this period.

An hon. MEMBER: Or the 11 per cent sales tax.

Mr. SHARP: Mr. Chairman, I will let the interjection stand now, but that is not the reason.

Mr. THOMPSON: In this regard for example, our budget for 1965 was just under $8 billion and the expenditure for 1966 is going to be in the proximity of $10 billion. With an increase like this in the neighbourhood of 20 per cent on federal government expenditure alone, which apparently was essential, otherwise you would never have allowed such expenditure increase, you still say that you are not concerned about money supply. I do not find that satisfactory, but be that as it may, let us take 1965 as an example. The national income for 1965 was just below $38 billion; that is the money Canadians earned by salaries, dividends, commission, sale of produce, whatever it was. Now the GNP for that year was just over $52 billion. The market value of consumable goods and services was somewhere between the two figures. An estimate would put it at about $44 billion. Do you think that this is a good situation, where the national earnings of Canadians are that much below the production of consumable goods and services?

Mr. SHARP: There is something wrong with that particular statistical computation. It would not matter how high production had been; there would still have been that difference. I think sometimes that Social Crediters in particular are bemused by these national account figures, and read into them a significance that is not there.

Mr. THOMPSON: Let me ask this question. Would you not agree that it would be desirable for the economy if the supply of money in the economy were adequate to bring the level of the income of Canadians up to the fair market value of the consumable goods and services produced?

Mr. SHARP: Mr. Chairman, in the national accounts, the value of the gross national product is exactly equal to the gross national expenditure.

Mr. GRÉGOIRE: Because we borrow.

Mr. THOMPSON: Because you borrow.

Mr. SHARP: Let us be quite clear about this, so that there is no misunderstanding, that these two figures are identities.

Mr. THOMPSON: They are identities, because you make up a lack through the debt system.

Mr. SHARP: No, they are just identities. The sum of all the money that is paid out in order to produce goods, is exactly equal to the total sum of the value of the goods themselves. This is an identity; it cannot be anything else. There is no gap, although sometimes the statisticians make some little errors so something is added for a balance.

Mr. THOMPSON: Mr. Sharp, do not tell us that the factors which make up GNP are all consumable goods and services. You know that they are not.

Mr. SHARP: Oh, no, some of them are machinery.

Mr. THOMPSON: They have no relation to it whatever.

Mr. SHARP: The gross national expenditure, the total amount of money which is spent is exactly equal to the value of the total amount produced. This is an identity; this is exactly how the national accounts are made up; like double entry bookkeeping.

Mr. THOMPSON: May I ask you this question. Is the prosperity of the nation, the well-being of our economy dependent then upon a debt system, as we operate now, in your opinion? This follows out of what you have said.

Mr. SHARP: I do not think that there is anything wrong with a debt system.

Mr. GRÉGOIRE: Except the service charges, $1,200 million this year.

An hon. MEMBER: What did you pay for your house?

Mr. SHARP: The debt system is a perfectly normal part of any system; it would be normal, I think, in a socialist system, perhaps not in a social credit system. There is nobody in the world that has experimented with one. A few misguided countries have gone in for socialism, but none for Social Credit.

Mr. THOMPSON: Mr. Chairman, it is nice to make light of these things, and if the economy of Canada were functioning as effectively as it should, we might be in a position to make light of some of these topics, but I am not sure that it is. Another thing that disturbs me, Mr. Sharp—you brought on these questions yourself—is that you talk about depreciating currency. Are you satisfied that the present deflation of money, owing to the inflation of the cost of living, is a satisfactory and desirable situation?

Mr. SHARP: No, and I spend a good deal of my time trying to keep these inflationary tendencies in control, and I get criticized a good deal for trying, but within limits we have a useful effect. Nothing would please me more than to see a world economy in which prices did not rise over-all. I am not one of those who believe that it is necessary to have rising prices in order to have prosperity and rising production. I believe that we ought always to be aiming at stability of the general price level; not individual prices, of course.

Mr. THOMPSON: Mr. Sharp, do you believe that governmental expenditure should not increase faster than the value of the productivity of the economy, as far as ratio is concerned?

Mr. SHARP: I do not understand the question; I am sorry.

Mr. THOMPSON: I am speaking now about the increase of federal government expenditure in 1966 over 1965 of between 17 and 20 per cent, where our gross national profit increase, allowing for the increase in cost, is about 4 per cent. Do you think that that is a good proportion. You say that you have done everything that you can to avoid these inflationary measures, and yet you in your first budget are responsible for increasing the budget up to 17 to 20 per cent over the year before when the productivity of the nation has increased perhaps 4 per cent.

Mr. SHARP: Fortunately, the productivity increased by about 6½ per cent.

Mr. THOMPSON: Allowing for the increase in the cost.

Mr. SHARP: And the total government expenditure went up relatively faster than output, because the people of this country, as represented by all of us sitting around this board, have felt it desirable to extend the scope of government spending. These are decisions that we make.

Mr. THOMPSON: Do not include everybody in that, please.

Mr. SHARP: At any rate, parliament approved increases in expenditures. We did not approve everything that every party wanted to do, but we did increase expenditures, because we felt that the Canadian people wanted these services.

Mr. GRÉGOIRE: Yes, but when the interest on the debt increased by $150 million or $125 million, do you think the people accept that increase in that department? And is it not a consequence of your debt system?

Mr. SHARP: I think it is most important that the government should pay their debts, and should pay interest when they borrow money. And I think there is a very good argument from time to time for adding to the public debt. I do not believe that this is going to destroy the country. But I do think that we should try to avoid increases in debt when the country is in a position to pay cash for the services that it requires.

Mr. THOMPSON: Mr. Chairman, I do not want to carry on an argument. I just wanted to get Mr. Sharp's statements on some of these things and I think we have them now. That is good enough. It is hopeless.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have a short supplementary question, Mr. Sharp. I was rather interested in the connection that Mr. Thompson saw between government expenditures and the gross national product and the suggestion that there should be a determined ratio between the two.

Mr. THOMPSON: What is the increase, approximately, in mills?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This is just the point I want to come to. Would it not be correct to say, Mr. Sharp, that increases in government expenditures are in the main efforts to reallocate our resources in the way in which the government considers is most desirable for our society. Is this one of the purposes of much of government expenditure?

Mr. SHARP: Yes, Mr. Chairman. I would only amend that slightly to say that parliament rather than government wishes to see that accomplished. That is one of the functions of government expenditure. The proportion of total government expenditures by all Canadian governments, provincial, municipal and federal, has been rising a bit in terms of its proportion of the gross national product, but it is a much larger gross national product. Even if the proportion has risen a bit there is still in the hands of Canadians generally more money free of taxes to spend for their own purposes. I do not believe that small increase in the proportion of the GNP going to governments is necessarily a bad thing. I think it does represent some redistribution of incomes in favour of those who need services that most of us would like to see them have.

Mr. THOMPSON: Mr. Chairman, I would challenge the statement that Mr. Sharp has just made that there is more money in the hands of Canadians to spend even after the increase in government expenditure because statistics do not bear it out. I would like to see you produce it—

Mr. SHARP: I suggest, Mr. Chairman, that if you would like to have some evidence on this point it can easily be produced.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Even if it were not, Mr. Sharp, is this not rather irrelevant? Is not the decision on what proportion of the gross national product is spent on these things a matter of policy, whether or not it is wise to replace in some instances private expenditure by what I might call communal expenditure—removing some of the burdens of private expenditure from individuals and spreading them across the community?

Mr. SHARP: Yes, I agree with that statement.

Mr. GRÉGOIRE: Mr. Sharp, even if government expenditures are increasing, do you not think that Canada could afford to increase the building of houses which the people of Canada need and are able to build? Do you not think the Minister of Finance should find a way in which to carry out this construction when there is such a need for houses? The minister has the potentiality in the wealth of the country and the manpower is ready and able to build those houses; therefore, the government of Canada should see that it is done. Do you agree that this increase in government expenditures should not prevent these homebuilding projects on a large scale?

Mr. SHARP: Mr. Chairman, it has not been the increase in government expenditure that has interfered with the building of houses. It has been the demands for money both by business and by government that has competed with the housebuilders for mortgage funds. In the circumstances of this past year, the housebuilding industry has suffered. The government has recognized this and is taking steps to adjust it because we believe that a larger supply of housing is very desirable. We have taken a number of steps—one of them I hope we are taking in this Bank Act—to make available another source of mortgage finance on a more widespread basis for the people of Canada.

Mr. LATULIPPE: Sir, you say that it is—

The CHAIRMAN: May I just interrupt here. The next name on my list, Mr. Latulippe, followed by Mr. Lambert. Before recognizing Mr. Latulippe, I think we have to clarify one point. As you recall, at the beginning of our meeting we agreed to hear Messrs. Coyne and Stevens tomorrow afternoon beginning at four o'clock. It may well be that we will not complete our questioning of the minister this evening and perhaps we should inquire whether he can be back with us tomorrow morning at 11 a.m. with a view to attempting to complete our discussion.

Mr. SHARP: If the Committee would like to have me I am quite sure I can arrange my schedule.

The CHAIRMAN: While it is true we have unique opportunities here, which in theory should not be limited to discussing these wide ranging matters with the Minister, at the same time we do have certain obligations to the house and, if it is a fact that there is some continued intention to attempt to prorogue on the 10th of March, we have a special obligation to give the house, an opportunity to deal with this matter before prorogation. I am not saying I am necessarily enthusiastic about the March 10 prorogation date but in this regard we are servants of the house, so we might keep this in mind with respect to deciding the urgency and priority of our questions.

Mr. GRÉGOIRE: May I ask a supplementary question?

(*Translation*)

The CHAIRMAN: You could ask leave of Mr. Latulippe. . .Mr. Grégoire?

Mr. GRÉGOIRE: Mr. Sharp, you said that these housebuilding projects were not able to proceed because demands were so high in other fields. I think that is what you said. Do you think that, if we had had the money, we could have built those houses in addition to all the other projects that were put forward and built. Do you not think it is a question of money either than the question of other

things being buildt? Do you not think we would have been able to do both at the same time if we had the money, the need and the people to work on them?

(*English*)

Mr. SHARP: No, I do not think so. Indeed, there were many commercial projects that had to be postponed as a result of inability to proceed last year so I cannot agree with the statement that it would have been possible to do everything we wanted to do.

Mr. GRÉGOIRE: Was it a lack of raw material?

Mr. SHARP: Labour, raw material, time.

Mr. GRÉGOIRE: If you need labour, Mr. Minister, may I suggest an address, the employment office in my constituency. You will find people there who are willing to work in construction.

Mr. LAMBERT: Are they prepared to go to Edmonton and Calgary?

Mr. GRÉGOIRE: Well, we need houses in Quebec too. Quebec is not progressing as rapidly as other provinces.

Mr. LAMBERT: The demand is as great in other provinces.

Mr. GRÉGOIRE: Yes, and it is just as great in my province so why should we go to Alberta when there is a great demand in Quebec?

(*Translation*)

The CHAIRMAN: I think we should recognize Mr. Latulippe and give him the opportunity to ask his questions.

Mr. LATULIPPE: Mr. Chairman, I wish to thank you for your kindness in recognizing me. Just a few questions I would like to direct to the Honourable Minister. My questions concern reserves, cash reserves and secondary reserves.

On this subject Section 59, Chapter XII, of the Chartered Bank Act, mentions that Banks are obliged to maintain reserves, according to the Canadian Bank Act, of no less than 5 per cent of their requirements for deposits in Canadian dollars. The reserves consist in deposits with the Bank of Canada and in bank notes held by the Bank:

This appears in the revised Statutes of Canada for 1952, Chapter XII, Page 37.

Now, in 1954, Section 71; This money reserve is raised from 5 to 8 per cent. And more confusing explanations are given on how to calculate the cash reserve in relation to the deposits payable in Canadian currency.

In 1967, Clause 72 of Bill C-222 mentions rates of 12 per cent and of 4 per cent for deposits payable on demand and deposits paid after notice in Canadian currency. Moreover, sub-clause 2 is sub-divided into two paragraphs and, sub-clause 3 is also divided in three paragraphs. These require secondary reserves over and above the four primary reserves at different rates of 12 per cent, 4 per cent and 8 per cent of the whole for different periods of time.

Why is it, Mr. Minister, why is everything so complicated when it would be so easy to say we will set a rate of 7 per cent, or 8 per cent or more and stop complicating things to a point where it is practically impossible to understand. Why, Mr. Minister, do we not have clearer clauses so that citizens will not be mixed up with text becoming harder to understand?

(*English*)

Mr. SHARP: Mr. Chairman, the main purpose of the amendments we are proposing is to influence the activities of the chartered banks. I think they understand the regulations very well and that it is not necessary to oversimplify them for their purposes. The changes that we suggested in the cash ratios are intended to influence the banks in a particular direction and I believe they are in the general interest and will result in lending practices and other activities of the banks that will improve their ability to serve the Canadian people. I do not think they are overcomplicated, and certainly the banks will understand them very well indeed.

(*Translation*)

Mr. LATULIPPE: Banks understand them, but the citizen has a hard time understanding them. It is not only the banks that should understand them and I find things are so complicated that one cannot say for sure what the rate will be. You say it might be 7 per cent, it can go to 8, it could vary. So, why not set a truly definitive and easily understood rate and mention some figure, but something that would be clear. These things are getting always harder to understand, the people are getting mixed up and it is difficult to understand all these clauses. Now, perhaps, the Minister might bring in an amendment to the Act and say whether it will be 7 per cent but these rates of whether it is 12 per cent, 4 per cent or 8 per cent should be removed and the rate of 7 per cent decided on. It would seem to me clearer and more logical for the people who have difficulty understanding such matters.

Now, Mr. Minister, what do you understand by cash and what do you understand by Canadian money? Can you give us a definition?

On many occasions, I have asked to have this definition from people who appeared before you, and never got an answer. I never could get the definition, so I am asking you to give us this definition. What is cash and what is Canadian money? What do you understand by cash, what do you understand by Canadian money? That is my question.

(*English*)

Mr. SHARP: Mr. Chairman, as far as the banks are concerned, they understand cash to be Bank of Canada notes or deposits in the Bank of Canada. From their point of view that is cash, broadly speaking. As far as I am concerned, Canadian money has many meanings. It can mean the notes I have in my pocket or the deposit that I have in the chartered bank; that is all money as far as I am concerned and it is all Canadian money. Banks understand what cash means. Cash is what they have and do not earn anything on and they must understand that very clearly and try to keep the ratio between their cash and earning assets as low as possible. That is the whole purpose of banking as I understand it.

(*Translation*)

Mr. LATULIPPE: Now, Mr. Minister, you have defined cash and Canadian money, would it be too indiscreet to ask you the total of the money supply, what does it amount to in Canada?

(*English*)

Mr. SHARP: The money supply has been defined by economists in various ways. It usually consists of the money available to individuals and corporations

in the form of deposits and cash in their tills or in their pockets. It usually includes demands and notice deposits; it usually includes coinage, and it usually includes Bank of Canada bills. This is the general way in which the money supply is defined. There will be some economists here who will quibble a bit about the exact definitions but I think in general that is what it is.

Mr. GRÉGOIRE: The total of Bank of Canada notes, and Canadian dollars deposited in the banks.

Mr. SHARP: I suppose you could include coinage too, in part.

Mr. GRÉGOIRE: Do you include deposits in trust companies or a saving bank?

Mr. SHARP: This is one of the reasons why I say the economists might quibble a bit. Because of the expansion of the activities of these other deposit taking institutions, some economists might be inclined to include the deposits that are available in these trust and loan companies as being part of the money supply and I would not disagree with that. I would think that that is probably so.

(*Translation*)

Mr. LATULIPPE: And now, Mr. Minister, you have defined cash and Canadian money. Would it be too indiscreet to ask you, what does the money supply amount to in Canada? We were talking about money supply awhile ago, what does it amount to in Canada?

(*English*)

Mr. SHARP: To the extent that people have deposits, wherever they are located, whether they are in a chartered bank or a trust and loan company or a caisse populaire, and they can spend them, they can go in and get the money and spend it, it is part of the money supply that is available for spending. But as I say there may be differences of degree as to how accessible some of that money is, depending upon whether notice has to be given, but apart from those refinements, I think it would all be part of the money supply.

(*Translation*)

Mr. LATULIPPE: Do the assets of the Caisses Populaires and other financial institutions form part of the money supply?

(*English*)

Mr. SHARP: Mr. Chairman, I do not carry these figures around in my head.

(*Translation*)

Mr. LATULIPPE: We can conclude then, although you did not say it in so many words, that the total of the money supply would be about 21 billion dollars. Are my figures accurate?

(*English*)

The CHAIRMAN: Perhaps Mr. Sharp could check on the answer to this question.

(*Translation*)

Mr. LATULIPPE: Mr. Chairman, if there only about 3 billion, presently, in coin and paper money created by the Bank of Canada, could you tell us who created the other 18 billion that go to make up this money supply of 21 billion?

(*English*)

Mr. SHARP: The process of credit creation is a familiar one. The banks make loans. The proceeds are left on deposit with the banks. They become part of the money supply. That is one way in which they are created. I think it is a familiar method and I gather it is one of the methods that the Social Crediters always seize upon as being unnatural.

Mr. GRÉGOIRE: No, we do not say that. Where is MacIntosh?

(*Translation*)

Mr. LATULIPPE: Would you not agree that if the people's government has the power to create the first 3 billion in paper money or coin, they should be able to use this power to create the other 18 billion required for our national economy?

(*English*)

Mr. SHARP: A short answer, Mr. Speaker, is because we consider the present system to be superior to the one in which all the money would be in the form of Bank of Canada notes or otherwise created by the government itself.

Mr. GRÉGOIRE: Well, it is not necessary to have all the money in Bank of Canada notes. As you say, it could be in the form of credit money.

(*Translation*)

The CHAIRMAN: Mr. Latulippe.

Mr. LATULIPPE: I have a few more questions. It won't take very long.

The CHAIRMAN: You still have seven minutes to ask your interesting questions.

Mr. LATULIPPE: I will change the subject. I will turn to another subject which also concerns the banking system. The Minister has already alluded to inner reserves. I would like to ask him whether he has any idea of the amount of inner reserves in 1963?

(*English*)

Mr. SHARP: Yes; I am kept informed about inner reserves.

(*Translation*)

Mr. LATULIPPE: Would it be possible to divulge them? Or would this be indiscreet?

The CHAIRMAN: Mr. Latulippe, this question could better be asked after the Act has been passed by Parliament. It will be easy to ask it next year.

Mr. LATULIPPE: Why do you allow banks and other financial institutions or large corporations to have "indiscreet' reserves?

The CHAIRMAN: Are you speaking of inner reserves? Reserves must indeed be discreet. It is the public reserves that are indiscreet. Are you referring to hidden reserves of financial institutions?

Mr. LATULIPPE: If you do not accept the word "indiscreet" then let us say "hidden".

(*English*)

Mr. SHARP: Mr. Chairman, the subject of hidden reserves is covered in the amendments to the Bank Act. We hope to make them less than discreet in the future by revealing them to the population at large.

(*Translation*)

Mr. LATULIPPE: Could you tell us, Sir, if all large corporations are submitted to the same regulations? Do they all have inner reserves?

(*English*)

Mr. SHARP: Mr. Speaker, in so far as the Income Tax Department can manage it, they have to reveal all their reserves and they are permitted to have reserves only for certain specified purposes, such as, reserves against losses, or against payment of taxes, or for purposes of adding security to their operations, and so on. There are many categories of reserves. I think that banks are the only group of our large corporations that have up until now enjoyed special privileges in reserves.

Mr. ELDERKIN: And insurance and trust companies.

Mr. SHARP: Oh, insurance companies and trust companies, yes; I am sorry. It has only been financial companies that have had special regulations permitting special reserves which have been, I understand, given because of the special character of the obligation of financial corporations. It is to ensure that these financial institutions shall always be able to honour their obligations that we give them some special reserves against these risks.

(*Translation*)

Mr. LATULIPPE: Would it be illogical to allow other institutions to have reserves or accumulate similar reserves?

The CHAIRMAN: I think, Mr. Latulippe, your very interesting question does not relate to our Parliamentary terms of reference, because we are not dealing with companies in general but only with financial institutions.

Mr. LATULIPPE: I know, but the other institutions also have rights. They also have the right to put aside certain reserves to provide for misfortune or certain accumulating losses, and there are many corporations who make losses by going bankrupt and they are not allowed to have such reserves. It would seem that society and the individual are not protected. If you protect some people you must also protect others. Everyone lives together and if there were no people, if there were no other companies, there would not be any banks, either. Society is what keeps the banks going. So I think that indirectly, corporations or institutions in society should have at least an equivalent reserve they could accumulate to look after bad losses, or bad periods.

(*English*)

Mr. SHARP: Mr. Chairman, I am sure it is obvious why financial institutions have had the privilege of these special reserves. It is because of their relationship to the public. Banks accept deposits. The public must feel that they will always

get their money back that is on deposit. Insurance companies sell insurance policies and sometimes have to make payments to policyholders. Trust companies accept deposits.

These financial institutions stand in a special relationship to the public. In other words, they are not like a manufacturing company that is turning out automobiles. Such a company has no responsibility except to turn out an automobile. But a bank is accepting deposits, paying them out, and there must always be confidence that the banks will honor their obligations and the people will be able to get their savings or their deposits back on demand without any question whatever.

(*Translation*)

The CHAIRMAN: Mr. Latulippe, do you have any other questions, because your time has expired?

Mr. LATULIPPE: I still have some questions, Mr. Chairman, which I will ask later. But before I pass, I would like to ask the Minister why, if financial institutions have to have certain reserves to provide for certain anomalies and things that might come up in business, the private companies should not also have the right to accumulate some reserves to provide for bad debts, because if the public is not protected, the banks will not be either. The public certainly has the right to have some reserves and is more subject to loss than the banks. According to statistics, the banks lose ½ of 1 per cent and I know people and companies who have lost 10, 12 and 15 per cent. I have not known any companies who lost but 1 per cent. Corporations lose a lot more than the banks do, that is why I think that they have a right to accumulate certain reserves to provide for these situations.

The CHAIRMAN: Mr. Latulippe, I would like to bring something to your attention. I think that it is in order for accountants, even if companies don't insist on it, to have certain reserves against losses. Legislation governing corporations in various provinces, in some cases, requires them to have certain reserves, so the interesting point you raise is already accepted in the business world.

(*English*)

Mr. Sharp, do you feel that I have clarified that aspect.

Mr. SHARP: Yes, you did it very well, Mr. Chairman.

The CHAIRMAN: Thank you. Having received that accolade, perhaps Mr. Latulippe, your period has expired.

(*Translation*)

Mr. LATULIPPE: Do I have a few more minutes, Mr. Chairman?

The CHAIRMAN: Only if the group is willing to stay for a few more minutes. You could perhaps start again after another member of the Committee has asked his questions, tomorrow morning.

Mr. LATULIPPE: I only have one more question.

The CHAIRMAN: Just one question? This would enable Mr. Latulippe, to finish and we could start tomorrow morning at 11.00 a.m. with Mr. Lambert who also has some interesting questions to ask.

The CHAIRMAN: Mr. Latulippe would you like to ask your last question.

Mr. LATULIPPE: Could you tell us, Sir, how it is that in a country such as Canada having extraordinary resources in natural wealth, manpower, and university graduates, has to borrow foreign capital to develop these same resources and make them available to its citizens?

(*English*)

Mr. SHARP: The short answer is because our savings are not adequate to our needs.

Mr. GRÉGOIRE: Or because income tax takes all our savings.

Mr. SHARP: That is a form of compulsory saving.

The CHAIRMAN: Perhaps, we may discuss that aspect of it with Mr. Benson at some later date.

May I suggest that it will now be in order for this meeting to adjourn until 11 o'clock tomorrow morning when we will continue with the Minister. I think Mr. Lambert will be first on the list at that time, followed by Mr. Gilbert, with the understanding that we will reserve any questions we may have on the West Bank issue until after we have heard from Messrs. Coyne and Stevens in the afternoon and evening.

This meeting is adjourned.

APPENDIX «SS»

THE CANADIAN BANKERS' ASSOCIATION

President's Office

Toronto 1, Ontario
February 6, 1967

Herb Gray, Esq., M.P.,
Chairman, Standing Committee on
Finance, Trade and Economic Affairs,
Parliament Buildings,
Ottawa, Canada.

Dear Mr. Gray:

We had hoped to be able to discuss Section 91 of Bill C-222 in the same detail as other sections during our appearance before the Committee last Tuesday but were forced to curtail our presentation by the fact that it was quite late in the evening when the item arose. We therefore make this further submission in writing in the hope that you and your fellow members of the Committee will consider its contents in the course of your final deliberations on the Bill.

At the outset we would repeat our firmly held conviction that the many arguments that have been advanced for removal of the ceiling are just as applicable today as they will be at any time in the future. And all the major witnesses before your Committee have accepted the principle of ultimate removal. One of the most important among these in our opinion was the Canadian Federation of Agriculture, which, after sustained opposition over a long period of years, now supports repeal.

Immediate removal would bring into the scope of bank lending a range of risks for which credit is either not available at all or is available from other lenders only at rates perhaps twice the level that would prevail once the banks were free to compete. To many borrowers the banks would be able to bring benefits comparable to those they have provided to over 2 million Canadians through their active participation in the field of personal loans.

Also, the pressure to find revenues from borrowers through other sources would be relieved immediately. Rising administrative and money costs have tended to narrow the spread between expenses and revenues in the lending operations of the banks, and with more advanced costing procedures the banks are attempting to allocate expenses more fairly between their customers. However this development need not militate against the objective that the rate of interest on a loan be as nearly as possible on an "all inclusive" basis. The real obstacle to this goal is the interest ceiling, and the sooner it is removed the sooner the goal will be reached.

Turning to the formula for removal of the ceiling, we must state our views that, while in its conception it is rather ingenious, it has very serious practical disadvantages.

You will recall that Section 91 of Bill C-222 provides that the ceiling will be set for six months at a time at a level 1¾ per cent above the average of short term

government bond yields calculated in a preceding *fixed* quarterly period. (91(3) and (7)). You will also recall that whenever the average of such short term rates in *any* period of three month falls below 4½ per cent of the ceiling will expire in the immediately following month. (91(9)).

The effect of this formula is that the ceiling may move upward if short term rates rise, but it will also move down again as short term rates decline and will not fully come off until it is back down again approximately to where it is now.

This formula leaves many uncertainties. There is no certainty as to the level of rates that may be anticipated under it. There is no certainty as to the duration of the downward adjustment. There is no certainty as to when the ceiling may eventually come off. It is only reasonable to assume that the banks will be very reluctant to institute any new lending policies under such completely unpredictable circumstances.

There is the added practical difficulty that with the recent decline in short term bonds rates the initial ceiling is more likely to be 6¾ per cent or even 6½ per cent, rather than the level of 7¼ per cent as now calculated.

If a transitional provision is to be retained, we would urge that it embody at least three features:

1. An initial step that will provide sufficient room for the desired degree of diversity in bank lending and the desired use of the rate of interest to the fullest extent as the inclusive cost of the loan to the borrower. This should be at least 1 per cent.

2. An assured upward progress towards complete removal. This will permit new policies to be introduced by the banks in a planned and logical development.

3. The total duration of the transitional period should be certain. A transitional device should provide a firmer bridge to the future than that now proposed.

There are several improvements that could be adopted singly or in combination to obtain these objectives.

Within the present formula, for example, it could be provided that rather than decline with reducing short term rates the ceiling could remain at the highest level reached under the formula until the removal device operated. (The disadvantage of this proposal is that if present short term bond rates persist the ceiling would be a very low one throughout.) The termination of the transitional period could also be hastened by raising the present base point to 5 per cent rather than 4½ per cent as we recommended in our hearings. A modification of this proposal, designed to prevent the ceiling from becoming "stuck" at a low level over a long period, might be that the ceiling be removed any time after a year or more if the short term bond yield was then down to 5 per cent measured as now provided for in Section 91.

An alternative, which recognizes that any formula must have some arbitrary element in it, would be an adaptation of that proposed by one of your witnesses. This would be an arbitrary annual increase of possibly 1 per cent in the first year, followed by increases of ½ per cent for two or three further years, following which the ceiling would be removed. As a supplement to a fixed number of years the removal device now embodied in Section 91 might be left to operate to effect earlier repeal if the formula would so provide.

All of the above is respectfully submitted to assist yourself and your colleagues in their concluding deliberations on Bill C-222. We would take this opportunity to express to the Committee our appreciation for the courteous and attentive hearing of our views in your public sessions and for the further opportunity of submitting the above comments.

Yours sincerely,

Original signed by
S. T. Paton
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. 44

TUESDAY, FEBRUARY 7, 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. Messrs. James E. Coyne, President, Bank of Western Canada; and Sinclair M. Stevens, President, British International Finance (Canada) Limited.

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

25700—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,
Flemming,
Fulton,
Gilbert,
Irvine,
Lambert,
Latulippe,
Leboe,
Lind,
Macdonald (*Rosedale*),[1]
Mackasey,[2]
McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Valade,
Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

[1] Replaced Mr. Macaluso at the afternoon sitting, February 7, 1967.
[2] Replaced Mr. Munro at the afternoon sitting, February 7, 1967.

ORDER OF REFERENCE

TUESDAY, February 7, 1967.

Ordered,—That the names of Messrs. Mackasey and Macdonald (*Rosedale*) be substituted for those of Messrs. Munro and Macaluso on the Standing Committee on Finance, Trade and Economic Affairs.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

25700—1½

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LÉON-J. RAYMOND,
The Clerk of the House of Commons.

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Basford,	Fleming,	Macdonald (*Rosedale*),[1]
Cameron (*Nanaimo-Cowichan-The Islands*),	Fulton,	Mackasey,[2]
	Gilbert,	McLean (*Charlotte*),
Cashin,	Irvine,	Monteith,
Chrétien,	Lambert,	More (*Regina City*),
Clermont,	Latulippe,	Valade,
Coates,	Leboe,	Walker—(25).
Comtois,	Lind,	

Dorothy F. Ballantine,
Clerk of the Committee.

[1] Replaced Mr. Macaluso at the afternoon sitting, February 7, 1967.
[2] Replaced Mr. Munro at the afternoon sitting, February 7, 1967.

20700—1½

MINUTES OF PROCEEDINGS

TUESDAY, February 7, 1967.
(89)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.05 a.m. this day, the Vice-Chairman, Mr. Laflamme, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Davis, Flemming, Fulton, Gilbert, Irvine, Laflamme, Lambert, Latulippe, Lind, McLean (*Charlotte*), Monteith, More (*Regina City*), Munro—(15).

Also present: Messrs. Baldwin, Grégoire, Macdonald (*Rosedale*) and O'Keefe.

In attendance: The Honourable Mitchell Sharp, Minister of Finance; Mr. C. F. Elderkin, Special Adviser, Department of Finance; Mr. Denis Baribeau, research assistant.

The Committee resumed consideration of the banking legislation.

The Minister was questioned, and was assisted by Mr. Elderkin.

There being no further questions at this time, the witnesses retired, subject to recall.

At 12.00 noon the Committee adjourned until 4.00 p.m. this day.

AFTERNOON SITTING
(90)

The Committee resumed at 4.10 p.m., the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Coates, Davis, Flemming, Fulton, Gilbert, Gray, Irvine, Laflamme, Lambert, Latulippe, Lind, Macdonald (*Rosedale*), McLean (*Charlotte*), Monteith, More (*Regina City*), Valade, Wahn—(19).

Also present: Messrs. Aiken, Chatterton, Grégoire, Macaluso, Munro, Rock, Sherman and Thompson.

In attendance: Messrs. James E. Coyne, President, Bank of Western Canada; Sinclair M. Stevens, President, British International Finance (Canada) Limited; W. E. Scott, Inspector General of Banks; and Mr. Baribeau.

Mr. Coyne was called.

On motion of Mr. Laflamme, seconded by Mr. Fulton,

Resolved,—That Treasury Board Minute 658534, concerning the Bank of Western Canada be included in this day's Minutes of Proceedings and Evidence, and copies distributed to the members of the Committee. (*See Appendix TT*).

On motion of Mr. Coates, seconded by Mr. Laflamme,

Resolved,—That copies of a statement by Mr. Coyne, issued at Winnipeg on February 3, 1967, be distributed to members of the Committee and that the statement be included in this day's Minutes of Proceedings and Evidence. (*See Appendix UU*).

At the request of the Chairman, Mr. Coyne made an opening statement concerning the relationships of the Bank of Western Canada and British International Finance (Canada) Limited, and was questioned.

At 6.00 p.m., the questioning continuing, the Committee adjourned until 8.00 p.m. this day.

EVENING SITTING
(91)

The Committee resumed at 8.05 p.m., the Chairman, Mr. Gray, presiding.

Members present: Messrs. Basford, Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Coates, Flemming, Fulton, Gilbert, Gray, Irvine, Lambert, Latulippe, Lind, Mackasey, Macdonald (*Rosedale*), McLean (*Charlotte*), Monteith, More (*Reginal City*), Valade, Wahn—(19).

Also present: Messrs. Aiken, Grégoire, Lewis, Munro, Otto, Richard and Thompson.

In atendance: The same as at the afternoon sitting.

Questioning of Mr. Coyne was continued.

After a time, Mr. Coyne was discharged, subject to recall.

Mr. Stevens was called, made a statement and was questioned.

At 11.05 p.m., the Committee adjourned until 3.45 p.m., Wednesday, February 8, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(*Recorded by Electronic Apparatus*)

TUESDAY, February 7, 1967.

The VICE-CHAIRMAN: Gentlemen, I now see a quorum and I call this meeting to order.

It was decided at the adjournment last evening that the first speaker would be Mr. Lambert. I invite him to address his questions to the Minister.

Mr. LAMBERT: Thank you, Mr. Chairman. It had not been my purpose to continue the fascinating oscillations between Mr. Thompson and Mr. Grégoire and Mr. Latulippe at the opposite poles with the odd dip in towards Mr. Cameron somewhere, not in the centre but, I should say, somewhere in the left sector of the discussion.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Say that again.

Mr. LAMBERT: This was the nature of the discussion last night but I propose, Mr. Chairman, something that I would like to be able to do with the Minister throughout the bill, and that is to proceed from the beginning of the bill to examine certain sections, concerning which prior witnesses—primarily the Inspector General of Banks and the Governor of the Bank of Canada—indicated that it was not within their jurisdiction or competence to comment on policy. I would not want to start examining the policy considerations for the amendments that have been proposed by the government in this bill.

The VICE-CHAIRMAN: I think this is appropriate, Mr. Lambert.

Mr. LAMBERT: Thank you, Mr. Chairman.

First of all, with regard to clause 2, the Definitions clause, subclause (1)g, some difficulty was experienced at the time of Mr. Elderkin's explanations of the changes as to the definition of a farm. I was wondering whether the Minister could indicate whether, since Mr. Elderkin's appearance before the Committee in October, there has been any determination of what is meant by a farm. This refers to subclauses (g) and (h) on page 2. It seem to me that there must have been some sort of yardstick in the contemplation of the framers of the bill, and of the amendment that is consequent upon or tied in with subclause (g), as to what is meant by a farm. Is it two acres? Is it five acres? Is it like the census, based on a minimum return from the production of agricultural or animal products?

Mr. C. F. ELDERKIN (*Special Adviser, Department of Finance*): If I may take it just for a moment, Mr. Lambert, I think this problem was put up to Dr. Ollivier and he gave a rather learned and expansive explanation of what, in his opinion, legislation up to date had considered a farm to be. I think his conclusion was that he could not go very much farther than that in making a definition.

Mr. LAMBERT: I am faced with the problem that because of the changes in clause 88(5) it is becoming very important to define what is a farm, and crops growing or produced upon the farm. For instance, with regard to bee-keeping referred to in subclause 2(1) (h) is it the keeping of ten hives that would classify you as a bee farmer for the purposes of this bill? Is it the keeping of two dairy cows, or 15 head of beef stock that you are raising on, perhaps, an acre under very intensive farming operation conditions? What is meant by a farm? This becomes very important under clause 88 (5).

Hon. M. SHARP (*Minister of Finance*): Mr. Chairman, perhaps Mr. Lambert could give us an outline of what he considers the practical problems that arise in this connection. The banks are making loans. Is it that the banks would have difficulty in deciding what was a farm?

Mr. LAMBERT: No, it might not but, on the other hand, the priorities to be established or varied by clause 88 (5) refer to crops growing or produced upon the farm. If a man is a farmer, I presume he has a certain status, or if those goods are produced on a farm they have a particular status under clause 88 (5). But if they are not so produced, or if the man is not so operating, then he has not got that status. Within the terms of this bill, a man's priorities, his legal rights and liabilities, are determined by the meanings fixed by the act, not by something extraneous.

Mr. ELDERKIN: Mr. Lambert, I cannot see any reference in clause 88 (5) to a farm.

Mr. LAMBERT: Well, it is in connection with priorities granted to—

Mr. ELDERKIN: Yes, but there is no reference to a farm. It just says "products of the soil from land owned or leased".

Mr. LAMBERT: Yes, but there is also a reference to farm. It is brought in, otherwise, you would not have that new definition.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It is subclause (1)(c) of clause 2.

Mr. ELDERKIN: Oh, yes, I agree back there. I have only reference to clause 88(5) which Mr. Lambert mentioned.

If I might quote Dr. Ollivier, he said that he thought you would get into more difficulty in trying to define a farm than you would leaving it as it is.

Mr. LAMBERT: I think the minister does appreciate the problem that I am raising and if it is the decision to leave it in a rather inchoate and uncertain situation, then that is the decision.

Mr. SHARP: Mr. Chairman, I am inclined to agree that any effort to define a farm would be even more difficult than operating under the section without a definition, because if you are going to attempt to define a farm the complications would be enormous.

Mr. LAMBERT: You see the reason that I also tie it in is under subclause (2) of clause 2. There is a reference back to subclause (1)(g) of clause 2.

Mr. SHARP: May I ask this question, Mr. Elderkin. Have there been any problems arising out of having these kind of provisions in the act up until now?

Mr. ELDERKIN: Not that I have ever heard of.

Mr. LAMBERT: All right then, I will leave it at that.

I proceed, then, to clause 8 and this is the question of the method of incorportation and organization of branches. Bill No. C-102 envisages an entirely different system, the issuance of letters patent on approval by the Cabinet and then subject to a contrary petition signed by a minimum number of members in the House. Since this was a government decision, and since the Minister of Finance was then a member of the administration and apparently approved of Bill No. C-102, would the Minister please indicate the reason for the return to the original system.

Mr. SHARP: Yes, Mr. Chairman, I am happy to try to respond to Mr. Lambert's question.

This was a change of mind on the part of the ministers. I recommended to my colleagues that we should revert to the present practice of having applications go before Parliament for charters. In the light of the developments that had taken place during succeeding months, it seemed to me that it still remains very desirable that Parliament should have an opportunity of cross-examining the sponsors of chartered banks. This is an important privilege granted by Parliament and I believe that the sponsors of the bank should come forward, show their capacity, their financial position and their intent and, if I may say so, I think events in connection with the application for the Bank of Western Canada is some evidence that this is a salutary proceeding. If anything, my views and the views of my colleagues are confirmed on this point.

Mr. LAMBERT: In other words, it has now been realized that there have been far too many long range political implications in the system that is advocated under Bill No. C-102.

Mr. SHARP: Yes, I feel that the public interest is better served if the sponsors of banks are required to appear before Parliament to demonstrate their capacity to carry on the banking business.

Mr. LAMBERT: Is it fair to say, then, that the method envisaged in Bill No. C-102 perhaps was a mistake in the light of circumstances involving both the Bank of British Columbia and the Bank of Western Canada?

Mr. SHARP: I am inclined to believe that if the bill had been approved in its original form there would have been some reason for regret.

Mr. LAMBERT: I agree with the Minister.

I think, Mr. Chairman, I am getting close to the end of my time.

The VICE-CHAIRMAN: No, you may go ahead.

Mr. LAMBERT: Clause 10, subclause 4, I think is about the only place in the bill—and I am subject to correction—where Canadian citizenship is a condition of the act. So much has been said about Canadian residence that I was wondering why. The shareholdings would be quite all right in the hands of Canadian residents regardless of their citizenship, but when it comes to a matter of provisional directors, they must become Canadian citizens. In other words, a higher degree of Canadianism is required for provisional directors. For Canadian control we are satisfied with mere residence. I am wondering why there is the distinction.

Mr. SHARP: Perhaps just to reinforce the Canadian character of these banks. The same provision, I understand, is to be found in the bill with relation to permanent directors, as well as provisional directors covered by clause 10.

Mr. LAMBERT: Yes, I quite agree with that. If it is the desire to maintain Canadian control of our chartered banks, then, of course, a great proportion of the directors, must be Canadian citizens. If the same degree of control is wanted as to financial control, why not make the same insistence as to shareholders?

Mr. SHARP: This is a question of judgment, Mr. Chairman. The control of the banking operations certainly ought to be in the hands of Canadians. When it comes to shareholdings it is very difficult to establish in the first place the citizenship of corporations because, although they may be Canadian companies, their ownership may be in the hands of other than Canadians. I believe that as far as the control of the operations of banks is concerned, this act should do everything possible to ensure this control is in the hands of Canadians, rather than just residents who may have other citizenship.

Mr. LAMBERT: I agree with what is required under this clause, but I am wondering why there is a departure from consistency.

Mr. SHARP: Well, it is much easier to establish the citizenship of a director. It is very difficult, and would be very cumbersome indeed, to establish the citizenship of a shareholder. Indeed, I doubt whether it would be administratively possible without causing the greatest confusion.

Mr. LAMBERT: Yet the government comes along and says that there cannot be more than 25 per cent non-resident holdings. Is there no greater difficulty in establishing foreign residence than foreign citizenship?

Mr. SHARP: It is very much easier to establish residence than citizenship.

Mr. LAMBERT: I must confess that with the degree of insistence we have on Canadian banks being Canadian, the mere requirement of residence is meaningless.

Mr. SHARP: No, I do not think it is meaningless.

Mr. LAMBERT: But you will agree that mere residence does not mean that there shall be Canadian control. A man who lives here can be a citizen of any of the foreign countries, and if it is aimed primarily at Americans, many Americans live in Canada and have been living here for years. They are still Americans and, if they own the controlling shares, then the bank is not said to be Canadian owned or Canadian controlled.

Mr. SHARP: These are practical matters, Mr. Chairman. The government wants to do everything reasonable to ensure that these banks are essentially Canadian institutions. It is our judgment that it would be impossible to enforce a rule of citizenship on shareholdings. It is not impractical or impossible to enforce this on directorships. The result of this legislation will be that it will be practically impossible for any of our banks to be dominated by foreign ownership and it will be possible also to insist on the Canadian citizenship of a very high proportion of the directors. We can only do what is practical in this respect. We certainly would not want to introduce rules into the Canadian banking business that cannot be enforced, or that interfere with the relatively free

exchange of these shares on the stock market. I am sure you would agree, Mr. Lambert, that in all these matters we have to have workable rules. We know what our objective is and I believe that, everything considered, the present amendments to the Bank Act do ensure against our banks being dominated by other than Canadians.

Mr. LAMBERT: Well, you may say there may be difficulties as to individuals but I am sure that there is no difficulty at all about the establishment of ownership of the locum and the citizenship of foreign corporations. One is as equal as the—

Mr. SHARP: A foreign corporation is obviously non-resident.

Mr. LAMBERT: Yes.

Mr. SHARP: A Canadian corporation is a Canadian corporation, but it may also be owned by foreigners and, therefore, one cannot define citizenship as easily in the corporations as one can in individuals. Even with individuals there is the question of having to seek out the citizenship of individual shareholders or prospective shareholders which is a formidable administrative undertaking.

Mr. LAMBERT: I think we are heading into a little problem here, Mr. Chairman. I will yield to anyone who wishes to ask questions.

Mr. IRVINE: Mr. Chairman, may I ask a supplementary to something that Mr. Lambert brought up.

Clause 2(1) (h) reads:

"farm" means land in Canada used for...

various things, and then at the end it reads:

...the growing of trees and all tillage of the soil;

Is this not a little ambiguous? Could not this be misconstrued so that a man owning, perhaps, a large lot or a unit under the Veterans Land Act cou'd be considered a farmer? It could be minsconstrued in that sense. I am wondering whether the Minister does not think it would be wise to specify some size in number of acres, or something of that sort?

Mr. SHARP: Well, Mr. Chairman, as I said earlier, the banks are making loans and they are dealing with farmers and before granting a loan they will ascertain whether the man is engaged in farming. This gives some guide to the meaning of the word because now it includes bee-keeping, the production of maple products, the growing of trees and all tillage of the soil but it would be impossible, it seems to me, to say it shall not include certain kinds of activities if, in fact, it is farming that is being carried on. This, again, is a question of decision by the bank in making a loan and the taking of security. I do not think any practical problem has arisen. We have had similar provisions—although more restrictive—in the act before, and Mr. Elderkin says from his experience that the banks have not encountered difficulties in making loans to farmers and taking security.

Mr. IRVINE: You do not feel, then, that this term which is pretty sweeping, "all tillage of the soil," could be misconstrued to include very small holdings like a backyard garden, as a matter of fact?

Mr. SHARP: I do not imagine that a bank, in making a loan, would regard that man as a farmer.

Mr. IRVINE: Thank you, Mr. Chairman.

Mr. GILBERT: Mr. Sharp, have you or your officials given any thought to the classification of loans with regard to the Interest Act? The Bankers' Association set forth a list of the different types of loans, such as business loans and mortgage loans, and I was wondering whether you have given any thought to imposing upper limits with regard to these types of loans because, as you know, there is only the one interest rate under the act. That interest rate does not apply to mortgage loans, it is quite true, but it does apply to business loans and consumer loans, and I was wondering if you have given any thought to classifying these types of loans and imposing limits with regard to the type of loan?

Mr. SHARP: There is one practical respect in which there are limits on these loans and that is under the farm improvement loans and under other special legislation where the rate is specified.

Mr. GILBERT: That is true.

Mr. SHARP: That has been put in because the government has provided a guarantee and in return the banks were expected to make these loans at somewhat less than the current market rate, or at the current market rate whatever the conditions were at the time. I do not think it would be practical to place a ceiling on particular loans for the same reason that these special acts I am speaking about have run into difficulties. If you place a ceiling on a special kind of loan it might have the effect of discouraging the banks from making those loans because they would say: "Well, I can get a better return by making my loans for other purposes that are not subject to a ceiling." It is the same argument that has been raised about having a differential monetary policy in various parts of the country. It has been urged that the Bank of Canada ought to establish a different rate of interest in, say, the less developed parts of the country than in others. The chief argument against that, of course, it that this would discourage the making of loans in that area; and I believe the same sort of general argument would apply to placing a ceiling on particular kinds of loans.

Mr. GILBERT: At the moment, Mr. Sharp, you have a ceiling with regard to business loans and consumer loans, and the way that the bank avoids it is by the use of compensating balances for business loans and service charges for consumer loans. Why cannot we be more forthright and be specific about these different classifications?

Mr. SHARP: Because I hope it is the view of the Committee, as it is of the government, that these ceilings, and so on, are not serving the public interest; that it would be better if the banks were in a position to adjust their rates to the requirements of the various kinds of borrowers, and the risks and costs involved. I think this will result in the banks providing a better service to the public and enabling those borrowers who are now required to go outside the banking structure to be able to come to the banks and get accommodation at lower rates.

Mr. GILBERT: Do you think that the new act will avoid compensating balances with regard to business loans and service charges with regard to consumer loans?

Mr. SHARP: I would hope that the banks would have less reason to resort to such practices, but even in the United States, where there is no ceiling on bank

interest rates or loans, the banks do employ compensating balances. That is a matter of business practice at the banks. I do not know whether it is better to have it expressed in the interest rate or in some other form. We are taking measures in this act to require the revelation of the nominal annual rate to various kinds of loans, presumably corporations know what they are doing. They take into account all the costs when they are deciding whether they are going to borrow or not, or to which bank they are going to give their business.

(*Translation*)

Mr. GRÉGOIRE: Mr. Minister, you admitted yesterday.

Mr. SHARP: Continue, please.

Mr. GRÉGOIRE: The Minister admitted yesterday that in the process of growth of the money supply and by their share in this growth, chartered banks actually create this money supply. Mr. Minister, I would like to get an explanation of this monetary system, I am not trying to convince you, I would like to get a further explanation of the system. When the Bank of Canada decides to increase the money supply, say, by $100, it purchases bonds for about $8 and then this $8 goes into the vaults of the chartered banks, at which time the chartered banks can multiply it by 12½ by creating a credit of $92 to make an increase of $100. Is this the way the money supply is increased?

(*English*)

Mr. SHARP: I understand that when the Bank of Canada puts cash into the hands of the banks they are under great pressure to find some means of increasing their liabilities, so I hope that when the Bank is increasing the money supply, the banks respond by making more loans and otherwise increasing the volume of money and demand in the economy. That is the purpose. Similarly, when the Bank of Canada contracts the money supply, the banks then have to withdraw in order to retain a legal ratio between their cash and their liabilities.

Mr. GRÉGOIRE: In a proportion of twelve to one?

Mr. SHARP: Yes. The banks have their own ideas of what is the proper proportion: the law specifies the minimum.

Mr. GRÉGOIRE: Then the law specifies the proportion of twelve to one?

Mr. SHARP: A minimum proportion.

(*Translation*)

Mr. GRÉGOIRE: Is there anything to prevent the Bank of Canada from creating 100 percent of this money supply increase, which takes place every year, and instead of controlling only 8 percent and allowing the creation of the other 92 percent by the chartered banks? Could not the Bank of Canada, anticipating public growth, create the whole money supply increase each year and in the same amount as is the case now?

(*English*)

Mr. SHARP: Well, Mr. Chairman, it would be perfectly possible, I suppose, for Parliament to require 100 per cent backing of all loans made by the chartered banks in the form of cash. It is perfectly possible; I do not recommend it.

(*Translation*)

Mr. GRÉGOIRE: Mr. Chairman, do not savings or trust companies or Caisses populaires, under their charters, have the same privileges as the chartered banks in this field of creating credit?

(*English*)

Mr. SHARP: They are not required by law to have a cash reserve.

Mr. GRÉGOIRE: But can they operate in making loans before they receive the deposits like the chartered banks are able to do, as you mentioned yesterday?

Mr. SHARP: I did not say that yesterday. You are using what I should call the Social Credit shorthand and I would like to disassociate myself from any such implications—

Mr. GRÉGOIRE: I would like a record of that, Mr. Chairman.

Mr. SHARP: —without too much hesitation. Perhaps I should have hesitated longer knowing I was giving the reply to you, Mr. Grégoire.

Mr. GRÉGOIRE: But you gave it.

Mr. SHARP: Yes, and it is perfectly accurate, but the inference that you are drawing is not accurate. What I said yesterday was that the banks, with a supply of cash, are in a position to extend loans safely because they have sufficient cash to meet any requirements there may be on the part of the public; and those loans, in turn, are to a large extent—or perhaps fully—deposited in the banks. That is the way in which the system functions. I have no hesitation in saying that.

Mr. GRÉGOIRE: Can the trust companies and the savings banks do the same kind of operation?

Mr. SHARP: I doubt it very much. These are savings institutions. They collect deposits from the public and make loans on the basis of these deposits. They are not in the banking business and they do not have even the privileges that are given to the banks, nor are they required by law to have a certain cash basis upon which they cannot earn anything. Now, it may be that Parliament should consider whether trust and loan companies should have a cash reserve, but that is a separate question I hope, in due course, we will direct our attention to.

Mr. GRÉGOIRE: Now, you say you would not recommend that the chartered banks have 100 per cent cash reserves?

Mr. SHARP: No.

Mr. GRÉGOIRE: That is not what we would recommend, either. The savings banks do not have any cash reserves, but when they make loans they have the deposits first, while the banks make loans and then —and as a natural course— these loans are deposited in one or another chartered bank. If the Bank of Canada was creating that money instead of the chartered banks, would not the government of Canada then, and all other public governments, be entitled to borrow directly from the Bank of Canada on a debt free system instead of going to the chartered banks to borrow the money the chartered banks are creating?

Mr. SHARP: In my opinion, Mr. Grégoire, that would not be good public policy. I would consider it a very inferior type of system and one that would not serve the public as well as the present system of banking.

Mr. GRÉGOIRE: But if the Bank of Canada was creating the money supply instead of the chartered banks, then the government of Canada would be able to borrow it free of interest, make some public works with it and naturally, in the course of events, this money would go back to the chartered banks. But it would have profitted to Canada because the government would have been able to borrow without interest and you would not have the problem today of $1,200 million to pay in interest on the debt of Canada.

Mr. SHARP: Well, I hope, Mr. Chairman, it is understood that as far as the money we borrow from Canadians is concerned, this is all in the family. The government of Canada just owes to its citizens a return to those citizens who have foregone the spending of that money, and have instead turned it over to the government for spending. I think it is quite appropriate that such people should get some compensation for having turned the money over to the government. As far as foreigners are concerned, I know of no method of Social Credit that is going to prevent us from paying our debts to our foreigner lenders. Indeed, I am sure that they would not be at all impressed by the argument which has been put forward by Mr. Grégoire.

Mr. GRÉGOIRE: I did not say that at all, Mr. Minister. I said that if the Bank of Canada created the money instead of the chartered banks, it would allow the government of Canada to borrow—not from the public and pay interest; that is not what I said. I said it would allow the government of Canada to borrow this money created by the Bank of Canada from the Bank of Canada instead of the chartered banks and to do it without interest.

Mr. SHARP: Yes, but the Bank of Canada is just the public.

Mr. GRÉGOIRE: Yes, and this money borrowed by the government of Canada would be used for public investments, not for private investments.

Mr. SHARP: But it is quite impossible, by any monetary sleight of hand, for the government to spend money without placing a burden upon the taxpayers of the country. If this were possible, every country in the world would have adopted it e'er now, but they have not—not one of them. The reasons are very practical and indeed, in my judgment, this would result in a loss of confidence in governments. I believe it is quite proper that when the government asks people to lend it money—to forego the use of it themselves—they should get some compensation for it, and I do not believe this in any way imposes a handicap upon the people of the country. Indeed, I think it is a proper distribution of the burden of public expenditures.

Mr. GRÉGOIRE: Mr. Minister, you say that it would not be appropriate for the government to borrow money without imposing a burden on the people of Canada. The money that the Bank of Canada would be able to lend represents an increase in the money supply and this increase comes because the people of Canada and Canada as a whole have developed. This increase in the money supply comes from the development of Canada. This is only that part that the Bank of Canada would be able to lend to the government of Canada. It would not represent a burden then, it would represent the development of the whole of Canada made by the people of Canada. Would that not be better than a burden, if the people of Canada can develop the country, and it represents a natural development of the country? Why impose a second burden on the people of

Canada and let the chartered banks profit from this development of Canada, because when the chartered banks increase the money to raise supplies it is because Canada itself has developed, not the banks. You give the profit of all this development to the banks and the people of Canada do not profit by it.

Mr. SHARP: I think they do. I cannot agree with the assumptions underlying your question at all, Mr. Grégoire. Canada has been developing very rapidly and all the fruits of this development have gone to the people of Canada. The whole fruits of our increased output have gone to Canadians in one form or another. You are suggesting, I take it, that those people who have foregone their own use of the money and turned it over to the government of Canada to be used for public purposes should not receive compensation. I cannot agree with that.

Mr. GRÉGOIRE: I do not say that, sir. I say that every year, because of the increase in the gross national product, there is an increase in the money supply, and this increase is created by the chartered banks. If it were created by the Bank of Canada instead, the Bank of Canada would lend to the government of Canada instead of the chartered banks.

Mr. SHARP: All it would do would be to redistribute the burden over the Canadian people. That is all. To the extent that the government uses resources, it must be the resources of the people. There are no other resources available. The system that is now in effect results in a certain distribution of those resources. As I have been saying recently, I have been inclined to think that interest rates have been too high and I would like to have seen the redistribution a bit different. But we are living in a world of high interest rates from which we cannot divorce ourselves. I do not believe, Mr. Grégoire, that it would be possible, as I said before, to alter the physical facts by any monetary sleight of hand, which are that we have a certain output to dispose of. Our policy should be such as to maximize that output, but all those benefits inure to the people of Canada and they do not represent any burden on them.

Mr. GRÉGOIRE: This is my last remark on the subject, Mr. Minister. When there is an increase in the gross national product there is an increase in monetary supply. This increase, except for 8 per cent, is created by the Bank of Canada, and 92 per cent by the chartered banks. It is a private institution which will create the money representing the development of the whole of Canada, and this increase that they will have created will be lent on the debt system instead of being created by the Bank of Canada, which is an institution of the people of Canada, on a debt-free system when it ought to represent the interests or the development of the whole of the country. That is why I cannot agree with the system. Every development of our country is represented by a debt while it should be represented by an asset.

Mr. SHARP: Every development of the country adds to the profit available for the people. In the course of development, certain financial arrangements are made between the borrower and the lender. These arrangements are perfectly proper and natural. The fact that our banking system operates with a cash reserve is not the vital part of the system. That is the mechanism by which banks operate and by which the financial system operates. As Mr. Grégoire probably knows, it began a very long time ago when merchant bankers carried on operations somewhat different from today but, essentially, the principle is

the same. The banks must retain a certain amount of cash to meet the needs of their customers for cash.

That is the essence of the system. And, on the basis of that cash reserve, the banks engage in the financing of business or of consumption as the case may be. For that service they make a charge. That is their earning. On the deposits side they pay interest, and they have other charges in connection with the operation of their banks. There is nothing extraordinary about that, and I would have thought the fact that this is a universal system which operates well in all societies—including, I gather, even the Soviet Union—that it has a great deal to commend it. I can only repeat again, Mr. Grégoire, that if it were possible to operate in a better way, I am quite sure many countries of the world would have adopted such a system. The fact that they have not I think, indicates the common sense of mankind is on the side of the kind of financial institutions that we have today. This is not saying that our financial institutions necessarily operate as they ought to operate. This bank bill is some reflection of the fact that we think that improvements can be made. I am sure banks themselves are improving their practices and, I hope, are doing more to become efficient and to make fewer charges for their services. However, there is competition in the banking system. I hope there will be more and, in that way, I do not believe the kind of charges made represent anything more than the burden that must necessarily be imposed upon borrowers when they ask for the use of money in order to increase their investments or to finance their consumption.

Mr. GRÉGOIRE: Then you would not agree that the Bank of Canada should create increase in money supply, instead of the chartered banks?

Mr. SHARP: Well, I believe that the Bank of Canada from time to time should increase its note issue.

Mr. GRÉGOIRE: By only 8 per cent and leave the other 92 per cent to the chartered banks?

Mr. SHARP: It is up to the banks to decide what proportion of cash they feel they should carry in order to carry on their business. In this Bank Act we have insisted that there should be certain minimum cash requirements in order to protect the public against the possibility that the banks might not be prudent enough, but that is all.

Mr. GRÉGOIRE: The point is that you will not agree that the Bank of Canada should create all increase of money supply instead of what is being done today.

Mr. SHARP: I consider that a very cumbersome and inferior system.

Mr. GRÉGOIRE: You would consider it an inferior system if the Bank of Canada, a public institution, were to create all the increase in money supply?

Mr. SHARP: I would consider it inferior, cumbersome, costly, and generally very bad for Canada.

Mr. GRÉGOIRE: You prefer to see it in the hands of private enterprise?

Mr. SHARP: I prefer the present system. The present system probably can be improved—I hope it can. But I think the system that Mr. Grégoire is putting forward is inferior and would very quickly be abandoned if anybody was stupid enough to adopt it.

Mr. GRÉGOIRE: Then, Mr. Minister, you will just have to continue to increase the debt and we will continue to pay the interest.

The VICE-CHAIRMAN: I do not have any other names on my list of speakers. On behalf of the Committee, Mr. Minister, I thank you for your appearance here and the great importance of your testimony to the study of this important legislation.

Mr. FULTON: Mr. Chairman, are you suggesting that this is the last occasion on which the Minister will be appearing?

Mr. SHARP: May I say in this connection, Mr. Chairman, that I think you would want me to appear before you in connection with the Bank of Canada Act and also in connection with the deposit insurance bill. I am prepared to appear. May I say, Mr. Chairman, that I hope this Committee will give some priority to deposit insurance and I suggest that the bill now being referred to the Committee should be discussed as soon as possible. The Committee will have noticed that the Ontario government is proposing similar legislation in the form of a holding operation pending the approval of the federal system. The government believes that it would be very much in the interests of all concerned for the federal system to come into effect as quickly as possible. So, I do hope that the Committee will be able to give some priority to that as soon as they have some room on the agenda.

Mr. FULTON: We might reserve our position with respect to the Bank of Western Canada. I think we might well want to ask the Minister some questions after we have heard what the two disputants have to say.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I think the understanding yesterday was that we would hear the Minister after we have heard Mr. Coyne and Mr. Stevens.

The VICE-CHAIRMAN: If necessary, yes.

The meeting is adjourned until four o'clock this afternoon.

AFTERNOON SITTING

The CHAIRMAN: Gentlemen, I would like to call this meeting of the finance committee to order.

At the present time we are at the concluding stage of our public hearings with respect to our order of reference from the house, which is to study and report on the proposed new Bank Act, the proposed amendments to the Bank of Canada Act and the new Quebec Savings Bank Act.

Our first witness today is Mr. James Coyne, President of the Bank of Western Canada, who has made certain public comments which the steering committee felt should be explored further in this Committee with respect to their having some possible relevance to our present inquiry. Following Mr. Coyne's statement, and any questions which the members may have to pose to him, we have also invited Mr. Stevens to appear, who is also involved in this particular issue, to comment with respect to the matters before us.

I think that I have already arranged to distribute to the members of the Committee the Treasury Board minute with respect to the licence of the Bank of Western Canada.

Mr. LAMBERT: Mr. Chairman, I am wondering whether it is deemed to be a precedent that any time the Bank Act is under consideration or there are any amendments to it, if there is an internal dispute within a chartered bank that this Committee will provide a forum for airing the dispute.

The CHAIRMAN: I think you have raised a very good point. As I think the members of the Committee will recall, before causing Mr. Coyne and Mr. Stevens to be invited to appear today I consulted informally with those members of the steering committee who were available in the house after the question period and the agreement was that this invitation should be extended. I think, though, that the point is well taken and I think we should ask Mr. Coyne and Mr. Stevens, and also the members of the Committee with respect to their questions of these gentlemen, to attempt to relate their comments to what I might describe as our legislative purpose. I will certainly be willing to exercise any prerogatives I have as Chairman if I feel that they are departing in a broad way from this general ambit. I also invite the members of the Committee to bring to my attention any occasions on which they feel that our witnesses today are departing from our order of reference.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I suggest, Mr. Chairman, in connection with Mr. Lambert's statement that we are not merely concerned with an internal dispute between these institutions but with the relationships between this institution and the Government of Canada because of the special provisions that were provided for this particular institution. So, for that reason I think it does come within our purview of deliberation.

The CHAIRMAN: If I interpret Mr. Lambert's remarks correctly, I would think that you and Mr. Lambert are in agreement in that regard. I think it is incumbent upon all of us here, the members of the Committee, other members in attendance and our witnesses to attempt to keep both the presentation and the questioning within the general ambit that both Mr. Cameron and Mr. Lambert have outlined. As I say, I would invite the Committee to bring to my attention any occasions when they feel that there is a departure from our legitimate field of activity.

Mr. Coyne, as I was about to say, I have taken the liberty of distributing to the members of the Committee the Treasury Board minute in question and also what I understand to be the press release which you issued and which led to your being here today. I will invite you to make such introductory comments as you see fit, following which I will invite the members of the Committee to pose such questions as they deem desirable.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, you made reference to a press release. I do not know about the other members of the Committee, but I do not have a copy of it.

The CHAIRMAN: I think our clerk is just coming back into the room and I will ask her to distribute these. I thought they had been distributed.

Mr. THOMPSON: Mr. Chairman, you also made mention of the copy of the Treasury Board minute which was tabled on January 18. Are there copies of that minute available?

The CHAIRMAN: Yes, we have copies, and I had assumed that they had been distributed earlier today.

Now, gentlemen, I think before calling upon Mr. Coyne it would be useful if we had a motion to make the Treasury Board minute and the press release, if Mr. Coyne will identify it for us, part of our record. While he is looking at the press release, I will first invite a motion with regard to the Treasury Board minute.

Mr. LAFLAMME: I so move.

Mr. FULTON: I second the motion.

(*English*)

The CHAIRMAN: We are in agreement on the adding of the Treasury Board minute to our record.

Motion agreed to.

Mr. Coyne first identifies for us the lengthier page headed, "Statement by James E. Coyne" and it is dated at Winnipeg, February 3, 1967. Both pages bear the same date. The statement is the document which begins: "I have resigned—". The shorther page is the continuation and they are merely stapled together out of order. So you identify these pages as the statement which led you to being with us today?

Mr. JAMES E. COYNE (*President, Bank of Western Canada*): Yes, I do.

The CHAIRMAN: The committee understands that inadvertently they were put together in the wrong order. In as much as Mr. Coyne has identified this document as the statement in regard to the matter that brings him before us, I would also invite a motion from the Committee that this be printed as part of our record.

Mr. COATES: I so move.

Mr. LAFLAMME: I second the motion.

Motion agreed to.

Now, Mr. Coyne, may I invite you at this time to make such introductory comments as you see fit.

Mr. COYNE: Mr. Chairman and gentlemen of the Committee, I am here because you asked me to come. I made a public statement on February 3 at about 3.30 or 4 o'clock in the afternoon eastern time and in the last two paragraphs of the main statement I said:

> I feel these matters must be made known to the people of Western Canada and the rest of the country. I am now convinced that no group of persons or companies such as this should be permitted to exercise control over a Canadian financial institution, whether federal or provincial.
>
> I wish to recommend to Parliament that, before the new Bank Act is finally passed, the prohibition upon voting stock, in excess of 10 per cent of the total, be put back into force for new banks, just as it is for the older

banks. In other words, the authority given to the Treasury Board or to the Governor in Council to grant exemption to majority shareholders in new banks should be reversed. In addition, there should be provision that no American bank shall be entitled to hold any shares in a Canadian bank, and certainly not any voting shares.

Those are my personal views which I put on record.

I also understand that you have committed to your Committee a bill respecting deposit insurance. One of the things which has concerned me in the last few weeks—I have been rushing back and forth between Winnipeg and Toronto and Ottawa and I have not been able to spend much time on my own business—has been the desirability of getting deposit insurance into operation just as soon as possible because of all the commotion which has been going on in financial markets for some time now, and especially since the Prudential Finance matter came into public view some weeks ago.

My thoughts in respect to all these matters covered the feelings I had as to the management of the BIF companies themselves, the feelings I had as to what the impact of those and other matters would be on the Bank of Western Canada and this problem of how could matters of this sort be dealt with, if necessary, in a public forum without further unsettling public confidence in financial institutions which might have no connection whatever with the ones under consideration. For that reason, I wish to say to you that I have indicated to the public authorities that I consider it very important that this idea of deposit insurance, which is a very sound one in itself and which I have advocated for ten years or more, should be brought into force just as soon as you gentlemen can do so.

These are matters on which you may perhaps wish to examine me. I did not come here to seek a forum for an internal dispute respecting the affairs of any company; I came here because I was requested to do so and I issued my statement because, after long and anxious consideration, I felt this was the only way I could properly serve the public interest and that I had a duty to do this. I do not know what you want me to say or how far you want me to go. There are many different ramifications and matters involved, some of which have evidently been referred to in the Toronto papers this afternoon—although not by me—and perhaps the best thing would be if I just say that I am at the disposition of the committee, Mr. Chairman.

The CHAIRMAN: Mr. Laflamme?

Mr. LAFLAMME: When did you resign from the board of directors of British International Finance (Canada) Ltd?

Mr. COYNE: I posted my letter of resignation in Toronto on the night of Wednesday, February 1.

Mr. LAFLAMME: Was it after a meeting of the directors?

Mr. COYNE: Yes.

Mr. LAFLAMME: In the statement that you have made public you said. In connection with the Bank of Western Canada, they have failed to make good their subscription for shares to the extent of about $1,500,000, they have attempted to get the Bank to provide credit to their own companies contrary to the most explicit statements made . . . As far as I know, the Bank of Western Canada has not yet started its operations.

Mr. COYNE: It has hired some people to help it get organized, people who will be operating the bank when it commences operations.

Do you mean has the bank done anything contrary to our charter? No, I do not believe so and it will not do anything contrary to the charter as far as I am concerned.

Mr. LAFLAMME: I have no other questions for the moment, Mr. Chairman.

The CHAIRMAN: On my list I have Mr. Fulton followed by Mr. Thompson, Mr. Lambert, Mr. Cameron and Mr. Macdonald.

Mr. FULTON: I should like to ask you Mr. Coyne, whether the remarks you made just now with respect to deposit insurance, and your recommendation that it be brought in as early as possible, are made in your capacity as President of the Bank of Western Canada and whether we are to assume, therefore, that it is of particular importance to your institution as such or whether you were merely expressing a general opinion in the light of your knowledge of the field of the operation of financial institutions generally?

Mr. COYNE: The matter is not of any direct or urgent importance for the Bank of Western Canada except in the sense that it will improve the entire financial atmosphere that may exist at the time the bank commences operations. My main concern is for the public interest in this matter because there have been some shocks to confidence and the more discussion there is of these matters in public the more desirable it is that as much reassurance as possible be given to the public. Whenever I have been asked questions tending in that direction I have done my best to give that assurance, but the best assurance of all, of course, is for the public authorities to say what they can say.

Mr. FULTON: Is it your feeling as a banker that membership in the system should be made compulsory for federally-incorporated banks?

Mr. COYNE: Yes, I think so; I think it should be all-inclusive.

Mr. FULTON: In your press statements you say:

> In connection with the Bank of Western Canada. . .

I omit one portion, and then you continue:

> . . . they have attempted to get the Bank to provide credit to their own companies contrary to the most explicit statements made to the Committees of the Senate and the House of Commons. . .

I take it you have evidence to support that statement?

Mr. COYNE: I did not bring any documents with me to support it. I am willing to answer questions about it.

Mr. FULTON: As I recall the statement was made to the press. This has been denied. It has been denied that there was any intention—of as explicit a nature, at least, as you seem to imply here—or any attempt to bring about the transaction to which you refer. That is why I asked about evidence; what position is the committee in?

Mr. COYNE: Again, Mr. Chairman, I am prepared to give evidence orally. I am prepared to say upon what basis I made that public statement.

Mr. FULTON: I would think that this is one matter which is within the ambit of our terms of reference and I would be interested in knowing, because I think this committee should know if that attempt was made.

Mr. COYNE: I have been aware for some weeks, and possibly a little longer than that, that the management of the BIF group were expecting that the bank would somehow engage in transactions with them of a character that would help their financial position. Without going into all the past history and so on, the matter did come up at a meeting of the Board of Directors of the Bank of Western Canada on December 16. At that meeting the Chairman of the Board, who is also the President of British International Finance (Canada) Ltd., recited a number of matters which bore on the fact that his companies were not able to obtain financing from other banks in Canada, which he suggested was due to the fact that the other banks resented his company having sponsored the starting of a new bank, and that he thought it was a matter for the directors of the new bank to decide whether or not they could and would provide the financial backing to his companies which he could not get elsewhere.

Two propositions were put forward, both of which would have required the approval of the Minister of Finance in Ottawa if the board of the bank were prepared to support them, and he said at that meeting, that he wanted both of these propositions to be decided or an opinion of the Board reached at that meeting.

The first proposition was that the bank should be prepared to go to the Minister of Finance and say they were willing to make a line of credit available to the British International Finance companies equal to 10 per cent of the capital and reserves of the bank. This matter came up in such a precise and definite way that the vice-president of the bank, Mr. W. G. Brown, remarked several times in the course of the discussion that he thought it was in contravention of that section of the Bank Act,—I think it is section 75—which says that no director may be present during consideration of a loan to any company of which he is a director. Notwithstanding that, the discussion went on until it was apparent that the western directors in particular were hostile to the idea.

A second point that was brought up at the same time was that the bank should engage in a particular transaction involving the purchase of a portfolio of finance company paper amounting to about $800,000 from one of the BIF companies. I opposed both of these suggestions, I need hardly say, and the other Western Directors to whom this all came as a considerable surprise, in that form and so on, resisted these suggestions.

At a later stage in the discussion it was, therefore, proposed that not that the board would themselves go to the Minister of Finance asking for his approval of transactions of this sort, but that the board would approve an approach to the Minister of Finance by the President of British International Finance, in that capacity, not in his capacity as a director of the bank. This proposal, too, was resisted and finally abandoned, and the only minute that was made of the matter finally was that the President of British International Finance had informed the board that he proposed, in his capacity as President of British International Finance, to approach the Minister of Finance for clarification of the terms of the Treasury Board order and of his attitude about matters of this sort.

This proposal, if it had been accepted in the way in which it originally came up, would have put this matter squarely on the doorstep of the Minister of

Finance and the making of the proposal and its approval by the board, if they had approved it, I felt were directly contrary to statements that I and the President of British International Finance had made when appearing before Committees of the two Houses of Parliament.

Mr. FULTON: I take it that the only decision reflected in the minutes of this day, as you have outlined it, did not contain any authority to pursue the transaction or to—

Mr. COYNE: That is right.

Mr. FULTON: —approach the Minister with an amendment of the Treasury Board Minute.

Mr. COYNE: The board members were very embarrassed by the whole matter and felt that the best way out was to more or less ignore it, as if it had never happened, for the time being.

Mr. FULTON: It is in the category, then, of a suggestion about which you have strong views, brought forward by a senior member of the board of directors—the chairman, you have told us—and discussed in the board, but rejected.

Mr. COYNE: That is correct; and not pressed to a vote in consequence of the opposition which developed.

But that was not the end of the matter. Every time I have been in meeting with members of the B.I.F. group subsequent to that the same point has been raised again and again in an endeavour to put pressure on me to agree that something of this sort should be done.

Mr. FULTON: How many meetings?

Mr. COYNE: I could not say; I am sorry.

Mr. MORE: Mr. Chairman, could Mr. Coyne identify the "president"? He was talking about the "president". Could he identify him for the record?

The CHAIRMAN: The President of British International Finance?

Mr. COYNE: Mr. Sinclair Stevens.

Mr. FULTON: He is also the Chairman of the Board of Directors of the Bank of Western Canada?

Mr. COYNE: Yes.

At the subsequent meeting of the board on January 20, Mr. Stevens referred to the matter again in such a way as to suggest that he had not originally made any proposal.

In discussing this matter afterwards the western directors told me that they were completely in disagreement with that second statement.

Mr. FULTON: You told us that there were a number of meetings at which this was discussed. Were these official meetings of the Board of Directors, or of committees of the board, or were they, in the major part, informal discussions between individual directors?

Mr. COYNE: If you mean the discussions which were carried on by B.I.F. people with me to which I referred, they were certainly not meetings of the

board; they were largely in Toronto, although not entirely, and would arise when I was in Toronto primarily for a discussion of the affairs of the B.I.F. companies on which I was still a director.

Mr. FULTON: At how many meetings of the Board of Directors of the bank was this matter discussed?

Mr. COYNE: It was discussed at the meeting of December 16, and referred to briefly at the meeting of January 20.

Mr. FULTON: How many other of the western directors of the bank are also directors of the B.I.F. group of companies?

Mr. COYNE: It depends on a definition there. The two directors from Alberta are directors of a trust company in Alberta which is not, properly speaking, one of the B.I.F. group, although the B.I.F. group have a 30 per cent interest in it and an option on further stock.

Two of the directors from Manitoba, not counting myself, have been directors of a trust company and of a financial company in Winnipeg, which are part of the B.I.F. group, but their role there has been inactive for some time, and I think at least some of them have resigned; I am not sure about that.

The two directors from Saskatchewan and the two directors from Vancouver, so far as I know, have not had any connection with companies in the B.I.F. group; and two of the Winnipeg directors, similarly, have not had any such connection.

Mr. FULTON: Your next statement in the press release continues:

> They...
>
> —that is, the B.I.F. group and the Wellington financial group—
>
> ...are presently engaged in a borrowing operation with American banks which involves the giving of an option on 10 per cent of the total shares of the Bank of Western Canada and various arrangements designed to tie the management and operations of the bank to the operations of these American banks, again contrary to statements made when applying for a charter.

In the same way, Mr. Coyne, could you tell us if you have evidence to support that statement?

Mr. COYNE: Yes. In a way, this goes back quite a long time because the senior companies in the B.I.F. group have been looking for, and endeavouring to raise, money by way of loans for some months, partly, no doubt, in order to fulfill their subscription to the Bank of Western Canada and partly for other purposes. In the course of their efforts, or negotiations in that regard, the suggestion has from time to time, been made to me by Mr. Stevens that his negotiations with other banks, for example, in the United States, or in Canada, possibly, would be aided if the Bank of Western Canada would deposit some of its funds with those other institutions. This suggestion was first made in fairly definite form in September in a discussion with me and Mr. Maxwell Bruce, another director of the bank and of the Wellington Financial Corporation. I said that that would not be a proper thing for the Bank of Western Canada to do, and, as I recall it, Mr. Bruce agreed with that opinion of mine.

The idea has been in the air in the course of several discussions later than that, and it came to a head on Wednesday, February 1. Earlier than that I had been told that a line of credit had been arranged with some American banks. I frankly did not believe anything concrete would come of that. I did not believe any American bank would lend money to Canadian financial institutions, or to these particular Canadian financial institutions, under the present circumstances, and in the circumstances of those companies, certainly not if the bank knew those circumstances and if proper disclosure had been made to them.

In the course of a proposal coming before the meetings of the Boards of Directors of British International Finance and of the Wellington Financial Corporation on Wednesday, February 1, it was revealed for the first time to the directors and to me that these negotiations with a group of New York banks had been predicated upon the idea that they would be allowed, if they wished, to buy stocks in the Bank of Western Canada from the B.I.F. group and to be put in a position where they could engage in financial transactions, perhaps, in lending in Canada and, perhaps, other transactions, with the Bank of Western Canada, again if they would make credit available, not to the Bank of Western Canada but to the British International Finance companies.

I asked the man who had been actively engaged in these negotiations in New York if he would have been able to obtain a loan from these American banks for the purposes of British International Finance if he had not, as he thought, been in a position to offer them some advantages having to do with the Bank of Western Canada? He replied that he would not have been able to and would have been an idiot even to try to get a loan from them on the strength of the position of these companies alone under the present circumstances which, admittedly, were tight money conditions.

I told him and Mr. Stevens that neither of them had any authority—certainly not from the Bank of Western Canada, nor even from Wellington Finance or British International Finance—to make any commitment or to offer any advantages or inducements to this American bank—one in particular—in connection with the negotiations they were conducting. The man who had been doing the negotiating said that he had committed Wellington Financial Corporation to this—that we were committed—by the establishment of a line of credit—which I believe has not yet been utilized—with a New York bank and that as a condition of that and as an inducement for that, we were committed to the idea that they would have an option to buy stock, either in the Bank of Western Canada or, if they wanted, in British International Finance itself.

Mr. FULTON: I take it from what you have said that these discussions did not go on within the board of the Bank of Western Canada?

Mr. COYNE: This one did not.

Mr. FULTON: The facts you have outlined did not come to you in your capacity as President of the Bank of Western Canada. Is that correct?

Mr. COYNE: I was in the unhappy position of having two capacities all through this. Of course, several people were in that position; but I was made unhappy by having a dual role. I had to wear two hats until I could decide where my primary responsibility lay.

Mr. FULTON: Was disclosure of this made to other directors of the Bank of Western Canada, who were not directors of this other group of companies?

Mr. COYNE: It was made by me.

Mr. FULTON: At a board meeting?

Mr. COYNE: No; we have not been able to have a board meeting; we cannot bring the whole board together at very short notice. In any event, I felt I had to make my own position clear.

One of the things I had to do was to resign from the British International Finance Companies which my western directors of the bank had been urging me to do anyhow; and the other was I wanted to make clear to all concerned that the Bank of Western Canada was not going to be used, and the American banks should not think that it was going to be used, as a pawn in the financial plans of the British International Finance companies.

Mr. FULTON: Was the suggestion, as far as you have knowledge of it, that the Bank of Western Canada should give this stock option, or that the option should be given by one of the other companies?

Mr. COYNE: That the option would be given by one of the other companies, but that the Bank of Western Canada should be induced to enter into banking relationships with this American bank.

It was said that the Bank of Western Canada would find that this American bank would participate with it in loans that were too big for it alone to make in Canada and would provide it with "know-how" and even with staff.

Mr. FULTON: I think, Mr. Chairman, I am having regard to the time, but I would like to ask a final question.

With respect to documentary evidence, Mr. Coyne, if there should be a direct conflict of testimony here am I right in taking it from what you have said that apart from the one minute of the Bank of Western Canada's board, referred to in my earlier questions, there would be little, if any, documentary evidence by way of minutes of directors' meetings that could be produced to this Committee?

Mr. COYNE: I will be glad to produce the minutes of the directors' meetings, for what they are worth, but I think you are correct in your statement.

The CHAIRMAN: Thank you, Mr. Fulton. Mr. Thompson is next on my list.

Mr. THOMPSON: Mr. Chairman, I would like first to ask Mr. Coyne about remarks he has already made to Mr. Fulton regarding the discussions within the British International Finance group about asking the Minister of Finance to withdraw the agreement that was drawn up by the Treasury Board on August 3 and which was tabled in the House on January 18.

Do you know if at any time a request was made of the Government of Canada or of the Minister of Finance that this should be considered, or was the thing dropped in the discussions of the board of the B.I.F. group itself?

Mr. COYNE: You are asking if a request was made for an amendment of the Treasury Board order?

Mr. THOMPSON: Was an approach ever made?

Mr. COYNE: I discussed this informally with someone in Ottawa and got the impression that this was not feasible.

Mr. THOMPSON: Would you care to say with whom you discussed it?

Mr. COYNE: Yes; the Inspector General of Banks.

Mr. THOMPSON: As far as you know there was no other approach made following the difference of opinion that occurred in the board meeting?

Mr. COYNE: On this particular point?

Mr. THOMPSON: On this particular point.

Mr. COYNE: As far as I know, yes.

Mr. THOMPSON: You mentioned, Mr. Coyne, in your own statement that the British International Finance group had failed to make good their subscription for shares to the extent of $1.5 million which they had previously agreed to do. Why did the B.I.F. group not meet this commitment?

Mr. COYNE: Perhaps I should give you a little history on that. This was one of several large subscriptions that were arranged nearly three years ago in anticipation of providing capital for the bank when it was chartered.

This particular subscription was in the name of Canadian Finance and Investments Limited a company which raised $3 million in capital from the general public in 1964, with a view to subscribing for $2.25 million worth of stock in the Bank of Western Canada, and also with a view to investing in other financial institutions. If there had been no Bank of Western Canada develop at all, all the funds would have been retained by Canadian Finance and Investments Limited and used in other types of investments. There was no question here of trust funds being held for possible return to the shareholders.

In addition to the $3 million raised from the public, British International Finance subscribed for, or wrote a letter committing themselves to pay for, $700,000 worth of stock in Canadian Finance and Investments Limited. This was related a little more closely, in timing at least, to the payment for stock of the Bank of Western Canada and, therefore, only became a matter of urgent importance after the charter of the bank was granted.

Since last July, the fact that Canadian Finance and Investments would have to make this money available to the bank, and that British International Finance would have to make it available to the extent of $700,000 to Canadian Finance and Investments, has been one of the matters exercising the mangagement of British International Finance.

When the time came that the directors of the bank specified the date upon which share subscriptions were to be paid for—which was at the meeting of December 16, and the date set was January 3—on that date, or the next day, all the subscriptions of any consequence were fully paid for with the exception of this one where the total amount paid in was $800,000 leaving an amount of $1,450,000 still to come. That has not yet been paid.

The matter was to be discussed at the board meeting on January 20, but was put off, at the request of the Chairman, to the end of the agenda, and finally the meeting came to a close without a suitable opportunity for further discussion of that matter.

I do not regard the position on any one day as being significant in this regard, but it is now some further period of time since that meeting and

certainly at the next meeting of the board of the bank it is something that will have to receive very careful consideration on the basis of legal advice on what should be done about it.

Mr. THOMPSON: You mention in your statement that the B.I.F. group have been currently engaged in a borrowing operation with American banks, and that, as you previously stated today, some of this may have been to assist the B.I.F. organization in meeting their commitment to the Western Bank, or that some of it may have been intended for other purposes. Do you understand, then, from that that the B.I.F. group is short of cash?

Mr. COYNE: I do not suppose I need to draw a conclusion from it, Mr. Thompson. The facts are as I have stated them.

Mr. THOMPSON: In other words, there is a financial difficulty in meeting this commitment?

Mr. COYNE: There are financial requirements that they have to meet, and they have been endeavouring to meet them.

Mr. THOMPSON: Do you know, Mr. Coyne, if the British International Finance group have been under investigation by the Ontario Securities Commission or by the Insurance Branch?

Mr. COYNE: I am a little bothered by your language, Mr. Thompson. It was stated in the newspapers this afternoon, apparently from Ontario government sources, that the Department of Insurance had been having discussions with several trust companies in Ontario. I do not know anything about the Securities Commission.

Mr. THOMPSON: Would you say that these discussions, then, have been held with with some of the trust companies belonging to the British International Finance group?

Mr. COYNE: This is what was indicated in the newspaper this afternoon. I am not sure if this is strictly germane to what I am dealing with here.

The CHAIRMAN: Mr. Thompson, since we have Mr. Stevens as our next witness, if this could be considered relevant to our inquiry at this time he would be a more appropriate person to ask.

Mr. THOMPSON: Probably that is so. I think I will ask these questions of Mr Stevens as well but Mr. Coyne, up until a week or so ago, has been a member of the board of the B.I.F. group, too, and I thought he might have some information about this that would be of assistance to us.

Mr. Coyne, following up a remark you made a few moments ago, would you identify the trust company in Alberta which two of your directors are part of and in which the British International Finance group holds 30 per cent of shares and an option on further shares?

Mr. COYNE: Yes; I should say that this is a matter of public record already; there is nothing new or remarkable about it. It is the Alberta Fidelity Trust Company of Edmonton, Calgary and Camrose, Alberta, for the management of which I have every respect.

Mr. THOMPSON: Would you identify the Winnipeg trust company of which two of your directors of the Bank of Western Canada are part?

Mr. COYNE: This is the Fort Garry Trust Company, a Manitoba company, whose shares are in the process of being exchanged by the shareholders for shares of York Trust in Toronto; so that York Trust is, in effect, and shortly, I guess, will be legally the sole shareholder of Fort Garry Trust.

Mr. THOMPSON: You have made a good deal of the rift between the west and the east on the matter of British International Finance Corporation not really serving the original intentions of the Bank of Western Canada to serve the west. Do you see a conflict of interest here, at all, as far as the western members of your board are concerned?

Mr. COYNE: Every man must answer for himself. I certainly felt that I was in an ambiguous and difficult position when issues arose which seemed to suggest a conflict between what the B.I.F companies wanted to do and what I thought the bank should be doing. It is not just west versus east; that is almost a co-incidence. This bank was set up to be a bank of western Canada and public statements were made that it would carry on its operations in western Canada and lend its funds in western Canada, and so on. So that is the western factor.

This is challenged, or upset, if a financial institution, whether in western Canada or eastern Canada, threatens to use its voting power, through holding of stock, to secure that certain transactions are done and arrangements entered into to benefit it, without necessarily being within the ambit of the kind of operation the Bank of Western Canada was supposed to carry out. And which they could not do, I may say. They could not wield this influence, or attempt to wield this influence, if it were provided in the act, once more, that no one could hold more than 10 per cent of the stock.

Mr. THOMPSON: Could you interpret the resignation of Mr. Stevens as President of the York Trust and the York Lambton organizations as an attempt to smooth over those differences that you have been referring to?

Mr. COYNE: I do not think that that was related to the Bank of Western Canada situation in any way.

Mr. THOMPSON: You mention that you have engaged staff who are presently occupied in setting up the organization for the opening of your doors for business. How soon do your plans call for the opening of your first bank?

Mr. COYNE: Whatever ideas we had a little while ago have been somewhat delayed by recent developments. We have not yet completed negotiations for premises for our first branch in Winnipeg. We know where we want to go, and we are negotiating, but there are certain problems, including legal problems from the landlord's point of view, which have delayed things so that we probably could not, in any event, be ready to open our branch, properly fixed up and with the changes and improvements we would have to make in the premises, before May 1.

Mr. THOMPSON: But you had intended to open your first branch in the city of Winnipeg.

Mr. COYNE: Yes, in the city of Winnipeg; where the head office is.

Mr. THOMPSON: In your October meeting of the board of directors of the bank you made a very clear statement about your own views and the intention of the bank serving western Canada, and that it was basically a western bank.

Even that time you stated that it was not to be controlled by any group in the east.

Mr. COYNE: I said that I thought it was very important that it should not have its affairs entangled in any way with the affairs of the British International Finance companies, and that it was equally important that the public should believe this and should not think that this bank was in some way mixed up with, and dominated by, these other financial institutions because we would not get the kind of reception we would like to get amongst potential customers if they did not think it was a genuine bank of western Canada.

People had not been lacking as you know, to say, both in parliament and out of parliament that the bank was indeed just a front for some other type of operation which was contemplated.

I began to realize more and more, as the months went by in the autumn, how strong this atmosphere of skepticism could be, and was growing to be, in western Canada.

Mr. THOMPSON: Can I assume, then, from your statement that you had fears that this was taking place as early as October?

Mr. COYNE: I had fears that we would have difficulty in convincing the public, and in telling truthfully to the public, that this bank was being run as a bank for certain purposes related to its functions as a bank in western Canada, and not being run in such a way as to serve the purposes of financial institutions...

Mr. THOMPSON: Were you aware even at that time—

Mr. COYNE: ...which were shareholders.

Mr. THOMPSON: Were you aware even at that time that the BIF group were actually using the Bank of Western Canada for the benefit of the BIF organization?

Mr. COYNE: On February 1 it was indicated to me that discussions in New York to this effect had been going on for some time; I do not know how long. I did not realize that this was being done; that attempts were being made to interest various American banks, which finally succeeded in the case of one, or one group of American banks. Various suggestions were in the air that, somehow, if only the bank could assist the group in their present difficulties, it was only right and fair that this should be done.

This matter of the purchase of the finance paper portfolio was mentioned to me before the meeting of December 16.

Mr. THOMPSON: Just one more question in this regard: I think it was in this October statement that you mentioned that you felt that the western directors had no real interest in furthering the BIF group to the Bank of Western Canada, and that their intention was basically to develop a bank the primary objective of which was to serve western Canada?

Mr. COYNE: I expressed that view on my own behalf.

Mr. THOMPSON: Yes. Did you not feel that the connection that four of your western directors had with trust companies that were part of the BIF group was indicative of the reach that it had even into western Canada through the directors of the bank at that time?

Mr. COYNE: I was not afraid of that because I had every confidence that the directors concerned would put the interests of the bank first. In addition to that, two of those directors were connected with a company which really runs itself with a reasonable degree of independence, which is not dominated by the BIF group; and the other two were directors of companies which were in the process of being merged, or wound-up, under a reorganization scheme which the BIF group were putting forward; and, therefore, their connection there was bound to terminate within a few months, in any event.

Mr. THOMPSON: I would just like to question you on one more aspect of your statement.

The CHAIRMAN: Perhaps you could pose your question and I will permit Mr. Coyne to answer. The 20-minute period of questioning has just expired, according to our clerk.

Mr. THOMPSON: May I just ask one more question?

The CHAIRMAN: Yes.

Mr. THOMPSON: You are very clear, Mr. Coyne, in your statement, that it is your opinion, regarding the bank legislation that we are now considering, that no American bank should be permitted to hold any shares in a Canadian bank.

Mr. COYNE: Voting shares.

Mr. THOMPSON: Then you believe that even paragraphs (a) and (b) of clause 53(1), which limit the amount of American ownership in any one Canadian bank to 25 per cent, or to 10 per cent as an individual, are too generous, do you?

Mr. COYNE: I may be unduly influenced by the experience I have just been through, but I do not think it is desirable. If an American bank wants to be an investor in some way—a pure investor and nothing else—that is one thing; but if its only interest is to try to get a connection with a Canadian bank of a kind which the directors of that bank would not normally enter into with it, and if that American bank has other connections of its own—for instance, this bank in New York, with the line of credit made available to the British International Finance, is, itself, a subsidiary of a finance company, I believe. There are all sorts of possibilities of a kind that could cause difficulty for the Canadian bank concerned.

Mr. THOMPSON: Could I ask—

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I wonder if Mr. Thompson would permit a supplementary question of Mr. Coyne?

Can Mr. Coyne identify the American bank through which this line of credit was arranged?

Mr. COYNE: Well, I am not very anxious to.

Mr. MACDONALD (*Rosedale*): If the Committee felt that it would be helpful would you then be anxious to?

Mr. COYNE: Perhaps Mr. Stevens could identify it for you.

The CHAIRMAN: I think I should reserve, for the time being, the question of the relevance of this particular bit of information.

Mr. THOMPSON: I have just one last question, Mr. Chairman.

Actually, Mr. Coyne, what you are recommending to this Committee is that, in your own opinion, in the case of the Mercantile Bank this 25 per cent requirement of the present legislation should be reduced to zero?

Mr. COYNE: I did not intend to make any recommendations with specific reference to the Mercantile Bank, and perhaps I have not phrased my recommendation too carefully, or too well. Surely the basic point, that I am making, and which runs through all of these questions, is: Let your Canadian banks be run by a board of directors whose only object is the welfare of the institution, as such, and its depositors and its general body of shareholders; and do not let any large shareholder have too much influence, either in electing the board or in how the affairs of the bank are carried on. Now, if an American bank obtained very much voting stock it would perhaps be in a position to exercise a lot of influence.

Mr. THOMPSON: I think, Mr. Coyne, even if nothing else comes out of your appearing here in the sessions today, that certainly your opinion in this regard is very timely.

The CHAIRMAN: Thank you, Mr. Thompson. I recognize Mr. Lambert, followed by Mr. Cameron.

Mr. LAMBERT: Mr. Coyne, I have re-read the transcript of the proceedings of this Committee dealing with the incorporation of the Bank of Western Canada. You will recall that at the time we were discussing with you, Mr. Stevens and others seeking the incorporation of this bank the nature of the holdings, or the extent of the holdings of the BIF group, it was disclosed by Mr. Stevens and yourself that this would ultimately come to 51 per cent. This was clearly indicated.

Mr. COYNE: Yes; subject to the provision that it was to be reduced over a period of time to 10 per cent.

Mr. LAMBERT: Granted; and at that time the Bank Act did not require it.

Mr. COYNE: No; but special provisions were put in our charter.

Mr. LAMBERT: I will come to that. You will recall that as a result of questioning by, I think, the member of York South and Mr. Coates, myself and others, about the possibility of the control of the Bank of Western Canada being alienated, the sponsors agreed to incorporate what is known as "the group of 50's" to clauses of Bill No. C-102 which at that time provided for no holdings in excess of 25 per cent. On the motion of Mr. Lewis, the member for York South, this was reduced to 10 per cent.

Mr. COYNE: Yes, this was adopting, in our charter, when it came before this Committee, clauses which the Minister of Finance had already given notice in the House of Commons would be proposed to be included in the new bank act which was not yet in operation.

Mr. LAMBERT: Not quite; they were in the first proposal.

Mr. COYNE: Yes.

Mr. LAMBERT: They were in the first proposed Bill No. C-102; and there have been changes in Bill No. C-222.

Mr. COYNE: Yes; but I think the Inspector General of Banks told this Committee at that time that it was contended that in the next version of the new bank act these clauses would also be present. In other words, our bank was going to put in, immediately, clauses which were going to be in effect later for all banks.

Mr. LAMBERT: Yes; this is so. He expected that this would be done.

Mr. COYNE: I am not trying to deprive you of credit for these clauses.

Mr. LAMBERT: No, no; there is no question about that. My point is, however, that I find, shall I say, a rather curious paradox between your statemnt of February 3 and what you obviously knew and accepted at the time of the incorporation. As an amendment to the incorporating act there was deliberately provided for first of all, 25 per cent; then at the request of the Committee there was a reduction to 10 per cent, and this within the powers of the bank. Under Bill No. C-222 it is even more extensive, because it is 10 per cent for one holding, and a maximum of 25 per cent in non-resident holdings. Yet in your statement you feel that there is something wrong in negotiations, or feelers—I do not know the extent of them—that a 10 per cent interest in the Bank of Western Canada would be sold to a non-resident.

My point is, frankly, that this was not illegal under the charter, and, as a matter of fact, would be even less illegal under the proposed act.

Mr. COYNE: I do not think it could be less illegal.

Mr. LAMBERT: Well, in so far as it concerns non-residents. I perhaps used the wrong description.

Mr. COYNE: If you are saying that I hold somewhat different views now from what I held a year ago, you are quite correct.

Mr. LAMBERT: I wanted to establish that.

Mr. COYNE: At the same time, it was discussed in this Committee whether this group would be likely to sell out their stock to non-residents, and I am pretty sure the answer given was that there was no such intention.

Mr. LAMBERT: On re-reading the evidence, I have not been able to come across it in quite those terms; it is possible that it is there. However, I was seeking to bring out this change of opinion.

That is all, Mr. Chairman.

The CHAIRMAN: Have you completed your questioning?

Mr. LAMBERT: Yes.

The CHAIRMAN: Mr. Cameron?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Coyne, I presume that before the Treasury Board passed its minute of August 3 last year you and your associates had a meeting with the Minister of Finance.

Mr. COYNE: With the Inspector General of Banks; not with the Minister of Finance.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): With the Inspector General of Banks.

Mr. COYNE: Yes, as I recall. I know we had a meeting with him, but I do not think we had a meeting with the Minister of Finance.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): What I am interested in finding out are the means by which the Minister of Finance—because it must have been he—was persuaded that it would be acceptable to make the special provision for the divesting period, which you now feel should be rescinded. What was the argument that was put forward on the situation as you explained it to him at that time?

Mr. COYNE: Mr. Stevens and I saw the Inspector General of Banks, and I certainly supported this proposal—and participated in it—that we had said all along that we felt that it was necessary to have a strong group sponsoring the bank, and that arrangements had been made, indeed, for them to put up $6½ million in capital. We accepted the idea that ultimately this had to be reduced to not more than 10 per cent of the bank, but obviously this could not be brought about over night. It needed a period of time in which the bank could get established and plans could be made by which the group's holding would either be reduced in absolute terms, or in proportionate terms, to the 10 per cent figure. The order that was made reflects that viewpoint which, I presume, was acceptable to the people who made the order.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Now, Mr. Coyne, I would like you to cast your mind back, if you would, rather more than two years—I am not quite sure of the date—to when you came to see me in my office.

Mr. COYNE: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): At that time, as you may recall, I and some of my colleagues were holding up the passage of the Bank of Western Canada bill in the House.

Mr. COYNE: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): As you may remember, I raised with you at the time that it appeared to me that although the claim was being made that this was going to be a Bank of Western Canada, it was impossible to avoid taking note of the fact that the principals, including yourself, at that time were all located in the city of Toronto. As I recall it at that time, in order to re-assure me on this point, you told me that you had approximately $12 million—I would not say subscribed—in prospect of being subscribed in western Canada.

Mr. COYNE: No, not that amount in western Canada; somewhere over half was subscribed in western Canada.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): As I say, my memory may be faulty but I seem to—

Mr. COYNE: I think we made that very clear in the first appearance before the Senate in February or March of 1964, which was before we saw you. It was all in the public record as to what these subscriptions were.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I may have misunderstood you at that time but I certainly have a rather clear recollection of the figure of $12 million being—

Mr. COYNE: The total capital was $12 million to $13 million, and something over half of that was subscribed by residents of western Canada.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Now, I see by the Treasury Board minute that—

Mr. COYNE: Part of the subscription by residents of western Canada was for shares in British International Finance companies, so it went indirectly to the bank. About half of the capital was subscribed directly by residents of western Canada through a trust fund which was set up in Winnipeg and administered by the Canada Permanent Trust Company.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Part of what sum?

Mr. COYNE: Of the $13 million. About $6,400,000, I think it was, was subscribed in that particular way.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Through the BIF.

Mr. COYNE: No, through a trust fund, which was to be turned over to the bank in return for shares in the bank. Those subscriptions, except for certain institutional ones like the western life insurance companies, were limited to 200 shares per person. That was in an effort to get wide distribution in western Canada and, in fact, I think 5,500 individual subscriptions were received.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Did I understand you correctly when you said just now that there was another proportion of it that was subscribed in western Canada to companies in the BIF group?

Mr. COYNE: Yes, more particularly to the capital stock of Canadian Finance and Investments Limited, which I mentioned earlier.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Which is one of the members of that group.

Mr. COYNE: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Could you tell us, Mr. Coyne, what the situation now is with regard to direct subscriptions from western Canada for stock in the Bank of Western Canada?

Mr. COYNE: In the interval the trustee certificates, which were originally issued before the bank existed, were capable of being bought and sold and transfers registered, except that no transfer of those certificates could be made in the name of a non-resident. That went on, and I understand—although I have no direct information—that to some extent the western interest declined and the eastern interest increased; that is to say, people in other parts of the country bought some of these certificates from the holders in western Canada by a free transaction in the stock market.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): So you are not able now to tell us what, in effect, is the western investment?

Mr. COYNE: By way of investment, no, I cannot tell you what the figure is. However, I could find out at some stage.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): With regard to the suggestion, Mr. Coyne, in your statement, which appears at the second page of

those papers which we have been given, you say this:

> I wish to recommend to Parliament that, before the new Bank Act is finally passed, the prohibition upon voting stock, in excess of 10 per cent of the total, be put back into force for new Banks, just as it is for the older banks. In other words, the authority given to the Treasury Board or to the Governor in Council to grant exemption to majority shareholders in new banks should be reversed.

Then you mention the American bank. Now, what effect do you think this will have on your success in financing the Bank of Western Canada if the Committee and parliament accepts your suggestion?

Mr. COYNE: I think it would serve to reassure the community where we hope to operate that the affairs of the bank were being administered by directors who were elected by the general shareholders and they were not subject to removal at the instance of some one group holding 51 per cent of the shares.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You merely suggest that they should be deprived of their voting power, is that it, or are you suggesting they should immediately divest themselves of ownership to the extent of 10 per cent?

Mr. COYNE: Well, that could not be done immediately. I have indeed suggested to them—and the suggestion has come up in discussion—that they would be willing to sell some of their stock to westerners if there are westerners who would like to buy it. But my suggestion here for public discussion is that the voting privilege be removed.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Thank you, that is all I have for now.

The CHAIRMAN: Mr. Fulton?

Mr. FULTON: If I have understood correctly, there is a conflict in Mr. Coyne's testimony between what he told me and what he told Mr. Thompson and Mr. Cameron just now. I would like to get it cleared up, if I may ask a supplementary question. I thought you had told me, Mr. Coyne, that there was no authority given at any meeting of the board of the Bank of Western Canada to discuss with the Minister of Finance or officials in Ottawa the proposal which you told us Mr. Stevens had been pressing on you. There had been no authority given to discuss this and a rather vague minute was then made about the whole matter.

Mr. COYNE: Yes.

Mr. FULTON: I am correct in that understanding?

Mr. COYNE: Yes.

Mr. FULTON: Then it seemed to me you told Mr. Thompson and also Mr. Cameron, if I heard you correctly, that some time in February both you and Mr. Stevens were in Ottawa discussing with Mr. Elderkin, the Inspector General of Banks, a relaxation of the Treasury Board restriction.

Mr. COYNE: No. What I said was that it was last July, I think, we were in Ottawa discussing with the Inspector General of Banks what Treasury Board restriction would be put in and that is the one which allows 10 years for this

reduction in holdings from over 50 per cent down to 10 per cent. That was what we discussed with him.

Mr. FULTON: There was no discussion either before or after December of 1966 and January and February of 1967 by you with any official in Ottawa of the relaxation of these provisions which prevented the banks from having financial transactions with the BIF through the company?

Mr. COYNE: Other than the one I read about in the newspaper today in which Mr. Sharp mentioned—perhaps before your Committee—a talk he had with Mr. Stevens yesterday, I believe.

Mr. FULTON: There was no discussion by you?

Mr. COYNE: No.

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

The CHAIRMAN: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I would like to refer you, Mr. Coyne, to section (f) on the second page of the Treasury Board minute where there are five provisions outlined of actions which the bank must not take except with the prior approval of the Minister of Finance. I gather from what you have said this afternoon, Mr. Coyne, that you very strongly disapprove of the bank taking any of these actions. I gather that these are part of your dispute with your associates. I am wondering why this was included, which would give the Minister of Finance authority to do these things which you have stated you would not approve of, and I gather you felt it was fairly clearly understood at the time that it should not be done.

Mr. COYNE: I feel it was understood when we were before parliament that this would not be done. The actual terms of the Treasury Board order were not discussed with me. I had no knowledge of this particular clause until I read it in the Treasury Board order.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You have no idea at all why the Minister of Finance would put that in?

Mr. COYNE: Other than the obvious one, to reinforce the assurances that were given to parliament by this group.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It would be reinforced still more if the clause "except with the prior approval of the Minister of Finance" had been left out, and you think it should have been left out.

Mr. COYNE: I think so now. I did not complain about it at the time.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Now, that interests me. Why did you not complain about this at the time? Did you not disapprove of it at that time?

Mr. COYNE: Do you mean last August?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, did you not disapprove of these possible actions at that time?

Mr. COYNE: It did not actually occur to me that the case would ever arise at that time. It seemed to me that Treasury Board were merely legislating some-

thing which was already clearly understood. Referring to the clause "except with the prior approval of the Minister of Finance", I do not know why that was put in there. Perhaps it was just so that it would not be absolutely rigid in case something came up that had to be done, I do not know. However, I did not really consider the matter at that time at all.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Thank you, Mr. Chairman.

The CHAIRMAN: I now recognize Mr. Macdonald.

Mr. MACDONALD (*Rosedale*): Mr. Coyne, referring to your change of mind with respect to the regime set up by Treasury Board minute No. 658534, do I understand your position to be that your change of mind with regard to that regime occurred as a result of what you referred to as your ambiguous and difficult position vis-à-vis the BIF company.

Mr. COYNE: Change of mind with regard to what provision of that order?

Mr. MACDONALD (*Rosedale*): Specifically with regard to the provisions that the—

Mr. COYNE: That permit voting to take place?

Mr. MACDONALD (*Rosedale*): —shares need not be divested immediately, but may be held for a period of—

Mr. COYNE: The main point that I would say I changed my mind on is the provision that they would be allowed to be voting stock.

Mr. MACDONALD (*Rosedale*): I see.

Mr. COYNE: Whereas, but for this Treasury Board order, it would not have been voting stock. But that was contemplated in the statute; one cannot complain that anything was done that was not contemplated as a possiblity in the statutes.

Mr. MACDONALD (*Rosedale*): Referring to your press release of February 3, and I am referring to the paragraph at the top of the second page, do I understand that when you refer to a want of confidence in the management and policies of those companies you are referring specifically to the proposals that related to the Bank of Western Canada?

Mr. COYNE: No.

Mr. MACDONALD (*Rosedale*): You are not referring specifically to that but to a broader one?

Mr. COYNE: Yes.

Mr. MACDONALD (*Rosedale*): As a matter of interest, Mr. Coyne, under what jurisdiction was British International Finance, Wellington Financial, and York Trust incorporated?

Mr. COYNE: I am not absolutely certain but I think British International Finance is an Ontario company. I know that Wellington Financial is a federal company and York Trust is an Ontario company.

Mr. MACDONALD (*Rosedale*): Reverting to my earlier question, I refer specifically to the final sentence of your press release, which reads:

> No American bank shall be entitled to hold any shares in a Canadian bank.

Could you tell us specifically the names of the American banks with whom the BIF group of companies were negotiating?

Mr. COYNE: I think this question came up a little earlier. I would prefer not to name names, particularly as the man who can tell you those names is going to appear here himself.

Mr. MACDONALD (*Rosedale*): That is fine, I will reserve the question. Now, to develop Mr. Cameron's line of questioning—and correct me if I mis-state your evidence of last year—as I understood your reasoning at the time you felt that a strong group was necessary in the initial years of a bank in order to get it off the ground.

Mr. COYNE: Yes, and that it was necessary to have a group already there in order to prevent anybody else from coming in and assuming control. What I did not give enough value to was the fact that in the new Bank Act the ban on anybody holding more than 10 per cent would really prevent a new group from coming in and getting control, and that I should have realized, but did not, destroyed a good part of the argument in favour of allowing any group to start off in control.

Mr. MACDONALD (*Rosedale*): Do you feel that the fact that there will not be a strong group in control, that is to say, that there will not be voting control if your suggestions are adopted, will that prejudice the future of the Bank of Western Canada?

Mr. COYNE: No. I have now seen, (a) that a group of independent directors are capable of overseeing the affairs of the bank from the start and, (b), that a group of professional bankers can be brought together who will take on the job of organizing the bank. I have great confidence in the still rather small group of men who have been brought together and are engaged in this planning operation right now.

Mr. MACDONALD (*Rosedale*): In other words, you are confident that management, as opposed to ownership, can get this off the ground.

Mr. COYNE: I am confident that management, as opposed to ownership, supervised by an independent board of directors is the right thing, and I am confident that the British International Finance group have nothing to offer by way of advice or assistance that will help the bank and that they have attempted to do things which would be harmful to the bank and that the bank is suffering from the fact that in the public mind it is so intimately associated with the British International financial group.

Mr. MACDONALD (*Rosedale*): You say in the third paragraph on the second page of your press release:

> ...they have attempted to get the Bank to provide credit to their own companies contrary to the most explicit statements made to the Committees of the Senate and of the House of Commons...

Would you by any chance be able to give us chapter and verse the explicit statements made to this committee last year?

Mr. COYNE: I have a recollection of them, yes.

Mr. MACDONALD (*Rosedale*): I wonder if you could undertake to make those available to the committee so that we will know specifically what you had in mind when you made that statement.

Mr. COYNE: Yes.

Mr. MACDONALD (*Rosedale*): Similarly, in the final line of that same paragraph you say:

. . . again contrary to statements made when applying for a charter.

I wonder if you could give us the same undertaking with regard to those statements.

Mr. COYNE: I am sorry, I have not been looking through the hearings specifically for that point, I was looking for the other point as the major one. However, I know there was a general atmosphere of questioning in this committee, and in the Senate Committee two years earlier, on this point. My recollection is that we did our best to assure people that this group was not going to sell out to Americans. Somebody suggested, "Is this just a front for something and we will wind up seeing some American interests owning the bank?", and we said, "Definitely not".

Mr. MACDONALD (*Rosedale*): Thank you, Mr. Coyne.

The CHAIRMAN: I now recognize Mr. Monteith. I might say for the interest of those concerned who have not had a chance to review our minutes on the initial hearings in support of Bill No. C-111, an Act to incorporate Bank of Western Canada, that they are proceedings numbers 1, 2 and 3. The dates of the hearings are Thursday, February 17, Tuesday, March 1, Thursday, March 3, and Tuesday, March 8, 1966, and they run from page 1 to page 176 of our proceedings. It would be easy for those interested to check what was said at that time by referring to these minutes.

I will now recognize Mr. Monteith, and following him on the list I have Mr. Munro, Mr. Wahn and Mr. Coates.

Mr. MONTEITH: Mr. Chairman, I have a very short question which I would like to ask. On page 99 of the proceedings you just mentioned I asked this question of Mr. Stevens:

> I take it that 2,000 people have subscribed $3,750,000 to Wellington for stock totalling 250,000 shares?

Mr. STEVENS: That is correct.

Mr. MONTEITH: I understand the Canadian Finance have taken a block of 150,000 shares, totalling $2,250,000.

Now Mr. Coyne, of this latter amount $1,500,000 has not been subscribed?

Mr. COYNE: To be exact, $1,450,000 has not been completed.

Mr. MONTEITH: I assumed from this question and answer that these funds had definitely been allocated. Was I right in doing that?

Mr. COYNE: No, sir. I think we made it quite clear that Canadian Finance and Investments Limited had certain funds and was to receive a further $700,000 in due course; that it was in the business of investing in financial institutions; that it had agreed to take up $2,250,000 worth of stock in the Bank of Western Canada but it did not put those funds in trust for that purpose, as was done in certain other cases. In the two other cases where that was done the condition of the trust was that the money would be paid back if the charter did not ever come through.

Mr. MONTEITH: That would be that money in Canada Permanent and Wellington?

Mr. COYNE: Yes, but in the case of Canadian Finance and Investments' money, if there were no bank charter the money remained as capital of Canadian Finance and Investments Limited and would be used by them in their operations and for investments, as was spelled out in the prospectus issued at the time.

Mr. MONTEITH: So that one could not say that there were funds in Canadian Finance that had been definitely allocated and used elsewhere?

Mr. COYNE: No.

Mr. MONTEITH: Thank you.

The CHAIRMAN: I now recognize Mr. Munro.

Mr. MUNRO: Mr. Chairman, as I understand in the statement given by Mr. Coyne today, he has given three reasons for his resignation. The first reason is that they, referring to the BIF group in particular:

> failed to make good their subscription for shares to the extent of about $1,500,000.

The second reason is that:

> They have attempted to get the Bank to provide credit to their own companies contrary to the most explicit statements.

The third reason is that:

> They are presently engaged in a borrowing operation with American banks

—and so on, and are selling shares amounting to some 10 per cent. Would you have taken the action which you have presently taken, Mr. Coyne, for any one of those three reasons.

Mr. COYNE: I do not know. Those were not the only reasons for my resignation. Those are the three points having special reference to the Bank of Western Canada which I itemized in my statement in addition to the fact that their image is doing a disservice to the Bank of Western Canada. These matters came up with a bit of a rush in the last four, five or six weeks and I had been worrying about them and about what I could do and about what the effect of my resignation from the British International Finance companies would be. I had, indeed, resigned from most of the companies in that group in the middle of January but I reserved for further consideration what I would do with respect to three companies. It was just a question of timing in my mind more than anything else. However, I was simultaneously very concerned about how we were

going to rescue—as I would put it—the Bank of Western Canada and its image and put it in shape to operate on the basis that we had promised people it would operate.

Mr. MUNRO: As I understand it, Mr. Coyne, you indicate in the statement that you are resigning from the boards of directors because you no longer have confidence in the management or policies of those companies.

Mr. COYNE: Yes.

Mr. MUNRO: And I take it what led you to this point where you no longer have such confidence is for these three reasons?

Mr. COYNE: I think when I was questioned earlier I said that I had other reasons.

Mr. MUNRO: I take it these would be the three principal—

Mr. COYNE: These are the reasons which relate to the Bank of Western Canada.

Mr. MUNRO: I see. Do you regard the failure to make good the subscription for shares to the extent of $1,500,000 to be a definite breach of undertaking at this stage, or do you feel that it is reasonable to assume that they should have more time to make up this deficiency?

Mr. COYNE: When you take it in conjunction with the fact that they are saying they have the voting power to control the bank and that other people must give way to them for that reason, and their voting power depends in part upon stock which they have not paid for, then I think it becomes very relevant to the stand which I have been taking.

Mr. MUNRO: I think you did state, with reference to your second reason concerning the Bank of Western Canada that you are satisfied by the attempts of this group to get the bank to provide credit, despite the fact that no formal act had taken place by the BIF group, that there was no doubt but that they were going to continue to pressure you and the bank to—

Mr. COYNE: What form the next particular approach might take I could not say, but my judgment of the indications was that we would constantly be under this kind of pressure and we would constantly be told, as we had been told in board meetings and elsewhere, that they are the people who are entitled to have the major say on how the bank shall operate, and that it should operate in such way as to have connections with the people they want the bank to have connections with because they also have connections with those people.

Mr. FULTON: May I ask a supplementary question?

The CHAIRMAN: If Mr. Munro will yield.

Mr. FULTON: Has anything been called up on these shares?

Mr. COYNE: I would have to refer to lawyers on this, Mr. Fulton. It was not quite the same as a normal company subscription where money is not due until called. This was a special form of undertaking given by those concerned that full payment would be made on a date to be specified by the board of directors. That date was specified by the board of directors and notification was given and payment was not made.

Mr. FULTON: How can they vote the shares, then?

Mr. COYNE: That is something the lawyers will have to look into. I do not know the situation there.

Mr. FULTON: I will not go into the supplementary, but I have in mind whether you are quite right when you say they are in a position to exercise control under the circumstances which you now describe.

Mr. COYNE: Perhaps I should say that they think they are in a position to exercise control, and say so from time to time.

Mr. FULTON: It is a clash of personalities.

Mr. MUNRO: With reference to your third reason, Mr. Coyne, that they are presently engaged in a borrowing operation which involves giving an option on 10 per cent of the total shares, in terms of specific action taken by this group what would that action constitute?

Mr. COYNE: The boards of directors of Wellington Financial Corporation and British International Finance passed resolutions—against, of course, my dissenting vote—on Wednesday, February 1, favouring in principle a financial operation which involved securing a line of credit to a subsidiary of these companies in New York which would be guaranteed by both of these companies, and I think it was suggested that their obtaining of the money from the subsidiary in New York would be supported by a pledge of Bank of Western Canada stock. In addition to that, the real lender in New York had been told he had an option on stock which he would buy in British International Finance or Bank of Western Canada up to 10 per cent of the total of the stock in the Bank of Western Canada. Now, "option" was the word that was used in all those discussions. It did not specify what the price would be and I do not know whether it would be legally enforceable.

Mr. MUNRO: What is the principal source of your objection to this type of undertaking? Is it because you feel that it was a breach of commitment to parliament or parliamentary committees or is it because of the interrelationship that seemed to be evolving with these American interests through lending arrangements and staff, and so on, that there were more implications than you had ever anticipated in terms of foreign capital coming in?

Mr. COYNE: That is right, yes.

Mr. MUNRO: Did both factors contribute to your taking serious objection to this action? Which is paramount in your mind, this breach of commitment to the committee or this sort of experience you have had over the last two or three weeks?

Mr. COYNE: I cannot specify the order of importance of all these factors. I think when you take them altogether they are pretty devastating.

Mr. MUNRO: Would your objection be so serious if it had not come to your knowledge that there were these interrelationships and implications? Would you then have taken any exception to, say, 10 per cent of the stock being sold to Americans?

Mr. COYNE: I do not know now. Knowing now what I do know, I would take objection to anything of that sort, but I think your question is too hypothetical for me.

Mr. WAHN: Mr. Coyne, I would just like to clear my own mind with regard to those portions of your statement with which this Committee should be primarily concerned. Looking at your statement of February 3, you say in the third paragraph that the BIF group:

> . . . have failed to make good their subscription for shares to the extent of about $1,500,000,. . .

Am I correct in assuming that this is not a matter for our consideration, really; this is a problem for you in the Bank of Western Canada and it has no relevance to anything that we are considering?

Mr. COYNE: Well, of course, that is for you to say rather than me.

Mr. WAHN: Let me put it this way. How do you see that that is relevant to our considerations? I can see that the Bank of Western Canada would be very concerned if a large subscriber failed to pay up in accordance with his subscription, but I find it difficult to see how this Committee is concerned.

Mr. COYNE: Well, sir, I have not said that this Committee has to be concerned in the matter at all. That is a matter for other people to decide.

Mr. WAHN: You cannot give me any reason why you think this Committee should be concerned about this particular part of your statement?

Mr. COYNE: I can only say that part of the presentation made to parliament was that these total funds would be forthcoming to finance the bank in its initial capital.

Mr. WAHN: From that point of view you feel that the representation made to the Committee has not been fulfilled. I can see from that point of view that we might be concerned. Did they, in fact, undertake to subscribe a specified amount?

Mr. COYNE: Yes.

Mr. WAHN: Which they have not done.

Mr. COYNE: That is right.

Mr. WAHN: You also state in the third paragraph:

> . . . they have attempted to get the Bank to provide credit to their own companies contrary to the most explicit statements made to the Committees of the Senate and of the House of Commons,. . .

Could you give us your recollection of those explicit statements? What did they undertake—

Mr. COYNE: I can give you my recollection of it. I also have the record here of extracts from the hearings of the Committee on that particular point.

Mr. WAHN: Perhaps it would be useful to get those for our own reference, Mr. Chairman.

The CHAIRMAN: Yes. Mr. Coyne has just handed me a document entitled "Bank of Western Canada, Extracts from Senate and Commons Committees' Hearings" and this seems to deal with your question. I wonder what would be most convenient to you, Mr. Wahn, with respect to your line of questioning? Should I invite Mr. Coyne to read this and have it copied over the supper adjournment, or—

Mr. WAHN: I think it might be helpful, Mr. Chairman.

Mr. LAMBERT: This is on page 171 of our minutes.

The CHAIRMAN: There are also some references to the Senate hearings which we may not have before us.

An hon. MEMBER: I move they be read now.

The CHAIRMAN: Yes.

Mr. COYNE: These are only the extracts I happen to have made personally.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, on this point I think what we should hear is what Mr. Coyne thinks is important about what was said in this committee and not so much about what may be in the general record.

Mr. COYNE: Well, that is what I have extracted from the record.

The CHAIRMAN: Having heard the views of the Committee, I think I should suggest to Mr. Wahn that he invite Mr. Coyne to read these extracts which he has compiled on this particular point that was raised.

Mr. MONTEITH: You suggested, Mr. Chairman, that you might have copies made during the dinner hour.

The CHAIRMAN: I will ask the Clerk to attempt to do so if the Xerox machine is open. Will you proceed now, Mr. Coyne.

Mr. COYNE: The first reference I have is the Senate Banking and Commerce Committee Proceedings No. 1 of March 18, 1964. On pages 37 and 38 Mr. Stevens said:

> It would not be our intention should we receive a charter to have other companies in our group borrow funds from the new bank. In fact, prior to announcing our intention to apply for a bank charter, we spoke to each of the existing banks with which we deal and gave and received assurances from them that in the event we received a charter, our group's existing banking arrangements would be maintained.

And further at page 40 of the same reference, Mr. Coyne said:

> At this point I should like to state as Mr. Stevens has done without qualification that we do not intend to use the funds of this bank to make loans to other institutions, such as York Trust, Wellington Financial, British International Finance, Canadian First Mortgage Corporation, or Simcoe Acceptance, with which some of the organizers of this bank are connected.
>
> These companies all have established banking connections which they expect to maintain, and in any case the size of loan that could be made available by the Bank of Western Canada would be of no interest to them. Similarly as regards the financial institutions in Western Canada with which we are connected—in their case, they will no doubt do some of their regular banking business with the bank, but will not look to it as a source of funds to be used in their own operations.

And then in this Committee of the House of Commons on February 17, 1966, Proceedings No. 1, on page 35 Mr. Horner asked:

> Do you intend to build up your banking business by deposits from the general public?

Mr. Coyne: Yes.

Mr. Horner (*Acadia*): And with connections with a few large companies such as trust companies or loan companies?

Mr. COYNE: No, we expect to depend entirely on the deposits of the general public. We will have some connections with trust companies, as do the other banks. In Western Canada all—

I should not have said "all", but that is the way it reads. I shall continue:

—all our people are already associated with two local trust companies, the one in Winnipeg, the Fort Garry Trust, and the one in Edmonton and Calgary, the Alberta Fidelity. I would expect those would be the trust companies with which we would have closest contacts, but we would not for instance contemplate lending money to them or have them lend money to the bank. It would be just a normal business relationship.

On March 3, 1966, Proceedings No. 2, Mr. Basford asked at page 90:

Is there not a danger that the money raised by way of deposit in the Bank of Western Canada could be used to assist the British International group in Ontario?

It reads rather strangely now:

Mr. Coyne: I do not know what you mean by danger. I can give you a categorical assurance that it will not. I was asked that question in the Senate and I said there was no such intention.

Then on March 8, 1966, Proceedings No. 3, Mr. Stevens said at page 171:

The other point I would like to mention, Mr. Horner, in connection with your suggestion that there be some interrelationship between our other trust companies and the Bank of Western Canada is this. I think, as was mentioned in evidence earlier, there certainly is no proposal or suggestion in our mind that the Bank of Western Canada, in fact, would, become the banker to the group. I can assure you this will not happen.

Mr. WAHN: Would you tell us, Mr. Coyne, what company of the group in fact did apply to the bank for credit?

Mr. COYNE: The proposal did not specify. I took it to relate primarily to the top company and any subsidiary to which it might wish to direct the funds.

Mr. WAHN: Was there any formal application made for a loan by any member of the BIF group?

Mr. COYNE: There was a proposal which the president of BIF put before the board meeting asking the board to approve the idea that a line of credit to his companies be established equal to 10 per cent of the capital and reserves of the bank.

Mr. WAHN: I just want to make sure that I understand this.

Mr. COYNE: There is a difference between establishing a line of credit and actually following it up by lending money.

Mr. WAHN: You were correct in thinking that the proposal was for a line of credit with the Bank of Western Canada equal to 10 per cent of the —

Mr. COYNE: —capital and reserves of the bank.

Mr. WAHN: Of the Bank of Western Canada?

Mr. COYNE: Yes. This would amount to roughly $1,300,000.

Mr. WAHN: In favour of the BIF group. That proposal was made at a directors' meeting of the BIF?

Mr. COYNE: No, of the bank. We are now talking about this specific proposal.

Mr. WAHN: Was this proposal put to the board of the bank or to you?

Mr. COYNE: The proposal was put to the board of the bank by the chairman of the board, who is president of British International Finance.

Mr. WAHN: You are referring to Mr. Stevens. When was this meeting of the board held?

Mr. COYNE: On December 16, 1966.

Mr. WAHN: What did the board do?

Mr. COYNE: I went over this at some length earlier, Mr. Wahn.

Mr. WAHN: Yes, I know. I am just trying to—

Mr. COYNE: The western directors in particular said they did not like the idea. Various suggestions were made that it was out of order because of a certain provision in the Bank Act and that we could not consider it while we only had $13 million of capital, although possibly some day, after we had a lot of deposits, a much smaller amount could be considered in some way.

Mr. WAHN: Was it turned down?

Mr. COYNE: There was so much opposition to it that it was withdrawn.

Mr. WAHN: Was it put to the board in writing?

Mr. COYNE: No.

Mr. WAHN: Was it a formal proposition or was it just a discussion or exploration of possibilities?

Mr. COYNE: It was not a formal motion. It was a matter, though, which the chairman said he wished to have dealt with and settled at that meeting.

Mr. WAHN: Would it be fair to say that Mr. Stevens was just exploring the views of the board with regard to such a loan?

Mr. COYNE: It would not be fair to suggest that he was not recommending it and asking for it. He was definitely recommending it and asking for it.

Mr. WAHN: Although there was no formal loan application?

Mr. COYNE: If it had met with the approval of the individual directors I suppose it would then have had to take the form of a formal resolution of some sort which, as you know, would be subject to approaching the Minister of Finance for his approval of it.

Mr. WAHN: This was at a meeting of the board of directors of the Bank of Western Canada?

Mr. COYNE: Yes.

Mr. WAHN: At which Mr. Stevens was acting as the chairman of the board of the Bank of Western Canada?

Mr. COYNE: Yes.

Mr. WAHN: Did any proposal come from the BIF group or any member of the BIF group as distinct from this proposal which originated with Mr. Stevens in his capacity as chairman of the bank?

Mr. COYNE: His proposal was supported by one or more directors who were there as representatives of the BIF group.

Mr. WAHN: There was no written proposal from any member of the BIF group as such?

Mr. COYNE: I do not think so.

Mr. WAHN: It was only raised, then, by members of the BIF group who also happened to be members of the board of the Bank of Western Canada, namely Mr. Stevens and his associates?

Mr. COYNE: By directors of BIF companies who are also directors of the Bank of Western Canada.

Mr. WAHN: Is there anything in the charter of the Bank of Western Canada which would prevent it from providing credit to these companies or any of them?

Mr. COYNE: Only the usual limitations on the size of a loan that can be made to any company with which a director is associated.

Mr. WAHN: Would that have been infringed by this particular—

Mr. COYNE: I do not know; I am not at all sure that it would. Of course, if the provisions of the Bank Act were to be fully carried out, once a proposal became a definite proposal the six BIF directors, and even myself, would have had to retire from the room while it was dealt with.

Mr. WAHN: In your view would the proposal for such a loan be contrary to anything in the Treasury Board minute?

Mr. COYNE: Not technically because it was made subject to going to the Minister of Finance to secure his approval.

Mr. WAHN: So that the proposal, although it may have been contrary to the statements made to the Committees that sat in the House of Commons, was not actually in violation of the charter as issued, nor was there anything in the Treasury Board minute which prevented it from being made?

Mr. COYNE: There is nothing in the Treasury Board minute that prevents you from applying for the Minister of Finance's approval of transactions which are illegal without his approval and which, if entered into without his approval, have the automatic effect of terminating the voting rights of the stock of the people concerned.

Mr. WAHN: Was there any discussion at this board meeting of the possibility of getting the approval of the Minister of Finance?

Mr. COYNE: Yes. Do you mean discussion about the likelihood of his granting it?

Mr. WAHN: Yes.

Mr. COYNE: Oh, I do not know about that. It was desired that the approval of the board be obtained first and have the authorization of the board to approach the Minister of Finance for his approval.

Mr. WAHN: I shall now refer to the next statement.

The CHAIRMAN: Mr. Wahn, as you are beginning a separate phase of your questioning and it is now six o'clock, perhaps it might be convenient to recess until eight, at which time you can complete your—

Mr. LIND: I have a supplementary question, Mr. Chairman, to that asked by Mr. Wahn.

The CHAIRMAN: I will accept it.

Mr. LIND: Are there any records of the board meeting of December 16 where this proposal for accommodation or line of credit was put forth?

Mr. COYNE: I do not believe there is a minute of the board meeting expressed in those terms. I think the final minutes, which we all felt was the best way to deal with it, recorded that the President of British International Finance had informed the board that he proposed, in his capacity as the President of the British International Finance, to approach the Minister of Finance for clarification of the terms of the Treasury Board order, and an indication of the circumstances under which he might give his approval to transactions of this character.

The CHAIRMAN: Thank you. I think it is convenient now to recess this meeting until eight o'clock.

EVENING SITTING

The CHAIRMAN: Well, gentlemen, I think we are in a position to resume our meeting. When we recessed for supper Mr. Wahn had the floor and I recognize him again.

Mr. WAHN: Mr. Coyne, when we recessed we were talking about the directors meeting of December 16 at which a proposal had been made for a loan to the BIF group of approximately $1,500,000. Did you have any reason to believe that loan was being requested for the purpose of paying up the subscription of the BIF group for the shares of the Bank of Western Canada?

Mr. COYNE: No, I do not think it was explicitly tied to that purpose.

Mr. WAHN: Did you think that was the purpose?

Mr. COYNE: It was not as definite as that. The idea was to have the board agree in principle that there should be a line of credit and then go to the Minister of Finance to see if he would approve it. What use would be made of the line of credit and to what purpose the funds would be put would be for later development.

Mr. WAHN: Did you know at that time that they might have some difficulty in coming up with the one million odd dollars they needed to meet their subscription price?

Mr. COYNE: I knew they had been making various efforts to find funds for that purpose as well as for other purposes.

Mr. WAHN: Did you say, Mr. Coyne, that this proposal was introduced again at a board meeting of the Bank of Western Canada held on January 20?

Mr. COYNE: It was mentioned.

Mr. WAHN: Was it mentioned formally or just in passing?

Mr. COYNE: It was mentioned by the chairman, and perhaps by others; I cannot recall exactly.

Mr. WAHN: What suggestion was made?

Mr. COYNE: The chairman made a remark to the effect that what had happened at the December 16 meeting had been merely a form of inquiry on his part and not a proposal.

Mr. WAHN: It was not a proposal; it was an exploratory effort?

Mr. COYNE: That is what he said then.

Mr. WAHN: If you thought the proposal made on December 16 was in direct violation of solemn and sacred pledges given by Mr. Stevens and yourself to Parliamentary Committee, why did you not resign, or make a public statement or warn the Committee on December 16 rather than on February 1?

Mr. COYNE: What Committee?

Mr. WAHN: Well, this Committee.

Mr. COYNE: I did speak to the board of the Bank of Western Canada about it, making that argument, but there were many problems that I had to deal with in various capacities. I did not feel on that occasion that I should resign immediately from these other boards.

Mr. WAHN: It would be fair to assume—on our part at any rate—that since the proposal or exploratory investigation had been rejected by the board of the Bank of Western Canada you felt, in your best judgment at that time, that the matter was not sufficiently important to issue a public statement warning the public, the government or this Committee. You look it up only with the board of the Bank of Western Canada.

Mr. COYNE: The fact is that I did not resign from these other companies until February 1.

Mr. WAHN: Yes. I think we are entitled to draw a fair conclusion that—

Mr. COYNE: No, I do not think you are. I think you are entitled to hear me when I say that there were a number of things which were disturbing me very much, including the way in which the BIF companies, of which I was a director, were being managed and the way in which they were seeking to influence the Bank of Western Canada, and I felt it my duty to stay there and try to achieve the best outcome in all of these situations rather than immediately resign at that time.

Mr. WAHN: I think that is an indication that you did not think what had been done was sufficiently important to justify an immediate resignation on your part, or the issuing of a public statement to warn the Canadian public and this Committee that there was something wrong with the affairs of this group of companies in their dealings with the Bank of Western Canada.

Mr. COYNE: I had to consider various conflicting possibilities and try to figure out the best think to do in the circumstances, including having further talks with the western directors of the bank.

Mr. WAHN: Do you have any reason to believe, when Mr. Stevens and you assured the Committee several years ago that there was no intent to finance the BIF companies through the Bank of Western Canada, that the statement made at that time was false?

Mr. COYNE: No, I have no reason to believe that.

Mr. WAHN: You must have believed the statement made was true at that time; otherwise you would not have gone along with Mr. Stevens.

Mr. COYNE: That is right.

Mr. WAHN: Now, two years later, the circumstances have changed and, perhaps, Mr. Stevens' ideas have changed as well. In other words, you are not suggesting that any false statements were made to this Committee at the time of application for its charter.

Mr. COYNE: No, I am not suggesting that.

Mr. WAHN: With respect to the third point in your statement, you say that the BIF group:

> —are presently engaged in a borrowing operation with American banks which involves the giving of an option on 10 per cent of the total shares of the Bank of Western Canada and various arrangements designed to tie the management and operations of the Bank to the operations of these Americans banks again contrary to statements made when applying for a charter.

Which one of those things are—or are they all—contrary to the statements which were made when applying for a charter?

Mr COYNE: There are chiefly two things perhaps. In the first place, although I cannot quote chapter and verse, my own recollection of proceedings before this Committee and the Senate Committee is that some people wondered whether there was any chance this group was either fronting for a group of American banks or somebody else, or might later sell out to a non-resident, and we endeavoured to assure the committees that was not so; we had no such intention and would not do it.

Mr. WAHN: Was there any suggestion at that time that under no circumstances should any shares of the bank be sold to non-residents? For example, under the present bill it is contemplated that up to 10 per cent of the stock can be held by non-residents.

Mr. COYNE: It is open to non-residents to buy shares on the open market, and there was no suggestion at that time that this should be prevented. However, in our presentation we laid a great deal of stress, particularly before the Senate Committee, on the fact that the original subscription certificates which were sold almost entirely in western Canada were not transferable to non-residents at all.

Mr. WAHN: I understood you to say that undertaking was carried out.

Mr. COYNE: Yes.

Mr. WAHN: Would you go so far as to say some undertaking or commitment was given to Parliament or to the Committee that the BIF group would never sell any of its shares to non-residents? I can understand that they would have given a commitment not to sell control of the company, but we are talking here I gather, about a 10 per cent interest.

Mr. COYNE: This is a situation which has arisen before they have even finished paying for the shares they were acquiring. That is rather different, perhaps, to waiting for five or ten years, or something of that sort. I do not say there was a commitment never to sell their shares. They have to have freedom to dispose of investments.

Mr. WAHN: Do you believe the statements made by Mr. Stevens were true at the time he made them?

Mr. COYNE: Yes.

Mr. WAHN: They were not false at that time?

Mr. COYNE: I do not think so.

Mr. WAHN: And now we have the Bank of Western Canada Act and the Treasury Board Minute which really form the governing documents relating to the operations of the Bank of Western Canada.

Mr. COYNE: I do not think they absolve the sponsors of the bank from the statements they made.

Mr. WAHN: Not even if made in good faith at the time?

Mr. COYNE: Of course not. They were made in good faith at the time, but the fact that something was put into the Act or the Treasury Board Minute does not mean that they are now free to do anything they like, governed only by those provisions instead of by their original assurances.

Mr. WAHN: Are you suggesting that what is said in the course of a Committee inquiry is binding and definite in the future, no matter how the circumstances may change?

Mr. COYNE: I do not know about that but certainly, in the spirit in which I made those assurances, I consider them binding.

Mr. WAHN: What did you feel was the specific thing which violated the spirit of the commitments given by you and Mr. Stevens to parliament? Was it the offering of an option of not more than 10 per cent of the shares to American interests, or was it the management arrangements; just what was it?

Mr. COYNE: It was the whole complex. It was all part of the same picture and I do not think you can pick out individual elements of it and say, that would have existed without the other elements.

That brings me to the second point I was going to make in answer to your question and that is a proposal which involved telling American banks even before they asked—going around offering it to them—that they could have special privileges and special arrangements of some sort with the Bank of Western Canada provided they did something, not just for the Bank of Western Canada, but for this particular group of majority stock holders.

Mr. WAHN: You could very well consider that rather irregular. When did you first hear of these negotiations with the Americans?

Mr. COYNE: Negotiations of some sort—the idea that a loan might be obtained by these companies from American banks and/or Canadian banks—were talked about from time to time over the last six months, but this particular feature of it and the tie-in with the Bank of Western Canada were not made known to me until Wednesday, February 1.

Mr. WAHN: This particular feature was tied in with the Bank of Western Canada. What was that? Do you mean the sale of the 10 per cent interest?

Mr. COYNE: Yes, and the other arrangements which were contemplated as I have outlined.

Mr. MACKASEY: Can I ask a question here, Mr. Wahn?

The CHAIRMAN: If Mr. Wahn will yield.

Mr. MACKASEY: I am trying to get it precisely as you said, Mr. Coyne, something particular for these major shareholders. Are you stating the reason these people have approached American interests to turn over 10 per cent of the shares of the western bank is, not to help the western bank, but to obtain funds for the B.I.F. group?

Mr. COYNE: Yes, that is right.

Mr. MACKASEY: Thank you.

Mr. WAHN: Just to be sure I heard you correctly, Mr. Coyne, did you say that prior to February 1 you had no knowledge of information that the BIF group was thinking of selling some shares in the Bank of Western Canada to American interests?

Mr. COYNE: That is correct.

Mr. WAHN: And for entering into any management arrangement with them? You heard this for the first time on February 1.

Mr. COYNE: No, nothing in the nature of an arrangement connected with financing in this way. We had been told by several people in the BIF group that they thought the way the Bank of Western Canda should operate was to make connections with some American banks they would name for us, with a view to showing us how to run a bank in Canada, suggestions which I did not think were very well founded.

Mr. WAHN: I can see why you might take exception to that as President and the responsible operating officer of the bank.

Mr. COYNE: From the management point of view we want to have relations with American banks, and for some purposes we have to have relations with American banks, but we want to choose them for ourselves for the maximum advantage of the Bank of Western Canada and, in many cases, they will be western American banks operating in the part of the United States nearest to our field operations.

Mr. WAHN: There is a policy difference here. Is there anything in this proposal which you heard of on February 1 which is contrary to the charter of

the Bank of Western Canada or to the Treasury Board Minute, or even to the proposed new banking bill on which this Committee is spending so much time?

Mr. COYNE: Everybody who has to consider that matter will have to form his own opinion of it, but I would say that when you are forbidden to borrow from a bank, but you seek to have that bank make some arrangement to your advantage with somebody else who is going to lend to you, you are trying to go in by the back door where you are forbidden to go in by the front door.

Mr. WAHN: I am not sure I follow that, Mr. Coyne. It is too involved for a simple lawyer. I wonder if I could ask you to restate that.

Mr. COYNE: When you are forbidden, or not allowed, or it is improper for you to borrow directly by going in the front door,—

Mr. WAHN: Who is "for you"? The BIF group?

Mr. COYNE: The BIF group. Then it is not a desirable thing, or something the bank itself or the sponsors of the bank should be proud of, to say that we will go around to the back door and make some other kind of arrangement based upon an ulterior motive, which is to have the bank do something for the benefit of American banks in order that those American banks, in turn, will do something for the benefit of the BIF; namely, lend them money.

Mr. WAHN: It is quite apparent that as long as you are president and chief executive officer of the Bank of Western Canada, no such irregular transaction could be carried out. Is that right?

Mr. COYNE: It had already been made. I was also a director of the companies that were making this arrangement with these American banks.

Mr. WAHN: So long as you are president and chief executive officer, backed up by the majority of the board of western directors who hold the same views as you do, no irregular transaction can be carried out. If the other directors are suborned and you find yourself in a minority and you think the transaction is irregular, then your duty, I presume, is to resign and this would be a resignation as president and director of the Bank of Western Canada. This is what puzzles me. Why did you decide to resign? If you felt that there was a real danger of this transaction going through, why did you not resign as President and director of the Bank of Western Canda, rather than just making a public statement and then resigning as director of these other two companies? This is the thing that puzzles me, quite frankly.

Mr. COYNE: I dare say it would have suited some people very nicely if I had done that, Mr. Wahn.

Mr. WAHN: But that is not quite an answer to my question because I have no preference, one way or the other.

Mr. COYNE: I am not finished with my answer yet. I was also a director and the Chairman of the Board on one of the BIF companies that apparently was making these approaches to these American banks and entering into these arrangements, and I could not let those American banks or anybody else think that I was going along with that sort of thing, or approving of it, or staying on a board which would do such a thing.

I told the directors of those companies that there were three good reasons why they should not enter into any such transaction. In the first place, it was their duty as directors not to borrow money which they had no reason to believe they could pay back. In the second place, it was their duty as directors of that company not to borrow money from someone to whom they had not made disclosure of relevant facts which, if disclosed, would have resulted in no loan being made. In the third place, if there was an ulterior purpose behind it which had only come to light, they were very wrong to be doing it in that way.

For all those reasons, after all the rest of the things I had been through and the trouble we have had with these people in the last few months, that was the final point at which I said, I shall resign and resign immediately.

Mr. WAHN: This is what triggered your resignation, in other words?

Mr. COYNE: Yes.

Mr. WAHN: The rest is just background, really.

Mr. COYNE: When you say it is just background, do you mean it does not count; that it is of no importance?

Mr. WAHN: No, it was a cumulative effect. This was the straw that precipitated your resignation. When you decided to resign and issue a statement like this, did you consider the effect it would have on financial institutions forming part of the BIF group and on public confidence? I gather you feel that their assets exceed their liabilities. Nevertheless, this type of thing, I would think, is bound to affect the confidence of the public in the financial institutions within this particular group.

Mr. COYNE: Mr. Wahn, do you suggest that a director should never resign in those circumstances?

Mr. WAHN: No, I do not suggest that. You did consider the damage that would be done to the companies?

Mr. COYNE: I did not know whether my resignation would do any damage. Certainly it would not do as much damage as would be done by the transactions that were being entered into and the knowledge that would ultimately become public about them.

Mr. WAHN: The nature of the public statement is what did the damage, not the mere resignation.

Mr. COYNE: It was the nature of the facts behind the public statement that did the damage, if there was any damage.

Mr. WAHN: Let us put it this way: you must have known, with your background, that great damage would be done to these companies and to public confidence in them as a result of what you did.

Mr. COYNE: I was not worried so much about what would happen to the particular companies immediately concerned because I considered it a duty—and I feel that all the directors had a duty—not to countenance the sort of thing that was being done. I was rather disturbed about the possibility that other innocent companies, even companies within the group, might be adversely affected by the repercussions of this matter. I gave a great deal of careful thought to it and had been doing for some time.

Mr. WAHN: Under these circumstances and knowing, I think, that great damage would be done, what efforts did you make to resolve your differences with Mr. Stevens?

Mr. COYNE: I have been making efforts for six months to see whether I could get through to him the objections I had to the kind of transactions he was proposing to enter into and the kind of management he was providing. I just had to conclude at a certain stage that there was no use trying to get through to him any more. He knew my views perfectly well; he had heard them over and over again.

The CHAIRMAN: Mr. Wahn, Mr. Coyne's use of the word "conclude" has drawn to my attention a note from the Clerk, who is keeping track of the time, indicating that your period of questioning has expired.

Mr. WAHN: May I ask one final question?

The CHAIRMAN: Yes.

Mr. WAHN: You recommend to this Committee—and this is a matter of prime importance, Mr. Coyne—that we should consider deleting the provision which would permit new banks to have more than 10 per cent held in single ownership for a limited period of time. It is very difficult to get a new chartered bank off the ground; we have only seven or eight after 100 years. Do you not think it would inhibit the formation of new chartered banks if no group were permitted to own, for a limited period of time, more than 10 per cent of the stock?

Mr. COYNE: That is not what I said, Mr. Wahn, I did not say that it should not be allowed to own the stock. I said the Act should be worded in such a way that they would not be able to exercise voting control.

Mr. WAHN: Well, whichever it is.

Mr. COYNE: I think it is rather different.

Mr. WAHN: Would you say, then, that it would not inhibit the formation of new chartered banks if you put a provision in the Act that no one person could exercise voting control over more than 10 per cent of the stock?

Mr. COYNE: It might inhibit some people from proposing to start a chartered bank. I hope it would not prevent other people from doing so.

Mr. WAHN: Thank you very much, Mr. Chairman.

The CHAIRMAN: I now recognize Mr. Coates.

Mr. COATES: First of all, I would like to get a couple of further explanations from Mr. Coyne on some questions that have been answered. When Mr. Munro was questioning you on your press statement, you said that there were those three reasons and other reasons for your resigning from the directorships of companies in the BIF group. I wonder whether you would mind giving the other reasons to the Committee.

The CHAIRMAN: Could I interrupt to ask the guidance of the Committee on whether or not they feel that matters not related to the Bank of Western Canada and to the banking system generally are included in the general legislative purpose of this Committee at this time?

Mr. COATES: Mr. Chairman, on the point of order, we have been sitting here now for two and a half hours and during that two and a half hour period there has been a byplay back and forth between the Bank of Western Canada and the BIF group of companies. After that period of time are you asking for a point of order on it?

The CHAIRMAN: No, but up until now we have not gone into the area which covers what I gather to be some reasons Mr. Coyne had for resigning from positions he has held on the board of the BIF group of companies which are unconnected with the relationship between these companies and the Bank of Western Canada. If I misunderstood what Mr. Coyne had to say in that regard, that is a different matter. But I understood him to say that his resignation from the board he was on for the BIF group arose out of two sets of reasons; one set linked with the operations of the Bank of Western Canada and the links of the bank with the BIF group, and another set having to do principally with the BIF group itself. It is with respect to questions dealing with the latter set of reasons that I am raising a question at this time. Mr. Coyne, did I interpret your earlier remarks correctly?

Mr. COYNE: Yes.

The CHAIRMAN: I invite some comment from the Committee on whether we are straying further afield than we should at this time with respect to the second set of reasons.

Mr. LAMBERT: The Bank of Western Canada is now impossible.

Mr. FULTON: I think your point is well made, Mr. Chairman.

The CHAIRMAN: I have invited comments from the Committee and I have noted those from Mr. Fulton and Mr. Lambert. I would be happy to accept others, but these seem to support the view I have taken. I am not saying that in another context those questions might not be useful, but I suggest perhaps you may want to limit your questions to the area of the Bank of Western Canada.

Mr. MACKASEY: On a point of information Mr. Chairman, what did Mr. Coates ask that deviates from what you think should be the line of procedure this evening?

The CHAIRMAN: When we began our hearings earlier today, several members—I cite principally Mr. Lambert and Mr. Cameron—made comments indicating that in their view the questioning should relate to the order of reference of the House of Commons which puts this legislation before us. As I summarize what they had to say and add my own view as Chairman, the questions should relate to the legislative purpose of studying and reporting on the various bills referred to us by the House. The Committee seemed to be in agreement with that. I indicated I would try to keep the questioning within that ambit, although I realized the difficulties and I would not attempt to analyse every last sentence or clause. This is the basis for my interjection at this time.

Now, to carry on a bit further, I think Mr. Coyne made clear this warning that he resigned from the BIF group of companies for two separate sets of reasons; one arising out of the links of the BIF group with the Bank of Western Canada; the other set relating strictly to the BIF group itself. I understood Mr. Coates desired to ask questions about the latter group of reasons—and if I am

mistaken I should be happy to apologize—but it is my view that insofar as questions relating to the second group of reasons, are concerned, we are straying a bit further than we should.

Mr. COATES: Perhaps I had a misunderstanding from what Mr. Coyne said. I had not assumed that the others reasons referred to when he was being questioned by Mr. Munro were not associated with the Bank of Western Canada. Am I now to assume that the reasons in the press release are those reasons which you associated with the Bank of Western Canada and the other reasons were not?

Mr. COYNE: My first paragraph indicated I have resigned from the boards of these companies

> as I no longer have confidence in the management or policies of those companies.

The second paragraph read:

> In particular, in their relations with the Bank of Western Canada

and so on. The third paragraph gave further amplification of what was in the second paragraph.

Mr. COATES: Yes, but I am asking you now whether these are the reasons, and there are no other reasons, for your resigning from the boards of directors of these companies insofar as your association with the Bank of Western Canada is concerned. Is that correct?

Mr. COYNE: I think I would have resigned from the boards of these companies even if I had not been connected with the Bank of Western Canada.

The CHAIRMAN: Mr. Coates, would you like to continue?

Mr. COATES: A statement you made when being questioned by Mr. Wahn was to the effect that in dealing with the United States banks, one of these companies had no reason to believe the loan which they were endeavouring to secure could be paid back.

Mr. COYNE: They had no idea at the time how they would obtain the funds to pay off that new debt when it came due. They did have assets which they could endeavour to sell and probably they should have started endeavouring to sell those assets a good many months ago. But at the time they were proposing to borrow they did not know whether they could or could not sell those assets.

Mr. COATES: Was this company York Trust and Savings Corporation?

Mr. COYNE: No.

Mr. COATES: I now have a little different line of questioning, Mr. Coyne. To your knowledge have any actions been taken by anyone to remove you as president of the Bank of Western Canada?

Mr. COYNE: No, I do not know of any actions taken except the suggestion made to me by one of the directors of the BIF that someone who knew more about banking than I did and was superior in status in the banking world to our general manager should probably go in there as president and I should take some other position.

Mr. COATES: When was this suggested to you?

Mr. COYNE: I do not know if it was on February 1 or a little earlier than that; I cannot recall.

Mr. COATES: It was after the December 16 meeting?

Mr. COYNE: Yes.

Mr. COATES: It was possibly two days prior to your resignation?

Mr. COYNE: I am afraid I would have to conjure my recollection on that. There were so many of these discussions and that particular one is perhaps, not terribly important. I cannot put the date on it; it was very recent.

Mr. COATES: Do you mind identifying the individual?

Mr. COYNE: No, it was Mr. Bell.

Mr. COATES: It was Mr. Bell and this was the only indication you had?

Mr. COYNE: Yes.

Mr. COATES: I would now like to refer to your initial statement with regard to deposit insurance provisions under the Bank Act. I believe when some one asked if they had any reference to the Bank of Western Canada, you replied that they did not.

Mr. COYNE: In this way, Mr. Coates: I think deposit insurance is a good thing and that all banks should come under it. It is a particularly good thing for new banks and small banks, not so much to insure their own deposits, but to insure the deposits of other financial institutions; if they got into trouble, there might be adverse consequences which would affect the Bank of Western Canada because the new bank was a small bank; the ripples spread out.

Mr. COATES: In 1965 the province of Ontario came to the rescue of depositors of British Mortgage and Trust by guaranteeing something like $3 million in loans if they were needed. In view of your position as chairman of another BIF company, the York Trust and Savings, which is also a trust company of the province of Ontario, do you have any knowledge of any provincial guarantee or intervention at this time of similar nature?

The CHAIRMAN: May I interrupt again at this time? Perhaps, Mr. Coates, you might indicate how this relates to the subject matter of inquiry at this time?

Mr. COATES: In view of the fact that Mr. Coyne is chairman of the York Trust and Savings Corporation—and you still are chairman of that corporation?

Mr. COYNE: No.

Mr. COATES: You resigned from that company earlier?

Mr. COYNE: No, at the same time.

Mr. COATES: At the same time. It was not stated in the press release.

Mr. COYNE: It is not stated, no.

Mr. COATES: But you did this on February 3, as well?

Mr. COYNE: February 1.

Mr. COATES: I see. Was this one of the reasons why you resigned from York?

The CHAIRMAN: I feel I must intrude again. You want Mr. Coyne to indicate what you were asking before, whether the problems with York Trust and Savings and the government of Ontario and so on, were the reasons for his resigning. I think this is an area which the Committee seems to agree is not one we should be going into.

Mr. COYNE: I think I should just say, to prevent misunderstanding where it might do harm, that by the time I resigned from York Trust they had a new president of whom I strongly approve, and from what I have seen I think the policies he is applying there are very good. I did not resign from York Trust because of any apprehension about their management or their policies from that point on.

The CHAIRMAN: Thank you, Mr. Coates. Mr. Lind, I was not clear before whether you merely had a supplementary question or whether you wished to take a regular turn. If so, this would be the time when you would be recognized.

Mr. LIND: Mr. Chairman, I wished to ask a supplementary. There were no minutes of the December 16 meeting when the request for accommodation was presented by the BIF group. Is that right?

Mr. COYNE: There were minutes of the meeting but the minutes did not record that request.

Mr. LIND: What was the amount of this accommodation, $1.3 million?

Mr. COYNE: Apparently, yes. The figure was based on 10 per cent of the bank's capital and reserves.

Mr. LIND: What did you understand this $1.3 million was to be used for?

Mr. COYNE: I have dealt with that question already, sir. There was nothing specific said in that connection.

Mr. LIND: Was there any chance of it being used to purchase the $1,450,000 worth of shares outstanding on this pledge?

Mr. COYNE: I suppose there was always a chance. I am not sure whether or not it would have come to pass quickly enough to meet the date which was being set for that purpose. I do not think it was specified in any way what the funds would be used for if they were drawn.

Mr. LIND: Thank you very much.

Mr. MUNRO: May I ask a supplementary question?

The CHAIRMAN: Yes, I will accept your supplementary question at this time following which I will recognize Mr. Mackasey, Mr. More, Mr. McLean followed by Mr. Grégoire.

Mr. MUNRO: Mr. Coyne, in answer to questions by Mr. Wahn, I believe, you were talking about the BIF doing something indirectly which they are prohibited from doing directly. You talked about the borrowing of money from United States banks, or interests in the United States. I do not believe you ever mentioned the amount involved. Did you ever have any information of just how much money this group intended to borrow from across the border?

Mr. COYNE: Yes.

Mr. MUNRO: How much was that?

Mr. COYNE: I am not sure whether it is appropriate for me to answer that.

The CHAIRMAN: This borrowing was to be by the BIF group?

Mr. COYNE: Yes, for their purposes.

Mr. MUNRO: It is my understanding that they indicated they would be prepared to give a stock option to these same interests for 10 per cent.

Mr. COYNE: The total line of credit in question was to be $2.5 million.

Mr. MUNRO: Thank you, Mr. Chairman.

The CHAIRMAN: I now recognize Mr. Mackasey.

Mr. MACKASEY: Mr. Chairman and Mr. Coyne, my questions will be very brief and I apologize if I repeat some of the questions that were asked today. I could not be here this afternoon and I apologized in advance. Just to clarify in my own mind the statement which you issued on February 3, I might read it back to you. Referring to these particular groups it reads:

> They are presently engaged in a borrowing operation with American banks which invo ves the giving of an option on 10 per cent of the total shares of the Bank of Western Canada and various arrangements designed to tie in the management and operations of the Bank to the operations of these American banks, again contrary to statements made when applying for a charter.

In other words, they were doing this for their own particular benefit and not for any particular benefit of the Bank of Western Canada?

Mr. COYNE: Yes, that was my feeling on the subject.

Mr. MACKASEY: As late as March 8, 1966, Mr. Stevens said before the Committee—and I will read this little paragraph to you:

> The other point I would like to mention, Mr. Horner, in connection with your suggestion that there be some interrelationship between our other trust companies and the Bank of Western Canada, is this. I think, as was mentioned in evidence earlier, there certainly is no proposal or suggestion in our mind that the Bank of Western Canada, in fact, would become the banker to the group. I can assure you this will not happen.

This was stated by Mr. Stevens on March 8, 1966. In your opinion Mr. Stevens and his group have been acting directly contrary to this statement?

Mr. COYNE: Yes, they have been making suggestions and urging me and the bank to do things of the sort which, in my opinion, contravene those assurances.

Mr. MACKASEY: This next question will be c'ear to you only when you read back what you said earlier in answer to Mr. Wahn. At the time, Mr. Wahn, in asking a question, mentioned that you had the support of the majority of the western directors. It referred to irregular transactions. Am I not correct in saying that you would not be a party to any irregular transation whether you had the support of the majority or not?

Mr. COYNE: That is true; on the other hand, I certainly hope and desire to have time to see that there was a majority of people who thoroughly understood the situation so that it could be dealt with effectively then and in the future.

Mr. MACKASEY: Mr. Coyne, this, again, is probably a question that has been asked many times, but I would like to get the answer so that I can study it tonight.

You resigned on the 1st of February?

Mr. COYNE: Yes.

Mr. MACKASEY: When did you first think of resigning from the BIF group?

Mr. COYNE: I do not know. The matter came up in several different ways. I moved from Toronto to Winnipeg last June mainly in anticipation of the setting up of the Bank of Western Canada although if the charter had not passed Parliament I still, I think, would have stayed in Winnipeg. There obviously always was a possible conflict between holding directorships on the bank and on these major shareholding companies and that at sometime that would have to be resolved. Indeed, in the Bank Act, it says that you must resign within two years after the day on which the ceiling on bank loan rates is abolished. What the connection is, I do not know, but at some stage in the future everybody will have to resign, either from the bank or from these other companies.

Mr. MACKASEY: Therefore, you may have resigned for very normal legitimate reasons under normal circumstances?

Mr. COYNE: At some time I would have. On the other hand, I did not want to be precipitate about that for the reason that was being suggested by Mr. Wahn.

Mr. MACKASEY: In your statement there are two paragraphs, one which I think was read earlier and which says that you no longer have confidence in the management or policies of those companies, which is only of passing interest to us. Would you have resigned strictly on the substance in paragraph 2, which I will read to you:

> In particular, in their relations with the Bank of Western Canada (in which they have voting control through stock holdings), they appear to have forsaken principle for expediency, and their image is doing a disservice to the Bank of Western Canada.

Mr. COYNE: With the amplification given in the third paragraph, yes, that would have been sufficient to make me resign.

Mr. MACKASEY: Thank you, Mr. Chairman.

The CHAIRMAN: I now recognize Mr. More, followed by Mr. McLean, Mr. Grégoire and also Mr. Latulippe.

Mr. MORE: Mr. Chairman, many of the questions I had in mind have been put.

I would like to clarify, if I can the reason for Mr. Coyne's choice of February 1 as the date for resigning his connections with the BIF group.

As I understood it, Mr. Coyne, you had been aware for some six months of their exploring the American market for finance?

Mr. COYNE: Yes.

Mr. MORE: This in itself did not disturb you? There was nothing abnormal about this group seeking funds in this manner at this time?

Mr. COYNE: So long as it did not involve the Bank of Western Canada; however, the situation was changing in many ways, as well.

Mr. MORE: But as long as it did not involve the Bank of Western Canada the seeking of these funds by this group was a perfectly legitimate, normal business operation?

Mr. COYNE: I would have said so, under normal circumstances.

Mr. MORE: I would like to leave that at the moment and proceed to other points.

In answer to some questions from Mr. Wahn and others you talked about actions of the management of the BIF that occurred during a period, being unacceptable to you. I do not want to ask you for the reasons. I want to make the point, though, that although you were aware of these situations you still remained in your positions with these companies until February 1. This is correct?

Mr. COYNE: This is correct; but, of course, the situation was changing in many ways all during that period. If you were to ask why did I not resign a week before, a month before, or two months before, or somebody else were to ask why I did not wait because I did damage by resigning even on February 1st, or why I did not wait for a week, a month, or six months, my answer would be that I am a human being and I had to make a very difficult decision. I did not want to rush into it, but when the time came I felt I had to make it.

Mr. MORE: Mr. Coyne, I know my questions are not exactly yes and no questions; your are not exactly anticipating, but you are enlarging on your answers to the questions I have put.

The point I want to make is that these things are admitted, and you agree that I have put the case properly, but the fact is that, as I understand your evidence and your press release, what brought about you resignation was not these things at all because you had not resigned on account of them, but the fact that you finally learned in that the negotiations for the money from the banks in the States they had given an option on Western Bank shares to these banks. It was this that prompted you to choose that time to resign, was it not?

Mr. COYNE: You have put a long question and statement and I cannot give a Yes or No answer.

Mr. MORE: I wanted to make the statement clear.

Mr. COYNE: First, I would like to say that there was a cumulative effect of quite a number of developments, and, secondly, as you have said, the final development which occurred on February 1st was such that I felt, "I cannot stay any longer. There may be reasons why I should stay on under some circumstances, but this is too much. I must leave now." It was not just the one thing you picked out, but the whole business of the fact that they had been canvassing American banks and offering them this kind of special arrangement with the Bank of Western Canada, which had only come to fruition, apparently, very recently.

Mr. MORE: Do I understand from your statement that they have obtained the line of credit and that it is with the option on the shares of the Bank of Western Canada?

Mr. COYNE: So said the man who was negotiating this in New York on behalf of the companies, and who came to the meeting of the boards on February 1st.

Mr. MORE: You were informed on February 1st that negotiations for the line of credit had been concluded and that the agreement involved an option by the BIF group to this bank—

Mr. COYNE: And other suggestions about how the Bank of Western Canada would participate in various kinds of transactions with the American banks.

I was told as early as January 13 that a favourable reception had been received from these banks in New York. I frankly did not believe that, in fact, any loan would develop from that, because I did not believe any bank in New York or elsewhere would make a loan under those circumstances if it knew the facts. It was not until February 1st that I learned what special reason might be that, in fact, had led these banks, as the man from New York said, to provide a line of credit.

Mr. MORE: Would it be fair to ask, Mr. Coyne, if, during the period of six months or so when things were building up and these events were taking place, at any time these events were of such a nature as to involve the integrity of the deposits or the moneys invested by the general public in these companies?

Mr. COYNE: I am not sure that I understand that.

Mr. MORE: In a statement with regard to York Trust you said that you had confidence in the new management and their policies.

Mr. COYNE: Yes.

Mr. MORE: During the period you referred to, when you were having your quarrel and your disagreements with Mr. Stevens and the management of the BIF group in regard to unmentioned problems because they are outside the scope of this Committee at no time were they of such a nature as to involve a lack of confidence in their ability to meet their obligations and the protection of the general public who had invested in them?

Mr. COYNE: I have said that in my opinion these deposit-taking institutions have a large surplus of assets over liabilities, and these assets are sound assets. There could have been other questions on whether they were being maintained in sufficiently liquid condition and whether at any given moment they were operating from day to day in the right way, but the basic position was as I have stated, and it still is.

Mr. MORE: Therefore if their position is sound, whatever the problems were they were not of a nature such as to cause you to resign?

Mr. COYNE: Insofar as you are relating it to a particular type of circumstance, you are right.

The CHAIRMAN: Mr. More, I actually placed a limit on Mr. Coates when he was asking this type of question, and I think in fairness to him I should perhaps

interject at this point. I allowed the question to be answered because I felt that if it were left hanging in the air there might be drawn some inferences which ought not to be drawn. As I said, in fairness to Mr. Coates, I think we should perhaps try to relate our questions more directly to the Bank of Western Canada.

Mr. MORE: I was just trying to elicit whether Mr. Coyne's resignation, was, in fact, because of the interference with, or the apparent play of the BIF group on, the policies and development of the Bank of Western Canada.

Mr. COYNE: That is what appeared to me to operate most strongly on my mind, and to make it necessary for me to say that my primary responsibility was to the Bank of Western Canada.

Mr. MORE: This is the point I was trying to make. I did not want to get into the other matter to any extent.

Now, Mr. Coyne, I would like to deal with the $1,450,000, that has not been paid in subscriptions that were made, I take it, some three years ago. The intent was made in regard to these subscriptions; is this not so?

Mr. COYNE: Yes; I think a letter was written at that time.

Mr. MORE: And during the course of negotiations was any letter of renewed intent given by this company in regard to this subscription?

Mr. COYNE: That was done in September of 1966, I think.

Mr. MORE: In September 1966, they indicated by letter their intention—

Mr. COYNE: There was no bank to which to address the original letter, and if I am right in my recollection it was sent to the auditors who certified some figures in relation to the prospectus that was being put out; but after the bank received its charter the major subscribers, I believe, all signed a letter of subscription addressed to the bank.

Mr. MORE: And the defaulters were included in that group?

Mr. COYNE: Yes; a separate letter was sent by that company.

Mr. MORE: Am I right in saying that by public subscription they got $3 million which was not tied to this subscription but which was raised so that they could meet this subscription when it became due?

Mr. COYNE: If it became due.

Mr. MORE: If it became due; and the reason, perhaps, why it has not been paid is because during lengthy time involved in negotiations they had invested this money and they are not now in a liquid position in which they can meet this subcription? Is that right?

Mr. COYNE: That is correct; plus the fact that $700,000 of the liquid position they would need to meet that subscription was to be paid to them by British International Finance.

Mr. MORE: And this has not been paid by the British International Finance either?

Mr. COYNE: I believe that must be correct.

Mr. MORE: To what extent does the non-payment of this subscription inhibit your proceeding with the bringing about of the operation of the Bank of Western Canada?

As I remember the evidence, you said quite proudly that no group had ever received a charter with subscriptions in the amount that you had, and I take it that the subscription of this $1,450,000 is still larger by far than most other banks have when they get their charters. How much is this going to inhibit you. Why is the matter of the demand for this payment at once of such importance.

Mr. COYNE: If it is merely a matter of statistics, of whether we can get along on $11,500,000 instead of $13,000,000, of course we can. Still it is a smaller sum; it is a sum that was promised that was not paid; and it is an indication, in my mind, of certain attitudes which did not take the kind of steps that might have been taken to acquire liquid funds.

Mr. MORE (*Regina City*): Was your resignation on February 1 at all prompted by the backing of the western directors of the Bank of Western Canada? Did they make a request to you to resign?

Mr. COYNE: Individually they have been telling me for some little time that they thought I should resign from the other companies and establish the fact that I was representative only of the general shareholders, or the general public, or whatever way you want to look at it, and only a director of the Bank of Western Canada and not of the BIF companies.

Mr. MORE (*Regina City*): What was the date of the approval by the Governor in Council of your bank in Eastern Canada.

Mr. COYNE: You mean the certificate entitling us to commence business?

Mr. MORE (*Regina City*): Yes.

Mr. COYNE: It was dated December 8.

Mr. MORE (*Regina City*): And in fact within two months of that you had resigned from these conflicting positions?

Mr. COYNE: Yes.

Mr. MORE (*Regina City*): I would like now to turn to your remarks about deposit insurance. I am wondering if they were not misleading, at least to the public if not to the Committee, in that you mentioned the desirability of having this legislation quickly because of the collapse of Prudential. Do you suggest that the present proposed bill would in any way cover the situation of Prudential?

Mr. COYNE: No; what I meant was that the collapse of Prudential, though it was not a fiduciary institution such as a trust company or a mortgage company, registered and specially inspected and so on under provincial or federal law, had had an unsettling effect on general public sentiment and a number of people had expressed the fear that this effect would spread and that deposit-taking institutions might be affected by it. It semed to me that the best possible answer to that kind of potential danger would be to have the public authorities state firmly and promptly that deposit insurance, or some form of guarantee of depositors, was going to be a fact and indeed was informally to be accepted from that point

on; and that this would allay any possible public alarm and mean that things would be done in an orderly fashion.

Mr. MORE (*Regina City*): Do you feel that there is a public lack of confidence in our present chartered banks and in our large trust and loan companies?

Mr. COYNE: No, sir, I am referring only to the thoughts expressed by other people in various places—that there was a possible danger of a spreading of this feeling of unrest. I am not saying that I was talking this way.

Mr. MORE (*Regina City*): Do you feel that the proposed umbrella of the act is large enough in scope?

Mr. COYNE: I have spent a good part of my life thinking in terms of deposit-taking institutions and I really have not given much thought to bringing in other types of institutions.

The CHAIRMAN: I now recognize Dr. Mclean.

Mr. MCLEAN (*Charlotte*): Thank you, Mr. Chairman.

Mr. Coyne, banking has a great deal to do with confidence, has it not?

Mr. COYNE: Yes, I think so.

Mr. MCLEAN (*Charlotte*): Take, for instance, the City and District Savings Bank. It had a run on it the other day. Everyone knows that it is quite solid. These things can happen?

Mr. COYNE: Yes.

Mr. MCLEAN (*Charlotte*): When you and Mr. Stevens appeared before our Committee, you apparently had confidence in Mr. Stevens and the companies that he represented at that time.

Mr. COYNE: Yes.

Mr. MCLEAN (*Charlotte*): Apparently this confidence has deteriorated over the months, and you now find that you can no longer go along with him.

Mr. COYNE: Yes.

Mr. MCLEAN (*Charlotte*): On March 3, I quoted to you what Mr. Graham Towers said at the 119th Annual Meeting of the Canada Life Assurance Company:

> To my mind, some of the most interesting features of the economic scene in 1965 are to be found in the field of credit, both domestic and international.
>
> In Canada, bank deposits—the major component of the money supply—rose by 2 billion and 92 million dollars or 13 per cent in the year ended 30th November last.

Then he goes on to say:

> The offset for the increased deposits in recent times has been, in the main, bank loans.

Further, he says:

> To the extent that business activity is supported by unsound extension of credit, there is obviously a day of reckoning to be faced.

Do you not think that when you appeared here previously that was true, and that there was a day of reckoning? The day of reckoning is a little late now. Do you not think that you should at that time have faced the day of reckoning.

Mr. COYNE: Perhaps a wiser man would have Mr. McLean. I can only say that at that time I felt that things were going to be all right.

Mr. MCLEAN (*Charlotte*): That is the reason for my quoting that. I thought that the day of reckoning was coming.

Mr. COYNE: That was eleven months ago?

Mr. MACDONALD (*Prince*): On what page is that?

Mr. MCLEAN (*Charlotte*): It is page 116 of March 3, 1966.

Mr. Towers goes on to say:

> Of course, the whole object of the exercise was to suggest that we should try to profit in the future from the lessons of the past, and also to point out that the world is in a much better position to deal with such problems than it was thirty-six years ago. But to a generation of lenders, and borrowers, who have never had their fingers seriously burnt until very recently, it is hard to get such a message across.

When I was trying to put this message across everything looked lovely.

Mr. COYNE: Sir, I am not sure that we discussed it at that point, but I think I did mention then in this Committee that I thought deposit insurance was a desirable thing.

Mr. MCLEAN (*Charlotte*): I think a lot of concerns in Canada need deposit insurance.

Mr. COYNE: The public needs it.

Mr. MCLEAN (*Charlotte*): The public needs it; but the Bank of Western Canada is not a going concern yet, so they do not need it, do they?

Mr. COYNE: I am thinking now of the public interest and the environment within which the Bank of Western Canada will be operating when it opens its doors.

Mr. MCLEAN (*Charlotte*): Were you thinking of the companies that you have been associated with when you mentioned that you thought that we should have compulsory insurance?

Mr. COYNE: Sir, I first started to advocate that about 10 years ago, before I was associated with any of these companies.

Mr. MCLEAN (*Charlotte*): Again you say:

> We took special precautions to meet the argument that a new bank might fall under the domination of foreign interest and might sell out to foreigners. You took special precautions, but they were not good enough. It still happened, did it not?

Mr. COYNE: Yes; whatever happened, happened; you are making the point, not I.

Mr. MCLEAN (*Charlotte*): It seems to me that the Committee must conclude that you were taken in a bit.

Mr. COYNE: Do I have to make any comment on that?

The CHAIRMAN: Mr. Coyne, do you have any comment in reply to Dr. McLean's question? If not, I will invite him to proceed to his next one.

Mr. MCLEAN (*Charlotte*): I was just bringing out that it was a lack of confidence on Mr. Coyne's part, gradually developed over the months, that led to this situation; but when Mr. Coyne appeared here the financial situation was plainly to be seen by someone who was wise enough to look at it. We were in a period when this was going to happen. I think that Mr. Coyne, being a financial man of the first water, should have seen those things at that time.

Mr. COYNE: We had already had the Atlantic Acceptance and British Mortgage affairs a year earlier.

Mr. MCLEAN (*Charlotte*): It says here that Mr. Towers said:

> While all the facts behind the failure of Atlantic Acceptance and the related difficulties of other companies are not yet known, it is obvious that their lending and investment policies were unsound.

Mr. COYNE: They were worse than that; they were dishonest.

Mr. MCLEAN (*Charlotte*): Yes.

Mr. COYNE: There is no suggestion here that there is dishonesty involved in any of the present situations.

Mr. MCLEAN (*Charlotte*): This situation is merely a development of what was plain to some people at the time that the Western Bank charter was granted.

The CHAIRMAN: I now recognize Mr. Grégoire.

(*Translation*)

Mr. GRÉGOIRE: Mr. Coyne, do you not have the support of the majority of West bank directors?

(*English*)

Mr. COYNE: I think so, yes.

(*Translation*)

Mr. GRÉGOIRE: Mr. Coyne, you say there were $13 million worth of shares subscribed and paid up in Westbank, is this so, subscribed and paid?

(*English*)

Mr. COYNE: Thirteen million dollars.

(*Translation*)

Mr. GRÉGOIRE: Subscribed?

(*English*)

Mr. COYNE: Yes.

(*Translation*)

Mr. GRÉGOIRE: Of the $13 million of shares subscribed, how many of them are paid up?

(*English*)

Mr. COYNE: One million and a half are not paid.

(*Translation*)

Mr. GRÉGOIRE: Not paid, a million and a half worth of shares. And the only amount not paid is the amount subscribed by BIF?

(*English*)

Mr. COYNE: Yes.

(*Translation*)

Mr. GRÉGOIRE: Mr. Coyne, supposing you gave the required notice and succeeeded in having this $1,450,000 worth of shares subscribed and not paid up, declared non-voting shares. In other words if the normal voting right was withdrawn from the shares, BIF would no longer have a majority?

(*English*)

Mr. COYNE: This is a matter for the lawyers. We have not yet received an opinion on the subject.

Mr. GRÉGOIRE: But you have asked for one?

Mr. COYNE: Yes.

Mr. GRÉGOIRE: Suppose they say that they cannot vote. The BIF group would no longer be the majority shareholder in the Bank of Western Canada?

Mr. COYNE: They would still be very large, of course. They would still have 40 per cent or something of that order.

Mr. GRÉGOIRE: But they would no longer be the majority shareholder?

Mr. COYNE: Not in total; but at a given meeting of shareholders they might be in the majority.

Mr. GRÉGOIRE: Would you be able to take control of the bank in that way?

Mr. COYNE: I?

Mr. GRÉGOIRE: Yes.

Mr. COYNE: No.

Mr. GRÉGOIRE: If you have a majority of directors supporting you would there be a mathematical possibility that you could take over the bank?

Mr. COYNE: I do not understand the phrase "take over the bank".

(*Translation*)

Mr. GRÉGOIRE: The complete control, I believe, as you said.

(*English*)

Mr. COYNE: May I say this; that the management of the bank is entrusted by statute to the board of directors, whoever they may be from time to time, and the board of directors can be changed by the shareholders once a year, or more frequently if they wish. This is done at a meeting of shareholders. And what happens depends on how the vote goes at that meeting. Now, if a great many

shareholders did not come to meetings and a great many shareholders did not send in proxies for voting, the people who had 40 per cent all in one hand would be in a very strong position.

(*Translation*)

Mr. GRÉGOIRE: But, what I would like to know, Mr. Coyne—since you have stated that you have the support of the majority of the directors of Westbank—if the $1,500,000 of shares were declared non-voting shares, would this give you a mathematical possibility, with what you know of the other shareholders, to take over the control of Westbank?

(*English*)

Mr. COYNE: The bank is controlled by the board of directors, and they now exist. The only question you raise is whether, at some shareholders' meeting, a change might or might not be made in the Board of Directors.

Mr. GRÉGOIRE: May I put it in English, Mr. Coyne? With the support help of all the shareholders, or the directors, if an amount equal to $1,450,000 were not voted, with the support you now have would that make it possible for you and your group to take over the control of the bank?

Mr. COYNE: I do not like the words "possible to take over the control of the bank". The directors now control the bank, and it is only a question of how, within the board of directors, decisions are taken.

Mr. GRÉGOIRE: Then, if the board of directors now controls the bank, and you have the majority of supporters, why does this situation exist? If there is a request for a loan by branches of the BIF group you just have to refuse it and there would be no problems. What was the problem at this point.

Mr. COYNE: You would have a very unhappy life, Mr. Grégoire, if you were president of a bank and a solid group of shareholders sold 40 per cent of the shares and were constantly pressing you to do things their way. You would never know but that at the next meeting of shareholders they might be in the majority.

Mr. GRÉGOIRE: That is exactly why I asked you. Suppose the $1 million shares are declared non-voting shares. Can you and the group supporting you take over control and appoint a board of directors of your choice?

Mr. COYNE: I do not know. That would depend on how the remaining shareholders voted.

Mr. GRÉGOIRE: Then you do not have to have the majority of them?

Mr. COYNE: There are 5,000 of them and I do not know how they would vote. All I have said is that a majority of the present board of directors has said that it supports the action I have taken in resigning from the BIF companies and issuing a public statement about it.

Mr. MORE (*Regina City*): Mr. Grégoire, can I ask one supplementary?

Mr. GRÉGOIRE: Yes.

Mr. MORE (*Regina City*): Mr. Coyne, can the directors of the bank be changed at other than an annual meeting?

Mr. COYNE: I think so, if another shareholder's meeting is called for that purpose and with notice given and notice calling the meeting.

Mr. GRÉGOIRE: Is it on a question of principle that you talk about this $1,500,000, or does the bank really need it?

Mr. COYNE: It is a question of principle, yes.

Mr. GRÉGOIRE: It did not cause a policy of tight money in the Bank of Western Canada?

Mr. COYNE: No.

Mr. GRÉGOIRE: Following that, Mr. Coyne, you resigned from the British International Finance (Canada) Ltd?

Mr. COYNE: Yes.

Mr. GRÉGOIRE: Is that a Canadian company?

Mr. COYNE: Yes.

Mr. GRÉGOIRE: Were you president of it?

Mr. COYNE: No; just a director.

Mr. GRÉGOIRE: Are there any British interests in the company?

Mr. COYNE: No, I do not believe so.

Mr. GRÉGOIRE: But it is called British International Finance. Is this better for financing—

The CHAIRMAN: Mr. Grégoire, I think that we are now straying into an area—

Mr. GRÉGOIRE: That was just going through my mind because I read the name of the company, Mr. Chairman. If I ever go into finance I will call the company "British", too, if it will mean that I will do better.

Mr. COYNE: I may say that the name of this company came before you in this Committee, and before the House of Commons report reached this committee, and before the Senate and their committee, several years ago, at a time when I was not a director of the company. The company has existed for some time. I did not go on the board of that particular company until a year ago.

Mr. GRÉGOIRE: You resigned from this company and from the York Trust?

Mr. COYNE: Yes.

Mr. GRÉGOIRE: Was this because you were dissatisfied with the operations of the company?

Mr. COYNE: Well, I specifically mentioned the British International Finance company and the Wellington Financial Corporation Limited in my statement. I did not make any statement about York Trust.

Mr. GRÉGOIRE: Because you were dissatisfied with the way it was going?

Mr. COYNE: Yes.

Mr. GRÉGOIRE: When you were dissatisfied with the policy of the Government of Canada and the way it was going you did not resign from the Bank of Canada. I would like to know what changed your course of action.

Mr. COYNE: Because I was potentially held responsible for the affairs of this company. I was not held responsible for the actions of the Government of Canada.

Mr. GRÉGOIRE: But you were held responsible for the actions of the Bank of Canada.

Mr. COYNE: Oh, for the Bank of Canada? I was in accord with the policy followed by the Bank of Canada.

Mr. GRÉGOIRE: The bank's money policy?

The CHAIRMAN: Mr. Grégoire, some arms of our Parliament explored this issue at some length a few years ago.

Mr. GRÉGOIRE: I was not there at that time, Mr. Chairman.

The CHAIRMAN: No; but I do not think that is justification for reviewing the whole issue at this point.

Mr. GRÉGOIRE: Now, I will take the second reason which you mention here where you say:

> ... they have attempted to get the Bank to provide credit to their own companies contrary to the most explicit statements made to the committees of the Senate and of the House of Commons.

In view of the fact that the Treasury Board had passed a regulation that this could be done provided you had the consent of the Minister of Finance, could that have been done without the consent of the Minister of Finance?

Mr. COYNE: No.

(*Translation*)

Mr. GRÉGOIRE: If the consent of the Minister of Finance is given, in view of the fact that Parliament gave the Minister of Finance the right to approve of Westbank granting loans to these BIF companies, was this not above and beyond the undertakings entered into with the Senate and House Committees, since the whole Parliament gave the Minister of Finance the right to make that rule?

(*English*)

Mr. COYNE: No, not at all. I do not think that absolved the directors of the bank of their responsibility, or of their duty, in any way. It was just that if they did decide that they wanted to do a certain thing it would require the further approval of the Minister of Finance. But the first thing he would ask would be. "What decision have you taken and what responsibility are you taking in the matter?"

Mr. GRÉGOIRE: But this would be contrary to the statements made to the committees of the Senate and of the House of Commons, because the whole of Parliament gives the Minister of Finance the permission to consent.

Mr. COYNE: Yes; but they did not expect him to consent to something that ran counter to an assurance, I am sure. Conceivably they thought that an extraordinary situation might arise some day in which Minister should have ultimate power of exemption. Now, I do not know what that would be. As far as I am concerned nothing has arisen that would have justified that.

Mr. MACKASEY: May I ask Mr. Coyne if he is aware of the statement of the Minister of Finance in the House of Commons yesterday, or the day before, on what actions he would have taken if the request had come to him?

Mr. COYNE: I have only seen the newspaper account.

Mr. MACKASEY: Do you not take the trouble to read *Hansard*?

Mr. COYNE: I have not seen *Hansard*.

Mr. MACKASEY: Have you any doubt in your mind on what he would do?

Mr. COYNE: I have no doubt in my mind about his being a man of his word, no.

Mr. MACKASEY: Nor have I. Thank you, sir.

Mr. GRÉGOIRE: Well, Mr. Coyne, I understood from your testimony that you felt that you were being personally engaged before the committee of the Senate and of the House of Commons because of statements you had made before those committees?

Mr. COYNE: Yes.

Mr. GRÉGOIRE: But afterwards the whole of Parliament gave the Minister of Finance the permission to consent to such loans by the Bank of Western Canada to the BIF group.

Mr. COYNE: Not really, no; Parliament did not do that.

Mr. GRÉGOIRE: They gave permission to the Minister of Finance to adopt some rules.

Mr. COYNE: Parliament did not. Parliament gave permission to the Treasury Board to lay down terms and conditions under which someone might hold more than 10 per cent of the stock of a new bank and, secondly under which someone holding more than 10 per cent of the stock might exercise voting rights in respect of it.

The Treasury Board order saying that certain things should not be done unless the Minister of Finance approved was completely unknown to me. I would have had no intention of doing any of those things at all, in any case, and I did not know that this was going to be in the Treasury Board order; and I am quite sure that Parliament did not, either.

The CHAIRMAN: You are not suggesting, Mr. Coyne, that the Treasury Board order goes beyond the scope of the legislation under which it was issued?

Mr. COYNE: No, of course not. I an inclined to say that it was a work of supererogation.

The CHAIRMAN: I think that perhaps you might elaborate on what you actually have in mind.

Mr. COYNE: Well, as far as I am concerned the responsibility that lay on me and on the other members of the board to observe the assurances given to Parliament was an absolute responsibility and did not need reinforcing by any direction to that effect from the Treasury Board.

Mr. GRÉGOIRE: But you agree that the Treasury Board—

Mr. COYNE: And since the Treasury Board did then reinforce it, I do not think that that absolved me of my own responsibility, or that it absolved the Board of Directors either.

Mr. GRÉGOIRE: But you agree that the Treasury Board had a right to pass such an order?

Mr. COYNE: I presume so. I do challenge the legality of it.

Mr. GRÉGOIRE: And it was passed in accordance with decision of Parliament. Do you still feel the same responsibility towards the Committee of the House of Commons?

Mr. COYNE: Yes, I do.

Mr. GRÉGOIRE: But the Treasury Board order came after.

Mr. COYNE: The treasury Board order did not absolve me of my responsibility. All it said was that if I exercised my responsibility in a certain way that was not good enough; that it also had to be referred to the Minister of Finance.

Mr. GRÉGOIRE: Yes; so the order of the Treasury Board gave the Bank of Western Canada the right to consent to some loans to the BIF group, provided they had the permission of the Minister of Finance?

Mr. COYNE: No, sir. They put it the other way round. They said that the Bank shall not make such loans except with the permission of the Minister.

Mr. GRÉGOIRE: They could make them if they had the permission.

Mr. COYNE: Insofar as the law was concerned. That is what the Treasury Board order was doing—laying down the law. I am speaking about responsibility.

Mr. MACKASEY: May I ask a supplementary question? Are you happy now that this was stressed in the Treasury Board, in view of the circumstances? Was this not a wise safeguard on the part of the government or Parliament.

Mr. COYNE: I do not question the wisdom or otherwise of it. All I say is that I am not going to use that as the excuse for saying that I will pass the buck to the Minister of Finance.

Mr. MACKASEY: But you may not be there next week.

Mr. COYNE: Quite so.

Mr. MACKASEY: In other words, this is a wise precaution?

Mr. Coyne: It could be.

Mr. GRÉGOIRE: But the fact that this order of the Treasury Board is there does not mean that you are absolved of all responsibility towards the Committee.

Mr. COYNE: I do not think it absolves me of responsibility at all.

Mr. GRÉGOIRE: I am surprised; because I think that if the Treasury Board passed such an order it was because they had the right from Parliament to do it. Nobody in Parliament, not even members of the Committee who were in Parliament, questioned the right of the Treasury Board to pass that.

Mr. COYNE: I have not questioned that. Let us suppose there is a law that says a thing must not be done unless both A and B consent to it. The fact that B has to consent to it does not absolve A of his responsibility.

Mr. GRÉGOIRE: No; but if he consents—

Mr. COYNE: Then he has carried out his responsibility surely.

Mr. GRÉGOIRE: And you had the majority of the Board of Directors.

Mr. LEWIS: He has to make the first decision.

Mr. GRÉGOIRE: Now, in the last paragraph you say:

> —there should be provision that no American bank shall be entitled to hold any shares in a Canadian bank, and certainly not any voting shares.

So that you would agree with the decision of the Minister of Finance that the First National City Bank should not have more than 25 per cent of the Mercantile Bank, and even that it not have a single share in that bank?

Mr. COYNE: No; I am not thinking of that special situation which is very much before Parliament. I am not presuming to speak on that. I am stating a general principle here which was born out of my experience.

Mr. GRÉGOIRE: Yes; but you say:

> —there should be provision that no American bank shall be entitled to hold any shares in a Canadian bank—

Mr. COYNE: Yes; well, I probably made too sweeping a statement; because I did not intend to be saying anything one way or the other about the Mercantile situation.

Mr. GRÉGOIRE: You would not include the Mercantile bank in this?

Mr. COYNE: I would prefer not to say anything about it.

Mr. GRÉGOIRE: You suggest something to the Committee, but now you are not ready to say anything about it?

Mr. COYNE: Yes; well, I am sorry, I would prefer not to make any comment on the special situation which you have before you in relation to the Mercantile Bank.

Mr. GRÉGOIRE: That is all, sir.

The CHAIRMAN: Thank you, Mr. Grégoire. This exchange between yourself and Mr. Coyne may give rise to some interesting speculation because there was some suggestion, either by yourself or by Mr. Coyne, about what you might do if you were ever president of a bank, and so on and so forth. This could lead to some very interesting pictures in the imaginations of those present.

I would now like to recognize Mr. Latulippe.

Mr. MACKASEY: Mr. Chairman, I would like to raise a point of procedure. Perhaps you could advise me on this. I am not clear about an answer by Mr. Coyne to a question posed by Mr. McLean. How can I rectify my possible misconception of the answer?

The CHAIRMAN: You may want to seek an opportunity to ask a supplementary question. This leads to another topic that perhaps we might discuss before I

recognize Mr. Latulippe. You may seek an opportunity for a second round of questions. Perhaps we ought to spend a moment or two on that before recognizing Mr. Latulippe on the general issue.

There are at least two other people besides Mr. Latulippe who have indicated that they wish to ask some questions and who have not had an opportunity to do so. In addition to yourself there is at least one other person who has already indicated that he wishes to have a second round of questioning. However, we have another witness, Mr. Stevens, who has not as yet had an opportunity to say anything to us about this particular question we have been looking into today. I think we may want to consider just when and how we are going to proceed.

I raise this at this time because very strongly uppermost in my mind, as I am sure it is in the minds of many other members of the Committee, is the fact that we are under some obligation to the House, and therefore to the Canadian people, to deal with the deposit insurance bill, which was referred to us at the end of last week, and also to complete our clause-by-clause consideration of the Bank Act, especially in view of the fact that I understand the Government is still proposing that the House prorogue on March 10.

In spite of the fact that we may think that we are doing some important work in this committee, we obviously still have to give the House and the Senate some oportunity to consider these two pieces of legislation. I am sure they will want to take some reasonable time for that purpose. Therefore, without making any specific suggestions, I may want to commend to the members of the committee and other members present, a course of restraint in asking further questions of Mr. Coyne, particularly if they cover areas that have already been touched on; and of course, of using the same restraint in questioning Mr. Stevens when his opportunity comes.

Secondly, I think we should give some immediate consideration to the possibility of sitting tomorrow and Thursday and Friday morning although not necessarily on this issue alone; I would not recommend that. By so doing, we will know where we are going, perhaps with a view to beginning our clause-by-clause consideration of the legislation in question at the beginning of next week.

It is my understanding that some of the opposition group particularly wish to take a few days to consider possible amendments before beginning clause-by-clause consideration of the banking legislation. At the moment we are not behind schedule, and that, of course, is why I and the steering committee willingly gave Mr. Coyne and Mr. Stevens the opportunity to appear before us today. At the same time, we have to keep in mind our general obligations.

I would just like to commend to the Committee for consideration, though we do not usually do it, that we sit tomorrow afternoon at 3.45 p.m. with a view to completing our questioning of Mr. Stevens. On Thursday morning we could hear the Minister; firstly, on any further comments he may have with respect to the Bank of Western Canada, and, secondly, to testify before us on the deposit insurance bill.

Mr. MONTEITH: Mr. Chairman, I feel very strongly that we should hear Mr. Stevens as soon as possible. Although Mr. Coyne has said that there is no question about the liquidity of these companies, and so on, I think probably all the publicity that there has been recently will not do them any good. I think we

should, as a consequence, give Mr. Stevens his opportunity on the witness stand just as soon as we possibly can.

Mr. FULTON: Perhaps we could sit an extra hour tonight and get the press straightened away. I am sure we are.

The CHAIRMAN: I certainly would be most willing to so recommend. We have done it on other occasions.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I would like to support what Mr. Monteith said. It may well be that after we hear Mr. Stevens the situation may not be improved, but apart altogether from the dispute that may exist between these two individuals, there are a great many others who have got a very direct financial interest in these particular companies.

We have heard a rather damning one side of the case from Mr. Coyne. I think we should, before business opens tomorrow morning, give Mr. Stevens an opportunity at least to respond so that there can be a more balanced judgment on the part of not only this committee but of the investing public generally.

The CHAIRMAN: Is it your suggestion that we suspend further questioning of Mr. Coyne for the time being and proceed immediately to hearing Mr. Stevens?

Mr. MACDONALD (*Rosedale*): Well, we have only got so much time left Mr. Chairman. That seems to be a statesman-like suggestion on your part.

The CHAIRMAN: With that description of it I will have to stick by it rather strongly, if the Committee is in agreement.

Mr. FULTON: There is just one other thing that I think should be cleared up. I understood Mr. Coyne to say that no part of his resignation from York Trust and those companies had anything to do with any doubts about their liquidity. I think we should have that clear on the record for Mr. Coyne as well.

Mr. COYNE: That was not the phrase used in previous questions, or the actual phrase that I used. I said that I was satisfied that they had a substantial surplus of assets over liabilities, and that their assets were sound.

Mr. MACKASEY: There is one question which has been bothering me. You said that this whole thing was not dishonest. How would you describe it?

The CHAIRMAN: Well, Mr. Mackasey—

Mr. MACKASEY: This is important, before we get to Mr. Stevens.

The CHAIRMAN: I am not saying your question is not relevant or important. However, I interrupted Mr. Latulippe to deal with what I thought was an important matter of procedure. Before considering your supplementary question I think we should reach agreement on what we propose to do.

Mr. GRÉGOIRE: Mr. Chairman, excuse me, when you look at the angle from which Mr. Fulton put it—the question of the liabilities of the companies—there is still a sentence here which is strongly phrased, where Mr. Coyne says:

> —as I no longer have confidence in the management or policies of those companies.

this has not been explained.

The CHAIRMAN: Mr. Grégoire, in the first place, I think the committee was in agreement with my suggestion that we were straying somewhat from our terms

of reference in trying to go into detail on the operations and management of the BIF group.

Secondly, I suppose Mr. Coyne would suggest that his first paragraph is governed, or limited to a large degree, by the further explanations in the balance of the statement.

Have I interpreted your analysis of your statement of your previous remarks with some success?

Mr. COYNE: I do not know that you ought always to be interpreting my remarks. I would rather that my remarks stood on their own language, Mr. Chairman, with all respect.

The CHAIRMAN: Well, that is fair enough. Of course, we do not have facilities to have the transcript of what you say before us as you are saying it.

Mr. GILBERT: Mr. Chairman, I would suggest that we stand Mr. Coyne down, subject to recall after Mr. Stevens has given his evidence, and that we sit tonight until 11.00 p.m.

The CHAIRMAN: I presume that Mr. Latulippe and Mr. Basford and our other colleagues would—

(*Translation*)

I would like to explain to Mr. Latulippe, that, to be fair to our witnesses, and particularly to Mr. Stevens, it might be advisable to stop our questioning of Mr. Coyne for the time being and give Mr. Stevens the opportunity to make a statement right now so that the Committee and the public might have a better idea of the whole problem.

Mr. LATULIPPE: Is Mr. Coyne to return tomorrow?

The CHAIRMAN: Maybe not tomorrow, but on another day as soon as the Committee will have decided. You will then have an opportunity to ask your questions, followed by Mr. Basford and Mr. Aiken. There are also others who have not had an opportunity to start their questioning.

(*English*)

Mr. BASFORD: Mr. Chairman, my questions related only to determining what Mr. Fulton has just determined, that the assets of York Trust exceeded its liabilities, so I am quite in favour of standing Mr. Coyne.

The CHAIRMAN: I gather that the consensus of the Committee is that we excuse Mr. Coyne for the time being, subject to recall, and that we invite Mr. Stevens to make a presentation to us at this time.

Thank you, Mr. Coyne.

Mr. MORE: Mr. Chairman, are we deciding now that we are going to sit until 11.00 p.m.?

The CHAIRMAN: Well let us go to 10.30 p.m. and see how we are progressing, we can then decide about continuing until 11.00 p.m.

Mr. Stevens, perhaps you could move over. It will be easier for the Committee if you are in the centre.

Mr. Stevens, you may begin.

Mr. SINCLAIR STEVENS (*Chairman of The Bank of Western Canada*): Thank you, Mr. Chairman. I particularly appreciate that the Committee has allowed me this opportunity, before the evening has run on any longer, to have an opportunity to speak to you concerning what we regard as unbelievably serious allegations which have been thrown against our group, namely the BIF-Wellington group of companies.

I first heard of these allegations when press reporters telephoned me in Toronto. I was startled beyond belief to hear the tone of the statements which were attributed to Mr. Coyne at that time.

Now, my position is somewhat different, perhaps, from that of Mr. Coyne, in this respect, that, on hearing these allegations, our immediate reaction was one of tremendous concern for the shareholders in our companies, and for the depositors and the other people who are connected with them, including the employees, who, we felt, had been put in a position that was totally unfair and uncalled for.

We have had many meetings of our boards and of our executives to discuss the tone of the allegations that Mr. Coyne has levelled against us. As Mr. Sharp mentioned in the House, I personally contacted Mr. Sharp, and prior to actually reaching him by telephone I sent a telegram stating:

> I am sorry I missed speaking with you at the Park Plaza yesterday, . . .

He was in Toronto over the weekend,

> . . . and I was unable to contact you by telephone this morning. But I wish to assure you that my associates and myself are more than willing to meet with you personally or to appear before any committee or other group that you may feel desirable to clarify or contradict statements which are attributed to Mr. Coyne in the press.

Now, I would emphasize that our first response was one of immediately coming to Ottawa and trying to clear this issue which we feel was totally uncalled for. We have indicated that at no time did we object if Mr. Coyne saw fit to resign from our boards, such as Wellington or BIF and, in fact he resigned from various boards—not only BIF boards—over the past months for his own personal reasons. I am referring to boards, such as the Timed Investment Fund, the Alberta Fidelity Trust, the Lambton Loan and Investment, and the International Savings. On all occasions his resignations did not result in press releases.

As far as we are concerned the serious aspect of Mr. Coyne's action has not been his resignation from the board. I think if he personally felt after being out-voted unanimously on those boards on issues which he had argued against, that he wished to resign; that, of course, was his privilege. But we were tremendously surprised to hear that he had gone to the press and made a statement in the form he did concerning this subject.

We were particularly surprised—and I would emphasize this—that this was done and his resignation tendered immediately following a meeting—there was no indication of a resignation during the meeting itself. But it was a joint BIF-Wellington directors meeting at which Mr. Bell, to whom Mr. Coyne has referred today, said to the chairman, who was Mr. Coyne, that in his opinion it

was unrealistic to assume that the BIF group having something around $6 million to be invested in the Bank of Western Canada, would not insist upon having an important say in the policy decisions in relation to the operation of the Bank.

Mr. Bell went on to say, however, that he wanted the chairman—that is, Mr. Coyne—to understand clearly that in making this statement it was to be understood there was no intention of the BIF group trying to obtain any banking accommodation from the Bank of western Canada in the foreseeable future.

Now, this was the February 1 meeting at which the banking resolutions which Mr. Coyne has referred to, were dealt with and at which Mr. Coyne cast the only negative vote against those resolutions. I am pointing out that it was clearly stated at this meeting that our group had no intention of borrowing or seeking banking accommodation from the Bank of Western Canada. Incidentally, there was no dissent at the meeting at all. In other words, there was no qualification of that statement.

We feel that the statements made by Mr. Coyne—and I certainly feel that most of you will agree having read the press—have caused as even the New York Times says:

> "The Canadian financial community has been rocked over the weekend by the allegations of Mr. Coyne."

I think this is terribly unfortunate. I think it is unfortunate for the reasons I have given in relation to the BIF company, to the Wellington company and to our group in total.

During our discussions in Toronto, and realizing the possible gravity and serious consequences that might arise from Mr. Coyne's statement, I entered into a voting trust agreement with respect to the common shares that I hold in British International Finance (Canada) Limited. The agreement, if you like,—this is my signed statement,...

Mr. MACKASEY: What is the date of it?

Mr. STEVENS: Today. The agreement is signed by myself and it reads: I wish to advise that I will transfer the voting rights to all of the common shares of British International Finance (Canada) Limited, which I personally control, in favour of an operating committee to be composed of five members, three of whom are to be Don Ross, who is our principal underwriter associated with Ross Knowles & Co. Limited; John Deacon, the Chairman of the Toronto Stock Exchange; George Dickson, a director on one of our companies and Executive Vice-President of Canada Packers—if they accept, and I understand they will accept—and two other members to be mutually agreed upon. Now, this action has been taken in order to try to minimize whatever impression is being created through the press reports and allegations that have been thrown out concerning the competence of the management of the BIF group.

I say this in two senses: First of all, I personally seem to be singled out for the brunt of the allegations and, in the second place, I believe some suggestion was raised in the House of Commons concerning my voting control in the BIF group of companies. So, I am simply mentioning to the Committee that we feel this is of a sufficiently serious nature that at all costs we have to minimize the possible effect of this concerning our entire group.

Having said that, I would like to emphasize that we feel Mr. Coyne's statements are totally uncalled for and that whatever personal feelings he may have concerning our dealings with the Bank of Western Canada in no sense could justify the type of attitude that he has taken and the press release—especially the form and terms of the press release—which as I have mentioned, was released totally without our knowledge. The first I heard that there had even been a statement was when Dow Jones phoned me in Toronto and said that they understood Mr. Coyne had resigned from two of our boards.

I say this, particularly bearing in mind, as most of you gentlemen probably have already done, some of the comments that have been made by Mr. Coyne before this Committee or the Senate Committee. I find it startling to sit at the same Committee table today—February 7—and hear Mr. Coyne state what he has stated, and yet, on March 3rd, 1966, before this very Committee he said:

> I am associated with them (meaning the BIF group) because they are competent, sincere people who are able to get things done. I do not think you will get banks established in any other way than by having some nucleus group who have to be originators, the controllers, and the organizers, and who will put a lot of time into it in the first instance.
>
> For ordinary commercial purposes, someone has to organize a company and someone has to control it in the early stages; and every other bank I know of was started in that way.

Now that, gentlemen, was March 3 of last year.

I can mention many other references during the hearing of a similar nature, where Mr. Coyne was indicating why he felt it was advantageous to have our group aid in the sponsorship of the bill incorporating the Bank of Western Canada.

I know there is an earlier quote, for example, as far back as May 6, 1964, when Mr. Coyne said:

> I thought that there was real value to our bank, to our community and to the interests of Canada in making sure that a sufficient volume of stock was closely held in strong hands of people experienced in the financial world, who had made a success of their own businesses, and who were strongly pro-Canadian.

Now, believe me, there is absolutely no change in our position, and that statement could be made today as easily as it was made in May, 1964. Mr. Chairman, I do not think, that I should go through all these quotations, but I would like to stress that I feel there has been a tremendous change in Mr. Coyne's thinking with respect to our group. I feel that for whatever personal feelings he may have, I am sorry. But, on the other hand, I feel that it is, perhaps, rash to have made press releases in the form that have been made and to have stirred up the controversy which has ensued as a result of Mr. Coyne's statements over the past few days.

I now mention in a more general tone that the Bank of Western Canada—and, perhaps, you will recall that some of Mr. Coyne's earlier testimony confirmed this—was, in fact, the idea of the BIF group. The original press release concerning the concept of the Bank of Western Canada was issued on December 18, 1963. We stated in part in this press release that:

> to sponsor the new bank as original shareholders, a number of Winnipeg and other western Canadian businessmen are joining with a Toronto group, chiefly those who have been associated with the York Trust and Savings Corporation and Wellington Financial Corporation Limited. All interested parties are Canadians, and no foreign or non-resident participation of any kind is involved.

That was true, and it is still true. No foreign or non-resident participation of any kind is involved in the Bank of Western Canada.

> The Toronto participants are expected to provide organizing facilities and experience in the operation of deposit receiving and investing institutions in the financial field generally.

That Toronto group, of course, being the BIF group.

> It is intended, however, that western Canadians will have an opportunity to acquire a majority of the shares and provide a majority of the directors.

Both things were done. As you will recall, shares were widely distributed throughout western Canada. As far as the directors are concerned, we always felt that two-thirds of the directors should come from western Canada and one-third from our group. At the present time, as has been stated, eleven of the directors are resident in western Canada and six are resident in Toronto.

I believe that Mr. Coyne's statements have touched to quite an extent on the fact that he feels that we have not lived up to our commitment to this Committee or to the Senate Committee with respect to two, or possibly three, different points. One point is the question that he feels that we have—I believe his wording is: "attempted to borrow from the Bank of Western Canada for the purposes of our companies." Our position in this respect is that we have not, in our opinion, attempted to borrow from the Bank of Western Canada. As suggested by certain members of the Committee there has been discussion concerning this subject, both in Committee and at the December 16 meeting to which Mr. Coyne refers. But I should, perhaps, if I may have your indulgence, go into this subject in some depth because I feel it is important that it be clarified so there will be no misunderstandings.

First, I will mention that in referring to Mr. Coyne's quotations from the various Committee hearings touching on this subject, I draw your attention to the fact that in virtually every quotation reference is made to the fact that our group expects to maintain satisfactory lines of credit with their existing banks. For example, the following is stated in the March 18 quotation which Mr. Coyne has distributed to you:

> —we spoke to each of the existing banks with which we deal and gave and received assurances from them that in the event we received a charter, our group's existing banking arrangements would be maintained.

There are similar references both in Mr. Coyne's statements and in mine in most of these instances where we referred to the subject, that BIF group companies would not look to the Bank of Western Canada as their banker. In this connection, too, I point out that in my submission to the Senate I drew attention to the fact that we had certain fears concerning what repercussions we might feel as a group upon venturing into the position of asking for a charter in Canada for a

new bank. It was the first time in more than 40 years that a Canadian group had got together and proposed such a venture. In that submission I made this comment which if I may read it, states:

> In summary then we have no grievance with any of the existing banks in Canada. In fact, we have excellent banking arrangements with most of these banks with respect to the various companies in our group. We feel that our Canadian banks are providing an excellent service to the people of Canada, but we also feel that there is room for one more bank in Canada and more particularly, one having its head office in the centre of that vast area stretching from Bay Street to the Pacific Ocean.
>
> Before making our intentions known with respect to our proposed bank, our group was most hesitant and cautious as to the outcome or repercussions which might result when our intentions were announced. In spite of these feelings, we finally determined to attempt to do what we had been assured was impossible, namely, to obtain a charter for a bank in Canada.

Again, at the same hearing, I believe, Mr. Coyne stated:

> At this point I should like to state—without qualification that we do not intend to use the funds of this bank to make loans to other institutions, such as York Trust, Wellington Financial, British International Finance,—

And he mentioned some other companies—

> —with which some of the organizers of this bank are connected.
>
> These companies all have established banking connections which they expect to maintain—

And I would emphasize "expect to maintain"—

> —and in any case the size of loan that could be made available by the Bank of Western Canada would be of no interest to them.

Then the comment goes on:

> —Similarly as regards the financial institutions in Western Canada with which we are connected—

—namely certain of the trust companies—

> —in their case, they will no doubt do some of their regular banking business with the bank, but will not look to it as a source of funds to be used in their own operations.

Now, with that background and without giving you repetitive quotations, all of which, I suggest, have the same tone, I would mention that the December 16 meeting referred to by Mr. Coyne was, in fact, a two-day meeting. I believe we began on Friday and ran over until Saturday. In fact, we had two full days of discussion among the directors, all of whom, incidentally, were virtually new to the bank and to the concept and the thinking that had gone on prior to that time with respect to the Bank of Western Canada. In the morning of the Saturday session I spent something like 2½ hours explaining to the board the original concept of the bank; the fact that our group had promoted the idea; that we had endeavoured to secure partners in western Canada who would share in the ownership of the bank; the fact that Mr. Coyne had approached certain individuals in the Winnipeg area who he expected would participate with us in the

bank but this did not materialize; the fact that we, after making the press release that I have mentioned, found that there was a ground swell of enthusiasm for the bank which resulted in our being able to raise the funds which were raised for this bank. I related these facts to the directors in order that they would be acquainted with the general background surrounding the formation of the Bank of Western Canada. I mentioned the concepts that we had in mind and pointed out that in our mind—and I read from the minutes of that directors' meeting:

> Mr. Stevens, the Chairman, then advised the Directors that he would like to briefly summarize the history of the incorporation of the Bank and comment upon certain of the effect and results that had been occasioned by the incorporation of the Bank. He advised that in his opinion the basic objectives of the bank should be as follows:
>
> 1. The bank should be a sound bank.
>
> 2. That the bank should run on a profitable basis with a minimum 10 per cent per annum return on capital as a target;

This would be slightly better, or quite a bit better, I guess, Mr. Paton, then the existing Canadian bank rates.

> 3. The bank should be aggressive in fields not fully covered or serviced by the present chartered banks;
>
> 4. The bank should be a western-oriented Bank so long as it is run on a sound, profitable and aggressive basis.

Now, I would emphasize that at no time had we argued against the idea of the bank being a truly western institution. This was our original concept; it was our thinking from the beginning, as I have mentioned in the previous comments. Now, during this discussion I went at some length into the actual credit position of certain of our companies during the period that the bank had been under consideration. On touching on these points, I would mention that I do not mean to say that these lines of credit or loans to which I refer diminished or declined only because our group was proposing to form a new bank in Canada. In other words, I want to make it clear that I am not suggesting this is the only reason; it could be for other reasons. I do state though, because I have first-hand knowledge, that it was a definite factor in the declining credit facilities which our group experienced during the period to which I am referring.

I have been told by certain bankers that their files have been labelled to indicate we are now a banking institution and that loan accommodation we had received previously was subsequently labelled "pre-bank facility". I asked the chap when he mentioned this to me: "What do you mean by 'pre-bank'?" He said the feeling was that we would use the facility of the bank only until we had our own bank incorporated. I stated that this, of course, was untrue. The chap I was talking to agreed, but said it was an attitude that was growing within his bank and something he felt we should be cognizant of; we could not expect the type of accommodation from that bank that we have had in earlier years.

In making these statements I would mention that our credit facility at one time, for example, had been on the basis of $300,000 worth of capital. We were able to secure a line of credit of $900,000. For example, in the 1964 period our credits from Canadian chartered banks ran as high as $5 million within our group. During the 1965 period the credits went down to $1.9. They went up on a temporary six-month deal—which, incidentally, cost us 8 per cent—to $13,900,-

000. During 1966 these lines have fallen from $2 million until, at the present time, I believe, we are borrowing less than $150,000 from our bankers in Canada and that $150,000 is in the Wellington Financial Corporation which has assets of something over $10 million.

I mention this because it was part of the background that I related to the directors of the Bank of Western Canada at the Saturday morning meeting. Our group feel that to some extent the Bank of Western Canada has caused us to lose considerable in the way of lines of credit and other facilities with existing Canadian banks. During this same period, however, we have been able to secure lines of credit and loans from various American banks and some European banks. So, I would suggest that it is not a question of credit worthiness; there seem to be other reasons which could have had a bearing.

Now, I stress again, in relation to Mr. Coyne's comments concerning the credit facility to which he referred on the February 1 meeting of Wellington Financial, that these credit facilities have been utilized by our group for some time, and the specific credit to which he is referring was a new line of credit we had asked for and which had been granted. But the bank concerned had already given us considerable credit in the past and with absolutely no reference to the Bank of Western Canada. At one time the Bank of Western Canada would not even have been incorporated when this bank were affording us lines of credit and loans. I am referring to the specific bank that Mr. Coyne is referring to. I would also like to state that several American banks and foreign banks have extended us lines of credit during this period.

In pointing this out to the directors of the Bank of Western Canada, I stated that it would only be fair to tell them, as Chairman of the Board, that certain of the directors on the bank had informed me they had been notified by their respective banks that upon being appointed to our board their lines of credit were in jeopardy; that in certain cases they had been discontinued or lowered or, at least, a request had been made that if it could be refinanced the bank would be much happier. In one case a director was told that a legal opinion had been sought of whether, in fact, the bank that he was dealing with could lend to him on his personal account, now that he was a director of another bank. The legal opinion, of course, confimed that there was nothing wrong with it. But the manager indicated by innuendo, at least in the mind of this gentlemen, that they would be very pleased if he would shift his account in view of the fact he had joined the board of the Bank of Western Canada.

Now, I felt an obligation to explain to the directors of the Bank of Western Canada that this type of situation existed. I then related it to our group and pointed out the diminishing lines of credit and loans which our group had experienced during this period. This, then, brought me to what I regarded at the time as a clarification of the Treasury Board order touching on this subject of our group borrowing from the Bank of Western Canada.

As has been indicated, section (f) of the Treasury Board order states:

—that the bank—

—meaning the Bank of Western Canada—

—during the period in which the preferred subscribers hold in the aggregate more than ten per cent of the shares of the Bank issued and

> outstanding, shall not, directly or indirectly, except with the prior approval of the Minister of Finance,—

and in very general terms—really any transaction touching on the Bank of Western Canada of a loan, or of a guarantee nature, or the sale of assets or anything like this.

In reviewing this I pointed out that we, in our group, possibly had been put in the worst of all possible worlds as it was clear that we could not deal—and we understood we could not deal—with the Bank of Western Canada; existing banks, for their own good reasons, were not extending us the lines of credit that we had once enjoyed; and that we had little recourse but to go to American or other foreign banks for credit facilities. I mentioned, however, that I felt, as a group and, speaking especially as president of the British International Group, that I had an obligation to go to the Minister of Finance and ask for a clarification of what was meant by the words "except with the prior approval of the Minister of Finance." This was discussed at the meeting and the minutes that actually record this state:

> He reviewed—

meaning myself—

> He reviewed the provisions of the Treasury Board order given at the time that the Bank was authorized to accept subscriptions from B.I.F. group in excess of 10 per cent of the issued capital of the bank.
>
> After discussion, the Secretary was directed to record that Mr. Stevens proposed in his capacity as President of the British International Finance (Canada) Limited to ask the Minister of Finance for clarification of the terms of the Treasury Board order in relation to whether and in what circumstances the Minister of Finance might be prepared to approve transactions betwen the Bank and the B.I.F. group of companies.

Mr. MACKASEY: The western bank?

Mr. STEVENS: Yes, the western bank. Now, that is the only reference to this subject in the minutes. The discussions which Mr. Coyne has referred to were, as suggested by Mr. Wahn, I believe, purely exploratory in nature. It was pointed out, in similar situations in the United States, the requirement is that by law a bank cannot lend to any customer, more than 10 per cent of paid up capital and reserve. It was suggested that the Minister, if he were approached, might say that this would be a reasonable guideline with respect to any dealings with our group.

Mr. LEWIS: Who suggested that?

Mr. STEVENS: I do not know whether I suggested it or somebody else, but during the meeting it came up for discussion. If you like, I will take the blame for suggesting it. I am not too sure, but I know it was discussed at the meeting. Some of the directors felt that would be too high a limit. Others felt it could only be put on a specific deal basis; in other words, if there were a specific transaction to be considered—the sale of assets or something like that—this, perhaps, would be the only basis on which the Minister would give such consent.

But, I would emphasize that the tone of this meeting, in my view, was simply one of clarification in explaining the position with respect to our group in

the formation of the bank, our credit facilities and future position that we might find ourselves in, including the directors of the Bank of Western Canada.

During this discussion, I also touched on the fact that Fort Garry Trust in Winnipeg, for example, clears with one of our competing banks. Now, as you know, Mr. Chairman, before this Committee, on behalf of 12 trust companies, the point was raised that we feel somewhat precarious in the trust company field with respect to this clearing arrangement through chartered banks, in that we compete with chartered banks—I am speaking in the trust field—and the only way we can clear our cheques is through those chartered banks. Now, in Winnipeg, Fort Garry Trust does clear through one of the banks. It is a very profitable account; we have no loan accommodation; but, technically speaking on the strict wording of the Treasury Board order, I do not think the Fort Garry Trust account should be shifted to the Bank of Western Canada without consent of the Minister of Finance.

This, I would point out, is something that was certainly contemplated by Mr. Coyne in the earlier quotation that I mentioned, in that the trust companies in western Canada might quite conceivably deal with the Bank of Western Canada. So, at the board meeting on December 16 I was simply clarifying the position in relation to the Treasury Board order and, specifically, item (f). There was definitely no application made to the board of any formal or informal nature; there were no specific funds requested. In fact, as Mr. Coyne indicated, the point was even raised for clarification that if we were really applying for a loan we would have to absent ourselves from the meeting which is the requirement under the Bank Act. The statement certainly was made by myself that we were not applying for a loan. We were simply trying to familiarize the directors with the situation and to advise them that I, as president of B.I.F., may feel that I have to go to the Minister of Finance and at least ask for clarification on the point.

Mr. MACKASEY: You are talking about directors. Do you mean the directors of the western bank or the B.I.F. group?

Mr. STEVENS: Directors of the western bank.

Now, during the same meeting we referred to the fact—and this was with more specific reference to the position of directors on the Bank of Western Canada—that the Porter commission report brought out that about 30 per cent of the banks' authorized lines of credit of $100,000 or more at the end of 1962 were to directors, the firms or corporations of which they were officers or directors, or were guaranteed by them. However, this is a reflection of the wide business interest of the 270 directors of our existing chartered banks. In other words, 30 per cent of the lines of credit of over $100,000 that were expended by Canadian chartered banks at the end of 1962 were, in fact, to directors or to firms in which directors of the bank were associated. If that is still in effect—and I have no reason to believe it to be otherwise—it means that today each director of a Canadian chartered bank, if he has his proper allotment, should have $10 million of line of credit available for himself or for a company in which he is associated.

We brought out this point to indicate that we, in the Bank of Western Canada, cannot allow ourselves to get into a too isolated or limited position, or we would find it difficult to compete effectively and to win directors on to the

board of the Bank of Western Canada in view of the position that directors are relative to the other existing banks. So, just to summarize on this question of our borrowing from the Bank of Western Canada, I would like to stress that what Mr. Coyne is referring to are discussions concerning whether loans could or should be made; the effect of the Treasury Board ruling; but at no time was any actual application made or any pressure brought to bear on the board in the sense of saying that we require a certain loan and expect the board to automatically fall in line, or anything whatsoever along that line. And as I have stated, at the February 1 meeting—later that evening Mr. Coyne resigned—it was specifically stated that our group did not intend to apply to the Bank of Western Canada for credit facilities in the foreseeable future.

This, then, brings me to the question of the bank accommodation that we secured in the United States and which Mr. Coyne has taken exception to. This accommodation was given to us as the result of a letter which was addressed to the bank and dated January 19, 1967 which I would like to read to the Committee, if I may Mr. Chairman. It states:

Gentlemen:

You already have corporate documentation from British International Finance (Canada) Ltd. and Wellington Financial Corporation Limited.

In connection with the above, please credit the respective accounts with the amounts of the enclosed checks.

There were two nominal cheques put in, one of $5,000 and one of $10,000, one to be credited to the B.I.F. account and one to the Wellington account.

In regard to our discussions, we hereby request you to establish a loan line for up to $2,500,000 for ourselves. Of this amount we visualize the use of $1,500,000 in the immediate future. We may call on the balance of $1,000,000 later on, and this second amount of $1,000,000 will, of course, be subject to negotiation at that time. We are therefore discussing for the present a total of $1,500,000.

Upon your advice, Wellington Overseas Corporation (which is our New York corporation) will issue its notes to yourselves which notes will be guaranteed for payment by the aforementioned organizations, British International Finance (Canada) Limited and Wellington Financial Corp. Limited and endorsed jointly and severally.

The maturity should be for one year.

We are enclosing herewith financial statements of British International Finance (Canada) Limited and Wellington Financial Corporation Limited which, together those you already have for Wellington Overseas Corporation should complete your files.

Mr. Sinclair Stevens, President of both British International Finance (Canada) Limited and Wellington Financial Corporation Limited advises the statements of these organizations, as at the close of 1966, will be in line with the enclosed reports and will not have any significant changes, excepting that the net worth of these companies will be substantially higher.

The reference that we are making there is to the fact that partly as a result of the mergers which have gone in our group and the actual consummation of the

Bank of Western Canada, the net worth of the Wellington—B.I.F. group is up about $5 million or $6 million since the end of 1965.

We thank you, very much for your consideration and for your co-operation.

With best regards, I am,

(Signed)

Sincerely yours

Wm. John Mindlin.
President.

That was the letter in which we requested the credit facility from the New York Bank. They approved the credit and during the discussions the point was raised, as it had been raised from time to time, that this bank would be particularly interested in working with our B.I.F. group in its general activities. By that they meant they liked the international activity we were in, including the fact that we have an office in London, England; we have activity in the Bahamas; we are in the mutual fund business which this bank hopes to get into and they like the association with the Canadian group.

Mr. GRÉGOIRE: What is the name of this bank?

Mr. STEVENS: Mr. Chairman, I would ask you for a ruling on that point. I have no objections to giving the name. My only reservation is that I feel the nature of this discussion is such that the fewer names that get pulled in the better. As I mentioned, the *New York Times* is already running stories on this controversy, and I am fearful that banking facilities which we have in the United States, which we enjoy and continue to enjoy, may feel some embarrassment if their names get drawn into the discussions.

The CHAIRMAN: I think the best approach to take would be for me to reserve any decision on this point at this time, and to invite comments from the Committee at a later stage if the discussion arises again. The reason I say that we should not get into it at this time is to give Mr. Stevens an opportunity to complete his initial statement.

Mr. GRÉGOIRE: Mr. Chairman, there is only one thing I wanted to know. Was it the First National City Bank?

Mr. STEVENS: No. I should have mentioned that it is definitely not the first National City Bank of New York.

The CHAIRMAN: I will reserve a decision on this point until after you have completed your statement. I would invite you to proceed.

Mr. STEVENS: The other point that I would mention too, is that the letter I have referred to is in reference to only one New York bank. We deal with several New York banks and also with banks in the Midwest and in the far west of the United States. Again, I feel that introducing their names may cause them some embarrassment.

Mr. MORE (*Regina City*): I have a supplementary question. This letter refers to the line of credit that was referred to by Mr. Coyne.

Mr. STEVENS: That is right. The point that Mr. Coyne refers to, as I understand it, is that during the oral discussions—and I would emphasize this—between Mr. Mindlin, our New York representative, and the bank concerned, the point was raised that we would be willing to give a first refusal on a block of BIF shares or Bank of Western shares up to the statutory limit of 10 per cent in the event that such shares were to be sold to a non-resident. It was nothing more, in effect, than a gentlemen's agreement. Now, when I say that, in banking language, it would be a firm agreement in the sense that that bank would be very disappointed, to say the least, if the shares were sold to another non-resident without giving them the opportunity to purchase them. It was a first refusal basis on a 10 per cent block of the Bank of Western Canada. It was not in the written request for the loan but was simply something that was referred to in oral discussions during the consideration of the loan which was eventually granted to our group. As far as I know, the facility is still available along with the other New York facilities which I have referred to.

When this matter was drawn up and referred to at the Wellington-B.I.F. meeting on February 1st, Mr. Coyne was quite adamant in his opposition to us entering into the line of credit or the loan arrangement as described.

Mr. LEWIS: When you say "as described", does that include the loan of credit and the gentlemen's agreement?

Mr. STEVENS: Yes. During the meeting, as Mr. Coyne has mentioned, a resolution was moved and passed unanimously with the exception of Mr. Coyne's dissenting vote, that we accept the loan arrangement in principle but that we go to the New York bank and clarify the understanding with respect to the first-refusal arrangement and any other misunderstandings that there may be concerning the affairs of any of our companies.

Mr. MACKASEY: What was the date of all this, Mr. Stevens?

Mr. STEVENS: February the first.

Mr. MACKASEY: And this was a meeting of the B.I.F. group.

Mr. STEVENS: It was a joint meeting of the B.I.F. board and the Wellington board.

Mr. MACKASEY: Not the bank?

Mr. STEVENS: No, because it was a loan to be jointly and severally guaranteed by those two companies. So, in short, we felt that while we had agreed in principle to the loan arrangement, any misunderstandings that might exist—and we were simply activated by the type of attitude that Mr. Coyne has indicated —would be clarified if we met with that bank and made sure that there was no misunderstanding concerning the first-refusal arrangement or in respect to anything else concerning a financial nature in our own organization.

As it has resulted, the meeting was not proceeded with because subsequently we received Mr. Coyne's resignation, but the bank in question is having its two senior representatives visit with us in Toronto this week, at our request, in order to go over this matter fully and make sure that, in fact, there is no misunderstanding of any nature whatsoever.

In touching on this matter, I would have to give you some background concerning the American bank situation or the foreign bank situation generally.

During our discussions in the Bank of Western Canada the point has often been made, and I think it is generally agreed, that we can co-operate and get tremendous assistance from certain American banks, especially those in the midwest and the far western part of the United States. You have situations where you have American bank holding companies which control perhaps 50 or 70 banks under their jurisdiction. These banks have very similar problems to the problems that the Bank of Western Canada will experience in its opening period. For example, I am thinking of two bank holding company institutions in the Minneapolis area. They control banks in the seven states immediately south of Winnipeg, and we felt that the knowledge, the know-how and the assistance of those banks in getting our bank off and running in Winnipeg would be very beneficial. Now I should mention to you that we have already been dealing through our New York office with one of those bank holding companies and it has been an extremely good, profitable relationship on both sides. I do not feel that there has been any serious opposition to the suggestion of having this co-operation with the American banks. I believe that in the development of the Bank of Western Canada a great deal of facility can be acquired through the participation loan process working with this type of American bank. When I say this, I mention it advisedly because these banks literally have approached us and said that they would like to be able to work with Canadian banks in a participation loan fashion and extend credit to customers that they feel are credit worthy in the Canadian field.

For example, only a week ago I had a visit in Toronto from an official of one of the Buffalo banks. He said he had a customer in Toronto whom he felt was creditworthy. They were prepared to take up to 75 per cent of his loan accommodation. They were unable to get the two Toronto banks that they had approached to share the deal with them and that he had come in, to use his words, "in a spirit of complete frustration" in that they would like to accommodate their customer but they could not find a Canadian bank who would work with them and he wondered would we be interested, if we were active in Winnipeg, in taking such a participation loan if a similar situation arose there. I said my understanding—certainly speaking personally—was that we certainly would be interested in working with such a participation deal.

In fact, during the formative period of our bank we had representatives go down into three areas of the United States, the eastern states, the midwestern states, and the California western states and visit a total of about ten American banks to receive information, co-operation and ideas from these banks concerning how they could work with the Bank of Western Canada in facilitating our activity in the Canadian west. We got a tremendous response from all of these banks. I am talking here about BIF personnel. In the case of the Bank of Western Canada itself, I know, and presumably to Mr. Coyne's knowledge, that the general manager went into the Chicago area and similarly visited a bank in Chicago and worked out a tentative arrangement concerning that bank's participation and association with the Bank of Western Canada in the event that the bank got activated.

Mr. MORE: With Mr. Coyne's knowledge?

Mr. STEVENS: I can presume so because I have a memo from the general manager in which he mentions that he has visited with this bank. He was very

pleased with his reception and that he would like Mr. Coyne and myself to visit with the President of the bank and take the matter on further.

I am mentioning this as background to the fact that we in the BIF group do not feel that if we should see fit to sell a block of the Bank of Western Canada to an American banking concern that objection should be taken to it in the sense that Mr. Coyne has taken objection. We feel that such a share ownership would be probably a way to weld a good link with an American banking concern. The bank that we have in mind is a large bank; it has assets of well over a billion dollars; they have know-how and they have indicated every interest in co-operating, but there is absolutely no suggestion on any part of these American banks that I am referring to that they would take control or in any way interfere with the management of the Bank of Western Canada. I would also emphasize that many of these banks are already dealing with our group and that they have dealt with our group prior to the Bank of Western Canada even being chartered. So I do not feel that it can be assumed that the only reason that they deal with our group is the Bank of Western Canada being in the background.

The CHAIRMAN: What size block are you referring o?

Mr. STEVENS: Well, the limit would be 10 per cent. The 10 per cent factor is the limit in our existing Bank Act. The Bank of Western Canada is limited to a 10 per cent portion. The revised act would be up to 25 per cent, I believe.

Mr. MACKASEY: Mr. Stevens, for a clarification, is that not precisely what Mr. Coyne said in his statement?

Mr. STEVENS: I beg your pardon.

Mr. MACKASEY: Is this not precisely what Mr Coyne said in his statement?

Mr. STEVENS: I am sorry.

Mr. MACKASEY: What you have just described, the option of 10 per cent of the shares to an American, is precisely what Mr. Coyne is accusing you of.

Mr. STEVENS: I think it is a question of degree. We simply say that during oral discussions a first refusal was indicated in the event we wished to sell to a non-resident. I think option is a stronger word, and I do not want to toy with words, but I am simply saying that the important thing, as far as we were concerned, was the credit facility and that the share ownership is something that we feel, if it was consummated, should not be objected to; but on the other hand it was not the key point in the credit facility.

The question has also been raised by Mr. Coyne concerning the $1.5 million or $1,450,000 which has not been paid into the Bank of Western Canada. On this point, I must admit matters get very confused.

The CHAIRMAN: Order, please.

Mr. STEVENS: —because, as Mr. Coyne has stated, there is still an unpaid portion of our subscription in the amount of $1,450,000. This amount, in my opinion, will be paid. In fact, at the date of the meeting in which the matter was being discussed the funds were available.

Mr. MONTEITH: That was on February 1.

Mr. STEVENS: No; the directors' meeting on January 20.

As Mr. Coyne has mentioned, early on the agenda of that meeting there was reference to payment in of unpaid capital. That was moved to later in the meeting and, as he has said, it came up at the final part of the meeting. During this meeting a fairly lively discussion ensued on this point, in that Mr. Coyne felt that my shifting of the question of the unpaid shares to later on the agenda indicated that perhaps we wanted to hear policy matters discussed first, or in some way we were, in effect, holding a lever over the directors to first of all decide policy before we wou'd put the $1,450,000 in. I said that I did not feel that that was certainly our thinking, but at the same time we were concerned as to what was to be the future policy and method of operation of the Bank of Western Canada.

Mr. MACKASEY: What date were you worrying about policy?

Mr. STEVENS: We had been worrying ever since July 15 when we received our charter. I am now up to the January 20 meeting, at which time certain of the directors felt—and I hesitate to call them eastern directors because I feel that perhaps this east-west question is overdone—as Mr. Bell stated at the Wellington meeting on February 1 to which I referred, that, having the size of investment in the bank that we had, we should have an important say in the policy decisions in relation to the operation of the bank. In actual fact, we visited Winnipeg one day early, hoping to have an opportunity to discuss at some length the policy with respect to the Bank of Western Canada. We felt that we could not get down to the specifics that we would have liked to concerning the number of branches to be opened and when they might be opened—the hard core policy matters as to how the bank in fact would operate. In saying this, let there be no doubt in anyone's mind: we are not arguing against the idea of a Western Bank, but we want a successful, profitable, effective Western Bank and we think that is the only type of bank that the west deserves and should have. I could refer to resolutions, for example, where we moved that branches be opened in the west at a quicker rate. We would like to be open in Vancouver and places like that, but it is essential to have the policy decided and then action taken.

During this meeting Mr. Coyne outlined his thinking at that date. He stated that the staff of the bank were quite pressed with organizational matters and that they had not been able to arrive at any too definitive decisions, but that he would indicate, as I understood it, his thinking at that time. During the discussion the impression was certainly left, I feel, that one of the chief drawbacks to the future of the Bank of Western Canada was in fact the association with the eastern interests and, in particular, the BIF group. This startled me greatly in that some of the directors—I think there were two in number—said that they felt that this image was such that it was difficult to sell the Western Bank as a western bank. I pointed out, and other directors pointed out, that certainly it had always been known by the originators of the bank that the BIF group would have an important interest in the bank, but they said that they felt some means should be worked out to ensure that this factor could be minimized. I was very startled to hear a suggestion that we should put all our shares in a voting trust and that the voting trust should be administered or run by Winnipeg people or people in the west. This was news to me. Having that amount of money at stake, we felt that to suggest, we give up the voting power on the money and leave policy matters entirely to the directors on the board who, I think in most

instances, had qualifying shares, was expecting a tremendous move on our part and one which would be very imprudent for us to do in respect to our respective companies. It was suggested, perhaps in jesture, that I should move to Winnipeg myself in order to try to give more of a western image. I stated that I had no particular objection to moving, but if I was to move then perhaps I would go further west than Winnipeg. In fact, before this is over I may end up moving west.

However, during the discussion we felt that we were left in the odd position of directors telling us that we in effect were the chief liability in ensuring that the bank would get off to a proper running start in western Canada. We offered at the meeting to sell a substantial portion of our holdings to any western group that wished to purchase it and, in fact, we asked one of the directors specifically to seek out possible purchasers for, say, 10 or 20 per cent. We said this in the sense that we felt that if it would better the future of the Bank of Western Canada, we would have no hesitation in selling say, 10 or 20 or possibly even 30 per cent of our holdings in the Bank of Western Canada to a partner or a group of partners who would be acceptable to us in the sense that they could work properly with us.

Mr. FULTON: You are holding approximately 51 per cent.

Mr. STEVENS: About 50 per cent.

Mr. MACKASEY: Is this the first time it was suggested to you that you put your shares in a voting trust?

Mr. STEVENS: Yes.

Mr. MACKASEY: It was the first time.

Mr. STEVENS: When I say that I do not mean that there was necessarily, to my knowledge, any organized thinking behind it; it was just that a director said: Well, maybe that would be a help to you.

The CHAIRMAN: I do not like to interrupt, Mr. Stevens, but it is now five minutes to eleven and I think we should decide, firstly, whether you are in a position to conclude your remarks shortly. I gather you are dealing with one of the final points that you had in mind with regard to shares subscription. Secondly, there may be one or two questions which members may consider vital with respect to shareholder or depositor confidence in your other institutions that have not already been asked and, for that reason, they might be asked tonight.

Mr. STEVENS: If I may just finish this point, Mr. Chairman, I will not go on any longer with my general discussion.

Mr. BASFORD: Mr. Chairman, I do not know how much longer Mr. Stevens would require to conclude his statement but, if possible, I think he should be allowed to conclude it.

The CHAIRMAN: I am certainly not objecting to it.

Mr. THOMPSON: Mr. Chairman, if you are going to allow any questions it is going to be very difficult to decide who should be allowed to ask questions and what questions should be allowed. I think that we should conclude with Mr. Stevens' statement and leave the questions until tomorrow.

Mr. FULTON: Just as a suggestion, he might like to end up with some further reference to the position of his other companies.

Mr. THOMPSON: Let him complete his statement.

The CHAIRMAN: I was attempting to take into account the energy level of all those present.

Mr. MONTEITH: Perhaps we could leave even short questions for clarification and so on until later.

The CHAIRMAN: Yes. Mr. Stevens, would you proceed.

Mr. STEVENS: We found ourselves in what we regarded as a very odd position. We have 17 men on the board and 11 of them are from western Canada. We feel we did right in this connection. Certain of the 11 members made the suggestions which I indicated and, when we stated that we would be willing to sell a bloc of our shares, one of the directors said: "Well, of course you would sell at market." Well, the market is $12 a share and this would mean that whatever bloc we were selling we would be taking an immediate $3 loss for our effort. I am only indicating the rather startled impression that we were left with at this board meeting to hear that the chief liability in trying to sell the bank in the west was our association, and then to be told that if we were going to sell a bloc of our shares that possibly the price we would be willing to accept would be market. He is certainly going the wrong way in the financial business. On this point—and this takes me back to one of the earlier hearings—Mr. Elderkin was asked by Mr. Horner whether he thought there was anything wrong with a group having 50 per cent in a bank. As stated on page 126 of the hearing on March 3, Mr. Elderkin said:

> . . .I think there is room for more banks in Canada.

And then on page 128 Mr. Horner asked Mr. Elderkin:

> Do you feel in the establishment of a new bank. . .a group. . .must own a 50 per cent share. . .

Mr. Elderkin replied:

> Well, I do not know about 50 per cent, but I think it is very essential that you must have a management group. . .to start off.

Mr. Horner then asked:

> You do not think this is giving that particular group a chance to make a tidy sum. . .through the sale of shares?

Mr. Elderkin replied:

> They might make a tidy loss.

At that time I think Mr. Elderkin was very accurate in his anticipation in that I am not sure that we could sell our shares certainly at a tidy profit as indicated at that time by Mr. Horner.

In short, with respect to the $1,450,000, we feel that the money will eventually and certainly be paid into the Bank of Western Canada. We do feel, though, that the air must and should be cleared concerning the real future for this bank. Having said that, I would like to emphasize that I think it would be almost a tragedy if the Bank of Western Canada is not proceeded with in the original concept and if it is not allowed to develop as a sound, profitable and

strong bank, serving primarily western Canadians, as we originally indicated was our intention. That intention certainly has not changed as far as we are concerned. We feel that if this matter is left to the board, matters can be reconciled and worked out. We feel that any issues which have been raised have, in our mind, been greatly overstated. There has certainly been no intention on our part to do anything of the nature which has been indicated and, in fact, the reverse, at almost any cost, has been our wish. We have sincerely tried to make sure that this bank gets off to a good start and we still feel that the board can work out the differences which have arisen. We are only sorry that these differences have through the press, been made public because, I would emphasize, in our opinion there has been absolutely nothing done to date which contravenes the act incorporating us, the Treasury Board order or the spirit of any testimony given before this Committee or the Senate Committee in Ottawa.

Mr. Chairman, I have only one other comment to make at this time but perhaps I might have something further to say tomorrow, if that is acceptable.

My other comment—and this is the only comment that I can say with assurance that Mr. Coyne and I have complete agreement on—in that in the *Globe and Mail* or possibly a Toronto *Star* report, Mr. Coyne touched on the fact that he hoped there was no suggestion of insecurity in the companies concerned in our group, especially the trust companies, and that in his opinion the assets of those companies certainly exceeded the liabilities. I would certainly agree with Mr. Coyne on that, and I am only sorry that there has been any suggestion raised by innuendo, inference or otherwise to the contrary, because I do not feel that such a suggestion is justified or warranted in any way.

Mr. MACDONALD (*Rosedale*): May I ask one question?

Some hon. MEMBERS: No.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I think this is a critical question. My question is with reference to the liquidity of the assets, apart altogether from a balance sheet. Are you in a position to meet your liabilities as they fall due.

The CHAIRMAN: Order. First of all, Mr. Fulton, I think, when I interrupted Mr. Stevens at five to eleven, in effect suggested, picking up the thought that I was going to express, that Mr. Stevens be allowed to add such further comment as he saw fit regarding the position of the companies of the BIF group in so far as they pertained to the interest of their shareholders and depositors, it was my suggestion originally that perhaps we might accept one or two questions along those lines, but I might ask the Committee now whether they feel this is opening the door to us continuing on into the dawn.

Mr. MACKASEY: On a point of order, Mr. Chairman, if this Committee is really sincere in not doing injustice to companies outside the Bank of Western Canada, then Don Macdonald's question is extremely pertinent, and I would gladly withdraw any questions I have in view of Don's question. The fundamental point here is that innocent people should not be hurt, no matter what time it is.

The CHAIRMAN: I think that the fairest approach to this would be to permit Don Macdonald's question with the understanding that it be limited to the particular aspect that Mr. Fulton raised and that I touched on—

Mr. THOMPSON: This question could leave more doubt and we would have to go on and question for a couple of hours.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I suggest it would be irresponsible to leave it at this point.

Mr. CHAIRMAN: No, I would be responsible.

Mr. MACDONALD (*Rosedale*): You certainly would be and I suggest that you might think about your own position.

Mr. THOMPSON: Is Mr. Stevens satisfied to leave it at this point?

Mr. STEVENS: I have no objection to answering the question, if you want an answer.

The CHAIRMAN: I think the time we are taking to debate this aspect could have been time enough to have this question asked and answered. It was my original suggestion that we permit a question of this type and allow Mr. Stevens to answer it.

Mr. MACDONALD (*Rosedale*): I shall rephrase my question with respect to the liquidity assets. Do your companies—I refer to the BIF group—and particularly the deposit-taking institutions expect to be in a position to meet their current liabilities as they fall due?

Mr. STEVENS: There is absolutely no doubt on that question. In fact, I think if you disected our deposit-taking institutions, as you refer to them, you would find that they have potential liquidity greater than most institutions in similar fields.

Mr. MACDONALD (*Rosedale*): And that includes liabilities payable on demand.

Mr. STEVENS: Yes.

The CHAIRMAN: Well, gentlemen, before we adjourn we are going to have to decide whether we want to meet tomorrow afternoon after the orders of the day or whether we want to continue Thursday morning.

An hon. MEMBER: When is the next meeting?

The CHAIRMAN: Ordinarily we meet on Thursday, but I would suggest to the Committee that because of our obligations to the House we might consider meeting tomorrow to complete our hearings with Mr. Stevens and Mr. Coyne, and then we will have the minister with us Thursday morning. This, of course, is not necessarily a precedent for our further schedules, but I think we do have an obligation to the House to get on with the matters referred to us. I suggest if we are agreed on this we adjourn until 3.45 tomorrow afternoon.

APPENDIX "TT"

EXTRACT from the minutes of a meeting of the Honourable the Treasury Board, held at Ottawa, on August 3, 1966.

T.B. 658534

TREASURY BOARD

The Board, pursuant to section 9, of An Act to Incorporate Bank of Western Canada, orders as follows:

1. The acceptance of subscriptions for shares of the capital stock of the Bank of Western Canada without regard to the provisions of section 6 of the Act is hereby approved subject to the terms and conditions hereinafter set forth in this Order.

2. (1) The acceptance by the Bank of subscriptions for shares of the capital stock of the Bank by residents within the meaning of section 5 of the Act shall be in accordance with and subject to the following terms and conditions, namely:

(a) that the bank shall not accept a subscription for a share of the capital stock of the Bank in circumstances where if the subscription were a transfer of the share the Bank would be required under section 6 of the Act to refuse to allow the transfer to be made or recorded, except in the case of an offer to subscribe for shares by preferred subscribers on the initial offering of shares and as provided by subsection (2) of this section;

(b) that on the initial offering of shares the Bank shall not accept a subscription for a share of the capital stock of the Bank by a preferred subscriber if, as a result of the acceptance by the Bank of such a subscription, the aggregate par value of the shares to be held in the name or right of or for the use or benefit of preferred subscribers would exceed four million seven hundred and fifteen thousand ($4,715,000) dollars;

(c) that on the initial offering of shares the aggregate par value of all shares to be offered for subscription on such initial offering shall not be less than eight million six hundred and fifty thousand ($8,650,000) dollars;

(d) that all moneys received upon the subscription for shares of the Bank on the initial offering of such shares shall be deposited in a chartered bank until a certificate permitting the Bank to commence business is issued in accordance with the Bank Act, and no disbursements shall be made from such moneys except as authorized by paragraph (c) of subsection (1) of section 13 or by subsection (2) of section 15 of the Bank Act;

(e) that the shares of the Bank that are held in the names or right of or for the use or benefit of preferred subscribers in any number in

excess of ten per cent of the total number of issued and outstanding shares of the Bank shall be disposed of absolutely by such persons before the first day of January 1977, unless the Governor in Council, on the application of the Bank made before the first day of January, 1975, extends the time for such disposal to a later date;

(f) that the Bank, during the period in which the preferred subscribers hold in the aggregate more than ten per cent of the shares of the Bank issued and outstanding, shall not, directly or indirectly, except with the prior approval of the Minister of Finance,

(i) make a loan or advance to or deposit with,

(ii) guarantee a loan or advance to or deposit with,

(iii) purchase the securities or shares of, or make a loan or advance on the securities or shares of,

(iv) purchase any assets from, or

(v) assume any liabilities of,

any of the preferred subscribers whether or not they are then shareholders of the Bank.

(2) A subscription for shares of the capital stock of the Bank by an individual who is an associate of a preferred subscriber but who is not himself a preferred subscriber may be accepted by the bank, and may be voted by that individual, as if he were not so associated with a preferred subscriber.

(3) In the case of a subscription pursuant to an offer under section 36 of the *Bank Act*, the Bank may, for the purposes of any subscription by any subscriber, count as shares issued and outstanding all the shares included in the offering.

3. The voting rights pertaining to any shares of the capital stock of the Bank held in the name or right of or for the use or benefit of preferred subscribers shall be exercised by or on behalf of the holder thereof in accordance with and subject to the following terms and conditions, namely:

(a) that the voting rights pertaining to such shares shall not be exercised in person or by proxy if any of the terms or conditions of this Order are violated; and

(b) that the voting rights pertaining to such shares may only be exercised, in person or by proxy, so long as the percentage of such shares held in the name or right of or for the use or benefit of preferred subscribers does not exceed either.

(i) the percentage that the number of shares subscribed for by the preferred subscriber after the closing of the stock books of the Bank on the initial offering of shares is of the total number of shares subscribed for at that time by all the subscribers for such shares, or

(ii) the smallest percentage (not being ten per cent or less) that the number of shares held in the name or right of or for the use or benefit of preferred subscribers at any time after the first issue of shares is of the total number of shares of the Bank issued and outstanding.

4. In this Order,

(a) "Act" means An Act to incorporate Bank of Western Canada;

(b) "associate" in relation to any subscriber or shareholder means

(i) any person who would, under subsection (2) of section 5 of the Act, be deemed to be a shareholder associated with the subscriber if both the subscriber and such person were then shareholders of the Bank, and

(ii) any shareholder of the Bank associated with a shareholder within the meaning of subsection (2) of section 5 of the Act;

(c) "Bank" means the Bank of Western Canada; and

(d) "preferred subscriber" means the following persons, namely:

(i) Wellington Financial Corporation Limited,

(ii) Canadian Finance and Investments Limited,

(iii) York Trust and Savings Corporation,

(iv) any corporation that after the date of this Order acquires, by amalgamation, merger, arrangement or otherwise, the assets of any or all of the corporations named in subparagraphs (i) to (iii),

(v) any corporation that is an associate of any of the corporations described in subparagraphs (i) to (iv) of this paragraph, and

(vi) any individual who is an associate of any of the corporations described in subparagraphs (i) to (v), if the total par value of the shares subscribed for or held by such individual exceeds five thousand ($5,000) dollars.

5. This Order may be cited as the Bank of Western Canada Subscription Order, 1966.

(signed) "C. J. Mackenzie"
Assistant Secretary

I, C. J. Mackenzie, Assistant Secretary of the Treasury Board of the Government of Canada, hereby certify that this is a true copy of a document of the Government of Canada, the original of which is in my custody.

(Signed) "C. J. Mackenzie", Assistant Secretary of the Treasury Board

Dated at Ottawa,
Canada, this 8th
day of August, 1966

APPENDIX "UU"

Statement by James E. Coyne

Winnipeg, February 3, 1967.

I have resigned from the boards of directors of British International Finance (Canada) Limited and The Wellington Financial Corporation Ltd. as I no longer have confidence in the management or policies of those companies.

In particular, in their relations with the Bank of Western Canada (in which they have voting control through stock holdings), they appear to have forsaken principle for expediency, and their image is doing a disservice to the Bank of Western Canada.

In connection with the Bank of Western Canada, they have failed to make good their subscription for shares to the extent of about $1,500,000, they have attempted to get the Bank to provide credit to their own companies contrary to the most explicit statements made to the Committees of the Senate and of the House of Commons, and they are presently engaged in a borrowing operation with American banks which involves the giving of an option on 10% of the total shares of the Bank of Western Canada and various arrangements designed to tie the management and operations of the Bank to the operations of these American banks, again contrary to statements made when applying for a charter.

I feel these matters must be made known to the people of Western Canada and the rest of the country. I am now convinced that no group of persons or companies such as this should be permitted to exercise control over a Canadian financial institution, whether federal or provincial.

I wish to recommend to Parliament that, before the new Bank Act is finally passed, the prohibition upon voting stock, in excess of 10% of the total, be put back into force for new Banks, just as it is for the older banks. In other words, the authority given to the Treasury Board or to the Governor in Council to grant exemption to majority shareholders in new banks should be reversed. In addition, there should be provision that no American bank shall be entitled to hold any shares in a Canadian bank, and certainly not any voting shares.

At 11:30 this morning, I read an article in The Financial Post issue of February 4, 1967, attributing certain statements to Mr. Sinclair Stevens, President of British International Finance (Canada) Limited. The statements are put in quotation marks and the article is signed by the paper's correspondent.

The statements are such that I must completely dissociate myself from them and state that I would, on that account alone, have to resign from the boards of directors of the companies in Mr. Stevens' group if I had not already sent in my resignation the night of February 1st.

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. 45

WEDNESDAY, FEBRUARY 8, 1967

THURSDAY, FEBRUARY 9, 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; Messrs. Sinclair M. Stevens, President, British International Finance (Canada) Limited; James E. Coyne, President, Bank of Western Canada; W. E. Scott, Inspector General of Banks.

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

25702—1

STANDING COMMTTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

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

Dorothy F. Ballantine,
Clerk of the Committee.

ORDER OF REFERENCE

WEDNESDAY, February 8, 1967.

Ordered,—That the name of Mr. Munro be substituted for that of Mr. Cashin on the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

25702—1½

MINUTES OF PROCEEDINGS

WEDNESDAY, February 8, 1967.
(92)

The Standing Committee on Finance, Trade and Economic Affairs met at 3:50 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Basford, Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Coates, Flemming, Fulton, Gray, Latulippe, Leboe, Lind, Mackasey, Macdonald (*Rosedale*), McLean (*Charlotte*), Monteith, More (*Regina City*), Wahn—(16).

Also present: Messrs. Ballard, Caouette, Grégoire, Lewis, Munro, Régimbal, Ryan, Sherman, Thompson.

In attendance: Messrs. Sinclair M. Stevens, President, British International Finance (Canada) Limited; James E. Coyne, President, Bank of Western Canada; W. E. Scott, Inspector General of Banks.

Questioning of Mr. Stevens begun at the meeting of February 7th, was continued.

At 6:21 p.m., on motion of Mr. Monteith, the Committee adjourned until 11:00 a.m., Thursday, February 9, 1967.

THURSDAY, February 9, 1967.
(93)

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, Davis, Flemming, Fulton, Gilbert, Gray, Irvine, Laflamme, Latulippe, Leboe, Lind, Mackasey, Macdonald (*Rosedale*), McLean (*Charlotte*), Monteith, More (*Regina City*)—(17)

Also present: Messrs. Beer, Grégoire, Ryan, Sherman, Thompson.

In attendance: Messrs. James E. Coyne, President, Bank of Western Canada; Sinclair M. Stevens, President, British International Finance (Canada) Limited; The Hon. Mitchell Sharp, Minister of Finance; W. E. Scott, Inspector General of Banks.

Mr. Coyne was recalled, made a statement and was questioned.

Mr. Stevens made a brief statement clarifying a point raised earlier.

The Chairman thanked Messrs. Coyne and Stevens, who were permitted to withdraw.

Mr. Sharp was called and questioned.

The questioning having been concluded, at 12.40 p.m. the Committee adjourned until 3:45 p.m. this day at which time the Committee will commence consideration of Bill C-261.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

WEDNESDAY, February 8, 1967.

The CHAIRMAN: Gentlemen, I think we are in a position to begin our meeting.

When we recessed last evening Mr. Stevens had completed his introductory statement and I believe we permitted Mr. Macdonald to ask a clarifying question. I think it would now be in order for us to begin a round of questioning of Mr. Stevens. You will recall we asked Mr. Coyne to stand down so that we could have Mr. Stevens' introductory statement during the same hearing. To start the round of questioning, as he asked a question yesterday evening, I will first recognize Mr. Macdonald.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I will defer to other members as I had the opportunity of questioning last night.

The CHAIRMAN: Fine. I will recognize Mr. More and I will deal with other members as they catch my eye. Are you prepared to begin, Mr. More?

Mr. MORE: Yes, Mr. Chairman. I would like to ask Mr. Stevens, in view of the statement he made about his so-called representations at two meetings of the Bank of Western Canada on December 16 and January 20, were all the directors of the bank present at both those meetings?

Mr. SINCLAIR M. STEVENS (*The Chairman, Bank of Western Canada*): I could not say, Mr. More, that all directors were present. I think I could probably tell you how many were present.

Mr. MORE: You have 17 directors?

Mr. STEVENS: Yes, and at the January 20th meeting there were 12 shown as being present; at the December 16th meeting there were 13 present.

Mr. MORE: Could you indicate if the absentees were members of your group of companies or if other directors at large could have been supported?

Mr. STEVENS: This gets into a kind of confusing situation. I think Mr. Coyne referred to the fact, for example, that Peter Lougheed and Leslie Bodie are both directors of the Alberta Fidelity Trust. We have a one-third interest in Alberta Fidelity and I remember in a *Globe and Mail* article they referred to those two directors as being BIF group people. I see that both those people were absent from that January 20 meeting. Rex Nesbitt was absent; he is a director of one or two of our companies, but I think when people refer to the BIF group they usually mean those who are still resident in Toronto.

Mr. MORE: Could we do it this way, perhaps; there are only five or six names in each case and if you indicated who were absent we can decide in our own minds on their relationship.

Mr. STEVENS: At the January 20 meeting Peter Lougheed, Mark Collins, Rex Nesbitt, Mr. Thomas and Mr. Bodie were absent. I think that would be right.

Mr. MORE: What about the December 16 meeting?

Mr. STEVENS: How many did I say were present at that meeting?

Mr. MORE: You said there were 13 present, so there were four absentees.

Mr. STEVENS: Yes. There were two subsequently elected. The meeting began with 13 and then there were two elected, namely Mr. Chiapetta and Mr. Shanski.

Mr. MORE: There were only two absent, then?

Mr. STEVENS: I think there would only be two absent and those two would have been Mr. Nesbitt and I think Mr. Lougheed.

Mr. MORE: Your statement last night indicated that this matter was discussed on the basis of providing information to the directors and examining the position you were in because of the order issued by Treasury Board. I might say it sounded plausible and reasonable but on the basis of the fact that indications are that all the western directors support Mr. Coyne's position, would there not be a general indication to those of us hearing evidence that perhaps, indeed, your statement and your presentation went further than you have indicated?

Mr. STEVENS: I do not feel, in fairness, that it did. In fact, a matter that I did not mention yesterday was that prior to the December 16 meeting there had been a discussion in Toronto on December 13 of this same subject, at which I outlined the general facts that I mentioned briefly to you yesterday concerning the group's position and the effect of the Treasury Board order and the fact that maybe we should seek clarification of this—

Mr. MORE: Was the December 13 meeting a fully—

Mr. STEVENS: Oh no, this was a meeting at which Mr. Coyne was in attendance as well as Mr. Bell, Mr. Bruce, Mr. Thomas and myself.

Mr. MORE: In other words, a meeting amongst your group rather than the Bank of Western Canada?

Mr. STEVENS: That is right. I mentioned at the time that I thought that I would raise this point at the coming directors' meeting on December 16 and I had the impression that Mr. Coyne had no particular objection to it and I think he felt at that point that it was a matter that possibly should be clarified with the Minister of Finance.

Mr. MORE: I want to go to the basic reasons that you gave for your move to examine this situation and to suggest that perhaps your future needs might involve the Bank of Western Canada as a restriction of your companies' previously negotiated lines of credit with chartered banks in Canada. As I recall it, I think you said that the change of attitude by the banks with whom you had these lines of credit led not only to a reduction in lines of credit for your companies, but also a reduction in lines of credit to directors and companies of directors connected with the board of the Bank of Western Canada. Am I misstating this in any way?

Mr. STEVENS: No, I think that is generally true.

Mr. MORE: This certainly is—I do not know whether "accusation" is the proper word to use or not—a matter of great interest to me as a member of the Committee dealing with bank revisions and I feel it is unfair to leave it in this general manner without identifying and producing some evidence to back up your statement, Mr. Stevens. Are you prepared to do this in any way?

Mr. STEVENS: I think in fairness to the directors who told me this—and they told it to me as Chairman of the Board—I do not want to put them in a more awkward position than they are in at present, but I mentioned that point simply to repeat what I had already repeated to the board of directors at the time of the December 16 meeting, and that was that certain of the directors had felt some repercussions on becoming directors of the Bank of Western Canada.

Mr. MORE: So your statement that you had personal knowledge of this—I remember this and I think I would say this is a quote from the statement you made last night—is only based on conversation and not on any real evidence which you can produce?

Mr. STEVENS: If you mean could I produce a letter from a bank addressed to one of our directors stating that whatever credit facility was available it is no longer available in view of the fact that you are now a director of the Bank of Western Canada, I cannot do that. I am simply stating that the directors concerned came to me and said that they had gained the impression—mind you, I think that banks are very reluctant to put anything in writing—

Mr. MORE: Are trust companies?

Mr. STEVENS: That they had gained the impression from their respective banks that their existing credit arrangements were no longer as attractive to the particular bank, and in some degree they were either lessened or, I think in one case, completely cut off. The thing that is very nebulous, of course, in this type of arrangement is that a bank naturally will not state too positively that they are cutting off anybody's credit for the reason that he is a director of another bank, and in fairness to the banks it may be that in each instance there was some other reason that caused them to take this action. But having said that I would have to also say that in the minds of these directors the fact that they had joined our board was at least part of the reason why their credits had been lessened.

Mr. MORE: This is not very much in the way of evidence. Would you not say that perhaps other companies who had no connection with your group or the Bank of Western Canada have had the same problems in the present climate that you have had?

Mr. STEVENS: When I was referring to this yesterday I believe I said that I would not like it to be said that the lessening of credits in our group was only due to the formation of the Bank of Western Canada. There has been tight money and I think banks generally have tried to cut back on many accounts.

Mr. MORE: Your statement, rather than being based on evidence, is based on innuendo, is it not, that the Bank of Western Canada indeed was a factor in the cut-back of credit? This is your statement as I interpret it.

Mr. STEVENS: In the cases with which I am connected it is definitely a factor in the cut-back of credit.

Mr. MORE: This was stated to you personally in your dealings with the bank concerned?

Mr. STEVENS: Yes.

Mr. MORE: What bank was it? I ask the Committee to consider that as long as we are left without the knowledge of whom you deal with that charges are being made which reflect on eight chartered banks, and I suggest it is very relevant to your evidence and your argument.

Mr. MONTEITH: May I ask a supplementary question, Mr. Chairman? How many banks did your group of BIF companies deal with, shall we say, back in 1964 when you had a $5 million line of credit or in 1965 when you had it even as high as $13.9 million at one stage?

Mr. STEVENS: I think I can give you that information. We dealt with four Canadian banks.

Mr. MONTEITH: Four Canadian banks.

Mr. STEVENS: To a lesser extent there were two other banks involved, but the main banks would be four and then to a lesser extent two others, so there would be six in total.

Mr. MORE: I asked a question, Mr. Chairman, and—

The CHAIRMAN: All right. I think, unless Mr. Stevens is prepared to answer immediately, I will first invite any comments that the members of the Committee may have as to why this information should or should not be requested from Mr. Stevens. Are there any comments one way or the other?

Mr. MACKASEY: Mr. Chairman, on a point of information so that I can make up my mind, first of all would it be illegal under our Bank Act for a chartered bank to reduce the credit of BIF?

Some hon. MEMBERS: No, not at all.

Mr. MACKASEY: I know the answer but I want to get it from the Chairman.

The CHAIRMAN: I do not think I am in a position to give a legal opinion, although I am almost tempted to do so, but I presume that if the loans are payable on demand, they are call loans then the arrangements could be changed at any time.

Mr. MACKASEY: The point is that if these Canadian chartered banks had reduced Mr. Stevens credit down to—I think he mentioned $150,000 last evening—they were within their legitimate legal rights to do so. What purpose would then be served in divulging the names of these particular banks?

The CHAIRMAN: I suppose it would be interesting to some members of the Committee, at least, to know,—

Mr. MACKASEY: Just to satisfy curiosity.

The CHAIRMAN: —aside from the legality, what the motives were.

Mr. MONTEITH: In no instance, Mr. Chairman, during our total discussions of the Bank Act thus far have we mentioned specific banks in specific cases.

The CHAIRMAN: Are there any other comments from members of the Committee?

Mr. CAOUETTE: I think that by naming those banks it would enable us to ask more questions of the banks concerned. I believe it would be in the public and

the general interest, and also of interest to the Committee, to know with which of those banks—the four main banks and the two others—the BIF group dealt.

The CHAIRMAN: Are there any further comments from members of the Committee? I will recognize you, Mr. Grégoire.

(*Translation*)

Mr. GRÉGOIRE: Yes, Mr. Chairman, I was wondering whether after the testimony of Mr. Stevens the other chartered banks of which mention has been made would also testify in this regard?

The CHAIRMAN: It would be up to the Committee to decide whether we wish to ask other witnesses to come or the same witnesses to testify.

Mr. GRÉGOIRE: Now, Mr. Chairman, there is also an important point involved here. Indeed I think this is the essence of the matter. When the Bank of Western Canada was being established and in other circumstances, particularly when we were discussing the Mercantile Bank, the Canadian Bankers' Association, i.e. the chartered banks stated in their evidence that not only they did not fear competition, but that they desired it that a new bank would provide more competition in the banking field. Would this not be a contradiction which perhaps might come out of this discussion?

(*English*)

Mr. MACKASEY: Mr. Chairman, there are only eight chartered banks and last night Mr. Stevens said that he was not doing any business with the Mercantile Bank. The only one I can think of beyond that and it would be too small to do business even with his empire, is the Provincial Bank, so it is pretty obvious—

The CHAIRMAN: The Provincial Bank may want to quarrel with that statement, I do not know, but I think that you are being very helpful in that regard, Mr. Mackasey. Perhaps I should ask if there are other comments from those who have not offered any yet and wish to do so. Mr. Wahn?

Mr. WAHN: Mr. Chairman, I can see that for perfectly good reasons it might be embarrasing to the witness to have to give the name of a specific bank. I do not think it will help our inquiries very much because I do not believe that any banker would admit that he had cut down the line of credit of a director because the director was associated with a newly-incorporated bank. These things are just not done that way.

The CHAIRMAN: I just want to interject here, Mr. Wahn. I thought that the matter I was going to have to determine, with respect to an answer, was with regard to Mr. Stevens' direct contact with banks relating to changes or limitations on lines of credit. I do not think at this point Mr. More was pressing for the names of the banks that had been in touch with directors of the Bank of Western Canada. Am I right in that, Mr. More?

Mr. MORE: That is right.

Mr. SHERMAN: The same thing would apply to Mr. Stevens, who is a director and one of the initiators of the bank.

Mr. MCCLEAVE: Mr. Chairman, I do not think it would help us in any way to know the names of the particular banks. There are only a few of them and we can pretty nearly guess.

Mr. COATES: I do not think we should have to guess. Is it not fair to ask Mr. Stevens what bank he did business with? I think this should be available to the Committee.

The CHAIRMAN: I will render a decision as soon as I give Mr. Stevens an opportunity to speak.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Could I say a word? I think perhaps we should explore it a little bit further. I am sure every member of the Committee is dying to know the name of that bank, but nevertheless—

Mr. MORE: I am not going to die about it.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I am glad to hear that, Mr. More. Obviously, Mr. Chairman, if Mr. Stevens does give the name of the bank some Committee member is going to ask that bank to appear.

Mr. MACKASEY: Is it one bank or six banks, Mr. Cameron?

An hon. MEMBER: Four.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Will one bank or six, or whatever. I think Mr. Stevens confined it to one bank on which I gather he had specific information, direct contact with one bank. Was that it?

Mr. STEVENS: Uh-huh.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Then certainly some member of the Committee is going to suggest that we have that bank before us and like other members of the Committee, I cannot see that bank saying that, even though the reason for the curtailment of credit may well have been the connection with the Westbank, and it is difficult to see how that bank could come on the stand without suggesting by implication that there was some other reason for cutting off credit which might or might not be justified.

Mr. MONTEITH: Might I suggest this solution, and I am only suggesting this because I think Mr. Cameron has a very valid point. Why could we not could deal with them as A, B, C and D? It does not give us any indication but we may get a different approach from different banks.

Mr. MORE: Mr. Chairman, I am not goint to press the point for the single bank. My view is that if Mr. Stevens' statement is backed by any evidence, then it indicates to me an action in restraint of competition, which they have stated they desire by presently operating banks and which I think, regardless of the statements made about what the bank might or might not say, the members could conclude from their own experience what was the true state of affairs. I think you indicated, Mr. Stevens, that the major part of your business was with four banks, and then you added two more. Perhaps it would not be wrong to ask that you name the four banks and we will leave it at that, if that is acceptable to the Committee, I would accept that as an answer to the question.

The CHAIRMAN: Do you have any comments, Mr. Stevens, before I attempt to render a ruling in this regard?

Mr. STEVENS: No, other than—

Mr. MACKASEY: On a point of order, Mr. Chairman.

The CHAIRMAN: Let us first hear from Mr. Stevens. He may say something that will assist us in determining this matter and then I will recognize you, Mr. Mackasey.

Mr. STEVENS: I feel I should clarify one point. It was suggested that obviously we did not deal with the Mercantile Bank and I made that clear yesterday. What I tried to make clear was that the American bank that was referred to was not the first National City Bank

The CHAIRMAN: The bank that was interested in possibly buying shares of the Bank of Western Canada?

Mr. STEVENS: That is right, but I did not mean to infer that we were not dealing with the Mercantile Bank in one way or the other in Canada, as far as our ordinary business needs were concerned.

Mr. MACKASEY: My point of order, Mr. Chairman, is that I am confused because I have heard two different statements from Mr. Stevens. At least, I think I have. In one case he was refused by one bank, in which case that bank certainly had a legitimate right and, secondly, I was then led to believe by Mr. Stevens that he was refused by four banks and subsequently by two others, which would give strength to Mr. More's argument of collusion or restraint. I would like to know which it is. Who refused you a line of credit, Mr. Stevens?

The CHAIRMAN: I think I had better determine the matter right now. In the first place, it would seem to me that while problems could be created both for Mr. Stevens by divulging the information and for the banks by having their names mentioned, at the same time by alluding in even general terms to the situation is in effect inviting questions which would lead to the divulging of the names of the institutions in question. I think Mr. More has rased a point which would indicate the relevance of this information in relation to the general inquiry we are carrying out on behalf of parliament. I might also add that, of course, in appearing here as far as certain legal consequences of statements are concerned, there is a certain immunity granted to Mr. Stevens, although I do not know whether that immunity would extend to the maintenance of his banking relations. That is another matter.

Mr. STEVENS: That is what I am worried about.

The CHAIRMAN: As I was about to say, Mr. Stevens, this was a matter which you had to take into account when you gave us in general terms certain information regarding the limiting of your banking connections. Inasmuch as you have, in effect,—although you may not have realized it—just given us the name of one of the banks with which I gather you may have been dealing, namely the Mercantile, if I understood you correctly, I would therefore rule for a start at least that it would be in order for Mr. More to ask, and for you to answer a question as to the names of the four banks you have alluded to principally.

Mr. MACKASEY: Are there four banks or one bank? I do not know.

Mr. MORE: He indicated four. I will go from the first position and ask Mr. Stevens to name the four banks with whom the major part of his lines of credit were arranged.

Mr. STEVENS: Yes. The Canadian Imperial Bank of Commerce; The Bank of Nova Scotia; The Mercantile Bank of Canada; The Toronto-Dominion Bank

and, to a much lesser extent, The Royal Bank of Canada and the Banque Canadienne Nationale. Recently, I think, we have had one account with the Bank of Montreal. I suppose we are really dealing with all seven, with the exception of the Provincial Bank.

Mr. MACKASEY: Which is probably the best of them all. Size does not mean everything.

Mr. STEVENS: Maybe we should try it.

The CHAIRMAN: You may have to.

Mr. MORE: This becomes very interesting. I only asked for four and I now have seven.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I thought you had only asked for one.

Mr. MORE: That was the original question. Are you sure that the eighth bank is not involved some place? Are you positive about that?

The CHAIRMAN: That is what makes these Committee hearings so interesting.

Mr. STEVENS: I do not think we are.

Mr. MORE: I am perhaps speaking with a tongue in cheek and you may want to rule. Could I ask you generally if your lines of credit with all these banks have been—I think I am fairly interpreting your statement—arbitrarily reduced since you became interested in forming the Bank of Western Canada?

Mr. STEVENS: I would not like to put it that strongly in that I am simply stating that I believe, from conversations with bankers and during negotiations, that the Bank of Western Canada has definitely been a factor in the thinking of these banks concerning their future attitude to our banking needs, but I would emphasize that it is merely "a" factor. I think there are other factors. The trust companies are quite aggressive and they are competing directly in some instances with the banks. In banking language I think it is also very true to say that the tight money situation is one in which I think they tend to grade their credits in order of desirability. One of the least desirable credits would be a semi-competitor, as compared with somebody who was in no way competing with them.

Mr. MORE: I will not press this matter any further, Mr. Chairman. I wanted to try to clarify and move from the basis of innuendo to something of substance. I do not know whether I have accomplished that or not.

In your statement you indicated that in the tight money situation, or in your problems with obtaining lines of credit, you did obtain from a Canadian chartered bank a line of credit for which you paid 8 per cent. I would like you to explain how it came about that you paid 8 per cent. My understanding is that compensatory balances and charges bring it up from 6 per cent to something over 7 per cent, but I have never heard of it reaching 8 per cent. If I did not misunderstand, you made the flat statement that this loan from a Canadian chartered bank which was made during a period within the last two years, had cost you 8 per cent. Could you explain that?

Mr. STEVENS: Will I have to name the bank?

Mr. MORE: I have not asked for that yet. I will listen to your explanation.

Mr. STEVENS: It was simply done by the process of a sale and repurchase agreement.

The CHAIRMAN: Could you expand on the technique involved in that for us?

Mr. STEVENS: Certain securities were sold to the bank on the basis that if we wished to re-purchase them we could do so, and in repurchasing the effective return to the bank would be 8 per cent.

Mr. MORE: Is this sort of a discounting basis? Is this a bank procedure in connection with commercial loans? I understood it was with consumer loans but this would be a commercial loan?

Mr. STEVENS: No, it is different from the approach used in the consumer loans in that it is a process that is often used, I think, among investment dealers where you buy, for example, a bond at a certain price on the understanding that it can be repurchased by the seller at a higher price in order that the institution that originally did the buying—

Mr. MACKASEY: It would be better to call it a pawn shop technique rather than sale and purchase because of the similarity, if I recall, from the olden days.

Mr. STEVENS: I think it is quite a legitimate transaction. The point I was making, though, is that it gave the bank an effective 8 per cent return.

Mr. MORE: It was not an unusual transaction between groups of companies of your nature and banks?

Mr. STEVENS: It is the only time we have had to do it.

Mr. MORE: What was the amount of the funds and in what amount was this transaction?

Mr. STEVENS: This is getting pretty specific.

The CHAIRMAN: I am wondering, Mr. More, to what extent we should be probing into the internal operations of the companies involved and their relationships with their banking connections. It is one thing to talk about the technique of borrowing or financing, but you may feel it is another to deal with amounts.

Mr. MORE: I just wanted an indication of the scope.

Mr. STEVENS: It was a large loan.

Mr. MORE: It was a large loan.

Mr. STEVENS: Over $1 million.

Mr. MORE: I will be satisfied with that answer. Now then, Mr. Stevens, I just want to finish up with this question. The directors who reported to you that their lines of credit had been reduced or cancelled because of their connection with the Bank of Western Canada, were they directors connected with your group of companies or where there some directors outside your group of companies that were involved?

Mr. STEVENS: Certainly from my standpoint they were all outside our group of companies in the sense that any active BIF directors were not included in the group to which I am referring. Sometimes I feel that it I merely shake a man's

hand he is referred to as a BIF man. If a person is a director of Alberta Fidelity, for example, the fact that we own a third of that company to my mind does not mean that that is a BIF company, and if that director is the one in question I think it is unfair to say that he is a BIF man.

Mr. MORE: Could I put it a little differently. Were the directors resident in the east?

Mr. STEVENS: No, I think there were three resident in the west and one in the east.

Mr. MORE: How many directors do you have in the west?

Mr. STEVENS: Eleven.

Mr. MORE: I did some telephoning last night and I could not verify your statement. I got a flat denial that they had been affected in any way, shape or form because of their activity in this matter.

The other statement I want to refer to is the statement you made that banks with whom you had lines of credit had files tabbed, "Pre-Bank of Western Canada", "A.D. Bank of Western Canada", or something. Did this knowledge come to you directly through dealing with the bank or have you secured an employee from this bank who gave you this information?

Mr. STEVENS: No, it came directly from dealing with the bank.

Mr. MORE: Thank you, Mr. Chairman, I am finished.

The CHAIRMAN: I recognize Mr. Thompson followed by Mr. Flemming, Mr. Monteith and Mr. Lind.

Mr. THOMPSON: Mr. Stevens, Mr. Coyne said in very forceful language that you were not just asking for money from U.S. banks but that you were actually travelling about offering shares in the Bank of Western Canada to U.S. banks, not for any particular benefit or privilege, I think he said, for the Bank of Western Canada but for special privileges for the BIF group of companies. He also stated that you were going in by the back door where you are forbidden by regulation or legislation from entering by the front door. Then in your statement you referred to the fact that you had offered Bank of Western Canada shares to different American banks. How can you compare that with the statement which you made on March 3 last year when you appeared before this Committee?

I will read from your own testimony:

> On that point I would say that the selling off of some of our shares is always a possibility.

The CHAIRMAN: What is the page number?

Mr. THOMPSON: Page 115.

> I would say it is extremely unlikely that we would be selling off shares to any large degree in the next five years, and I could say fairly safely within ten years.

What is it that has caused you to adopt a course of action—which you have yourself admitted and to which Mr. Coyne referred—that is so contrary to this very definite statement which you made on March 3, 1966?

Mr. STEVENS: I believe, Mr. Thompson, this was in reference to the general discussion that was taking place during that part of the hearing which was concerned with how we would come down to the 10 per cent level, which we were required to do under the Treasury Board order. In direct answer to your question I would say that there really has been no change in our thinking, in that as far as we are concerned the sale of a block of our holdings in the Bank of Western Canada is something that we know we have to meet at some stage. The point I was making here was that we anticipated we would hold shares for possibly five years before we would sell them but, on the other hand, I qualified that by saying that the selling off of some of our shares was always a possibility. The thing that has prompted us to consider the sale of any Bank of Western Canada shares is that in discussing the future of the Bank of Western Canada we ran into—I think I referred to this at least in part yesterday—a very strong opinion from some of the western directors that the preponderance of control in the BIF group was detrimental to the image of having western Canadians accept the Bank of Western Canada as a truly western institution in the sense that it is intended to be as far as we are concerned. I believe Mr. Coyne was quite definite on this specific point in that he felt it was becoming extremely difficult to sell the Bank of Western Canada image with the BIF position as predominant as it was. Consequently at our directors meeting we proposed that we would certainly be interested in negotiating if there was a western group that wished to buy a portion of our shares and if a proper deal could be worked out. Now, tied in with the same thinking, the more we have explored the future of the Bank of Western Canada the more we—referring to myself and the BIF associates—feel that it would be an advantage to the development of the Bank of Western Canada if they did have a banking partner participant in the sense that the know-how and the knowledge and the possibility of participation in loans that such a bank could generate to the Bank of Western Canada—

Mr. THOMPSON: You are now referring to an American bank when you say that?

Mr. STEVENS: Probably an American bank but possibly any foreign bank. When I say "probably" I mean there is a 99 per cent probability it would be an American bank. This idea has partly grown from the fact that during the fall of last year we had some of our people go down into the eastern, central and western sections of the United States and they met with banking concerns to discuss where they might be willing to co-operate with the Bank of Western Canada in getting us established and running. During these conversations, and I would emphasize that this has never been a big point, the possibility of a possible equity participation arose, from time to time, but the only thing of a definite nature that arose was the New York transaction which was referred to yesterday. When I say definite I mean on a first refusal basis, but that is the furthest it has ever gotten in any type of serious conversation. Now, there again I would mention that the proposition involving the New York bank is one in which initially the New York bank stated that they felt they would probably be interested in buying an interest in the central BIF company, and the first refusal simply refers to the fact that the New York bank have a first refusal in the event that we wish to sell shares either in the BIF concern or in the Bank of Western Canada. The thinking behind it is more along the lines of developing the

association with the bank in New York than it is in the idea of their buying the equity in the Bank of Western Canada. In fact, last evening I came across the letter that had initially been sent to that bank, and it was not asking for any line of credit but was simply referring to the possibility of an association with our BIF group, and I thought it was interesting to note that while the letter, I think, was ten pages long, the Bank of Western Canada was referred to on less than a page. The main points that we were talking to the New York bank were on 90 per cent other than the Bank of Western Canada. In other words, in that letter we were describing our full group, all our trust operations, our operations in international fields, our methods of growth, and this type of thing. The reference to the Bank of Western Canada took less than a page.

Mr. THOMPSON: You said last night, I think, that you had approached probably ten different banks in the three areas of the United States and you asked them if they would be willing to co-operate in participating in the bank of Western Canada. Were you then offering them shares in the Bank of Western Canada or shares in the BIF group, or both?

Mr. STEVENS: No. In most instances when we approached these banks there was no discussion of any equity participation with respect to those banks. The discussions were more along the lines of working out corresponding banking relationships. The American banks are quite co-operative in giving you administrative manuals and information on procedures and establishing reciprocal arrangements with banks. They are particularly interested in developing and cultivating connections with any bank in Canada, as they have already done with the other eight. Our bank, as it is the ninth, it is only natural that in their own area they would be quite desirous of making early relationships with a new bank in Canada.

Mr. THOMPSON: Did you feel that any of these initiatives on your part contravened the agreement made with the Treasury Board in their minute No. 658534, dated August 3, 1966? Do you feel that you were contravening any of those requirements that were specified in that Treasury Board regulation?

Mr. STEVENS: I do not know in what way you would feel that we were contravening. Are you referring to a specific section, Mr. Thompson?

Mr. THOMPSON: Specifically, you were not to make any loans with any of the BIF companies. The bank was not to guarantee any liabilities of any of the BIF companies. It was not to purchase any assets from the BIF companies. None of these points were contravened, in your opinion?

Mr. STEVENS: No, definitely not. For example, as has already been brought out, the BIF group deal with the Mercantile Bank. Now, the Bank of Western Canada opened their first account with the Mercantile Bank. The two things are unrelated. The association that we would have with the American bank need not have any more relationship than in the case referred to with respect to the Mercantile Bank.

Mr. THOMPSON: At the December 16 directors' meeting I believe a resolution was proposed that certain actions be taken and it was suggested at that time that you go to the Minister of Finance to ask for his approval on this. I believe that you or Mr. Coyne said that this was opposed by certain directors of the bank?

Mr. STEVENS: It certainly never arrived at anything close to the resolution stage. The discussion that Mr. Coyne referred to was simply a discussion. It was a review in similar terms to that which I reviewed last night as the position of our group, the effect of the Treasury Board order and the fact that we were specifically prohibited from doing these various things without the consent of the Minister of Finance. There was no proposition put forward of a definite nature that we would like a line of credit or a loan of X amount. During the discussion this was made quite clear, as Mr. Coyne brought out by his reference to the fact that one of the directors said, "If you are actually applying for a loan under the Bank Act you will have to absent yourselves during the discussion", and I remember it was made clear that we certainly were not applying for a loan. All we were doing was trying to familiarize the directors with the situation leading up to the formation of the bank, our group position and the relevant portions of the Treasury Board order.

Mr. THOMPSON: Mr. Stevens, why did the BIF group not meet their commitments with the Bank of Western Canada by putting another $1.45 million into the bank? What was your reason for not meeting your commitment in this regard?

Mr. STEVENS: I think I touched on that to some extent last night. I would say the reason was partly one of disappointment in the failure of definite policies with respect to the Bank of Western Canada's future activities in that we were concerned by the fact that the bank was not being developed, from a policy standpoint, in a precise way to the extent that we would like to have seen. We had several discussions at previous meetings, including the December 16 meeting, and it seemed at that time—and still is in my opinion—to be quite indefinite from a policy standpoint, what kind of a bank we were going to have in the Bank of Western Canada. This was one influence on us.

The second influence was the fact that the directors of the bank—I think it was two or three of the western directors in particular—indicated that they felt that our participation in the bank was one of the most negative features in trying to convey the genuine western impression in the western provinces. As I mentioned last night, this put us in the odd position where we were still putting up more money and there was some suggestion that we should be selling our shares. One director even suggested that we should sell them at market, which I think would be $3 a share less than what we paid for them. One other suggestion was that we should put all our shares into a voting trust. From our standpoint this caused us to draw back. Another point was that while funds were available on the date in question, they were credit funds which we were using to put in. In other words, they were Wellington Financial Corporation assets which amounted to something like $10 or $11 million. When we put these funds into the Bank of Western Canada it will require a loan to be made against our assets. So, we are in the position, if we are going to sell these shares—as the western directors would like us to—where we are really warehousing them in the meantime by obtaining credit and carrying the shares until they are sold to some other buyer.

Mr. THOMPSON: You stated last night that you had established a line of credit for some $2½ million, $1½ million of which you had either drawn or it was available for drawing. Was that money intended to meet your obligations to the Bank of Canada?

Mr. STEVENS: Well, in part. I do not know that you could definitely earmark it. I know there is quite a difference between the two amounts. However, we do have other American lines as well and the total lines would be somewhere around $3½ to $4 million. I do not know that you could actually earmark the $1½ million, but I think it would be fair to say that part of the $1½ million would probably be used in the purchase of the remaining Bank of Western Canada shares. I hope there is no misunderstanding there. We still fully expect that these shares will be taken up and paid for, it is just we are in a bit of a quandary at the present time.

Mr. FULTON: You naturally have some internal problems to settle first.

Mr. STEVENS: Yes.

Mr. GRÉGOIRE: You have the money in hand.

Mr. STEVENS: No, we do not have it in hand but we have available credits. We can have the money if required.

Mr. MACKASEY: This commitment is an internal commitment?

The CHAIRMAN: Order, please. Are you willing to yield the floor, Mr. Thompson? Go ahead, Mr. Thompson.

Mr. THOMPSON: You then specifically refute the charge that Mr. Coyne made that you were using the Bank of Western Canada for the direct benefit of your group of BIF companies as a tool rather than those intentions which you stated over and over again when you appeared before the Committee in 1965 and 1966?

Mr. STEVENS: Yes, completely. We have been dealing with various American banks and, as I said yesterday, certain United Kingdom banks, and we feel that these contacts are contacts in the sense that they have been dealing with the BIF group or companies within the BIF group. I think Mr. Coyne made the comment to one of our people that he felt that any bank that we were dealing with, the Bank of Western Canada more or less automatically would not deal with them. We feel that this is taking the extreme approach in the sense that if you put it the reverse way, I do not know what would happen if the Bank of Western Canada started dealing with a bank and then we opened an account with them. I do not think this was ever intended in that the associations that you build with banks are something that generally, if you have friendly associations, you tend to cultivate and you do not, for example, in the same city deliberately use two separate banks just as a matter of policy. I should clarify the point that the type of thing that is perhaps by innuendo inferred is that, for example, the Bank of Western Canada would put money on deposit with a bank on the understanding that that bank in turn would loan it to us. That was not involved in any of these credit arrangements to which I have been referring. There is no understanding of that nature whatsoever.

Mr. THOMPSON: In your differences of opinion—

The CHAIRMAN: Mr. Thompson, I just want to bring to your attention the fact that 20 minutes has elapsed since you began your questioning, so I will allow you to ask this question and Mr. Stevens to answer, but then I think we should pass on to the next person on the list.

Mr. THOMPSON: In your differences of opinion with Mr. Coyne, particularly at the January and February 1 board meetings, did he at any time in your discussions state that he contemplated reporting your intended actions or the possibility of such actions—with which he took such strong disagreement—to the Inspector General of Banks, the Governor of the Bank of Canada or the Minister of Finance?

Mr. STEVENS: I cannot recall that he ever said anything like that, no.

Mr. THOMPSON: The thing that is disturbing, I think, at least to myself, is that several times you have stated that you were startled at his statement to the press and that under no circumstances had you done this, and yet Mr. Coyne's testimony is just as firm on the opposite side. There does not seem to be a coming together of these two opinions as to what really was your intention. I think we will leave it at that.

Mr. FLEMMING: Mr. Chairman, my questions are based on Mr. Coyne's statement dated February 3, and they have been partly covered by Mr. Thompson. The third paragraph of the statement refers to the connection between British International Finance and The Wellington Financial Corporation with the Bank of Western Canada, and it seems to me that that is very pertinent to this Committee. He gives three specific reasons for his resignation, I take it. Firstly, he states:

> . . .they have failed to make good their subscription for shares to the extent of about $1,500,000,. . .

I take it, Mr. Stevens, from the answer you gave Mr. Thompson that part of the funds you were endeavouring to secure in New York were going to be used for this purpose. Do you consider that you were in default of that $1½ million?

Mr. STEVENS: As Mr. Coyne mentioned, this is a rather nebulous area, I think, in that under the Bank Act they appear to contemplate that you subscribe for shares and, as was indicated, the understanding was that the shares would be paid for at a certain date, but technically there is a provision that the directors are to call the shares. There has never really been a call made and I am not too sure just what position you could say we are in, but to clarify the point, we certainly have no intention of reneging on putting in the money or in some way not completing the subscription or obligation. It is more a question, as Mr. Fulton indicated, of trying to clear the air and not getting into a position where we are simply carrying shares—which requires credit—not knowing exactly whether we are going to sell them or keep them.

Mr. FLEMMING: Then I take it you do not consider that you were in default?

Mr. STEVENS: In the very technical legal sense that is right, we would not be in default.

Mr. FLEMMING: The second point Mr. Coyne made in his statement was:

> . . .they have attempted to get the Bank to provide credit to their own companies contrary to the most explicit statements made to the Committees of the Senate and of the House of Commons. . .

I take it from your answer to Mr. Thompson that you refute this; you do not agree.

Mr. STEVENS: No. There is one thing that I think I should explain which I did not touch on last night. In Mr. Coyne's testimony I think he referred to two things; firstly, the fact that he understood we were considering a line of credit up to 10 per cent of capital, and I think I did touch on that last night—

Mr. FLEMMING: That was the third reason. I am only on the second.

Mr. STEVENS: Secondly, the idea of buying Consumer Finance paper from one of our companies. The matter that he was referring to there is something that has been considered, and I would have to state very definitely that if this was done it would certainly come under the Treasury Board order and it would require the consent of the Minister of Finance. There is no doubt about that and there has never been any misunderstanding that way. However, those of you who were on this Committee when I appeared a few weeks ago on behalf of the 12 trust companies will remember that we mentioned that the trust companies feel that they are at some disadvantage with respect to the making of consumer loans to their customers in that under the charter of the trust and loan companies they are unable to make such loans, but in the case of our companies we have set up a separate company called Simcoe Plan Loans, which works through the trust companies as agent.

This is something that was set up in our thinking for two purposes, and I think this is the difference between Mr. Coyne's understanding and our understanding. The first purpose was to give a better service to our trust company customers. We wanted to be able to give our customers the same consumer loan facility that they could get at the chartered banks. The second purpose was because we felt that in anticipation of the Bank of Western Canada being formed that the formation of staff and the building up of a consumer loan portfolio would give the bank a very good start when they were incorporated if they wished to buy the portfolio. This, of course, would be subject to analysis by the Consumer Loan people and to meeting their satisfaction. On this particular point Mr. Coyne's first reaction, as I recall it, was that he felt it was up to the professional bankers who would subsequently be hired as to whether they had any interest in acquiring this portfolio.

I did discuss it then with Mr. Bernard, who was hired to head the consumer loan division of the Bank of Western Canada—we intend to make consumer loans in the bank—and with Mr. Cutts, the general manager of the bank. Mr. Bernard's response was very, very enthusiastic and he turned to Mr. Cutts and said, "I hope you have first refusal on the takeover of this portfolio because it gives me a nucleus to work on immediately and indirectly it gives me the advantage of working through the trust branches in getting consumer loan activity going, which I feel will be a big advantage in running my consumer loan division as compared with having to start with just one branch and building from that point". When he said that he hoped that we had a first refusal, I remember that I smiled because I knew that Mr. Coyne's reaction to it at that point was rather negative. This was subsequently raised and, as I recall, Mr. Coyne felt that in spite of what the consumer loan man might have felt it should not be purchased from our group. This in turn is the second point to which Mr. Coyne referred. It is not a loan to us; it is simply a question of whether the portfolio would be purchased from us and that Westbank would continue to make these consumer loans through our trust companies acting as agent. Incidentally, there

is one chartered bank that is now negotiating with a trust company to do this very thing and this bank may, in turn, do the same thing through our trust companies. It was our feeling that it was too bad that our own associated bank was not taking the opportunity if this other bank felt that it was desirable business.

Mr. FLEMMING: All right, Mr. Stevens. Then you acknowledge that you were talking the matter over with the Bank of Western Canada relative to taking over a portfolio of consumer credit items, if you like?

Mr. STEVENS: That is right.

Mr. FLEMMING: What do you think of the statement by Mr. Coyne that this was:

> . . .contrary to the most explicit statements made to the Committees of the Senate and the House of Commons. . .

Do you agree that that is justified?

Mr. STEVENS: I do not think it was contrary to—

Mr. FLEMMING: In other words, you do not agree with it?

Mr. STEVENS: I do not agree with Mr. Coyne's statement.

Mr. FLEMMING: That is what I mean. The third reason given by Mr. Coyne is that you were:

> . . .presently engaged in a borrowing operation with American banks which involves the giving of an option on 10 per cent of the total shares of the Bank of Western Canada. . .

I think you explained this last night, but would you mind reiterating your explanation of the 10 per cent matter with the American banks.

Mr. STEVENS: Yes. Mr. Coyne is referring to our negotiations with the New York bank and, as I say, we deal with several New York banks, but the specific bank that he is referring to is the one in which a line of credit of $2½ million had been requested, and I think I read the letter last night requesting the line of credit and pointing out that it was to be jointly and severally guaranteed by British International Finance and The Wellington Financial Corporation. During the oral discussion as to whether this bank would give us the line of credit the point was raised that in view of the fact that we had discussed equity participation from time to time and, as I say, primarily in our BIF group, would it be possible to have what I referred to last night as a gentleman's agreement to the effect that if we wished to sell up to 10 per cent—which would be the legal limit, although I guess technically there is no legal limit—of the BIF group or of the Bank of Western Canada that this bank would have the first right to purchase those shares. This was agreed to through a type of gentleman's agreement. There was nothing put in writing on it. As I understand it, it was a point which raised during the oral negotiation for this loan but it was never put into written form. Subsequently the bank confirmed that the line of credit had been granted and I think it was the reference to this first refusal to which Mr. Coyne took exception. In my opinion, I can see nothing wrong with this particular bank wishing to buy the shares.

Mr. FLEMMING: Mr. Stevens, you do not agree that there was any option, is that right?

Mr. STEVENS: I do not agree that there was an option in what I—

Mr. FLEMMING: At least in the legal sense of the word.

Mr. STEVENS: In the legal sense of the word. For example, shares were not identified, price was not identified, payment date was not identified or term of option. It was simply an understanding that if we were going to sell we would offer it to them.

Mr. FLEMMING: Yes, that is quite understandable. Now, what is your comment about Mr. Coyne's statement that there were various arrangements or, in other words, that your company was:

> ...engaged in a borrowing operation with American banks which involves the giving of an option on 10 per cent of the total shares of the Bank of Western Canada and various arrangements designed to tie the management and operations of the Bank to the operations of these American banks,...

What is your comment about that?

Mr. STEVENS: I do not know what he is referring to in that particular part.

Mr. FLEMMING: In other words, you deny it?

Mr. STEVENS: Certainly to the best of my knowledge there is no commitment that way at all. Is that the last—

Mr. FLEMMING: This is the latter part of the third paragraph. It reads:

> . . .and various arrangements designed to tie the management and operations of the Bank to the operations of these American banks,...

Now, in my opinion this is quite serious from the point of view of the Banking Committee.

Mr. STEVENS: No, I do not know what he is referring to there. Incidentally, I do not think Mr. Coyne was involved in these negotiations at all.

Mr. FLEMMING: Do you deny that there was any tie? The word "tie" is used. Do you deny that there was any tie?

Mr. STEVENS: Completely. In fact, I do not understand why the reference is there. It says:

> ...to tie the management and operations of the Bank to the operations of these American banks,...

I cannot think what the reference would refer to other than the possible suggestion that if this bank had a 10 per cent interest in the bank it would mean that it would become the correspondent bank for the Bank of Western Canada in New York or the other types of arrangements which we had to make with some New York bank would be restricted to this bank.

Again, there is certainly no agreement—

Mr. FLEMMING: Was a definite tie discussed?

Mr. STEVENS: In the sense that I think Mr. Coyne means here there was definitely no tie, no sort or ironclad agreement such as if you want to do business in New York this is the bank you would have to see.

Mr. MACKASEY: Mr. Chairman, I have asked permission from Mr. Flemming to ask a supplementary question. May I refresh Mr. Stevens' memory on what

Mr. Coyne said last evening in reply to a direct question from me. Mr. Coyne said that what he objected to was the use by BIF of Western shares with American interests, not for the best interests of the Western bank but for the best interests of BIF. Would you like to comment on that?

Mr. STEVENS: Well, I feel that comment is unfair in that, as I mentioned last night, we had been dealing with these New York banks even prior to the incorporation of the Bank of Western Canada.

Mr. FLEMMING: It seems to me, Mr. Chairman, that what we are concerned about is the relationship with the Bank of Western Canada rather than BIF. BIF can borrow hundreds of millions in the United States; I do not care. The more they borrow the better I will be satisfied as far as that goes, but when certain representations are made with respect to the Bank of Western Canada, then I think it becomes a matter about which this Committee should take cognizance. The last line of the same paragraph reads:

> ... again contrary to statements made when applying for a charter.

Now, in the light of your answers, Mr. Stevens, I presume that you do not acknowledge that there was anything said at any time that was contrary to the statements which were made when the charter was applied for by yourself and Mr. Coyne?

Mr. STEVENS: Oh, no. I could not agree more with what you say, in that I do not acknowledge that there was anything done which was contrary to the statements made when applying for the charter.

Mr. FLEMMING: Do you consider that 10 per cent of the shares of a bank give it effective control?

Mr. STEVENS: Well, in this particular situation certainly not because we carry on holding 40 per cent.

Mr. FLEMMING: Mr. Stevens, I am just about finished but there are a couple of questions—

The CHAIRMAN: Mr. Flemming, the clerk has just informed me that your twenty minutes has elapsed.

Mr. FLEMMING: May I ask one more question, Mr. Chairman?

The CHAIRMAN: Perhaps you could pick the most important one.

Mr. FLEMMING: Last night Mr. Stevens was asked the name of the bank that he had been negotiating with in connection with the matter and he expressed some reluctance—and I can fully appreciate it—about divulging the name of the American bank. I do not think that bankers or individuals or companies whant their business broadcast on the front page of the newspapers all the time, so I sympathize with that point of view. Mr. Stevens, this is my question. Would you be willing to give the name of the bank to the Chairman and Vice-Chairman of this Committee privately?

Mr. STEVENS: No, I have no objection to that at all.

Mr. FLEMMING: You would have no objection to that.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): And we will worm it out of you.

Mr. FLEMMING: That may be the general idea, Mr. Chairman. I think I will worm it out of you.

Mr. STEVENS: The chief reason for my reluctance to mention it is exactly the reason that you have raised, Mr. Flemming. We feel that this is a very happy banking relationship as far as our group is concerned and I think it would be unfortunate if their name appeared on the front page of the paper, as you say, in something that they have absolutely no control over.

Mr. FLEMMING: Well, I do not want my name on the front page of the paper. I am sure that the banks that loan me money do not want theirs on either. Well, Mr. Chairman, thank you.

Mr. FULTON: They would be very proud of that.

The CHAIRMAN: Gentlemen, the next name on my list is Mr. Monteith. I should draw the attention of the Committee to the fact that my list at the moment reads as follows: Mr. Monteith, Mr. Lind, Mr. McLean, Mr. Cameron, Mr. Mackasey, Mr. Fulton, Mr. Sherman and Mr. Ballard. It is now seven minutes after five, and while I see no reason why we should not try to sit somewhat past six, I might suggest that the Committee consider that we should attempt to take less than the ordinary period of twenty minutes. Rather than lengthen the time perhaps we might try to reduce the period of questioning to approximately ten minutes so that we can accommodate all the members.

Mr. MONTEITH: I would be very happy to try, Mr. Chairman, but I think you might well have started the reduction at the start of the meeting.

The CHAIRMAN: Well, I think you are quite right and I am probably at fault for not realizing there would be so much interest. I should point out that when the meeting began there were only three names on my list and the other people exhibited their interest as the first three people were asking their questions. It is unfortunate there was this unusual shyness on the part of those attending this meeting, and if I had realized at the outset there was going to be this interest I would have made the suggestion earlier. However, I am sure we will be able to get along without unduly limiting anyone.

Mr. SHERMAN: Mr. Chairman, is the Committee planning to sit tomorrow morning?

The CHAIRMAN: We are planning to sit tomorrow morning but it was my impression that the Committee had decided at least tentatively yesterday evening that we would hear the Minister tomorrow morning, firstly on this Bank of Western Canada issue and then because of the urgency of the matter we would begin our hearings on the deposit insurance bill and hear from the Minister and his officials on that matter with the hope that the Committee—particularly if the minority in opposition parties are in agreement—might at the beginning of next week begin our clause by clause consideration of the banking legislation. As I said yesterday, we have to keep our primary purpose in mind at this time in our responsibility to parliament. Mr. Monteith?

Mr. MONTEITH: Mr. Chairman, I would like to continue along the line of Mr. More's questioning because I think it is most relevant at the moment to the study of the Bank Act. I am not going to ask you the name of any one particular bank, Mr. Stevens, but I am wondering if you can think of one which we can call bank

"A" and with which your group of companies has been dealing for a considerable number of years. You have not had any difficulty over those years with your lines of credit and your requirements other than the ordinary bank and client relationship?

Mr. STEVENS: Yes, that is right.

Mr. MONTEITH: This relationship continued and was still in force during the Senate hearings in 1964 concerning the formation of the Bank of Western Canada?

Mr. STEVENS: Yes.

Mr. MONTEITH: The relationship still existed in March of 1966, when you appeared before the Banking Committee of the House of Commons?

Mr. STEVENS: It had badly deteriorated.

Mr. MONTEITH: It had started to deteriorate at that time?

Mr. STEVENS: Oh, yes.

Mr. MONTEITH: Now, this is a year ago. In other words, this was last March?

Mr. STEVENS: That is right.

Mr. MONTEITH: Because, if I am not mistaken, you made statements to our Committee last March to the effect that you did not countenance a situation where you would be short of credit with your ordinary banking institutions.

Mr. STEVENS: I do not remember that precisely. I can tell you, though, that in the period to which you are referring we still had total lines—

Mr. MONTEITH: You went up to $13.9 million in 1965?

Mr. STEVENS: That is right, and in March of 1966 we had approximately $1.5 million.

Mr. MONTEITH: Right at the moment you are less than $150,000?

Mr. STEVENS: That is right.

Mr. MONTEITH: Now, let us get back to bank "A", whom you had been dealing with for a number of years. As of the date of the Senate hearings in 1964 there had been no deterioration in your situation, although you now say that in March of 1966 there was some deterioration?

Mr. STEVENS: Yes, in the sense—was that in March of 1964?

The CHAIRMAN: March of 1964 was the date of the Senate Banking Committee proceedings, when you made your initial application.

Mr. STEVENS: During that period our credit with the banks ranged from somewhere around $2 million to a high point in October of $5 million. The point I was making, Mr. Monteith, was that the credit facility that we had from some of these banks was quite extensive in relation to the size of our net worth and total assets, but as our size and total assets and net worth grew, the credit facility diminished.

Mr. MONTEITH: Did it diminish from a percentage standpoint or just diminish in volume?

Mr. STEVENS: It diminished both ways, with the exception of the fact that during the middle part of 1965, we shot up, which was partly due to this special

deal that I have referred to, but there had been a general lessening of the credit facility over that period which was aggravated by the tight money situation that came in, I think, in the middle of 1965.

Mr. MONTEITH: Have you tried to get accommodation, over and above the figure of approximately $150,000 which you have now, with the Canadian banks in the last year which has been definitely refused?

Mr. STEVENS: Yes. Definitely refused.

Mr. MONTEITH: Definitely refused. On good security?

Mr. STEVENS: Yes. In fact, I would think on unquestioned security.

Mr. MONTEITH: And were you told that the reason was your connection with the Bank of Western Canada?

Mr. STEVENS: You are referring to bank "A"?

Mr. MONTEITH: Yes.

Mr. STEVENS: Yes, I learned from two sources that the bank complicated our previous banking relationship in the minds of the senior executives of bank "A" and that it was an influence in our banking relationship.

Mr. MONTEITH: I was of the opinion that when we were hearing your application before the Finance, Trade and Economic Affairs Committee of the House of Commons last March that evidence was given to the effect that your banking arrangements were sufficient so that you would never have to consider borrowing money from the Bank of Western Canada. Could this over-all statement have included your borrowing powers in the United States and in Britain?

Mr. STEVENS: No. I think at that time we were thinking more with respect to Canadian banks, but it was also during that period that we started to cultivate the American and British lines. I felt, realizing that our Canadian lines could diminish for one reason or another, that we were only prudent in developing outside lines.

Mr. MONTEITH: Well, do you feel the fact that you were interested in the Bank of Western Canada very definitely and concretely had the affect of limiting your credit with any Canadian bank?

Mr. STEVENS: I think it had an influence and, as I mentioned, in relation to your bank "A" I was told that they started to refer to our account as a pre-bank account, meaning that—

Mr. MONTEITH: Pre-bank of Western Canada?

Mr. STEVENS: Yes, that is right. From another source in the same bank I learned about two years ago, I think, that our file, what they call a history file, made a notation of the Bank of Western Canada and referred to the fact that we were proposing to be a banking institution.

Mr. MONTEITH: How long had you dealt with bank "A"?

Mr. STEVENS: I would think over five years anyway. BIF was formed in 1960 and I think it would be fairly soon thereafter that we started to deal with this bank.

Mr. MONTEITH: In the arrangement you had which cost you a total of 8 per cent back in 1965, which Mr. More also referred to, I am assuming the effective rate of interest would be 6 per cent, but the supplementary factor being able to buy back these securities, and so on, meant an effective rate of 8 per cent?

Mr. STEVENS: No. The way the deal was worked was that we were asked to sell the securities to the bank to give them on the coupon an effective 7 per cent return. In the event that we wished to buy them back, we bought them back at a price that in effect raised the rate to 8 per cent. In other words, they bought securities to yield themselves 7 per cent and if we bought them back they got an effective rate of 8 per cent.

Mr. MONTEITH: On the U.S. accommodation which you have recently arranged, I think you said in your letter that you were enclosing two cheques, one for $5,000 and one for $10,000. Were these simply to open accounts? They were not considered to be compensating balances in any manner?

Mr. STEVENS: No. In fact, the line of credit had a term of six months with the understanding that it would roll for a further six months and the rate was 6¾ per cent with no free balance required.

Mr. MONTEITH: I think that is all at the moment, Mr. Chairman.

Mr. LIND: Mr. Stevens, did I hear you say in answer to Mr. Monteith that British International Finance (Canada) Limited was first formed in 1960?

Mr. STEVENS: I think that is right.

Mr. LIND: That was when you originated. From 1960 to 1965 you built a line of credit accommodation with the banks up to $5 million?

Mr. STEVENS: Well, it jumped up and down. On one specific deal I remember we were able to have a line of $12 million, and that was in 1963. On one specific deal bank "A" gave us a credit of $12 million. Certainly during that period we felt we enjoyed excellent banking accommodation.

Mr. LIND: When you started British International Finance (Canada) Limited did you take finance notes, or of what was your paper composed?

Mr. STEVENS: No. British International Finance has never been in the finance paper business, the consumer loans. It is a name that conveys that impression but it has never been active in the consumer loan field.

Mr. LIND: Then following along, you said last night that you were up to $5 million and then you went down to $1.5 million. Did that happen at the time of the collapse of Atlantic Acceptance Corporation?

Mr. STEVENS: No, not really. During 1964 the high point was about $5 million. At the beginning of 1965 that fell off at one time to as low as $1.1 million. These volumes fluctuate. Then it went up to $3.9 million, and then worked its way up to the high point of $13.9 million and then it came down. For example, in January of 1966 it was $2 million and has gone steadily down from that point to less than $150,000. Speaking of this $150,000, the bank would like that paid.

Mr. LIND: Now, this high of $13.9 million, was that all with bank "A" or with Canadian banks?

Mr. STEVENS: I am afraid I missed that.

Mr. LIND: Was the $13.9 million all with Canadian banks.

Mr. STEVENS: Oh, yes. There were no American banks involved there.

Mr. LIND: When did they cut this $13.9 million back? Was it after you received your approval from the Treasury Board?

Mr. STEVENS: No. That was reduced in December of 1965.

Mr. LIND: They reduced it in December of 1965. Was there any finance paper involved at any time in this line of credit?

Mr. STEVENS: There is one line of credit that does involve finance paper but it is a relatively small line which has always been run with the Mercantile Bank in connection with the Simcoe Plan loans that I referred to, and that, incidentally is a line of credit with which we have not had any particular difficulty. It is very much to our satisfaction.

Mr. LIND: If I remember correctly, yesterday Mr. Coyne mentioned a $700,000 line of credit that he was asked for by the BIF group from the Bank of Western Canada. Was there any finance paper involved in this?

Mr. STEVENS: No.

Mr. LIND: At no time was there any finance paper involved in the credit asked for from the Bank of Western Canada?

Mr. STEVENS: I am a little confused, I think, about your reference. The only finance paper that we have in our group are the Simcoe Plan loans that I referred to and that is a separate company that has a portfolio of, I think, $800,000 or $900,000. That portfolio is financed mainly by our equities, but we do have a line of credit involved with that paper with the Mercantile Bank. As I say, that line of credit has never given us any particular trouble but that portfolio, to perhaps clarify what you are referring to, was the portfolio of $800,000 or $900,000 that we discussed selling to the Bank of Western Canada, with a view to giving the bank the nucleus business and then allowing them to carry on in the same method as we are presently employing.

Mr. LIND: May I ask if all this paper is in good shape and not too much in arrears?

Mr. STEVENS: It is good stock.

Mr. LIND: Then why would the Bank of Western Canada refuse this? There is no doubt you are probably putting up 10 or 20 per cent extra to cover this line of credit.

Mr. STEVENS: No, I cannot understand why the Bank of Western Canada would refuse to buy it and, in fact, it could well be that it will be sold to another bank.

Mr. LIND: Was this one of the points that you and Mr. Coyne had a difference of opinion upon?

Mr. STEVENS: I think he had a different opinion on it in two ways. First of all, the fact that it was a BIF asset, I do not think he liked that feeling and, in the second place, the eastern connection, the fact that the loans were made

in the east. On that particular point we mentioned that we felt that sufficient deposits could be generated in the east to certainly cover any moneys that were involved and, for that matter, if they wished they could always take over the portfolio and allow it to run down. Meanwhile, they could use the nucleus to cover their overhead and staff salaries. In other words, when you start with a consumer loan division in a Bank or in any other place you need approximately $800,000 or $900,000 to cover the overhead of the staff that you require from the day you open your door. The advantage is that you have these loans that you can give them to work on and it is immediately at least a break-even proposition.

The CHAIRMAN: Mr. Lind, I think I should interrupt you at this time in line with my suggestion that we restrict somewhat the ordinary period of questioning. I believe, according to the note made by the Clerk, you started shortly after ten past five, so perhaps I could recognize Dr. McLean at this time.

Mr. LIND: Well now, wait a minute. Are we not still getting twenty minutes each? I did not hear anything about this.

The CHAIRMAN: Just before Mr. Monteith began his questioning I brought to the attention of the Committee the fact that we had quite an extensive list and rather limited time. Last night the Committee in effect appeared to agree that we would have the Minister before us tomorrow, and with the extensive list before us today that perhaps we would limit our period of questioning to a time less than the ordinary twenty minutes.

Mr. LIND: Well, I did not understand that, Mr. Chairman. You let others go on a little longer.

The CHAIRMAN: I also attempted to limit Mr. Monteith but he was kind enought to moderate his questions and although I cannot see what he has written down, I can see he has some extensive notes which I am sure he would have used as the basis for questions if time had permitted. In any event, if I did recognize you at ten after five, it is now five thirty, and I do not claim to be too strong in mathematics but it would appear that you have had just about twenty minutes anyway.

Mr. LIND: May I ask one more question on a different subject?

The CHAIRMAN: Mr. Monteith would then have a legitimate complaint that I did not permit him to operate in the same way. As I say, I could have been criticized by him already for being somewhat lax in departing from my own suggestion that we try to limit our questions to the area of ten minutes. It is just about five thirty now.

Mr. LIND: Well when will we have a chance to question Mr. Stevens further?

The CHAIRMAN: Well, that will be a decision for the Committee as to how long we want to go today and if we want to have these gentlemen back another time. Perhaps I could recognize Mr. McLean at this time.

Mr. MCLEAN (*Charlotte*): Well, Mr. Chairman and Mr. Stevens, I do not have very many questions. I was rather intrigued to hear Mr. Stevens say that he was not getting the proper treatment from our Canadian banks. In my long banking experience I have never experienced anything like that. You say, Mr. Stevens, that you had borrowed $13 million at one time in Canada and you have

reduced it to $150,000 at the present time. Was that $13 million in loans transferred to the American banks? Did you get the $13 million from the American banks to pay the $13 million off?

Mr. STEVENS: No, it was retired largely by ourselves through the generation of deposit money in our own trust on loan operations.

Mr. MCLEAN (*Charlotte*): Well then, you really brought it down through cash flow?

Mr. STEVENS: Yes.

Mr. MCLEAN (*Charlotte*): You have stated again and again that the trouble between you and Mr. Coyne was on policy. The policy of Mr. Coyne would be that of the professional banker and he would want to carry on banking on professional lines. Was this a policy with which you disagreed?

Mr. STEVENS: Well, I guess it depends on how you define professional banking. I would say that the disagreement certainly was not on the question of professional banking in that we have pushed very strongly to have senior high level banking executives hired to run the bank. Now, Mr. Coyne has indicated—and certainly this is not recorded in the minutes—that as president of the bank he feels that he should be regarded as a part-time president who, in effect, intercedes between the general manager and the board of directors, but not a full-time operating head of the bank. Well now, from our standpoint I believe Mr. Coyne did refer to the fact that Mr. Bell had raised the point that he thought that a more senior banking executive should perhaps be hired.

Mr. MCLEAN (*Charlotte*): You want to replace Mr. Coyne?

Mr. STEVENS: No, not necessarily, because banks have very convenient titles; for example, they have chief general managers and general managers. A chief general manager would be somebody that would be senior to a general manager but not senior to the president.

Mr. MCLEAN (*Charlotte*): Well, it is on policy that you disagree?

Mr. STEVENS: Yes. On questions of policy there is certainly no suggestion on our side that we want to do anything of a reckless or unsound nature. It is more a question of the type of banking that is going to be carried on and we feel that the bank should not become a relatively savings type operation or almost like an investment trust type of an operation, but it should be an aggressive, worthwhile commercial bank. We have advanced the thought that the unit banking concept is a good concept and could play a tremendous role in certain of these western Canadian cities.

Mr. MCLEAN (*Charlotte*): Your answers are so long, Mr. Stevens, that they get me confused.

Mr. STEVENS: I am sorry.

Mr. MCLEAN (*Charlotte*): They certainly take up the time. Now, you have stated that you were willing to sell 10 per cent. Does that mean 10 per cent of the total capitalization or does it mean 20 per cent of your shares?

Mr. STEVENS: Twenty per cent of our shares.

Mr. McLEAN (*Charlotte*): You were going to dispose of 20 per cent of your shares to an American bank, although you told this committee that you had taken every precaution against doing this?

Mr. STEVENS: I think you are referring to the reference to the formation of the bank and we pointed out—

Mr. McLEAN (*Charlotte*): I read a little while ago that you were taking every precaution that shares would not fall into American hands or into American banks or into the hands of foreigners, and yet you were willing to dispose—

The CHAIRMAN: What is your reference, Dr. McLean?

Mr. McLEAN (*Charlotte*): I beg your pardon?

The CHAIRMAN: What are you referring to specifically?

Mr. McLEAN (*Charlotte*): Well, it is in the record here somewhere.

Mr. STEVENS: If I can recall that, Dr. McLean, properly—

Mr. McLEAN (*Charlotte*): It says:

> ...we took special precautions to meet the argument that a new bank might fall under the domination...

The CHAIRMAN: You appear to be quoting from the initial statement of Mr. Coyne in the March 1 hearings—

Mr. McLEAN (*Charlotte*): That is right, but they were both hand in hand at that time.

The CHAIRMAN: That is right.

Mr. McLEAN (*Charlotte*): So now you are willing to dispose of 20 per cent of your shares?

Mr. STEVENS: Yes. Well, if I could just clarify that. I think the history—

Mr. McLEAN (*Charlotte*): No, I just wanted to know if you were, that is all.

The CHAIRMAN: Mr. McLean, your quotation was part of an entire paragraph.

Mr. McLEAN (*Charlotte*): This was a general statement, but it is a statement that was made before the committee.

Mr. STEVENS: Yes. Well, if I could clarify it. This went through, I think, three stages. In the initial solicitation of subscribers for the bank we had a 100 per cent prohibition against any non-resident participation. Now, this was in anticipation of not knowing what the new Bank Act would actually provide for. The revision of the Bank Act, as it first came in, allowed for a 25 per cent participation. We proposed that in our original bill and that got cut down to 10 per cent, at the suggestion of Mr. Lambert, I believe, at the committee hearing.

Mr. McLEAN (*Charlotte*): I think you stated that you had 14,000 shareholders, and of that 14,000 you only had 29 non-resident. Does that still stand, 29 non-resident and 14,000 shareholders?

Mr. STEVENS: I cannot tell you specifically but I can tell you generally that there has certainly been no large non-resident buying.

Mr. McLEAN (*Charlotte*): Now, with reference to your allegation that the banks were not treating you right. In respect to this $13 million that you had borrowed you named six banks. Does that $13 million cover the six banks?

Mr. STEVENS: No, that includes four of the banks.

Mr. McLEAN (*Charlotte*): Four banks, so I am two out. I do not know, but probably the Mercantile and National are out.

Mr. STEVENS: No, the Mercantile is in there.

Mr. McLEAN (*Charlotte*): The Mercantile is still in and the National is out.

Mr. STEVENS: The National is out.

Mr. McLEAN (*Charlotte*): Now, with respect to this hook-up with the American bank, would that be that the American bank would participate with the Bank of Western Canada in purchasing this consumer paper? Was there anything like that in your mind when you went down there.

Mr. STEVENS: No.

Mr. McLEAN (*Charlotte*): Well what was in your mind when you went to these American banks, because a Canadian bank generally has an agent or somebody in New York on the other side.

Mr. STEVENS: That is the easiest relationship. You mean a correspondent relationship?

Mr. McLEAN (*Charlotte*): Correspondent yes.

Mr. STEVENS: Yes. Well, that is certainly one step but you can develop your association far beyond that point, and what we would like to do is to take advantage of the fact that some of these American banks would like to participate in Canadian bank loans, and if we can cultivate that kind of business it means that instead of only loaning our own funds we would have many further millions of dollars that could be loaned, especially in western Canada.

Mr. McLEAN (*Charlotte*): I think you said that an American bank came up to Toronto and they could not get participation by a Canadian bank for 25 per cent of the loan. Now, was this what you had in mind, that ten American banks would came up here and they would get loans and the Bank of Western Canada would be a participant in those loans? Is that the policy that you and Mr. Coyne disagreed on?

Mr. STEVENS: The Bank of Western Canada would have what I think they call the carriage of the loan. They would process it and be able to deal with the customer, but the loan in turn would be shared by one or more other banks, which is a procedure that is very customary in the United States.

Mr. McLEAN (*Charlotte*): You have in mind more or less adopting the American usage, or whatever it was, is that it?

Mr. STEVENS: That would be right. Now, there is at least one other Canadian bank that has indicated an interest in doing this with us too.

Mr. McLEAN (*Charlotte*): But was this the policy that and Mr. Coyne disagreed on?

Mr. STEVENS: When you say disagreement, I do not know that Mr. Coyne was exactly opposed to it. It is more a difference of emphasis. For instance, he

has emphasized more the idea of raising deposit money in Winnipeg for example, and loaning the deposit money out to the Winnipeg people. Well, we feel that, of course, is one function but we would like to do more than that in order to get the bank up to a more substantial institution.

Mr. McLEAN (*Charlotte*): Now, you have blamed the Canadian banks for not making loans to you, and I quoted Mr. Towers when he spoke to the Canada Life Assurance Company last year, and in January he spoke again and he said:

> the efforts of some industrial countries to overcome their international deficits and of others to combat domestic inflation have naturally had world wide repercussions. One by-product of the relative scarcity of loanable funds and high rates of interest is to put weaker borrowers in a precarious and sometimes untenable position. Such a situation usually brings to life a deterioration in the quality of credit to which I referred at our meeting last year.

Now, would you not say that it was this that caused the Canadian banks not to grant you credit rather than your association with the Western Bank?

Mr. STEVENS: I certainly do not feel that that would be the paramount reason, because the type of situation that I am referring to is where security, of either a Government of Canada nature or a Government of Canada agency guarantee type of security could be given. Security in the sense that you are referring to there would be unquestioned.

Mr. McLEAN (*Charlotte*): But this world situation of deterioration of credit, is that not something that has a bearing on your case?

Mr. STEVENS: If you mean the deterioration of credit in the sense of tight money, I would certainly have to agree with that.

The CHAIRMAN: Dr. McLean, I think perhaps at this time we should grant the floor to Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Stevens, as I am sure you are well aware by now, one of the complaints—I will not use the word "charge"—made by Mr. Coyne, which is set out in the memorandum he provided, is that they, meaning you and your associates in the BIF group, have:

> ...attempted to get the Bank to provide credit to their own companies contrary to the most explicit statements made to the committees of the Senate and of the House of Commons.

Now, did I understand you correctly when you said that was not strictly correct?

Mr. STEVENS: That is right.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Now, this afternoon you spoke of two meetings and I would like to get this clear. You spoke of a meeting between you and your associates on December 13, which I think was a meeting of the BIF board, is that right?

Mr. STEVENS: What date was that again?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): December 13.

Mr. STEVENS: No, no, that was just an informal meeting of the people that I mentioned.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I see. It was not a board meeting?

Mr. STEVENS: No, no, it was not a board meeting, just a discussion.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Then there was a meeting of the board of directors of the Bank of Western Canada on December 16?

Mr. STEVENS: That is right.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): And at that meeting, you told us this afternoon, you raised the question of meeting the Minister of Finance and getting him to clarify the situation with regard to borrowing. Now, would I be right in assuming that when you used the word "clarify" you really meant to meet the Minister of Finance and see whether or not he was prepared to exercise the discretionary powers which he has under 2.(1)(f) of the Treasury Board minute? You wanted to have them approach the Minister to see if he would exercise that power, is that right? That is what you meant by "clarify"?

Mr. STEVENS: By "clarify" we meant that we would like to understand better under what circumstances, if any, would consent be granted to do any one of these items. The easiest example would be the one I mentioned, where Fort Garry Trust presently have their clearing arrangements with a branch of one of the Winnipeg banks. Well now, strictly speaking, under this wording I do not think that we could shift that account to the Bank of Western Canada in spite of the fact it is not a borrowing account. So, what we were hoping to determine was just what relationship would the Minister consent to, if any, with respect to our group companies, but there were no loan amounts discussed or there were no propositions put forward in the sense of saying that we want to apply for a $500,000 line of credit. Now, the reference to the 10 per cent of capital was simply a reference to what is the practice in the United States. Unlike Canada, where there is no limit on what a Canadian bank can lend to any concern, in the United States the legal limit on a loan is 10 per cent to any one concern.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I gathered from your remarks this afternoon that your suggestions of getting the Minister to clarify the position arose in the context of a discussion of a situation in which your group of companies found themselves due to the curtailment of your line of credit with the chartered banks. Is that not correct?

Mr. STEVENS: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Then, can we assume anything else than that you had in mind asking the Minister if he was prepared to exercise his authority here in order to overcome your difficulties?

Mr. STEVENS: I do not think that was the inference in the sense that we genuinely wanted clarification on the point. Now, if the Minister came back and stated—and I think this is possibly what you are referring to—that he could see no objection to some kind of a rule of thumb that as long as we did not borrow over a certain limit in the aggregate that it would be acceptable to him, I think that would have generally surprised us in the sense that we would not have contemplated the Minister saying that, although it possibly would have been the reaction that he would have had. But, more specifically, we were in the position where we felt we had almost the worst of both worlds in that the Canadian

banks for their own good reasons—be it the Bank of Western Canada or otherwise—were not giving us the accommodation that we had once enjoyed and our own bank was shut off from us. The only access that we had was, possibly, to foreign banks and in reviewing the whole situation it seemed to be a very natural thing to say: "The specific prohibitions should be clarified so that we can understand." For example, can any of our trust companies have dealings with the Bank of Western Canada, of even a clearing nature? The important point I am trying to make, Mr. Cameron, is that nothing of a specific nature was advanced in the sense of saying that we intended to go to the Minister and ask for a specific approval for a line of credit, or something like that. It was more to get clarification. The simple plan loan matter though, if it had been proceeded with, would have been something to present to the Minister as a definite proposal: Had he any objection to our purchasing—and "our" being the Bank of Western Canada—those assets?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands):* I really do not see what clarification you required. It is set out here quite plainly that the bank:

> —shall not, directly or indirectly, except with the prior approval of the Minister of Finance,
>
> (i) make a loan or advance to or deposit with,
>
> (ii) guarantee a loan or advance to or deposit with,
>
> (iii) purchase the securities or shares of, or make a loan or advance on the securities or shares of,
>
> (iv) purchase any assets from, or
>
> (v) assume any liabilities of,
>
> any of the preferred subscribers whether or not they are then shareholders of the Bank.

Now, it seems to me that is quite clear and the only thing you could get the Minister. It did not need any clarification, did it? He had the power to do these me you could not have had any other purpose in suggesting approaching the Minister. It did not need any clarification, did it? He had the power to do these things and it was one or other of these things you wanted him to do, I gather.

Mr. STEVENS: I do not know whether we are turning on words but the simple fact—and I think this was raised yesterday—is why were the words "—except with the prior approval of the Minister of Finance" put in?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have not a clue; I wondered myself why they were put in.

Mr. STEVENS: I would think it is reasonable—speaking as a BIF person—to say that I should inquire from the Minister under what circumstances would he give approval.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, I think it is quite reasonable. So, therefore, this was your purpose in going to the Minister—to find out if he would be prepared to do it? I am not suggesting there is anything wrong in doing that.

Mr. STEVENS: If he would be prepared to do something, but we did not intend to put anything specifically before him other than in a discussion sense.

For example, the Simcoe plan—If he had felt that was a deal which would be acceptable to the Bank of Western Canada we could have talked specifically about that.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You would hope that you would reach some conclusion with the Minister that he would agree to exercise the power to exempt you from one or other of these provisions.

Mr. STEVENS: What we were really looking for were guidelines; what was contemplated in the clause: "—except with the prior approval of the Minister of Finance."

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Stevens, tell me this: If you had had your meeting with the Minister and had succeeded in persuading him that the situation was such that he should exercise his discretion and permit the Bank of Western Canada either to make a loan or an advance—or all the various other things which are outlined here—to your companies, would you consider, as Mr. Coyne suggests, that was contrary to the most explicit statements made to the committees of the Senate and the House of Commons?

Mr. STEVENS: No, I do not feel so.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I quote some of your own evidence to you, Mr. Stevens, from March 8, 1966, in which you were answering Mr. Horner, the member for Acadia, and you had this to say on page 171:

> The other point I would like to mention, Mr. Horner, in connection with your suggestion that there may be some interrelationship between our other trust companies and the Bank of Western Canada, is this—I think, as was mentioned in evidence earlier, there certainly is no proposal or suggestion in our mind that the Bank of Western Canada, in fact, would become the banker to the group. I can assure you this will not happen.
>
> Mr. HORNER (*Acadia*): Well, why would it not happen? What guarantee or assurance can you give us that it will not happen?

And this is your reply, Mr. Stevens.

> Mr. STEVENS: I would say one of the very obvious reasons is that we need banking connections in our group. The Bank of Western Canada is not one which would be of help to us. As I mentioned, we deal presently with six of the eight chartered banks in Canada, and we wish to keep this relationship established—

and you mention a number of the banks—

> —is a valuable one for any group to maintain, and the fact we would have a bank in the west would in no way mean that we would try or, indeed, want to sever our present relationship with existing banks.
>
> Mr. HORNER (*Acadia*): You mentioned that you dealt with six of the eight banks; do you mean that you borrow money from six of the eight present banks?
>
> Mr. STEVENS: We are not borrowing from very many now. By dealing with them, I mean they handle our clearing privileges or our general

accounts, and I would say at the present time we certainly have much more money on deposit with the existing banks.

Mr. HORNER (*Acadia*): But, that is because of this $13 million.

Mr. STEVENS: No; we have more money on deposit with existing banks than we borrow from them and our borrowings from existing banks are quite small.

Now, Mr. Stevens, if that was the case in March, 1966, why have you now reached the position where, because the banks insist on keeping your borrowings quite small, you have to consider approaching the Minister of Finance. What change has taken place?

Mr. STEVENS: No change. In fact, the statement that you have just read, I would say, is still the position we are in. We in no way want the Bank of Western Canada to become "banker to the group". To say, "banker to the group" would mean that the Bank of Western Canada would be our main banker. But, on the other hand, I think it is reasonable to say that while we want to maintain banking relationships with as many banks in Canada as possible, is it not at least possible to use your own bank—the bank you are associated with—if the Minister has no objection? For example, the matter of clearing, to me, is the clearest example. It seems odd, if you have no loan requirement, that as far as your clearing arrangement in Fort Garry Trust is concerned you continue to give the benefit of that business to a competing bank instead of your own bank in the same city. It was that type of thing which we wanted clarified.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): What did you mean when you said: "The Bank of Western Canada is not one which would be of help to us."

Mr. STEVENS: I think that also is a reference to the point that Mr. Coyne had touched on in his testimony. It would not be of help to us in the size of loans that the bank could make if there were no restriction. In other words, when we are discussing the size of loans that we have been talking about today—up to $13 million, or $5 million and this type of thing—the Bank of Western Canada could never prudently handle that type of loan.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Would you define for me what you meant when you said: "—our borrowings from existing banks are quite small."

Mr. STEVENS: I will just tell you how much they were at that date, which was March 8, 1966. The total borrowings of our group on that date were $1.4 million and our total assets were probably about $110 million to $120 million at that time.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: Subsequent to the time when you gave this evidence your borrowing from the banks increased sharply?

Mr. STEVENS: Oh, no, they went down.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: They went down?

Mr. STEVENS: Oh, yes. You see, this is last year's figure—almost a year ago. I will tell you how they have gone down. In March they were $1,461,000; they

went down to $1,300,000 the following month; by October they were down to $628,000 and, as I say, they have continued to fall until now they are something below $150,000.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: Well, then, Mr. Stevens, in the light of that would you explain to me again why, according to your evidence, the fact that the chartered banks were curtailing your loans made it necessary in that context to consider—and I think there is no question about it; you admit it yourself—the possibility that the Minister of Finance would give his approval to giving you exemptions from section 2 (1) (f) of the Treasury Board minute of August 3. It does not seem to track somehow. You are telling me that you, yourself, or somebody, reduced your loans in the banks very sharply. . .

Mr. STEVENS: That is correct.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: . . . between this date—March, 8, 1966,—and the present date, or the time on December 16 when the question of approaching the Minister came up. I still fail to understand how your situation on December 16 made it desirable for you to bring up the question of approaching the Minister of Finance, because it was in the context of not having sufficient bank accommodation that you brought it up.

Mr. STEVENS: I would suggest that we wanted clarification concerning the Treasury Board provision in two respects. One was in the general sense of under what circumstances would the Minister of Finance consent to any one of those deals. But there was no specific loan nor any specific accommodation in mind. The second possible reason that we would go to the Minister of Finance would be on the Simcoe plan purchase of assets. In other words, if the bank officials said that they were interested in purchasing assets we would then have to go to the Minister and say: "Is this the type of thing that was contemplated under section (f)?"

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: I do not see why you would have to do that. It says perfectly plainly in subparagraph (IV):

purchase any assets from—

It is already set out.

Mr. STEVENS: No, what I mean is that if we went with the Simcoe plan proposal is that the type of thing the Minister would consent to?

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: Would you again explain to me why you thought it might be necessary to get the Minister to assent if, according to your own evidence, you, yourself had sharply reduced your borrowings from the banks from a time when you said: "our borrowings from existing banks are quite small"? Then, apparently, you made them even smaller.

Mr. STEVENS: No, we did not necessarily make them smaller. I think, perhaps, I can answer your question in this way, Mr. Cameron, You have a portfolio of consumer loans in Simcoe. This is an $800,000 or $900,000 portfolio. Before that could be sold into the Bank of Western Canada it would, first of all, have to be reviewed by the consumer loan people and an agreement reached on price, terms and this type of thing, but before any deal could be consummated under the provisions of this Treasury Board order, we would have to go to the

Minister of Finance and ask for his consent. This is what we were discussing; the fact that the consent contemplated here presumably has to be clarified. For instance, you might go to the Minister with this type of proposition and he would say no, that is not what we had in mind.

The CHAIRMAN: Mr. Cameron, I think perhaps we should give the floor to Mr. Mackasey, followed by Mr. Fulton.

Mr. MACKASEY: Mr. Stevens, on what date were you going to approach the Minister for clarification?

Mr. STEVENS: No date was set.

Mr. MACKASEY: Have you ever approached the Minister?

Mr. STEVENS: No.

Mr. MACKASEY: You never went through with it.

Mr. STEVENS: No.

Mr. MACKASEY: Are you aware of the date on which this regulation of Treasury Board was set down?

Mr. STEVENS: It was August 3, 1966.

Mr. MACKASEY: Why did you wait so long for clarification?

Mr. STEVENS: That is a good question. As far as we were concerned, the first time this came up was in either late November or early December, in the general discussions of our relationship to the Bank of Western Canada. The point was raised that there seemed to be some provision here to allow certain transactions and it was then that we started our discussion of whether we should get clarification.

Mr. MACKASEY: Could I submit, Mr. Stevens, that somewhere along the line your normal source of credit was cut off, or reduced to $150,000? Surely this must have curtailed your general operations?

Mr. STEVENS: As far as the Canadian banks were concerned—

Mr. MACKASEY: I apologize for interrupting, but I am trying to put a lot of questions in ten minutes. Am I right in saying that very recently—certainly since March 1966—your normal source of credit in Canada has been reduced substantially?

Mr. STEVENS: Yes, that is correct.

Mr. MACKASEY: Mr. Coyne was a director of the BIF group at that time. Was he not also aware of this?

Mr. STEVENS: Yes completely.

Mr. MACKASEY: Had you convinced Mr. Coyne that it was a legitimate argument that the chartered banks were cutting down your credit in Canada because of the western bank, what do you think Mr. Coyne's reaction would have been? Do you think it would have been one of silence? Is this the pattern he is noted for? Or would he not have hollered at this type of discrimination?

Mr. STEVENS: There were various discussions of a private nature.

Mr. MACKASEY: With Mr. Coyne?

Mr. STEVENS: Yes.

Mr. MACKASEY: And you made him aware that you felt that your relationship with the western bank, was the cause of the curtailment of credit to the BIF group?

Mr. STEVENS: Yes, this came up at several meetings.

Mr. MACKASEY: Did Mr. Coyne agree with your definition of the problems?

Mr. STEVENS: I could not say categorically that he did agree.

Mr. MACKASEY: Well he must have expressed an opinion either that you were being discriminated against—and what did he do about it as a director—or you were not being discriminated against.

Mr. STEVENS: I cannot say definitely whether he agreed. I think he agreed that it was an influence. You are in a nebulous field; I do not think that anybody, including myself, could say that was the only reason.

Mr. MACKASEY: Last night you did paint a rather glowing picture of American banks' willingness to finance, as you mentioned, in the west, the mid-west and so forth. If this were true, then why did you find it necessary to contemplate approaching Mr. Sharp to find ways and means of obtaining finance from the western bank?

Mr. STEVENS: As I mentioned, this largely turns on the question of the Simcoe plan loan portfolio and what other accommodations, such as this clearing facility, the minister would consent to.

Mr. MACKASEY: Last night you mentioned several times that you had several meetings fairly recently—I think as late as December—to construct the policy of your bank. It seems odd to me, not being a banker or even a lawyer, that you have got this far for over two years without determining the policy of the bank. Has the original policy of the bank changed? Is this really what you meant?

Mr. STEVENS: I would not say so. I think this was partly due to a greater division between Mr. Coyne's thinking and our thinking than we originally thought existed. It was a kind of gap that seemed to grow over these latter months. Certainly, we pressed many times to try to get policy much more definitive.

Mr. MACKASEY: I have just two more questions. I know Mr. Fulton also has some questions to ask.

I will now come back to the sale and repurchase technique because I intend to speak to Mr. Sharp about it tomorrow when he is here. I gather it differs, in a sense, from the normal banking practice in that you sell outright, at least temporarily, certain assets to the bank. Am I right?

Mr. STEVENS: Yes, that it right.

Mr. MACKASEY: Are there any provisions in this loan for an expiry date by which you can buy these assets back?

Mr. STEVENS: Yes.

Mr. MACKASEY: Do you have assets at the present moment in this particular circumstance?

Mr. STEVENS: With a chartered bank?

Mr. MACKASEY: Yes.

Mr. STEVENS: No.

Mr. MACKASEY: So you did exercise your option to buy back these particular assets.

Mr. STEVENS: That is correct.

Mr. MACKASEY: Mr. Coyne stated in his evidence and I am only going by memory—that he was first informed by someone at the meeting of February 1—I use someone because I do not know who that person is—that shares belonging to the BIF group had been pledged—that is his word—to American banking institutions in return for financial assistance to the BIF group.

Mr. STEVENS: First of all I would have to clarify that there was no pledging of the bank shares required at all. The only relationship was one of giving us first refusal. When Mr. Coyne says that he first heard of it on February 1 I do not deny that may be so, but to the best of my recollection there was also a very casual discussion concerning any American participation following a Lambton Loan and Investment Company board meeting in Sarnia. I mentioned to Mr. Coyne that I had been talking to some banks and there was a possibility of an equity participation and I asked him whether there was any particular objection. I do not want to emphasize the point too much because I did not bring it up in a decisive way, but I did think that Mr. Coyne, judging from his reaction, had no objection provided it was within the 10 per cent limit.

Mr. MACKASEY: I would like to make my own point clear, Mr. Stevens. As long as your charter does include the provision of 10 per cent of the shares eventually getting into American hands, I think the battle between you and Mr. Coyne as to how they get there, either by selling 20 per cent of yours or some other way, is strictly an internal matter which is only a matter of interest to us.

I would like to come back just for a second to this loan and repurchase action. You did complete the cycle, but what concers me here a little if other people are using this technique, is that once you sell these assets to a bank and something happens to the trust group or another group, such as a bankruptcy or something, are these assets not detached from the general assets of this particular group?

Mr. STEVENS: Well, you have cash in lieu of this.

Mr. MACKASEY: Yes, you have, but I do not want to use you because I do not want to create any false impressions. Let us say group A approaches a bank with this type of sale and repurchase technique—and perhaps our Bank Act should prevent this. You receive cash and in return you turn over assets to the bank. If something happens to group A before they have had a chance to redeem them at this premium interest, what happens to the general over-all balance sheet of the group that has gone into bankruptcy? In other words, has not the bank now assumed a preferred position as far as these assets are concerned?

Mr. STEVENS: No. They have bought the assets—

Mr. MACKASEY: Some of the assets.

Mr. STEVENS: —and given cash. If the bankrupt company went under—

Mr. MACKASEY: You would hope the cash is still there for the general creditors.

Mr. STEVENS: That is right.

The CHAIRMAN: Have you completed your questioning?

Mr. MACKASEY: I would like to say I have, Mr. Chairman, but in deference to Mr. Fulton I will pass on.

Mr. FULTON: Thank you. I have, I think, only five questions. First, Mr. Stevens, you have told us about the reduction in your credit with the chartered banks and your estimation of the reason for that reduction. Did you report this fact and your opinion about the conduct and attitude of, say, bank A, or any of the other banks to the Inspector General of Banks at any time?

Mr. STEVENS: Not formally. We had discussions with certain of the senior departmental officials in Ottawa when informal comments were made, but this situation was never pointed out in a written form and I cannot really tell you whether anything was ever mentioned to the Inspector General of Banks.

Mr. FULTON: You would not be able to say whether your reports were made in such a way that they would come to the attention of the Inspector.

Mr. STEVENS: No, definitely they would not, because this was only conversation with the people involved. Of course, the conversation could have been related to—

Mr. FULTON: Did you ever take any steps with a view to bringing this situation, which must have been galling to you, to the attention of the Inspector General of Banks?

Mr. STEVENS: No.

Mr. FULTON: This series of discussions that have created these hearings of this Committee appear to have gone on at least from December 13 to February 1, during which time considerable differences as to policy, at least, between you and perhaps your group on the one hand and Mr. Coyne and his group on the other, became apparent. Mr. Coyne told us yesterday that he objected, and in his press release he has given, in summary form, reasons for his very strong objection to the policy and, indeed, to the propriety of what you were doing. Did you ever receive a letter from Mr. Coyne outlining his concern in a formal way, or summarizing his position, or his criticisms during all this period?

Mr. STEVENS: No.

Mr. FULTON: You received no formal statement of Mr. Coyne's position?

Mr. STEVENS: Do you mean, no formal written statement?

Mr. FULTON: Yes, a formal written statement.

Mr. STEVENS: No; we only had discussions.

Mr. FULTON: Did these discussions reveal sharp differences of opinion and approach?

Mr. STEVENS: I would say they revealed more differences of approach than opinion. So many times you would feel you were both stating the same thing, one putting it one way and the other putting it another way.

Mr. FULTON: I am really asking whether you had ever received a formal statement, written or unwritten, from Mr. Coyne of his views on the propriety of what in his view, was being suggested?

Mr. STEVENS: With reference to—

Mr. FULTON: With reference to the things he summarized in his press release.

Mr. STEVENS: In the language that you have put it, I would say no.

Mr. FULTON: Did you ever receive from the Inspector of Banks any written or unwritten intimation of disapproval of the conduct of the Bank of Western Canada?

Mr. STEVENS: No.

Mr. FULTON: What has been happening here and what we have been inquiring into, Mr. Stevens, is really a fight among the directors to decide who is going to control, determine and direct policy of the bank, is it not?

Mr. STEVENS: In my opinion that is all it amounts to.

Mr. FULTON: What are we here for? Do you not think we ought to send you home to settle your differences and decide what the policy of the bank is going to be?

Mr. STEVENS: I would be more than pleased if you would.

Mr. GRÉGOIRE: I agree with that, Mr. Chairman. This is a discussion for nothing.

Mr. MACKASEY: I disagree. I think we should hear Mr. Coyne tomorrow and then we can form that conclusion.

Mr. GRÉGOIRE: We heard Mr. Coyne yesterday.

The CHAIRMAN: Mr. Sherman is the only other name on my list and I think we should deal with our procedure before deciding whether to give Mr. Sherman an opportunity at this time, as he is not a formal member of the Committee.

We did indicate to Mr. Coyne that he would be subject to our recall and it may be that some members of the Committee are interested in hearing from him further and others may not. He may wish to say something himself. At the same time, I do not want to keep sounding like the same old record, but I am continuously conscious of our obligation to the House with respect to the legislation referred to us, and I am wondering whether the best thing to do might not be to attempt to sit to seven o'clock and give Mr. Coyne some brief right of reply. After all, gentlemen, our principal purpose here, if I may say so, is not to provide a forum for this type of disagreement, it is only to look at the public policy aspects of it, if there are any. In that regard, if I may be permitted to make that sort of comment, we may want to try to use the opportunity we have given these gentlemen to appear before us to supplement our existing information on the operations of the banking industry and return to our direct consideration of legislation tomorrow morning. What is the reaction of the Committee to what I have just said?

Mr. MACKASEY: Mr. Chairman, if you want mine, I would have felt a lot more useful today if we could have the transcript of what Mr. Stevens said last evening, because he spoke lengthily and eloquently.

The CHAIRMAN: Mr. Mackasey, we have to recognize that we are dealing with a system of supporting services that has not yet caught up to the burden of work imposed on it.

Mr. MACKASEY: I am not criticizing you, Mr. Chairman; you asked my opinion and I am trying to state it.

The CHAIRMAN: Well, I do not disagree with you at all. I agree with you 100 per cent.

Mr. MACKASEY: I do not know why we could not have photostats of Mr. Stevens transcript, because I know this is available. If someone wants to go and get the blues and photostat them we could all know what is going on.

The CHAIRMAN: Well, assuming that the tapes have been typed up—that is a big assumption. I am not certain that this has been carried out yet. I did, in fact, indicate to our Clerk that I hoped that she would see that the tapes were typed up as soon as possible; whether they have been typed up as yet, I do not know. I have not discussed the matter with her.

Mr. MACKASEY: This leads me back to the format you agreed upon last evening, that Mr. Coyne would temporarily cease his evidence so that Mr. Stevens could make his statement, in order to rectify any unintentional harm that might have been done to his groups in the public eyes. We followed the second step, and the third step we agreed to was to permit Mr. Coyne to come back in the way of rebuttal if one is necessary. We all agree here, I think, that we do not want to be a sounding board for private problems, but we also have a duty to make sure that the charter granted through this Committee is being respected, and so I do not think we can just pass it over lightly.

The CHAIRMAN: One reason we want to hear the Minister tomorrow is to get his reaction in the light of the evidence that we have taken—at least in part—in assistance to the Minister.

Mr. GRÉGOIRE: Mr. Chairman, how can he have a reaction? He was not here.

The CHAIRMAN: The Inspector General of Banking, Mr. Scott, has been in attendance with representatives of his department and it may be that the Minister's parliamentary secretary has been in attendance at times during the afternoon, and I am sure he is in a position to give a rather complete report on what has gone on here. What we really have to decide is to what extent we wish to give these gentlemen, who have given us some very interesting testimony, the opportunity to continue to use the time of the Committee in the light of what—

Mr. MONTEITH: Mr. Chairman, may I ask a question, because I think it is a little silly for us to kill ourselves over this sort of thing and this is what we have been doing over the last few weeks. I am not blaming you. However, could I ask, are both Mr. Coyne and Mr. Stevens going to be greatly inconvenienced by remaining over until tomorrow morning?

The CHAIRMAN: Mr. Coyne?

Mr. COYNE: I am agreeable to remaining over until tomorrow.

Mr. MONTEITH: Well, under those conditions, I think we should hear Mr. Coyne first thing tomorrow morning at 11 o'clock. Is there one night off a week? It is now twenty minutes past six. I move we adjourn.

The CHAIRMAN: This is a motion that is not discussable. All those in favour of the motion? Perhaps we might reserve the motion for just a moment. Mr. Stevens, you have a statement?

Mr. COYNE: On a point of clarification, the bank in New York that we have referred to has apparently been identified by the press in New York, and they have issued a press release that I think I should read to you concerning this whole matter.

> The Meadow Brook National Bank has had discussions with officials of the Bank of Western Canada, as well as officers of the British International Finance (Canada) Limited, over a period of several months. These discussions have covered a broad range of subjects aimed at establishing a close business relationship with the bank and the British International Finance (Canada) Limited group. The conversations that took place were normal and customary within the framework of international banking. Except for the approval of a standard loan request to the BIF group no other commitments were made between the parties involved. Meadow Brook National Bank became interested in developing a banking relationship with the Bank of Western Canada when it was announced that Mr. Stevens and Mr. Coyne were not only active in the bank's formation, but were to participate as officers and directors.

Now, that is the bank's press release concerning this whole matter.

Mr. MONTEITH: I move we adjourn.

The CHAIRMAN: You have heard the motion for adjournment.

An hon. MEMBER: I second the motion.

Motion agreed to.

The CHAIRMAN: The meeting is adjourned until 11 o'clock tomorrow morning.

THURSDAY, February 9, 1967.

The CHAIRMAN: Gentlemen, we are in a position to resume our meeting.

Before we adjourned last evening Mr. Stevens was answering questions and before recognizing Mr. Sherman I had interrupted the proceedings to discuss our agenda. Mr. Sherman was to be the last one to ask questions of Mr. Stevens before giving Mr. Coyne a chance to complete his own appearance before us. I think out of courtesy to Mr. Sherman we should ask him whether his questions are intended for Mr. Stevens or Mr. Coyne.

Mr. SHERMAN: They were intended for Mr. Stevens, Mr. Chairman.

The CHAIRMAN: Perhaps as a courtesy to you, Mr. Sherman, we should give you a brief period to place these questions, with the understanding that you will be the last questioner of Mr. Stevens.

Mr. SHERMAN: I appreciate that, Mr. Chairman and members of the Committee. My questions are brief and will only take two or three minutes at the most, I believe.

Mr. Stevens, you made reference yesterday to policy differences with some of the bank's western Canadian directors—differences between yourself and your supporters on the board of directors and western Canadian directors. You mentioned that some directors had expressed the feeling that BIF presence was a negative factor in promoting the bank in western Canada and that some directors in fact had thought the parent company should sell some of its shares.

Were there any discussions between you and Mr. Coyne or between you and some of these directors with a view to correcting this so-called negative factor and to give BIF more of a western image, more of a western presence?

Mr. SINCLAIR M. STEVENS (*President, British International Finance (Canada) Limited*): Yes, there were two or three suggestions made. I think I mentioned two of them already. One suggestion was a voting trust arrangement, which would be the assigning of the voting rights to the Bank of Western Canada shares that we owned to a western committee, and allow this committee—to be named; there were no names mentioned—to have the right to vote these shares.

Another was that we could sell a portion of our western interests, with a view to strengthening the western image, and we indicated that such a sale would be acceptable to us if we could find a partner that we felt had the same basic concept for the future of the bank as we did, which would be a sound, profitable, aggressive western bank.

A third suggestion—I think I maybe mentioned this too—was that I personally move west because, being Chairman of the board, it would perhaps create more of a western image.

There was the suggestion too that perhaps the head office of BIF could be moved west; in other words, we are situated in Toronto and that it may appear better if we moved the head office of BIF to some western centre.

As far as we were concerned—we listened to all these points—the chief suggestion that we felt was very worthwhile to try to work on was the idea of bringing in a western partner who would own a block of the Bank of Western Canada shares. There were discussions to the degree that I know at least one director has approached certain western people with a view to interesting them in acquiring such a block but to date I have not heard that there is any interest.

Mr. SHERMAN: This was the second part of my question, to which I was leading, Mr. Stevens. In other words, there were some efforts made to sell BIF shares in western Canada.

Mr. STEVENS: Yes. One of our directors specifically phoned. I know of one possible buyer and possibly a second buyer. I think his main area of operation is in Alberta. We felt that this group might be interested in buying an interest in the bank, but they came back and said no, they would not be interested. I believe the principal person in the group is already a bank director and he felt that in view of his present bank connections that would at least be one reason that they would not be interested in buying a portion of the Bank of Western Canada.

Mr. SHERMAN: In an attempt to resolve this conflict and confrontation is a continuing effort of a concerted nature being made to sell BIF shares in western Canada?

Mr. STEVENS: Yes, we have left our offer open. We are willing to negotiate with any group in the west who would like to buy a portion of our shares in the Bank of Western Canada. There have been no prices discussed. The suggestion that was raised at the Board meeting of our selling at a market level which would be, for example, a $3 loss, I think would be a very hard thing for us to swallow. We, I think, would expect that a partner would come in at at least the issue price, which would be $15, to ensure that at least we did not take a loss for having tried to develop the bank to the present point.

Mr. SHERMAN: Will the criterion be financial or philosophical?

Mr. STEVENS: Well, financial, of course, will be very important, but by philosophical I would say that we would hope that the partner would be one who would feel that the Bank of Western Canada should be a very active, important western institution. There are different ideas in banking. As I mentioned, there is a savings banking type of approach but, as far as our group is concerned, we do not feel that the savings bank approach is really the answer. That is something more akin to what the trust companies are doing at the present time, and we would like a truly commercial active bank in the west to try to do the service that I think can be done out there.

Mr. SHERMAN: Thank you, Mr. Stevens. Thank you, Mr. Chairman.

The CHAIRMAN: We have completed our questioning of Mr. Stevens and we will now give Mr. Coyne an opportunity to complete his appearance before us. We invited Mr. Stevens to make a statement on Tuesday evening. We are about to begin a second round of questioning, and the first name I have on my list is Mr. Fulton. Mr. Fulton, I leave it to you and Mr. Coyne whether you want to begin asking questions immediately or whether you wish to invite Mr. Coyne to make any initial comments he may have at this stage.

Mr. FULTON: I am in your hands, Mr. Chairman, whichever is agreeable.

The CHAIRMAN: If you have some initial comments, Mr. Coyne, I would ask you to proceed, and then Mr. Fulton will begin the round of questioning.

Mr. JAMES F. COYNE (*President of the Bank of Western Canada*): Thank you, Mr. Chairman. I do not think I will be very long. There are four points on which I wanted to comment.

The first has to do with the overdue payment on the subscription of $2.25 million originally made by Canadian Finance and Investments Limited and subsequently taken over as a liability by the Wellington Financial Corporation. This subscription was part of the original financing arrangement for the bank and was reported to committees of the Senate and the House of Commons as part of the capital which would be available when the bank charter was granted.

Mr. Stevens answered some questions by Mr. Thompson as to why the remainder of the money had not been paid and indicated three reasons, all of which seem to suggest that the non-payment was a deliberate policy on the part of the Wellington Financial Corporation and not involuntary. I should say that $250,000 out of the total subscription of $2.25 million was paid in September and a further $550,000 was paid on January 4th, 1967 making a total of $800,000, which left $1,450,000 still to be paid.

The first reason given by Mr. Stevens as to why the payment had not been made was that two of his associates were disappointed in the policies or lack of definite policies on the part of the bank. A second influence on their thinking, he said, was that some directors indicated to them that the BIF association with the bank was a negative factor and that it would be better if they sold some of their stock. He said that this caused them to draw back.

The third reason, which may seem somewhat the same as the second, was that they would have to use credit funds to make the payment and that they would have to borrow it against their assets, so that they would really only be warehousing the Bank of Western Canada shares until they were sold.

As I have said, this relates to a payment on a subscription which was part of the basic financing of the bank. Statements were made in prospectuses to the Senate and House of Commons committees that these subscriptions were being made and that the funds would be available. The subscription was then made formally in writing by the Canadian Finance and Investments Limited in, I think, September, 1966. It was a written subscription, addressed to the bank, after it had obtained its charter and was on the same terms as all other subscriptions, namely, that the money would be paid at a date to be fixed by the Board of Directors. That date was fixed at a meeting of the board of Directors in Winnipeg on December 15th and 16th, 1966 on a motion which, I think, was carried unanimously. All the other subscriptions of any consequence were paid in full on the due date of January 3rd. There was a partial payment of $550,000 made on the Wellington subscription, as it then was, on January 4th, and it was indicated that more would be paid later.

The suggestion that a subscriber, and particularly a charter member and promoter of a company, should not indeed have to put in money at the same time as other shareholders because he is not happy about some of the policies of the company, is quite an unusual one. So far as the suggestion that the BIF people would be asked to sell some of their stock is concerned, I do not believe that came up for consideration until the January 20th meeting of the Board of Directors or actually on January 19th, the day before, in an informal discussion in a group known as the Executive Advisory Committee of the Board. By that time the payment was two weeks overdue.

The second point that I would like to comment on is with regard to the request made at the meeting of December 16th, that loan facilities be made available by the bank to the BIF group. I believe my account of those discussions was correct and it is the account you would get from any of the independent directors. I spoke to Mr. Brown of Vancouver on the telephone Tuesday night and told him Mr. Stevens' description of the discussion and he corroborated my description of them.

Mr. Stevens mentioned to you the other day, as I did, the fact that during the discussion on December 16th, Mr. Brown raised an objection, saying that it was improper under section 75 of the Bank Act, if I have the section number correct, for the BIF directors to be present while a loan to their company was being discussed. Mr. Stevens suggested that the fact the discussion continued shows it was not a discussion of a loan. The fact is that Mr. Brown renewed his objection several times at intervals throughout the discussion. There can be no

doubt that the independent directors understood it to be a request for a loan in a specific amount, or a line of credit in a specific amount, namely, $1,300,000. They resisted that request; they spoke against it, and in the end the proposal in its original form was withdrawn. I may say that subsequently in Toronto Mr. Stevens and others in the BIF group pressed the whole idea on me several times in the strongest terms, saying that the BIF group controlled the bank and was entitled to get credit from its own bank, as Mr. Stevens said yesterday.

The third point I wish to comment on has to do with negotiations with the Meadow Brook National Bank of West Hampstead, New York and other American banks. Mr. Stevens indicated that his group had had negotiations and lines of credit with New York banks before, with banks in the midwest and far west of the United States and with banks in England. So far as I know, there was never any borrowing done by British International Finance or Wellington Financial from American or British banks for use in Canada. There may have been loans by foreign banks to other BIF subsidiaries operating outside Canada, such as Wellington Overseas Corporation in New York which buys South American paper for resale to the United Sates banks.

The Meadow Brook deal was the first one, so far as I have ever heard, designed to raise funds for BIF and Wellington Finance for use in Canada, and this loan could not have been obtained if it were not for the correlative hookup they were promised with Bank of Western Canada operations and with Bank of Western Canada stock. Mr. William Mindlin, who was identified by Mr. Stevens on Tuesday night as his agent for these negotiations in New York, attended the directors meeting of BIF and Wellington in Toronto on February 1st and said: (1) He had been trying for months to interest American banks in becoming associated with Bank of Western Canada as an inducement to them to lend money to British International Finance. (2) He could not have obtained a loan from any American bank on the credit of BIF or Wellington Financial alone. He would have been an idiot—that is his exact phrase—he said, to even try, knowing the current position of affairs and the tight money situation.

Mr. MACKASEY: Could you speak more slowly, Mr. Coyne, please.

Mr. COYNE: Yes, I will try.

Thirdly, Mr. Mindlin had committed—his words—BIF and Wellington to the deal, and included an option—his word and a word which he used again and again—on stock in Bank of Western Canada held by Wellington Financial Corporation amounting to 10 per cent of the total shares of the Bank of Western Canada; and also an understanding that the American bank would be allowed to participate in large loans by the Bank of Western Canada, and in other ways be associated with the management of the Bank of Western Canada.

This is to some extent corroborated by the press release issued yesterday by the Meadow Brook National Bank, when they said that they had been holding discussions for some months with officials of the Bank of Western Canada with a view to various types of association. I subsequently sent them a telegram saying that I did not know of any official of the Bank of Western Canada who had been discussing matters with them, other than perhaps Mr. Stevens who, as Chairman of the Board, had no authority to enter into such discussions or to use the name of

the Bank of Western Canada. I wish to say, gentlemen, I believe that if these facts about the participation of this American bank in the affairs of the Bank of Western Canada had been declared to this Committee or to the Senate Committee in 1966 or in 1964, you would not have granted a charter to the Bank of Western Canada.

The fourth point I wish to deal with is a question of control of the bank and its policy. We told Parliament that there would be a majority of directors from western Canada. I said that and Mr. Stevens said that. Mr. Stevens has subsequently referred here and in public statements to these western directors as having only $7,500 worth of stock, suggesting, apparently, that for that reason they are not to be expected to exercise their own judgment but are to be expected to yield to the views of the BIF group. That I consider to be also in contravention of the assurances given to Parliament that this bank was to be controlled and managed by a board of directors consisting of a majority from western Canada.

Mr. Stevens says that British International Finance "should have an important say" in the policies and management of the bank. They should, of course, have an opportunity to express their views, to explain them, and to argue the case for them; but the constant suggestion that others must give way because the British International Finance group controls, for the time being, over 50 per cent of the stock, is a very different thing and not in accordance, I suggest, with the indications given to Parliament.

The policies of the bank were outlined in some detail to Parliament before the charter was granted and also in public statements by myself and others. I have not changed my views. I outlined those views again at some length at the first meeting of the Board of Directors of the Bank of Western Canada last October. There is no doubt, I should think, as to what those policies are. There has only been an attempt by the British International Finance group to put on a power play to get a change in those policies for their own advantage, contrary to the statements previously made to Parliament and to the public.

Gentlemen, I feel that this is a very important public matter, not just a private matter. I believe the people of western Canada are not going to regard this matter as a private fight between two groups of directors as to the policy or the control of the policy of an unimportant private corporation, of no concern to the public interest. This bank holds a franchise granted by you gentlemen and your colleagues for a definite declared purpose, on the strength of statements made, assurances given, and questions answered. It is for you to decide what further action, if any, you wish to take in these matters to ensure that those statements, assurances and answers are indeed fulfilled. You could perhaps take action in the course of your considerations of the Bank Act and of the deposit insurance corporation act to prevent the exercise of concentrated voting power in the hands of one man or group of men who are not just voting their own stock, which are very minor holdings in the bank, but stock for which funds were supplied by the general public on very definite understandings as to how this institution would be run.

An independent board of directors, acting conscientiously as trustees for the whole body of shareholders and depositors and borrowers, would seem to me to

be the best way to assure that the original declared character of the Bank of Western Canada will be maintained and that special interests will not be allowed to dominate it.

Mr. FULTON: Mr. Coyne, with regard to the payment of subscriptions, which has formed a part of your evidence both on Tuesday and today, there are provisions in the Bank Act itself which cover a situation arising when there is non-payment of calls on shares or on subscriptions.

Mr. COYNE: Yes.

Mr. FULTON: Have any of these been instituted?

Mr. COYNE: I believe I dealt with that in reply to a question the other day, Mr. Fulton. The subscriptions in this case are not quite the same as an ordinary type of subscription where nothing is paid in until calls are made by the directors. In this case all the subscriptions were intended to be fully paid and all were fully paid, with this exception, on a date which was fixed in accordance with subscription agreements. Whether it is open to the bank to make calls in the ordinary way or whether we must proceed upon a factual indebtedness of the subscriber, I think, is a matter on which we have to consult the lawyers.

Mr. FULTON: Yes, but that is a matter which lies within the authority of the directors to determine.

Mr. COYNE: Yes.

Mr. FULTON: If they are in default then you can have a declaration so made and then the normal consequences follow.

Mr. COYNE: Yes. That is right.

Mr. FULTON: But this surely is a matter which is internal, to the extent at least that the directors have to decide on legal advice or on their own initiative what to do.

Mr. COYNE: All these matters are internal in the sense that somebody has to take action on them, but I think they have considerable relevance to the public interest and to statements that were made in order to induce Parliament to provide a charter.

Mr. FULTON: Yes, but the first question to be determined in this respect, sir, is whether there has been a default, and that has not been determined.

Mr. COYNE: Oh, I cannot think that there is any doubt whatever about that.

Mr. FULTON: If that is the view, I find it odd that this matter is being rehearsed before this Committee instead of very immediate and pressing steps being taken in accordance with what the Bank Act provides to remedy that default or to have the consequences of that default applied.

Mr. COYNE: The matter was put on the agenda for the Board of Directors meeting on January 20th. It was deferred to the end of the agenda at the request of Mr. Stevens, for reasons which he has outlined, and in fact was never reached. The board meeting had to adjourn rather hastily late in the day to enable people to catch their plane home.

Mr. FULTON: Well, I am tempted to make a comment that perhaps the matter was not regarded as all that important if the directors felt it more important to catch their planes and go home.

Mr. COYNE: Well, it was the eastern directors who had to catch their planes.

Mr. FULTON: Where was the meeting held?

Mr. COYNE: In Winnipeg.

Mr. FULTON: I see. All the western directors stayed in Winnipeg, did they?

Mr. COYNE: Yes, until their planes—they were leaving two or three hours later.

The CHAIRMAN: They had to catch a plane too.

Mr. COYNE: Yes.

Mr. FULTON: And are not western directors in the majority on the board?

Mr. COYNE: Yes.

Mr. FULTON: And they allowed the meeting to adjourn—

Mr. COYNE: Well, they had some comments to make about it after.

Mr. FULTON: —so that the eastern directors could catch their plane.

Mr. COYNE: They had some comments to make about it afterwards, Mr. Fulton, but this bank has not—

Mr. FULTON: I am talking about what was done, not what was said.

Mr. COYNE: Yes, but we did not start to hold meetings of the Board of Directors on the basis of having battle lines drawn between two opposing armies. Everybody was still hoping that a reasonable outcome could be reached on all these matters.

Mr. FULTON: And I am sure that this Committee and the general public hopes so too.

Mr. Coyne, I understand that you have no documentary evidence of the submission, by Mr. Stevens or anyone else, of any improper proposals, contrary to the statements made to the Senate or House Committees?

Mr. COYNE: I have stated all the evidence that I have, I think, Mr. Fulton. There was no exchange of writs or formal legal complaints, if that is what you mean.

Mr. FULTON: And no documentary evidence, really, of any sort of the submission of any improper proposal—I am using "improper" in the sense of being contrary to the assurances that were made.

Mr. COYNE: I am not sure what you mean by documentary evidence.

Mr. FULTON: Minutes of meetings, a letter embodying a proposal, or any other documents that would support the statements you have made.

Mr. COYNE: Other than the statements I myself have made in writing, no.

Mr. FULTON: And no other members of the group of western directors, although I think you told us that four of them also had possible identity of interest with the BIF group, have also considered it as yet, at any rate, necessary to resign from their directorships in the BIF group?

Mr. COYNE: I believe that they have or have started to. One man told him that he had resigned from his connection with a BIF company and Mr. Stevens had asked him to delay it.

Mr. FULTON: What other?

Mr. COYNE: That is all I know about it. I do not know where he stands. They were not on the two companies from which I made this particular resignation on February 1. None of them were directors either of British International Finance or of Wellington Financial, which were the two companies engaged in the borrowing operation when they made these proposals to the American banks.

Mr. FULTON: In the course of your evidence, and indeed Mr. Stevens' evidence, it appears that these differences of opinion—I will refer to them as that—had been developing at least from December 13 until matters came to a head on February 1 and 3.

Mr. COYNE: Yes.

Mr. FULTON: Might they have, indeed, been developing for a longer period than that?

Mr. COYNE: Yes.

Mr. FULTON: In your view, on the basis of your evidence, you felt not only, I take it, that it was a difference of opinion as to the matter of ordinary routine policy but that it involved things which, if they were done, would be, in fact, positively improper?

Mr. COYNE: That was what developed probably on and after December 13, and since then all these various things which have been described to you came to a head.

Mr. FULTON: Mr. Stevens told us yesterday that he had never received a letter, any memorandum or piece of writing outlining your position with respect to these matters and your feeling as to the impropriety of proceeding in the way which you say had been suggested. Is that correct?

Mr. COYNE: That is certainly correct. I am not in the habit of writing letters to people when I want to tell them what I think of their proposals.

Mr. FULTON: You did not consider, as President of the Bank of Western Canada, that if you felt that there was emerging a line of action which was being actively advocated by a fellow director who was also Chairman of your board, you should, in writing and in ample time, give warning of the consequences if it were pursued, and your position with respect to what you regarded as an improper suggestion or course of action?

Mr. COYNE: I made my views very well known to Mr. Stevens on several occasions in the most forceful language. I was not concerned with the building up of a file for the records, if that is what you mean, Mr. Fulton.

Mr. FULTON: No, I do not mean that. I would regard that the ordinary proper step for a president to take, who feels that improper conduct is being suggested, would be either to resign then and say, "I must resign if this is pursued any further," or to write a letter stating his position in an attempt formally to prevent any repetition of what he regards as improper suggestions.

Mr. COYNE: Let us take the incidents, one by one. With regard to the meeting on December 16, where the proposal was made for a line of credit of $1.3 million, that was the first time that that proposal in that form was made. I

certainly made my views known in the presence of 15 directors of the bank. Similarly, when I first heard about the transaction with Meadow Brook involving the Bank of Western Canada at a meeting on February 1, I certainly made my views know at a meeting of about 20 directors—15 anyhow—of Wellington and British International Finance, and that night wrote out my resignation.

Mr. FULTON: Between the 13th or 16th of December and the 1st of February, I think you told us there had been a number of other either meetings of the board or informal gatherings of several members at which, you told us, these same matters had been discussed.

Mr. COYNE: Yes. I do not think I mentioned any other meetings of boards of directors; they would be meetings with the group of people associated with British International Finance's affairs.

Mr. FULTON: I think you told us that these matters, particularly the relationship between B.I.F. and the Bank of Western Canada, had been discussed?

Mr. COYNE: Yes.

Mr. FULTON: Proposals which you felt were improper and contrary to the assurances given to Parliamentary committees?

Mr. COYNE: Yes, and which I felt would greatly damage the ability of the bank to do business with the people of western Canada. I thought that was a matter which the parties concerned should give a great deal of attention to.

Mr. FULTON: You did not deem it appropriate or necessary to state your views in writing at any time until you made your resignation?

Mr. COYNE: I did not state my views in writing, as far as I recall.

Mr. LEBOE: I have a supplementary question, Mr. Chairman. Would these matters not be in the recorded minutes of the meeting?

Mr. COYNE: I think that at that time on December 16, everybody was so embarrassed by what was happening that they rather hoped it would not be recorded in the minutes in so far as no formal business was transacted.

Mr. LEBOE: Thank you.

Mr. FULTON: I think that adds a point to my view, that it is rather extraordinary that Mr. Coyne, finding it not in the minutes and taking this very strong view about the impropriety of it, did not follow what I think would have been the normal course, writing a letter.

The CHAIRMAN: Mr. Fulton, I think Mr. Laflamme may want to ask a supplementary question.

Mr. LAFLAMME: Yes, it is supplementary to the one asked by Mr. Leboe. Mr. Coyne, is it not the responsibility of the secretary of the Board of Directors of any bank to register the minutes of any discussions which took place?

Mr. COYNE: He must, of course, record in the minutes, which are then presented to the board at the next meeting for approval, any business that is transacted. I believe in most companies there is considerable latitude as to whether or not reports of discussions will be entered in the minutes. I think usually they are not.

Mr. LAFLAMME: Do you agree, then, that this discussion was informal?

Mr. COYNE: No, sir. It did not lead to a formal action, a vote or a resolution.

Mr. FULTON: I think we had it in evidence earlier that the discussions, of which Mr. Coyne gave his version, were not recorded in the minutes and, in fact, we had the actual minutes of that meeting read to us in whole or in part. It is partly on that basis that I say, first, there is no documentary evidence of improper suggestions. I asked Mr. Coyne why, if it was not recorded anywhere and he takes this strong view of the impropriety of the suggestions in accordance with his version, he did not take the step of writing and saying that these suggestions were made and "I must say that in my view they are improper and I want to record very strongly my attitude toward them."

Mr. COYNE: I was already spending half my time in these discussions trying to resist these suggestions and if I had started on that course at that time, Mr. Fulton, I would have had to spend the rest of my time writing letters about it. I do not think that is a very business-like way to go about these things.

Mr. FULTON: All that we have at the moment is your testimony and your version against Mr. Stevens' testimony and his version and impression of the discussions, and no minutes and no writing to support your suggestion that what you regard as improper suggestions were actually made.

Mr. COYNE: Up to now, I and Mr. Stevens are the only people you have invited to attend here.

Mr. MACKASEY: May I ask a supplementary question?

Mr. FULTON: That is all I have.

Mr. MACKASEY: Although there were no minutes kept, as far as you are concerned, this conversation or these suggestions were made in front of 15 directors?

Mr. COYNE: Yes, of whom at least seven have discussed it subsequently with me and corroborated their views.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Coyne, I notice that you are laying great stress on Mr. Stevens' dealings with American banking interests and I find it rather difficult to understand your concern in this matter when I refer to the evidence of March 3, 1966, when there was considerable discussion as to whether or not it would be possible for the control of the Bank of Western Canada to fall into foreign hands Your Parliamentary Agent, Mr. E. Gordon Blair, had this to say on page 111 of March 3, 1966:

> This whole matter of the shareholdings in the company is dealt with in clause 5 of the proposed bill, and the main effect of this clause—and I think I can summarize it—is that the non-resident shareholdings in the company in the aggregate amount cannot total more than 10 per cent. Then, there is in subsection 8 of the clause a definition of non-resident which not only includes a natural person who is not a resident of Canada but also any corporation which is by any means whatsoever under the control of a non-resident of Canada. So, to the fullest extent possible provision has been made here for prohibitions against transfers of shares which would have the effect of transferring more than 10 per cent of the

share capital of this company to non-resident natural persons or to corporations which are controlled by non-residents.

Mr. Coyne, I do not see any record here suggesting that you disagree with this viewpoint of Mr. Blair's that a 10 per cent transfer to foreign ownership would be acceptable and proper.

Mr. COYNE: No. This clause was put in to limit foreign ownership to that percentage or, as it will be under the new Bank Act, perhaps 25 per cent, which will supersede our charter. That will operate through all time and will apply to all non-residents. Up to that time we had been very careful to assure Parliament that we were not interested in bringing non-residents into the bank, although we recognized some provision would be made that in due course they could buy shares in the open market. But we took special precautions, as was quoted yesterday, that no non-resident would be associated with it prior to incorporation. I am sure we left the impression with this Committee that our group were not in the least interested in bringing in non-residents either as owners of stock or of sharing the control or of participating in the management or operations of the bank. I think that to have this happen before the stock has even been fully paid for, before the bank has even opened its doors—to serve some special purpose, whatever it was of the BIF group—was a very surprising thing, indeed, and one which, if you had been told about it a year ago, you would certainly have had something to say.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not notice that anybody on the Committee objected to Mr. Blair's summation of the position—

Mr. COYNE: No.

Mr. CAMERON: —that it would be permissible to sell 10 per cent of the stock.

Mr. COYNE: It would be permissible for non-residents to acquire, which is a different thing, perhaps, than for the organizing group to go out and sell it to them.

The CHAIRMAN: Where else would they get it?

Mr. COYNE: The shares have been traded on the market in large volume for two or three years now.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): They could only come on the market if they were sold by those who own them.

Mr. COYNE: Which would include the general body of shareholders, of course.

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

Mr. COYNE: I am sorry; the Trustee Subscription Certificates could not be sold to non-residents. Once the general body of shareholders get shares in the bank in place of those Trustee Certificates, then they can be sold to anyone. When the transfers are presented to the Board of Directors for approval they have to see that not more than 10 per cent goes into the hands of non-residents. I may say that if 10 per cent goes into the hands of one non-resident as the result of a sale by one group, then no other resident could sell shares to any non-resident so long as this clause applies.

Mr. McLEAN (*Charlotte*): Could I ask a supplementary question? If Mr. Stevens sold 20 per cent of his shares to this bank in the United States and he still retained 30 per cent, would that not give him control up to the time that the stock was distributed?

Mr. COYNE: He was talking of selling 10 per cent of the bank's stock and would then retain 40 per cent.

Mr. McLEAN (*Charlotte*): He has to tell 20 per cent of his because he owns only 50 per cent.

Mr. COYNE: That is so, but the 20 per cent is not deducted from the 50 per cent. What is deducted from the 50 per cent is 10 per cent of the bank's shares.

Mr. McLEAN (*Charlotte*): Yes, but does the American bank, together with his stock, not control the Bank of Western Canada?

Mr. COYNE: Yes, according to that.

Mr. McLEAN (*Charlotte*): And he is in agreement with the bank in the United States that they would take control?

Mr. COYNE: Yes—well, together they would.

Mr. McLEAN (*Charlotte*): Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, if I may complete this. The substance of Mr. Coyne's charge is that these negotiations, if they were negotiations, with American banks were in contravention of assurances given to the Banking Committee, but the only assurance I see is the assurance that the bill will limit any such transfer to 10 per cent.

Mr. COYNE: I am sorry. That is not the only reference; that is the legal situation, and the clause that was being brought in by amendment of the bill—and I am sorry but I cannot give you chapter and verse; I am relying only on my memory that this matter was raised in the Senate Committee and, I believe, in this Committee too.

The CHAIRMAN: It would be very helpful if you could give us references.

Mr. COYNE: I am sorry, I cannot, because I have not been able to go back and read through the whole thing.

The CHAIRMAN: It is a factor, sir, if I may—

Mr. COYNE: I leave it to the recollection of the Committee.

The CHAIRMAN: It is a factor, sir, that a group, represented by yourself and Mr. Stevens, asked this Committee to incorporate in the bill amendments which would make it quite possible and permissible for 10 per cent of the shares of the Bank of Western Canada to be held by non-residents. Is that not a fact?

Mr. COYNE: May I just put it slightly differently? But for that clause, non-residents could have bought all the stock in the bank. The purpose of that clause was to limit and severely restrict the amount of non-resident holdings that there must be, and I think it was given, and this clause was proposed by us, to meet the concern expressed by some members of the Senate and the House of Commons that there was this danger of non-resident control of the bank.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: Then, Mr. Coyne, I must ask you this question. If you feel so strongly about the possibility of 10 per cent falling into foreign hands, why did you not propose a clause in the bill that would prohibit all non-resident holdings? It does seem to me that when you mention 10 per cent, the implication is quite clear that you would accept that as acceptable.

Mr. COYNE: I never contemplated that it would be 10 per cent in any one hand at that time, Mr. Cameron; I never contemplated that the 10 per cent would be offered to them by the founding group; and I never contemplated that the 10 per cent would be offered in the course of negotiations of the character that these negotiations took.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: I find it rather difficult to understand your position. I would like to ask you something else, Mr. Coyne. My concern in this matter—and I am sure it is the concern of all the members of the Committee—is not so much with the internal fight within your organization but with the effect that the revelation of this struggle may have on public confidence in financial institutions in Canada. As I am sure you know, I hold no particular brief for the various types of financial institutions we have had described to us and if I had my way I would abolish all of them tomorrow. But, neverthless, they are part of the present financial structure of Canada and I think we have to accept the fact that we must, as far as possible, maintain public confidence in them.

I would like to ask you this question, Mr. Coyne. Why did you consider it necessary to, shall I say, withdraw the hem of you garment with such a flourish of trumpets? Why did you have to have a press release announcing to the whole world that you were resigning your position with these companies which together hold the majority shares of the new bank? What was your purpose in doing so? I ask you these questions because I am sure you must have realized that the possible effect would be extremely damaging on the confidence of the public in institutions which were the major shareholders of your bank. Why was it necessary to do it in this way?

Mr. COYNE: I gave the reason in my original statement, that I thought this was a matter of urgent public concern and that the public should be informed on it; and I say now that it would have been improper and a conflict of duty improperly resolved if I had not resigned from those companies in all the circumstances which had arisen. I do not feel that directors should simply resign quietly when they do not like something and not have anybody know that they have resigned or have people wondering, perhaps, about the reasons for their resignation, and possibly imputing entirely wrong reasons to that action which could have been much more damaging.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: I have no means of estimating what damage you may have done.

Mr. COYNE: I do not think I have done any damage.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: You may not have done any.

Mr. COYNE: No.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But I think the danger was definitely there.

Mr. COYNE: I think the damage would have been much greater if I had not done what I did do. It would have been damage in that case to the public interest and to the interests of the shareholders and others concerned.

Mr. MONTEITH: Of the Bank of Western Canada.

Mr. COYNE: And of the other companies, too.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That is all I have to ask for now.

The CHAIRMAN: The next name on my list is Mr. Mackasey, unless he was merely attempting to ask a supplementary question.

Mr. MACKASEY: That is all I was attempting to do. I did want to have Mr. Mindlin identified a little better, Mr. Coyne. Was he an officer of the BIF group or was he in the employ of an American group?

Mr. COYNE: He was identified and his name was given by Mr. Stevens, not by me. I believe he is either President or Vice-President of Wellington Overseas Corporation which is a subsidiary probably of Wellington International Bank, although I am not sure of that either, which, in turn, is controlled by British International Finance.

Mr. MACKASEY: Mr. Coyne, one of the reasons for your bank—and it is a very logical one—is that we need more Canadian controlled chartered banks in Canada, and the banks need more competition. Mr. Stevens inferred that there is a great lack of competition and, in fact, that there was a conspiracy against BIF by the Canadian chartered banks which was reflected in a greatly restricted line of credit to the BIF group. I suggest that you, as a director of the BIF, should have known about this form of discrimination by the other chartered banks.

Mr. COYNE: I knew that Mr. Stevens had arranged some lines of credit and had tried to arrange others, and that certain changes were made in the lines of credit he had arranged. There were changes both up and down at various times. The bank that was not identified the other day at one time increased the credit facilities available to these companies from a previous figure of $5 million to $10 million. They later reduced it substantially. As to whether there was any conspiracy, I never believed that. Mr. Stevens used to complain about the banks closing down on him because of the Bank of Western Canada; he used to complain about the bond dealers having done things which he did not like; he used to complain about a lot of people who he felt were causing difficulties. You cannot get into violent arguments with a man every time he expresses an opinion, or you might as well start writing letters to him.

Mr. MACKASEY: But he did express his opinion. At least he was sincere in his belief in that he did express his opinion openly to you.

Mr. COYNE: There was never any opinion expressed, and I do not think he expressed it yesterday, that there was a conspiracy among the banks. I do not think that was ever said.

Mr. MACKASEY: It was certainly implied. I am not suggesting there was; I would just like to know if there was.

Mr. COYNE: I do not think that word was used.

Mr. MACKASEY: We are labouring under the handicap that we do not have the transcript, which is no fault of the Committee. Certainly Mr. Stevens did leave the impression with the Committee—and if anybody in the Committee would like to contradict me I would accept their version of it—and I will not use the word "conspiracy"—that all the Canadian chartered banks coincidentally, from the moment it became apparent that the BIF group was interested in the Bank of Western Canada, conveniently reduced his line of credit down to $250,000.

Mr. COYNE: I think that you are doing an injustice to what Mr. Stevens said in that respect. I do not believe he said "from the moment that it became apparent that BIF were interested in the Bank of Western Canada" because that became apparent in December 1963, when an announcement was made. Then there were applications to parliament, where the matter became very clear; and during this period there were financial arrangements made and Mr. Stevens, on two occasions, said to Parliamentary committees that he had adequate banking arrangements, and that included up to last March 1966.

Mr. MACKASEY: The point I am getting at, Mr. Coyne, is that it would be an awful dog in the manger attitude if the existent Canadian chartered banks were to try to do anything to impede the progress of the western bank, either directly or indirectly; indirectly by curtailing the activities of the BIF group, and this is what has concerned me basically.

Mr. COYNE: I am not sure that I agree that any institution such as BIF has a right to expect that people must lend money to it. That could be affected by a lot of circumstances. Perhaps they should carry on their affairs in such a way that they do not depend on borrowed money or, at any rate, on bank borrowings.

Mr. MACKASEY: Up to what date were you a director of the BIF group?

Mr. COYNE: Until February 1—of the BIF company itself.

Mr. MACKASEY: So you obviously expressed this opinion internally on different occasions?

Mr. COYNE: On different occasions, but it did not arise in quite that way, Mr. Mackasey.

The CHAIRMAN: Have you completed your questions, Mr. Mackasey?

The MACKASEY: Yes, I have, Mr. Chairman.

The CHAIRMAN: The next name I have on my list is Mr. Latulippe. Actually he had signified his desire to be on the second round of questions the evening before last.

Mr. LAFLAMME: At this point, Mr. Chairman, I want to raise a point of order. I would like to know if we are going to continue this kind of discussion for the rest of the day. We already have had one full day of discussions which has been very useful to us. However, we have before us the Canada Deposit Insurance Corporation reference which is much more important than deciding who is wrong and who is right in this internal dispute. I, for one, really believe that we will not gain much if we continue in this way. In my view, that is not why we are here.

The CHAIRMAN: Mr. Laflamme, I think you have raised a point which already has been alluded to on other occasions, both by other members of the Committee and myself. I personally want to thank you for raising it again. I stressed at the outset that we invited these gentlemen here because of what they might have to say with respect to the responsibility given to us by Parliament with respect to the legislation referred to us. It was within this rather limited ambit that we wanted to hear from them and question them. While it may be that many others here would like to continue this discussion on it for some length—there are many aspects that might be of interest to probe into for other reasons—I would invite the Committee to consider whether or not they feel we have gone far enough with respect to getting information to assist us in our deliberations imposed upon us by Parliament.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, I would like to ask just one question.

The CHAIRMAN: Before I get to that I want to make a suggestion. We have the Minister of Finance with us; he has just arrived. The idea was that after we had had some opportunity to hear from these two gentlemen we would invite him to make any comments he felt he had in the light of the information that we derived from questioning these people, and then we would invite him to continue with us on the deposit insurance bill which has been referred to us, with a view to attempting to complete our consideration of it and to report back to the House before beginning and hopefully completing our clause-by-clause consideration of the banking legislation.

Mr. LEBOE: On this point of order, Mr. Chairman, should not Mr. Latulippe be allowed to proceed?

The CHAIRMAN: That is exactly what I was going to suggest. I was going to suggest that since Mr. Latulippe had, in fact, asked for an opportunity to ask some questions Tuesday evening, we should recognize Mr. Latulippe, and then excuse both Mr. Coyne and Mr. Stevens and invite the Minister to appear before us.

Mr. COYNE: I understand that you will then be through with me. Is that right, Mr. Chairman?

The CHAIRMAN: That appears to be the view of the Committee.

Mr. COYNE: That is what I had hoped because when you asked me if I could stay over until today I arranged to do so, but I have to leave in another hour.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, I would like to ask one question.

The CHAIRMAN: Mr. McLean, I will recognize Mr. Latulippe first, followed by yourself for your single question.

(*Translation*)

The CHAIRMAN: Mr. Latulippe.

Mr. LATULIPPE: Mr. Chairman, I had many questions to ask, but since many members have asked many questions I had intended to ask, so as to not repeat the same questions, I will just keep to the main questions of bank policy. I gather, as do other members of the Committee, that the conflict between Mr. Coyne and Mr. Stevens, or the BIF, stems from the December 16 meeting of the

Board of Directors of Westbank. BIF and York Lambton Corporation would have requested funds from Westbank. I think it is especially on that question that there is misunderstanding, and if I refer to the main principles of banking, I find that the Bank Act may prohibit a bank from lending to a director, but it does not prohibit lending to an institution of which the bank director is also a director. If a bank can create money at the rate of twelve to one, it is for one's own benefit and for the benefit of one's companies that one becomes a director. Is this not, therefore, a normal situation? Why should these institutions and these gentlemen be prohibited—why not allow them all, all bank directors, as is the case for all other banks in Canada, to benefit from the laws and regulations and policies of banking? This is an example: The President of the Royal Bank of Canada is also a director of more than twenty companies, very important companies. Is he prohibited from lending to the Royal Bank or to these corporations? When we were discussing the formation of the Bank of Canada in 1934 in the Finance Committee of the day, it was shown that the President of the Bank of Montreal, Sir Charles Gordon, was a director of Dominion Textile and that the Bank of Montreal was lending five million dollars do Dominion Textile. This is the same thing that these gentlemen are trying to do. Other instance: On the same occasion, when the Bank of Canada was created in 1934—Mr. Coyne is aware of this—it was proved that the Royal Bank was lending to Consolidated Paper more than $14 million. A huge sum for the time. The President, Sir Herbert Holt, was a director of Consolidated Paper.

The CHAIRMAN: Mr. Latulippe, perhaps you have given enough detail to clarify your question. And the Committee would like to get an answer from our witness if he thinks he can add anything to the ideas you have unfolded before the Committee.

Mr. LATULIPPE: As a conclusion, Mr. Chairman, I think we should leave Westbank lend money to the companies whose directors are also directors of a bank. This goes on everywhere, and the privilege to create money twelve to one would benefit them and their corporations, and not only their competitors. If the bank allows $12 million to be loaned on the extent of $1 million, it is most interesting for those who belong to a bank and for those who create banks. So, if the law allows all other institutions to benefit from these privileges and to have the privilege of creating credit twelve to one, it seems that this same advantage should be allowed to other institutions and they should be given the same privileges as any other banking institution in Canada. Otherwise, the Act would have to be changed.

The CHAIRMAN: Thank you, Mr. Latulippe.

(*English*)

Mr. Coyne have you anything to tell us about these interesting questions?

Mr. COYNE: I think the question was why the Bank of Western Canada would not make large loans to its directors or their companies if other banks do so. One reason, perhaps, would be that the Bank of Western Canada will only be making small loans. It does not have the resources to make very large loans and for many years it will not have the ability to make large loans. But the main reason, and the one which I have given here and in public is that Parliament was told that loans would not be made by the Bank of Western Canada to any companies in the British International Finance group.

Mr. GRÉGOIRE: But the Committee is now expressing another opinion, Mr. Coyne.

Mr. COYNE: I have not heard it that way, Mr. Grégoire.

The CHAIRMAN: He means the members of the Committee.

Mr. COYNE: I thought he was asking me for my answer to why I thought this should not be done. Does that answer your question?

The CHAIRMAN: Yes. Thank you, Mr. Coyne.

(*Translation*)

The CHAIRMAN: Do you have any more questions, Mr. Latulippe?

Mr. LATULIPPE: No, Sir.

(*English*)

The CHAIRMAN: Dr. McLean, you have a single question.

Mr. MCLEAN (*Charlotte*): Yes, I have a single question. In his evidence Mr. Stevens mentioned the name of a Mr. Bernard.

Mr. COYNE: Yes.

Mr. MCLEAN (*Charlotte*): Is he an employee of the western bank?

Mr. COYNE: Yes.

Mr. MCLEAN (*Charlotte*): Who engaged him?

Mr. COYNE: Mr. Cutts, the general manager.

Mr. MCLEAN (*Charlotte*): That is, the western bank engaged him?

Mr. COYNE: Yes.

Mr. MCLEAN (*Charlotte*): Was he an employee of the BIF?

Mr. COYNE: No.

Mr. MCLEAN (*Charlotte*): He was not?

Mr. COYNE: No.

The CHAIRMAN: Thank you, Mr. Coyne and Mr. Stevens for adding to our already sizeable store of information which we hope to be able to bring to bear, in short order, on our consideration of the banking legislation, with the hope that it will be available to the public before the present law expires on April 1.

I would now invite the Minister of Finance to come forward.

Mr. SINCLAIR STEVENS (*Chairman, Bank of Western Canada*): Mr. Chairman, I was asked, immediately following the session last night, to clarify one point. I hope I have not misled the Committee in the sense that a representative from the Bank of Montreal asked me to clarify that that bank was not loaning us any money at the present time. When I itemized the various banks, I was indicating the banks that we presently were dealing, not necessarily the banks that are loaning us money. The Bank of Montreal does handle clearing facilities for us in one of our companies but they, in fact, are not loaning us money at the present time. I said that I would make that clear to the Committee today.

The CHAIRMAN: Thank you, Mr. Stevens. Gentlemen, you may stand down and follow the proceedings in a more relaxed manner in another part of the room.

I have invited the Minister to come forward. I believe that the Committee has agreed that we will hear from him first with respect to this issue in the light of the information we have derived, following which we will begin our consideration of the deposit insurance bill. I understand from the Inspector General that the Superintendent of Insurance is not, as yet, with us and there are certain amendments he may want to present to us. That being the case we may agree that we would not being our actual consideration of the deposit insurance bill until the afternoon session. I believe this would be more convenient to all concerned.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Mr. Sharp, do you have any introductory comments to make to us about this Westbank matter insofar as it may pertain to the legislative authority either of this Committee, Parliament or your own responsibilities as Minister.

The Hon. M. SHARP (*Minister of Finance*): Mr. Chairman, I have no preliminary comments to make. I would be very happy to answer any question that the members of the Committee may have arising out of the testimony given by Mr. Coyne and Mr. Stevens.

The CHAIRMAN: I will ask the members to signify to me in the usual way. I see that Mr. Mackasey has indicated his desire to ask a question. I hope the others will not be shy so that we will not have any question as to who is being recognized and when. I now see Mr. Cameron, followed by Mr. Fulton.

Mr. MACKASEY: I have one or two questions. Mr. Sharp, there has been considerable reference made here to a Treasury Board order pertaining to the Bank of Western Canada. At any time were you contacted directly for an interpretation of what this Treasury Board order really meant?

Mr. SHARP: No, Mr. Chairman. As I said in the House of Commons, in reply to similar questions yesterday, I volunteered some comments upon the meaning of that order and about the conditions under which I might exercise my discretion, but I was not asked for such an interpretation.

Mr. MACKASEY: Would you like to volunteer those comments again, right now?

Mr. SHARP: Yes. The terms of this order prohibit the Bank of Western Canada, directly or indirectly, from making any of its funds available to any of the preferred shareholders without the prior approval of the Minister of Finance. The terms of the order make it clear, I believe, and if there is any doubt about it I am clarifying the point now, that such approval was intended to be given only under very special circumstances or very exceptional circumstances. If I were asked—which I have not been—to approve an exception I would only give my consent if I were satisfied that there was no risk of loss to the bank, either its creditors or its shareholders.

Mr. MACKASEY: Could you give us an example of a very exceptional circumstance?

Mr. SHARP: May I give an additional explanation that may help to explain why there is any discretion in the order at all.

The terms of this order, of necessity, were not drawn to deal with a specific known transaction but designed to cover a wide range of possible situations that might develop at some time in the future. In addition, the words "directly or indirectly" are included in the prohibition section. The result is that the order prohibits a much wider range of transactions than the statements of intention which were made in committee by the applicants for a charter. It was felt that the language used might be found, on some occasions, to create a legal roadblack to a transaction to which no reasonable objection could be taken, either because of its nature or the fact that it was a very small transaction, and it seemed, therefore, desirable that there should be some element of flexibility in the arrangements.

Mr. GRÉGOIRE: May I ask a supplementary?

The CHAIRMAN: Would you yield for a supplementary question, Mr. Mackasey?

Mr. MACKASEY: Surely.

Mr. GRÉGOIRE: Mr. Sharp, you would then agree to any transactions between the Bank of Western Canada and BIF under the condition—and you would have to assure yourself of this—that there would be no loss for the shareholders or the clients of the bank? Would that be the only problem you would take into consideration?

Mr. SHARP: That is right. I want to make it clear, however, that the prohibition in the law to which there is some exception which I can grant, was intended, in fact, to prevent loans from the Bank of Western Canada to the preferred shareholders. That was the intent and that is the spirit in which the order will be administered.

Mr. MACKASEY: In other words, sir, if there was a change of heart or a change of policy by the directors of the majority shareholders or the directors of the western bank, this safeguard is built in to protect the average small depositor in Canada who would buy shares in the western bank?

Mr. FULTON: Mr. Sharp, you used a word which I expect you would like to correct. You said to prevent loans to preferred "shareholders"—I think you meant preferred "subscribers".

Mr. SHARP: Is that what they are called in the order, Mr. Fulton? Are they called subscribers?

Mr. FULTON: Yes.

Mr. SHARP: I am sorry; the word "subscribers" is in the order but "shareholders" they now are. They were then subscribers and they are now shareholders.

Mr. MACKASEY: Mr. Chairman, I will leave this for your decision because I am not sure that this is the appropriate time to make this comment. I was intrigued at the description of a transaction whereby financial institutions can obtain loans at the rate of 8 per cent, but I am not sure that this is the appropriate time to bring it up. I will leave this decision in the hands of the

Chairman and if he decides it is, I would like to get your view points on this type of transaction. I do not know if you are familiar with it but Mr. Chairman is. Do you think this is an appropriate time to ask this question, Mr. Chairman?

The CHAIRMAN: Certainly we are engaged in a general consideration of matters which may assist us in reporting to the House on the Bank Act. This transaction has awakened quite a bit of interest on the part of the Committee but I think that we should, first, assure ourselves that Mr. Sharp is familiar with the exact item we are discussing.

I believe that you were referring to the information given us by Mr. Stevens, that his BIF group obtained funds from the chartered banks through the sale and re-purchase of security in a way which he claims reflected the cost of borrowing of 8 per cent. Have I summarized the—

Mr. MACKASEY: Yes; I am not concerned about the 8 per cent; I am concerned about the fact that somewhere along the transaction these assets are temporarily completely in the possession of the bank. I am not too concerned if banks are involved, but I am just wondering about the propriety, or the wisdom, in view of some of the problems we have had with financial institutions. I am not referring to BIF, because Mr. Stevens assured us that his transactions had been completed in both directions. I am a little concerned, however, about the wisdom of this type of transaction when it takes place between groups such as the BIF group and other organizations rather than between chartered banks.

Mr. SHARP: Mr. Chairman, as Minister, I have a general rule that I do not answer hypothetical questions.

Mr. MACKASEY: When they cease to be hypothetical you have to answer them, sometimes unfairly.

Mr. SHARP: Yes; but I would like to see the transaction. As I understand it, this was not in breach of the law in any way.

Mr. MACKASEY: I am being unfair to the BIF group, because I am not too concerned about that particular transaction; but I am concerned about this particular type of operation that I gather goes on.

The CHAIRMAN: May I interject at this time? I think it is quite in order to ask Mr. Sharp, as you yourself have suggested, what are his views on the transaction that actually took place in so far as it may have contravened government policy or government legislation. However, to ask him to deal with hypothetical questions puts him in a position of having to contravene his own rule of thumb, which I think is quite sound.

Mr. SHARP: Mr. Chairman, I have no intention of answering questions of a hypothetical character. I say this to Mr. Mackasey as a friendly colleague in the House of Commons.

Mr. MACKASEY: I hope that you do not interpret my questions as being unfriendly. I am concerned about the average depositor, who does not buy bank shares, but who puts his money in financial institutions, with which we have had some unfortunate incidents, as you are aware.

You have also expressed your opinion, quite properly, that you fully intend, as Minister of Finance, to close every possible loophole that makes these invest-

ments speculative. I consider that this could possibly be one type of transaction against which the Canadian people should be safeguarded.

I am not an expert in the field. May I just finish by asking if you would look into this specific transaction to see if it can be a potential source of danger to the average depositor in an institution if it is applied more widely?

Mr. SHARP: To that question I will give an unequivocal Yes.

Mr. MACKASEY: In view of that, I will gladly hand over the questioning to someone else.

The CHAIRMAN: I have on my list Mr. Cameron, followed by Mr. Fulton and Mr. Monteith.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, Mr. Mackasey has asked the questions that I was going to ask. However, there is one that I would ask. I do not know if the Minister will call it hypothetical, but I do not think it is.

In view of the developments that have taken place I was wondering if the Minister is still happy at having included his discretionary powers in the Treasury Board order?

Mr. SHARP: Yes, Mr. Chairman; if I had to do it over again, even after the discussions that have taken place here, I would still include this discretionary power; because, as I said, the order was drawn up in a much more comprehensive way than even had been contemplated by the sponsors of this bank when they applied for a charter.

We wanted to be sure that we did include all kinds of transactions, whether they took place directly or indirectly; and that being so, since we could not forecast all the kinds of transactions that might occur, it seemed to us essential that the Minister of Finance should be able to approve of transactions that had no adverse effect, either upon the public interest or upon the security of depositors in that bank, or of its shareholders.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): And is it only for those five clauses of the Treasury Board order were drafted you considered that those consisted of undesirable transactions?

Mr. SHARP: I did.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): And it is only for those undesirable transactions that you have discretionary powers to grant exemption?

Mr. SHARP: Yes; because the terms are so broad that to have prohibited every transaction of this kind, whether it took place directly or indirectly, might have imposed an undesirable restriction upon the activities of the bank. And, as I say, if I had to do it over again, notwithstanding the revelations, or the testimony, I would do the same thing again. I believe that it is in the public interest that there should be some discretion.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Thank you, that is all.

Mr. FULTON: Mr. Sharp, the Bank of Western Canada now has a charter, of which the Treasury Board minute No. 658534, which has been referred to is a part?

Mr. SHARP: You will recognize, sir, that this is made pursuant to the charter—made in accordance with its terms.

Mr. FULTON: And by the provisions of the Bank Act the bank has to operate within the limits of the Treasury Board minute; because an order of this sort is contemplated by the Bank Act.

Mr. SHARP: That is right.

Mr. FULTON: My point is that, when issued, it becomes in effect a part of the over-all charter, or limits, within which the bank can operate?

Mr. SHARP: I agree.

Mr. FULTON: Have you had from the Inspector General, or have you heard, as a result of the evidence given in this committee, any report which would suggest to you that the Bank of Western Canada is operating outside of, or in contravention of, its charter in the sense which I have used the word "charter".

Mr. SHARP: No; the Inspector General of Banks has given me no such report.

Mr. FULTON: As a result of reports to you of the evidence given here have you any reason to believe that the bank is operating, or attempting to operate, outside the limits of its charter?

Mr. SHARP: I can only answer the first part of the question. I have no information that it was operating outside of the terms of its charter. Certainly if it did attempt to do so those efforts would be frustrated. I have no reason to believe that it is even attempting to do so.

Mr. FULTON: Have you heard, or had reported to you, with respect to the evidence given in this committee, anything which, in your opinion, as the responsible minister, calls for action by any public authority, including Parliament?

Mr. SHARP: I do not think, Mr. Chairman, that I would recommend, as a result of any evidence reported to me, any action by Parliament. The Inspector General of Banks, however, has taken some precautionary steps of which I approved. Perhaps the committee might be interested in knowing what those are, and I will ask the Inspector General of Banks to speak on this matter. He is under a prohibition about talking in public about his activities, but I have authorized him to make a statement.

The CHAIRMAN: I think that is quite in order.

Mr. SCOTT: Thank you, Mr. Chairman.

On the 24th of January, 1967 I had made a complete inspection of the books and records of the Bank of Western Canada. I found the bank to be in a perfectly sound financial condition.

Subsequent to that I made arrangements to receive a detailed weekly report of the assets and liabilities of the bank, which I have been receiving and which continue to indicate that the bank is in a perfectly sound financial condition.

Following these statements by certain directors of the bank, indicating that there was a serious difference of view on how the bank should operate, I requested the president of the bank to confine the investment and reinvestment

of the bank's moneys to short-term government of Canada securities and deposits with chartered banks. This is, of course a short-term approach to the problem until this situation is clarified.

I further asked that any commitments on expenditures to be made during this period should be restricted to the anticipated rate of earnings on the present funds of the bank, again as a short-term approach.

Mr. FULTON: Mr. Sharp, you told us that nothing that you have heard would lead you to make any recommendations to Parliament, or to this Committee, and we now have a report of the precautionary measures taken by the Inspector General.

What would be your answer to my suggestion to you that surely now the most important thing for the Board of Directors of the bank is to solve these problems and get on with the operation of the bank as a bank serving western Canada, while we turn our attention to other matters here?

Mr. SHARP: Without taking sides in this issue, Mr. Chairman, I am inclined to agree. I believe that the most useful thing that could happen now would be for the Bank of Western Canada to begin operating and to settle its internal disputes.

I am very much interested, as a former westerner in having another chartered bank and I would like to see it owned as extensively as possible in Western Canada. I am not, as Minister of Finance, in a position to recommend its shares, however.

The CHAIRMAN: One way or another.

Mr. SHARP: One way or another. I do believe that it would be a useful addition to the number of the chartered banks to have one that felt that it had a special place as a bank of western Canada, with a special interest in the problems of that part of Canada.

Mr. MONTEITH: Mr. Chairman, I do not know whether or not you will rule this hypothetical, but evidence was given by Mr. Stevens to the effect that consideration had been given at a meeting at some stage to whether or not it might be advisable for the new bank to buy the assets of Simcoe Finance, I think it is called, which has a consumer-loan business.

The evidence was that the discussion apparently hinged on whether or not this would be a good business for the bank to be in. It had been suggested that it would be the nucleus of a consumer-owned business to be run by the bank, which most other banks do run.

I was wondering in an instance like this, if you would care to express an opinion on whether or not this would come within the terms of section 2(f) of the Treasury Board minute as something that would be logical for the bank to do, commencing business as it is?

Mr. SHARP: Mr. Chairman, to some extent this is also a hypothetical question.

Perhaps I could go as far as to say that it would not, I think, be contrary to any sound principles of management for such a transaction to be approved. I would want to be satisfied, however, about the exact nature of the portfolio that

was being taken over by the bank. The reason for my saying that I do not think it could be opposed in principle is that in some respects the other chartered banks have been operating on this principle, when one considers the subsidiaries that were established by the chartered banks to engage in mortgage lending in advance of the approval of the enlarged powers of the banks that are now before us.

I understand, for example, that the Kinross Corporation was really established by the bank that owns it for the purpose of getting some experience and accumulating a portfolio that could, in due course, be taken over by the bank if and when Parliament authorizes the banks to invest in conventional mortgages.

As a strict business proposition I would think that the Bank of Western Canada would be wise, in terms of the interests of both the depositors and the shareholders, to do some preparatory work of this kind in the hope, if not the certainly, that such a transaction, namely the taking over by the Bank of Western Canada of this portfolio, would be approved by the Minister; but I cannot guarantee that such a transaction would be approved. I would want to be satisfied.

Mr. MONTEITH: That is, on the price of the folio, and this sort of thing?

Mr. LAMBERT: Would you agree to the principle.

Mr. SHARP: The principle is certainly one that I would not rule out, on principle.

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

Mr. MORE (*Regina City*): Mr. Chairman, I have another question which I do not think is hypothetical, I think it is direct. Do any of the prohibitions in the Treasury Board order prevent any of the BIF group from using the Bank of Western Canada for clearing facilities? Would this require ministerial approval?

Mr. SHARP: I shall have to ask my expert adviser, the Inspector General of Banks, to answer that.

Mr. MORE (*Regina City*): This question was raised, and I think it is a very direct question.

Mr. SHARP: I am not sufficiently expert to answer that.

Mr. SCOTT: I think that the only aspect of this that would be interfered with by the present Treasury Board order would be the possibility that in acting as clearing agent an overdraft might be created; that there might not be sufficient funds on deposit with the Bank of Western Canada to meet that clearing, and that temporarily the bank would be in the position of extending credit. this, of course, would come within the terms of the order, but as a service transaction it would not seem to me to be banned.

Mr. MORE (*Regina City*): Is there a prohibition here against deposits by any of these associated companies in the Bank of Western Canada?

Mr. SCOTT: No.

The CHAIRMAN: Do you have further questions Mr. More?

Mr. MORE (*Regina City*): No, Mr. Chairman.

The CHAIRMAN: Are there further questions to the Minister on this particular aspect of our considerations, namely, the Bank of Western Canada?

Mr. MACKASEY: I had one supplementary question that I thought might have come up on the question of the 10 per cent foreign ownership.

Would you like to state concisely your opinion of this particular transaction, Mr. Sharp? Is there anything particularly wrong with the whole 10 per cent being in the hands of one particular group in the United States?

Mr. SHARP: It would certainly not be illegal. I would not like to recommend it. And, I am sure, all members of this Committee would like to see Canadian Banks owned by Canadians. However, it is well within the law.

Indeed, as the Committee knows, the rules will be somewhat modified if and when the amendments to the Bank Act are approved, and I do not think that we should apply a stricter rule to the Bank of Western Canada than we would apply generally to other Canadian owned banks.

Mr. MORE (*Regina City*): This is a supplementary question. You have heard Mr. Coyne's proposal to the Committee that the restriction should be maintained at 10 per cent rather than increased to 25 per cent. Would you want to give your view on that to the committee?

Mr. SHARP: I have not had any convincing arguments that there should be a special rule for the Bank of Western Canada.

The CHAIRMAN: We appear to have no further questions for the Minister.

Mr. GRÉGOIRE: In other words, in all this there is nothing wrong, legally or financially?

Mr. SHARP: I have not heard of any evidence given here that points to illegality.

That is the only answer I can give.

Mr. GRÉGOIRE: No illegal or unsound transactions were mentioned here?

Mr. SHARP: You are asking another question now. I would not say that the Royal Bank of Canada has not occasionally engaged in unsound lending practices, or any bank for that matter. The Royal Bank happens to be the bank I bank with.

The CHAIRMAN: You are not referring to its relations with you, it seems.

Mr. SHARP: After all, I have been a customer of the Royal Bank for a long time. I feel I can speak freely about it!

The CHAIRMAN: Gentlemen, we appear to have completed our questioning of the Minister on this issue.

I recommend that we recess till 3.45 p.m., at which time we will begin our hearings on the deposit insurance bill. After hearing from the Minister and his officials we will go on to the clause-by-clause consideration of it.

We will recess until 3.45 p.m.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-1967

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

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 Committee.

Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

Respecting

BILL C-251

An Act to establish the Canada Deposit Insurance Corporation.

WITNESSES:

The Hon. Mitchell Sharp, Minister of Finance; Messrs. R. Humphrys, Superintendent of Insurance; W. K. Scott, Inspector General of Banks, and J. W. Ryan, Director of Legislation Section, Department of Justice.

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

OFFICIAL REPORT OF MINUTES

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The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-1967

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 46

THURSDAY, FEBRUARY 9, 1967

FRIDAY, FEBRUARY 10, 1967

Respecting

BILL C-261

An Act to establish the Canada Deposit Insurance Corporation.

WITNESSES:

The Hon. Mitchell Sharp, Minister of Finance; Messrs. R. Humphrys, Superintendent of Insurance; W. E. Scott, Inspector General of Banks, and J. W. Ryan, Director of Legislation Section, Department of Justice.

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

25714—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*),
Chrétien,
Clermont,
Coates,
Comtois,
Davis,
Flemming,
Fulton,
Gilbert,
Irvine,
Lambert,
Latulippe
Leboe
Lind,
Macdonald (*Rosedale*),
Mackasey,
McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Munro,
Valade,
Wahn—25).

Dorothy F. Ballantine,
Clerk of the Committee.

ORDER OF REFERENCE

FRIDAY, February 3, 1967.

Ordered,—That Bill C-261, An Act to establish the Canada Deposit Insurance Corporation, be referred to the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

25714—1½

FEBRUARY 10, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

NINETEENTH REPORT

Your Committee has considered Bill C-261, An Act to establish the Canada Deposit Insurance Corporation, and has agreed to report it with the following amendments:

Clause 5

(a) Immediately after sub-clause 2, add the following:

"(3) A vacancy on the Board of Directors does not impair the right of the remainder to act."

"(4) Where the office of Chairman is vacant, the Minister may appoint, for a period not exceeding ninetty days, an acting Chairman who shall, while so acting, be a member of the Board of Directors and have and exercise all the powers of the Chairman."

(b) Re-number present sub-clause (3) as sub-clause (5).

Clause 14

Strike out sub-clause (5) and substitute therefor the following:

"(5) This section shall come into force on a day to be fixed by proclamation of the Governor in Council."

Clause 17

Strike out sub-clause (2) and substitute the following therefor:

"(2) A contract of deposit insurance with a provincial institution shall be evidenced by an instrument in writing."

Clause 22

Strike out line 13 on page 10 and substitute therefor the following:

"Corporation may require; and the Corporation shall cause an examination of the affairs of the company to be made at least once in each such year."

Clause 36

Immediately after sub-clause (2), add the following:

"(3) In carrying out its functions under this Act, the Corporation may, with the approval of the Minister, make use of the personnel, facilities and services of the Department of Insurance and the Department of Finance to any extent not incompatible, in the opinion of the Minister, with the administration of those Departments."

Clause 45

Delete clause 45.

Respectfully submitted,

OVIDE LAFLAMME,
Vice-Chairman.

FEBRUARY 14, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

TWENTIETH REPORT

On February 10, 1967, your Committee reported on Bill C-261, An Act to establish the Canada Deposit Insurance Corporation.

A copy of the Minutes of Proceedings and Evidence respecting this Bill (Issue No. 46) is tabled.

Respectfully submitted,

HERB GRAY,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, February 9, 1967.
(94)

The Standing Committee on Finance, Trade and Economic Affairs met at 4:05 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Fulton, Gray, Laflamme, Latulippe, Lind, Macdonald (*Rosedale*), McLean (*Charlotte*), Monteith, More (*Regina City*) (10)

Also present: Mr. Thompson.

In attendance: The Hon. Mitchell Sharp, Minister of Finance; Messrs. R. Humphrys, Superintendent of Insurance; W. E. Scott, Inspector General of Banks; and J. W. Ryan, Director of Legislation Section, Department of Justice.

The Committee proceeded to consideration of Bill C-261, An Act to establish the Canada Insurance Corporation.

On clause 1

The Minister made an opening statement and was questioned. He was assisted in answering questions by Messrs. Humphrys and Ryan.

At 6:05 p.m. the Committee adjourned until 8:00 p.m. this day.

EVENING SITTING
(95)

The Committee resumed at 8:20 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Basford, Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Davis, Fulton, Gilbert, Gray, Laflamme, Latulippe, Macdonald (*Rosedale*), Mackasey, McLean (*Charlotte*), More (*Regina City*), Munro, Wahn (15)

Also present: Mr. Thompson.

In attendance: The same as at the afternoon sitting.

On motion of Mr. Macdonald (*Rosedale*), seconded by Mr. Cameron (*Nanaimo-Cowichan-The Islands*),

Resolved,—That the Committee cause to be printed 1500 copies in English and 700 in French of the Minutes of Proceedings and Evidence relating to Bill C-261.

Questioning of the Minister was resumed. He was assisted by Messrs. Humphrys, Scott and Ryan.

Clause 1 was carried.

Clauses 2, 3 and 4 were carried.

On clause 5

On motion of Mr. Wahn, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 5 be amended as follows:

(a) Immediately after subclause (2), add the following:

"(3) A vacancy on the Board of Directors does not impair the right of the remainder to act."

"(4) Where the office of Chairman is vacant, the Minister may appoint, for a period not exceeding ninety days, an acting Chairman who shall, while so acting, be a member of the Board of Directors and have and exercise all the powers of the Chairman."

(b) Re-number present subclause (3) as subclause (5).

The clause, as amended, was carried.

Clauses 6 to 13 inclusive were carried.

On clause 14

On motion of Mr. Wahn, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 14 be amended by striking out subclause (5) and substituting therefor the following:

"(5) This section shall come into force on a day to be fixed by proclamation of the Governor in Council."

The clause as amended was carried.

Clause 15 was carried.

On clause 16

Moved by Mr. Fulton, seconded by Mr. Cameron (*Nanaimo-Cowichan-The Islands*),

That clause 16 be amended as follows:

1. By deleting paragraph (a);
2. By re-numbering paragraphs (b) and (c) as paragraphs (a) and (b) respectively.

After discussion, and the question having been put, the proposed amendment was negatived on the following division: Yeas, 6; Nays, 7.

Clause 16 was carried, on division.

On clause 17

On motion of Mr. Wahn, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 17 be amended by striking out subclause (2) and substituting the following therefor:

"(2) A contract of deposit insurance with a provincial institution shall be evidenced by an instrument in writing."

Clause 17 was carried, as amended.

Clause 18 was carried.

On clause 19

Moved by Mr. Fulton, seconded by Mr. Monteith,

That paragraph (1) of clause 19 be amended by deleting sub-paragraph (b) thereof and substituting therefor the following:

"(b) in the case of such deposits as are deposited with the member institution as of the 30th day of April in that year and insured by the Corporation

(i) one-thirtieth of one percent of the first fifty percent thereof;

(ii) one-fortieth of one percent of the next twenty-five percent thereof;

(iii) one-fiftieth of one per cent thereafter."

After discussion, the Committee agreed to postpone further consideration of the amendment until the meeting of Friday, February 10th.

At 10:10 p.m. the Committee adjourned until 10:00 a.m., Friday, February 10, 1967.

FRIDAY, February 10, 1967.
(96)

The Standing Committee on Finance, Trade ane Economic Affairs met at 10:00 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Davis, Fulton, Gray, Irvine, Laflamme, Macdonald (*Rosedale*), Mackasey, McLean (*Charlotte*), More (*Regina City*) —(11)

Also present: Mr. Thompson.

In attendance: The Hon. Mitchell Sharp, Minister of Finance; Messrs. R. Humphrys, Superintendent of Insurance; W. E. Scott, Inspector General of Banks; and J. W. Ryan, Director of Legislation Section, Department of Justice.

The Committee resumed consideration of Bill C-261, An Act to establish the Canada Insurance Corporation.

With the consent of the Committee, Mr. Fulton withdrew his proposed amendment.

Clause 19 was carried.

Clauses 20 and 21 were carried.

On clause 22

On motion of Mr. Chrétien, seconded by Mr. Mackasey,

Resolved,—That clause 22 be amended by striking out line 13 on page 10 substituting therefor the following:

"Corporation may require; and the Corporation shall cause an examination of the affairs of the company to be made at least once in each such year."

The clause, as amended, was carried.

Clauses 23 to 35 inclusive were carried.

On clause 36

On motion of Mr. Chrétien, seconded by Mr. Mackasey,

Resolved,—That clause 36 be amended by adding the following immediately after subclause (2):

"(3) In carrying out its functions under this Act, the Corporation may, with the approval of the Minister, make use of the personnel, facilities and services of the Department of Insurance and the Department of Finance to any extent not incompatible, in the opinion of the Minister, with the administration of those Departments."

The clause was carried, as amended.

Clauses 37 to 44 were carried.

On clause 45

On motion of Mr. Chrétien, seconded by Mr. Mackasey,

Resolved,—That clause 45 be deleted.

The title and the Bill, as amended, were carried.

Ordered,—That the Chairman report the Bill, as amended, to the House.

The Minister thanked the Committee for giving priority of consideration to the Bill.

At 10:40 a.m. the Committee adjourned until Tuesday, February 14, 1967, at 11:00 a.m.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, February 9, 1967

The CHAIRMAN: Gentlemen, we are in a position to resume our meeting.

We are here this afternoon to hear evidence from the Minister of Finance, the Inspector General of Banks and the Superintendent of Insurance, on the act to establish the Canada Deposit Insurance Corporation.

I think the best way to begin would be to invite the Minister and/or his officials to make an opening statement, if he so sees fit, and then we will proceed to our questioning.

Mr. SHARP: Thank you, Mr. Chairman. May I thank you also for the way in which you have responded to my suggestion of the other day that some priority be given to this bill?

On February 3 in the House, on second reading of the bill, I gave a description of its general purpose. Its primary objective, of course, is to ensure the safety of the deposits of small investors who are usually not in a position to judge for themselves the financial soundness of the institutions to which they entrust their savings. Its second purpose is to provide a lender of last resort facility for deposit accepting institutions, providing needed liquidity at times of crisis. The third, and perhaps the most essential provision, is that institutions taking advantage of the insurance will be subject to inspection. Those, Mr. Chairman, are the general purposes of the bill that is before you.

In my remarks on February 3 I drew attention to the fact that the government had changed its order of priorities with respect to the introduction and passage of this bill. Originally, the government had felt that it should proceed in a much more leisurely fashion to bring this legislation into existence.

As a result of our consultations with the provinces, however, it has been made clear to us that the provinces—nine of the provinces at least—are happy that we are introducing this legislation and have urged us to proceed as soon as possible with its enactment, and in the House itself that attitude has been supported on all sides.

One of the problems that arises is that even after the legislation does come into effect procedure must be established for bringing institutions under insurance. As far as federally inspected or federally controlled institutions are concerned, there is no particular problem. We could, because of what we know about these federally controlled or inspected institutions, bring them under insurance without delay. In the ordinary course of events, however, it would have been, perhaps, more prudent to have brought provincial institutions under insurance only after they had been inspected. But, as I said in my speech on second reading, it seems to us that it would be undesirable for federal institutions to be insured earlier than insurance would be available to provincial institutions.

So, to expedite making insurance available to provincial institutions, it is contemplated that the corporation would be prepared to cover all the existing deposit-accepting trust and loan companies of a province if the province concerned so requested, even before the corporation has made an examination into the affairs of the individual companies and ascertained whether they were eligible for insurance.

Then, I went on to say:

> The provinces will be expected in return to enter into appropriate financial arrangements to ensure that any losses which occur as a result of the deposit insurance scheme having become effective prior to inspection will not become the obligation of those institutions which are in a sound position and are contributing to the deposit insurance fund.

This, as I said, would simply be a recognition by the provinces of their responsibility for provincially incorporated institutions prior to the application of federal deposit insurance.

I have written to the ministers of all the provinces bringing the bill to their attention and also these remarks that I have just quoted.

The CHAIRMAN: Thank you, Mr. Sharp. Gentlemen, I think it would be in order now for us to begin our discussion with the Minister and, in so far as he wishes, with the officials who are accompanying him. I might add that at the witness table, in addition to the two gentlemen I have mentioned, is Mr. Ryan of the Department of Justice.

Mr. SHARP: Mr. Chairman, may I say that we have some minor amendments to propose to the bill which is before you, but they are not matters of substance and I think they can be left over until clause by clause discussion.

The CHAIRMAN: Gentlemen, may I suggest that we proceed in this fashion: First, that we have our comments and questions of a more general nature on clause 1, with detailed questions on the specific clauses unless, of course, the Committee feels that it would be more conducive to careful and expeditious study of the matter to try to deal with all the questioning in the same box, so to speak. My only concern is to avoid what some members might consider repetition. Let us just attempt to have all our questioning at this general stage. Certainly I will use my discretion if, during the calling of the clauses, there seems to be repetitious questioning. Who would like to begin? I recognize Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, I would like to ask two questions. One is with regard to the provincial institutions in British Columbia, for instance. We understand the premier is now going to make it compulsory for them to enter the deposit insurance system. Will the corporation be obliged to accept all provincial institutions without inspection?

Mr. SHARP: Mr. Chairman, the position is this: If the province will accept responsibility for losses occurring before we have had an opportunity of inspecting these institutions, we would comply with a request by them to bring their institutions under insurance immediately. On the other hand, if the province did not want to accept that responsibility, it would still be open to the province to compel their institutions to be insured when we have had an opportunity of inspecting them. There are two possible situations.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not know whether you are in a position to tell us, Mr. Sharp, but have any of the other provinces indicated that they would like to follow the same course as British Columbia?

Mr. SHARP: The Ontario minister, Mr. Rowntree, said in his speech when introducing this legislation, as I understood it—I have not seen the record—that he was going to require all Ontario companies to join the federal scheme once it is in effect because he believes this problem can be handled more efficiently on a national basis than on a provincial basis.

However, there are really two separate possibilities here. There are two kinds of laws that might be passed by a province. First, one that compels any institution taking deposits to be federally insured. Second, to require all the institutions incorporated in that province to be federally insured. Of course, I cannot speak for either British Columbia or Ontario at the moment without having seen exactly what the spokesmen for those provinces said.

The CHAIRMAN: The next speaker is Mr. Laflamme, followed by Mr. Fulton.

Mr. LAFLAMME: Mr. Sharp, you have referred to letters you sent to every province regarding this bill. Will you tell us whether you received any answers to those letters?

Mr. SHARP: There would not have been time to receive an answer.

Mr. LAFLAMME: I see.

Mr. FULTON: I appreciate the necessity for and desirability of dealing with this as expeditiously as possible but, as I said in the House—and as Mr. Lambert has said—there are several provisions now in the bill which give rise to such reservations that it is very difficult to co-operate with that request, but I will do my best.

Mr. Sharp, you know our opinion that you could have done nearly all, if not all, of this without making adherence by the provincial institutions voluntary. I am not so much interested in that now, but I am interested in why you feel it necessary to go further and provide that they only can become a member institution if the government of the province in which they are incorporated consents.

Mr. SHARP: Mr. Chairman, the reason for putting in the provision that the institutions must have the approval of the province before making application is to avoid any possible conflicts or disputes which would result in this legislation not coming into effect. If we had asserted that our jurisdiction in this field applies to provincial institutions and that had been challenged, then the legislation could be held up in the courts and not come into effect as quickly as I think it should over as broad a range of companies as want to come in, or as the provinces give them permission to come in.

Mr. FULTON: Remember the distinction I made; At the moment I am not concerned about why you did not make it compulsory for these provincial corporations; I am only asking why you provided that the government of a province must consent. It is on that basis that I would put this further question: Do you not agree that if you made it voluntary—you cannot compel them to join—whether or not they were provincially incorporated, and regardless of the provincial regulations they may have to comply with, there would be no consti-

tutional or legal obstacle to their becoming members of this scheme, which is set up with unquestioned jurisdiction of the federal parliament and is then made available to corporations all across Canada? Most of the provinces will then say: "No, you cannot voluntarily subscribe?"

Mr. SHARP: Mr. Chairman, the reason was an effort on our part to reduce any possible conflicts to an absolute minimum. I am quite frank in saying that we have reason to believe that the entry of the government into this field might arouse some opposition. For example, a trust company in a province might wish to take advantage of this scheme and its action might lead to conflict between the federal and the provincial governments arising out of the federal government's offer to insure those deposits without the permission of the provincial government. This was an effort on our part to reduce any possible conflicts to a minimum and to invite the provinces to co-operate with us.

Mr. FULTON: Do you not agree that by putting in that provision requiring the consent of the provincial government before the adherence of a provincially incorporated company to this federal scheme may become effective, you have, in fact, admitted—indeed, created—an element of jurisdiction in the province which they do not now have by giving them, in effect, a veto over the extent of the operation of a federal scheme.

Mr. SHARP: Mr. Chairman, the action of the province of Ontario today in approving legislation in this field would seem to indicate with respect to provincial companies that a province does have authority to put in an insurance scheme on deposits. That would be my view as a horseback lawyer. Therefore, it seemed to us better to proceed by agreement. Fortunately, in the case of Ontario, the advantages of having a federal scheme have appealed to them and they are going to require their companies, which might be insured temporarily under a provincial scheme, to join the federal scheme. They agreed that this is a matter that can be handled with greater advantage on a national basis than it could be on a provincial basis. For example, in its proposed scheme the province of Ontario would, in fact, be insuring deposits of Ontario companies in British Columbia. Now, I do not know whether that could be challenged or not but certainly it is not a normal activity of a provincial government; so, because of what I would consider these overlapping powers, it seemed to me highly desirable that we should proceed by agreement rather than to court conflict.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Sharp, do I understand you to suggest that the action contemplated by the Ontario government establishes the right of a province to legislate in this field? You say yourself that if, for instance, they insured the operations of companies in another province this would be an unusual field for them to enter. Do they establish their right by passing legislation of this sort? Should it be allowed to go unchallenged?

Mr. SHARP: Well, I hope, Mr. Chairman, that this will not be a practical issue. The province of Ontario, as I understand the statements of the Ontario minister, does not want Ontario to continue in this field because of the fact that Ontario companies do operate outside the province of Ontario. It is not for me to say whether the Ontario legislation would be invalid in so far as it affected the insurance of deposits outside the province of Ontario. Obviously, it is much more efficient and much more in accord with the facts of the situation to have such insurance provided on a federal basis. Certainly I would think that the province

of Ontario would have the right to insure deposits within the province of Ontario by Ontario companies.

Mr. FULTON: I want to follow that up. My objection to this is that I fear—to use Mr. Cameron's words—the federal parliament, by putting that provision for consent in this legislation, will have established—or conceded, if you like—a jurisdiction which, in my humble submission, does not exist. Parliament will have created a jurisdiction in the provinces, and you are going to have all sorts of complications under similar situations and under this legislation in the future.

Indeed, I think it is a very serious question of whether the Ontario legislation, once this goes through, should not, indeed, be regarded as being inoperative. Because here you are in the field of banking; the taking of deposits is inescapably a part of the operation of banking over which federal parliament has jurisdiction. Perhaps there could be an argument that if the federal government does not exercise its jurisdiction in that field the provinces have a right to legislate under some other head, such as their authority over companies generally, but my understanding of the legal authorities is that once the federal government exercises its jurisdiction there can be no competing or conflicting legislation in the province under whatever other head it may seek to act, provided the federal government has acted within its jurisdiction. That does seem to me to raise serious questions of propriety. I do not mean to suggest that the Ontario government is doing something improper in the ordinary sense of the word, but I mean improper in the constitutional and jurisdictional sense of there being legislation on the Ontario statute books in this field when, at the same time, there is legislation on the federal statute books.

Mr. SHARP: Well, may I make this comment, because apparently I am not privileged to ask questions, although in this case we have such a distinguished member as a member of the Committee. Would this line of reasoning not lead to the conclusion that the province had no authority to grant to its companies the right to take deposits?

Mr. FULTON: In the absence of a definition of banking, I would be inclined to agree. I would not make a categorical assertion to the contrary but, once you define banking to include the taking of deposits, then I doubt very much if the provinces would have the right to legislate in that field.

The province would still have the right to legislate with respect to incorporation of companies within the province under the general companies acts, as I see it, and to provide whatever inspection in compliance with the making of returns, and so on, they want. They could not legislate directly in the field of deposit taking or deposit insurance.

Mr. SHARP: Mr. Chairman, I am not inclined to disagree with that statement. The fact is that Parliament has not yet enacted—if it ever will—legislation in relation to deposit taking institutions as such except what it is proposing to do now for the insurance of deposits. Therefore, I was simply making the point that the province now does have the power, I believe, to legislate with respect to its own companies on the taking of deposits which does not involve any conflict in the law, and I would have thought that it also had authority at the present time to insure those deposits if it so wishes.

Mr. FULTON: Yes, unil parliament acts to the contrary. But the federal parliament has not only the right to legislate to the effect that all companies

taking deposits are free to join our deposit insurance scheme. The federal parliament has that right—

Mr. SHARP: That is right.

Mr. FULTON:—and no province, in my view, could stop its companies from joining that scheme because we are legislating in the field of deposits which, I am satisfied, any court would hold as part of banking. But you go further than that. Not only do you stop short and say that they may join if they wish, but you go further and say that the province can stop them from joining if the province wishes, thereby creating, as I say, a jurisdiction that does not exist in the provinces.

Let me answer the other part of your concern, if I may. You said you feared that if this were not put in, conflicts might arise and the legislation might be challenged. I suggest to you, however, Mr. Sharp, that once this legislation went through, if a provincially incorporated institution became a member institution and applied, and its deposits were insured, that insurance would be in effect. It would not cease to be in effect unless the province both challenged the legislation and succeeded. If it did not succeed in its action in the courts in having it declared unconstitutional or ultra vires to the federal parliament, the insurance would continue to be in effect; so that I suggest that your fear for the efficacy of the legislation, simply because the provinces might challenge it, is not well founded.

Mr. SHARP: May I add one other point that has been brought to my attention by my officials. That is, whatever may be the scope of federal jurisdiction over banking under the British North America Act, it is not at all clear what forms of deposit taking activities would be considered banking, and if we were to proceed on the basis that we could only insure what would be regarded as deposits from a banking point of view, then it would be impossible, in this legislation, to give as broad a coverage to the insurance as we think is desirable and contained in this bill.

In other words, in this legislation we are not purporting to legislate about banking. We are establishing a system of deposit insurance, and whether all the deposits that we will insure would be considered part of banking business is quite a separate question.

Mr. FULTON: Well Mr. Sharp, I am afraid I must take issue with you again. I have not thought this aspect of it through; it had not occurred to me until you just raised it, but if you are not legislating under the federal jurisdictional heading of banking, I am again not satisfied. But I just cannot take this position categorically because I had not thought about it until you raised it, but there does not occur to me, at the moment, any head of federal jurisdiction that gives you the authority to enact this legislation except the federal jurisdiction over banking.

Mr. SHARP: I am informed by my legal advisers that this bill is within the competence of Parliament.

Mr. FULTON: Of course it is; there is no difference between us on that score at all. But to be within the competence of parliament, it must be under one of the established heads of federal jurisdiction and it seems to me that head is banking. This bill rests soundly on the federal jurisdiction in the field of banking but, in

my view, it contradicts in part, at least, the completeness of that jurisdiction by recognizing the jurisdiction that does not exist in the province.

Mr. SHARP: May I ask, Mr. Chairman, whether Mr. Ryan, who is here with me and who has given some consideration to this point, might speak?

Mr. J. W. RYAN (*Legislation Section, Department of Justice*): On which point, Mr. Chairman? With respect to the authorization of the province of incorporation, I would like to point out a grey area that does exist.

The CHAIRMAN: Do not blame this on me.

Mr. RYAN: These provincial institutions would be incorporated under the heading of a company with provincial objects. They would be authorized to carry out certain activities, including the ones that we are concerned about here, by their incorporating charter or their act, and they would also acquire in some cases all of their powers from that act, charter, or statute, depending on that type of jurisdiction they are in.

In some of these cases it may be beyond the powers of the company to take out insurance or to come into this scheme. In that area paragraph (a) would make provision for it; in other words you would not be dealing with a company that possibly was unable to enter into this type of contract. That is one point that I do not think has been canvassed yet as far as the authority of the province of incorporation is concerned.

On the matter of jurisdiction, I suggest this also could be supported by the fact that it is for the incorporation of a company with other than provincial objects. I suggest the objects go far beyond those of the province.

Mr. FULTON: The objects of this legislation?

Mr. RYAN: Of this incorporation.

Mr. FULTON: Yes, I agree.

Mr. RYAN: So, you can support it on that basis as well as any others that may be at hand.

Mr. FULTON: This act is surely an act that is only under an undisputed head of federal jurisdiction... I do not understand the application of the statement that you have just made, Mr. Ryan.

Mr. RYAN: The act proposes to establish a corporation, so it is an act for the incorporation of a company, and another justification for it is the incorporation of a company with other than provincial objects.

Mr. FULTON: I do not think we are on common ground here at all. I am not questioning the jurisdiction of the federal Parliament to enact this bill; far from it. I say it has power to go much further than it goes in this bill. I am questioning the propriety of this Parliament purporting to raise a provincial jurisdiction under subsection (a) which, in my humble submission, does not exist under the constitution.

Mr. RYAN: Mr. Chairman, the point I was trying to make on that matter is that a provincial trust company or loan company, or company carrying on that business under a general act as may exist in some provinces, would acquire its corporate capacity from the province.

Mr. FULTON: Yes.

Mr. RYAN: Now the corporate capacity would have to extend to its being able to contract in this connection.

Mr. FULTON: To make a contract for insurance with this Deposit Insurance Corporation. Is that your point?

Mr. RYAN: Yes.

Mr. FULTON: My answer to that is that if the company is in the business of taking deposits and the federal parliament legislates as to Canada-wide requirements which must be met by all companies taking deposits, in my view that is purely within the federal jurisdiction; the province could not stop its company from entering into that contract.

Mr. SHARP: Mr. Chairman, that is not what this bill is about. This bill is about the insurance of deposits, not about the taking of deposits.

Mr. FULTON: My point is that if you say that all companies who take deposits are required to insure with the Federal Deposit Insurance Corporation, in my submission no provincial government or power exists to prevent a deposit-taking corporation entering into a contract of insurance if it is made a requirement of the taking of deposits in Canada.

Mr. SHARP: Yes that may be, Mr. Chairman, but that is not what this legislation requires. We are not trying to go as far as that. Eventually that may be an act of this Parliament, but it is not one that is before us for consideration today.

Mr. FULTON: I realize that and I tried to stay off the ground; there are other grounds of difference between us. I think you should have made it mandatory, but it is not, and we have not time to change the legislation in that respect. I am seeking now to pursue my narrower, but very fundamental objection to this subsection (a) giving the provinces the jurisdiction, which I do not believe they have, and doing something which I do not think is necessary to the efficacy of your scheme. As I said, if you leave it purely voluntary—that is the present situation—and a provincially incorporated company takes advantage of that voluntary opportunity and enters into a contract of insurance, in my view the contract would be valid unless the legislation were to be successfully attacked. And even while the court case might be proceeding the contract still exists and the depositors are protected, unless the court should ultimately declare our legislation ultra vires. I think neither you nor I feel there is the slightest possibility of this happening.

The CHAIRMAN: Mr. Fulton, I will now ask Mr. Sharp or his officials to answer your last comment and then, perhaps, I should give the floor to the next person on my list, namely Mr. Macdonald.

Mr. SHARP: I think we had a good exchange on this; perhaps we can pursue it later.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, could I put a series of questions to Mr. Ryan, because I disagree fundamentally with Mr. Fulton's view of the law. Firstly, Mr. Ryan, surely it is the British North America Act rather than any act of the federal or provincial government which decides who, ultimately, has the right of jurisdiction. Neither the federal nor the provincial government can alienate that right by any law.

The CHAIRMAN: Do you agree with Mr. Macdonald's assertion that it is a question of constitutional law?

Mr. RYAN: I agree with that.

Mr. MACDONALD (*Rosedale*): Mr. Ryan, the federal government has jurisdiction over chartered banks which are one form of deposit taking institution. Is there any contest about that?

Mr. RYAN: There is no contest about banking or the incorporation of banks.

Mr. MACDONALD (*Rosedale*): The two federal statutes—the Trust Companies Act and the Loan Companies Act, both of which provide for deposit taking institutions—are equally within the competence of the federal government. Is there any contest on that point?

Mr. RYAN: They are within the competence of the federal Parliament. I do not know what the expression "equally" means.

Mr. MACDONALD (*Rosedale*): Is there a question of the jurisdiction of the federal parliament to pass those two acts and provide for that type of deposit taking institutions.

Mr. RYAN: There is no question that I know of, Mr. Chairman, but I may hesitate here and say that I am not sure that we are talking about the heading of banking.

Mr. MACDONALD (*Rosedale*): I agree with you there; I do not think they are covered under the heading of banking, either. You say it is a grey area; I say it may be a matter of sharp dispute.

A third type of deposit taking institution—if I may choose the laws of Ontario, because that is my own province—may be authorized by the Ontario statutes providing for Ontario trust companies or Ontario loan companies. Is there a question of the validity of the provincial legislation as it applies to that type of deposit taking institution?

Mr. RYAN: So far, this last type of business, Mr. Chairman, has been supported by the courts in Canada where it has been brought before them.

Mr. MACDONALD (*Rosedale*): So there is a legitimate provincial right.

Mr. RYAN: Yes, particularly in Manitoba. I think the case was mentioned here during the course of your hearing.

Mr. MACDONALD (*Rosedale*): So, there is a legitimate provincial right to legislate with respect to deposit taking institutions and that does not infringe on the federal power for banking?

Mr. RYAN: In the existing circumstances that appears to be so.

Mr. MACDONALD (*Rosedale*): You mean in the existing state of the law as it has been defined by the courts. The entire question of deposit taking, therefore, falls within the two jurisdictions. This entire field is not exclusive federal responsibility?

Mr. RYAN: At the present time, Mr. Chairman, both jurisdictions, if I can distinguish between province and federal, are exercising their authority to incorporate companies that have certain deposit taking powers.

Mr. MACDONALD (*Rosedale*): Is it also a legitime legal procedure for a jurisdiction, which may not have the power, to delegate responsibility for this area—not on a continuing basis, but so long as it extends the power—to an entity created by the other level of government? I am thinking of the Prince Edward Island potato market.

Mr. RYAN: Oh, yes, I know; you are thinking of delegation.

An hon. MEMBER: And his ear to a parliament.

The CHAIRMAN: The legislative body.

Mr. MACDONALD (*Rosedale*): I am talking in terms of an entity.

M. RYAN: Where there is concurrent jurisdiction.

Mr. MACDONALD (*Rosedale*): No, not necessarily; where there is no jurisdiction whatsoever in the federal government.

Mr. RYAN: May I attempt to answer that, Mr. Chairman. So far that has been done on a few occasions and, to the best of my knowledge, the recent efforts to do it have not been upset—that is, where the federal Parliament has delegated the exercise of some of its function to a body designated by the federal parliament.

The CHAIRMAN: Other than a legislative body.

Mr. RYAN: Yes, other than a legislative body, I have in mind the Motor Vehicle Transport Act.

Mr. MACDONALD (*Rosedale*): So that, given a doubt as to the entire authority over deposit taking institutions, if the provincial government by provincial legislation delegated the authority to insure deposits by the Federal Deposit Insurance Corporation this, in effect, would be a valid delegation under the constitution.

Mr. RYAN: I am not sure, Mr. Chairman, that we are in delegation here so much as this type of situation: The insurance of deposits can be considered in one respect as a business and if you, as a province, authorize that particular type of business, and there is no federal statute based on a federal head of jurisdiction that prohibits it, I do not see why a province could not continue to exercise the power to incorporate companies to insure deposits, even if it is a commercial company. It is only incorporating a company for provincial objects; carrying on a business in the province. Similarly, I think it is possible for the federal Parliament to incorporate a company to carry on the same business. We are not talking about defining deposits as being synonymous with banks; whether they are or not, I do not know.

Mr. MACDONALD (*Rosedale*): I gather from your responses and the look of agony on your face that it is not easy to decide where the jurisdiction lies and, given the legislative intention to do something about deposit insurance, there are then two choices before you: either to put it in the courts and wait five years until it is finally litigated, or to pass legislation which, with the consent of the provinces, will cover the whole field. As Mr. Fulton says, the deposit insurance legislation insuring deposits will be valid until it is declared not to be valid. Of course, the people who may have been insured on it will not be too cheerful in five years time if it is not valid. That should be to Mr. Sharp, and not to you.

Mr. SHARP: I believe, Mr. Chairman, notwithstanding what I consider to be the quite legitimate comments which Mr. Fulton has made, about the principle in this bill, there are two things: first of all, this is the practical way of proceeding now to get the maximum coverage with the least possibility of having our legislation challenged and thereby depriving many institutions and many depositors of the benefits. Secondly, I do not believe the provision that we have put in the act which requires these companies to get the approval of the provincial government before it can enter the federal scheme will in any way jeopardize the federal Parliament in deciding later how far it may want to extend its jurisdiction in the field of banking. Those are my opinions and I say this with respect.

Mr. FULTON: May I ask a supplementary question on this point? I think it is germane. What do you do immediately if a province says: No, we do not consent.

Mr. SHARP: That is a decision that province must answer for.

Mr. FULTON: This is surely leaving a very large gap—in my submission, an unnecessary gap—in the extent of your coverage. The objectives here we are all agreed upon.

Mr. SHARP: This seems to me, Mr. Chairman, to be essentially a political problem. I have every reason to believe that at least nine of the provinces will not only permit but will welcome the adherence of their companies to this scheme. I do not know the position of the tenth.

The CHAIRMAN: Mr. Macdonald would you yield for a further supplementary question from Mr. Laflamme?

Mr. LAFLAMME: I address this question to either Mr. Sharp or Mr. Ryan. It deals with clause 16(a). I do not really see the purpose of having the authorization from the province before provincially incorporated institutions take part in the federal deposit insurance scheme. It reads:

> The provincial institution is authorized—

Does a provincially incorporated institution really need the authorization of the province to get into the scheme?

The CHAIRMAN: That is Mr. Fulton's question.

Mr. SHARP: I say that a decision by provincial governments not to permit their companies to be insured is a decision they are taking with full knowledge of the consequences.

Mr. LAFLAMME: Can you foresee that those institutions who want to take part in our scheme may be federally incorporated?

Mr. SHARP: That could be.

Mr. MACDONALD (*Rosedale*): Mr. Sharp, may I just revert to a supplementary question asked by Mr. Fulton. He brought up the point that if a province fails to consent, then the institutions under provincial jurisdiction will not be covered and the objective will be defeated. The objective of the bill generally, I think, is to create confidence in investors in deposit taking institutions. Without the consent procedure, would the confidence of investors not equally be defeated if the entire matter were put into litigation?

Mr. SHARP: I believe so, Mr. Chairman.

Mr. MACDONALD (*Rosedale*): So, you have a dividing in the road; you have Mr. Fulton's choice of litigation, or the choice in this bill of the consent procedure whereby you avoid litigation?

Mr. SHARP: That is the general objective.

Mr. FULTON: I do not think the two alternatives are equal, though.

An hon. MEMBER: At equal rates.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I would like my legal colleagues to see if they could answer—

Mr. MACDONALD (*Rosedale*): I think I still have the floor?

The CHAIRMAN: Yes, I assume you are yielding to Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I can see how a provincial government could take the matter to court if this bill extended the compulsory feature of deposit insurance to provincial institutions, but I cannot quite understand how they could take the matter to court if it were merely made available for provincial institutions to enter the scheme or not enter the scheme on their own volition. How could this be taken to court? What would the provincial government have to do in order to bring it before the courts?

Mr. SHARP: The provincial government, under those circumstances, might challenge the federal government because of its resentment against the actions of the federal Parliament in making this available, notwithstanding the wishes of that provincial government that it did not want one of its companies to enter the scheme.

Mr. FULTON: What would it challenge in that case; the right of the federal parliament to legislate?

Mr. SHARP: It might.

Mr. FULTON: Or the validity of the contract?

Mr. SHARP: It might; it could do a number of things.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): If that is the case I think we had better get at it as quickly as possible to get the matter settled. Personally, I cannot see the grounds on which a provincial government could institute legal proceedings.

Mr. MACDONALD (*Rosedale*): Let me put it to you this way, Mr. Sharp: Whether the jurisdiction be compulsory or optional, if the federal government, in fact, has no jurisdiction to legislate, then the legislation will be equally invalid.

Mr. SHARP: Yes.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I would like to go on to clause 10 of the bill referring to provincial institutions, particularly focusing on the wording—I have dropped some of the intermediate words—which reads as follows:

> ...a company that carries on, ...the business of a loan company within the meaning of the Loan Companies Act.

Perhaps this question might better be addressed to Mr. Ryan. Is that reference necessarily confined to companies incorporated under the equivalent provincial statutes? For example, in the case of Ontario, does that wording extend beyond the Ontario companies which are incorporated under the Ontario Loan Corporations Act?

Mr. RYAN: Mr. Chairman, the wording there is intended to go to the nature of the business, and it is done by reference to the description of the business set out in the two federal acts, the Trust Companies Act and the Loan Companies Act. The business of a trust company is very, very lengthy and you have to derive it from reading the Trust Companies Act.

M. MACDONALD (*Rosedale*): We are talking about deposit taking and I notice that in this bill "deposit" means a deposit as defined by the by-laws of the corporation. Do I understand that correctly?

Mr. RYAN: That is correct.

Mr. MACDONALD (*Rosedale*): Therefore, taking an institution like Prudential Finance, it would be within the competence of the corporation to define the notes issued by that corporation as a form of deposit taking?

Mr. RYAN: Mr. Chairman, I do not think the business of these companies would fit under the definition either of the Trust Companies Act of the Loan Companies Act. One situation I believe does occur, Mr. Chairman, is the fact that in a jurisdiction you may have neither a Trust Companies Act nor a Loan Companies Act. You may be operating under the General Companies Act, or operating that type of business under a General Companies Act. It was in an effort to define the type of business a provincial company was in that we bring it under the definition of a provincial institution, and which this wording was designed for.

Mr. MACDONALD (*Rosedale*): What about a financial company incorporated under the General Corporations Act of Ontario as opposed to the Loan and Trust Corporations Act?

Mr. HUMPHRYS (*Superintendent, Department of Insurance*): I do not think such a company would be covered under this definition, Mr. Macdonald, because the essential feature of a company that is doing the business described in the Loan Companies Act is lending on the security of real estate mortgages. That is not its exclusive lending or investing power but it is one of its principal functions and such a company in Ontario, for example, would be under the Loan and Trust Corporations Act of Ontario.

Mr. MACDONALD (*Rosedale*): Do you think a company would have to be capable of exercising all the powers conferred by the federal Loan Companies Act before this legislation could apply?

Mr. RYAN: That is the intention, Mr. Macdonald.

Mr. MACDONALD (*Rosedale*): Thank you, Mr. Chairman.

The CHAIRMAN: Yours was the last name I had on my list at this stage. Are there other members who have not had an opportunity on this round of questioning who wish to do so?

Mr. LAFLAMME: I have another supplementary question to Mr. Ryan. Would it not be possible not to go as far as Mr. Fulton wanted to go, but just say that

this law is legal unless it is challenged? Just delete from clause 16(a) the words:

...is authorized by the province of its incorporation...

and say:

the provincial institution voluntarily applies for deposit insurance.

Mr. FULTON: The law may be in conflict with policy here, Mr. Chairman.

The CHAIRMAN: Are there any members present who have not had an initial opportunity to ask questions? If so, I will recognize them before we start again.

Mr. MCLEAN (*Charlotte*): If two large trust companies are incorporated in province 10 and they have branches in provinces 7 and 8, and provinces 7 and 8 say, you must have your deposits insured, what happens if province 10 says, no?

Mr. SHARP: Presumably, then, that company would have great difficulty in carrying on business in provinces 7 and 8.

Mr. FULTON: You could remove the difficulty very simply by striking out the requirement for provincial consent. This is why you may have gaps, not only in respect of the province in which the head office is situated but you may have gaps all across Canada. I think this is very serious.

The CHAIRMAN: Do you have any further questions, Dr. McLean?

Mr. MCLEAN: No, not at this time.

The CHAIRMAN: Mr. Sharp, Dr. McLean raised a question which I raised when we were questioning some of our witnesses from the public who appeared in the course of our general discussions on the Bank Act. I was impressed by the situation in California where, apparently, no branch of a non-resident bank can operate there unless it is a member of the federal deposit insurance scheme. Intriguingly enough, foreign branches cannot belong to the federal deposit scheme so they cannot have foreign branches in California. I see now that, in effect, Brtiish Columbia, perhaps influenced by their neighbour to the south, are proposing something of this sort. Am I correct in that, Mr. Humphry? Would their requirement with respect to provincial institutions apply only to those incorporated under the British Columbia law, or any provincial institution operating in British Columbia?

Mr. HUMPHRYS: As far as I know, Mr. Chairman, their views so far expressed relate to institutions incorporated in British Columbia, but I can say that I have discussed this plan with a number of officials in various provinces and some of them are interested in it from the point of view of requiring all institutions that are transacting this type of business within their borders to be insured under the plan.

The CHAIRMAN: I do not know if you are in a position to comment on this, but do you think a province that required all of its own institutions to belong to the federal scheme would permit branches of institutions from a province which did not give this consent to operate in the initial province concerned?

Mr. HUMPHRYS: I do not think I should try to read the opinion of the province. I think the views on that point might vary.

Mr. MACDONALD (*Rosedale*): There could be no argument from the jurisdiction standpoint, but they could put that condition on other provincial institutions coming into the province.

Mr. HUMPHRYS: It is my understanding that a corporation incorporated in a province may transact business in another province only wihh the consent of the other province.

The CHAIRMAN: Are we in a position to begin another round of questionning? Mr. Fulton?

Mr. FULTON: I would like to pass on to other questions because, as Mr. Sharp said, we have had a good lively exchange—not altogether conclusive.

Would you explain to me why it was felt necessary or desirable to have the provision that says where a provincially incorporated institution becomes a member it will have a policy whereas, I gather, under the scheme with respect to federally incorporated institutions they are just insured? Why not a policy in both cases or, alternatively, straight insurance in both cases, once the adherence to the scheme is effected?

Mr. SHARP: Could I ask Mr. Humphrys to deal with that question?

Mr. HUMPHRYS: The coverage is required by this statute for federally incorporated institutions—they have no choice. With regard to provincially incorporated institutions, it was not intended in this statute to compel them to become insured and, therefore, there had to be some document issued to indicate that they were covered, to record the fact of their having applied, been approved and that the insurance is in effect. This was the basis of the concept of issuing a policy.

Mr. FULTON: I appreciate the bankground distinction but I wondered why the fact of application acceptance would not automatically bring into force the insurance. Perhaps I am reading more into the word "policy" than was intended. Maybe the fact of the acceptance of the application, a very simple document, is intended to be discribed as a policy. It that right, or would it be a long complicated policy?

Mr. HUMPHRYS: It would be a document issued by the corporation to the institution, not, I think, a long complicated document, essentially designed to record the fact that it is insured and probably including by reference the act and the by-laws.

Mr. FULTON: In the House, Mr. Sharp, you answered a question of mine and there was no time to go into any detailed discussion. It was a question in which I put forward the suggestion that there might be considered a differential rate of primium for some at least, if not all, federally incorporated institutions on whose part membership is compulsory, what I had in mind, as a background for this suggestion, is that certainly in the case of the chartered banks, which are the biggest deposit holders—I think that general statement is right—their membership is compulsory; they will be paying a very considerable amount—certainly the major amount—of the premiums coming in, and yet they are certainly amongst the safest, if not the safest, of the deposit taking institutions in Canada. I think that you would be hitting them with a heavy enough burden for their contribution to the efficacy of the scheme if you did make some differential in rate. My alternative suggestion would be that if you felt you could not exempt or give a different rate to a category of institutions like banks—which I would see the federal trust companies criticizing—you might make your premium rate dependent on the amount of deposits that are insured, and if it goes over, say $1

billion, the rate is reduced somewhat, thus equalizing the extent of the burden that will be carried. Could you elaborate on that, please or give your reasoning in that respect.

Mr. SHARP: Yes, Mr. Chairman, I answered the first of Mr. Fulton's questions in the House when he put it to me. I did not think it would be equitable to have a differential rate depending upon whether they were federally incorporated institutions or whether they were provincially incorporated institutions. I believe that there are some provincially incorporated institutions that are just as sound in their financial management as our federally incorporated institutions.

On the second point, we did give some considerable attention to the possibility of having a sort of a maximum absolute amount of premium. However, after considering it at some length we came to the conclusion that while that might be an innovation that could be considered after we had some experience, we should begin with a flat rate. I believe that this question is worth later consideration after the scheme is in effect. It may be that an institution which has a vast amount of deposits should not be required to pay on the basis of the amount of their deposits but rather than there should be some maximum amount that would be charged to any single institution. However, we decided against that, finally, at least at this stage.

Mr. FULTON: You say that this will be open for consideration as experience is accumulated. Iwould just like to make it clear that the reason I modified in my question this afternoon, the form of my question to you in the House, is that I realized that some provincially incorporated institutions are, as you said, as soundly operated as the banks and that some of them would have very substantial deposits. Therefore, it seems to me to put it on the basis of the amount of deposits under insurance would be the more equitable approach, and you said that would be considered.

Mr. THOMPSON: Could I ask a supplementary here, Mr. Fulton?

Mr. FULTON: Yes, Mr. Thompson.

Mr. THOMPSON: In our discussions earlier I think the statement was made by Mr. Rasminsky that the portion of business done by the near-banks amounted to less than one per cent of the total amount of the banking business done. Now this proportion probably does not carry in the same way into deposits. But we are dealing only with federal institutions here, so it is the near-banks that will be covered under this legislation, and they represent a very small proportion of the total deposits in the banking institutions. I presume that the basic reason that we are dealing with this bill at the present time is that we are concerned about the near-banks, that we are not concerned about the banks nearly as much as we are with the near-banks.

Mr. SHARP: May I interrupt here, Mr. Chairman, and say what I said when I appeared before, that the usefulness of deposit insurance, even for such conservatively and soundly administered institutions as the Montreal City and District Savings Bank, was demonstrated. If deposit insurance had been in effect I do not believe there would have been any run on that bank.

Mr. THOMPSON: No, I am not questioning that point, Mr. Sharp, but following up Mr. Fulton's questions, do you not think it seems grossly unfair to be assessing the banking institutions for what will be the vast proportion of the

total aggregate premiums collected for the protection of those institutions that are not in the banking category? Would you be good enough to leave it, as you said, for further consideration. It seems to me to be inequitable.

Mr. SHARP: Mr. Chairman, one of the purposes of this legislation is to promote competition and if the introduction of deposit insurance has the result in due course of strengthening the confidence of the public in these institutions that are accepting deposits, other than banks, I would not consider that a great calamity. I can understand the banks not being very enthusiastic about it but I do believe that it is highly desirable that there should be a more competitive system, and I would hope this would come about partly as a result of deposit insurance, not because of the existence of the insurance so much as the fact that there would be much more adequate inspection and supervision of these institutions, and that they would grow. I would not consider it undesirable if these institutions should grow relatively to the banks.

Mr. THOMPSON: I am not questioning your statement just now—

Mr. MORE (*Regina City*): Would you feel that you would like them to become banks, in time?

Mr. THOMPSON: —nor am I questioning the ability of the banks to pay the amount of the premium that they will be required to pay, but we would like to think that our legislation is fair and just. Do you not think it would be possible to have a sliding scale of premium without too much difficulty, which would be more equitable to the larger institutions which are the banks?

Mr. SHARP: I do not rule this out as a possible development of the system. In the United States, deposit insurance had a very desirable stabilizing effect on the whole system of deposit-taking institutions which, of course, are subject to different kinds of laws than ours are, but I would believe it would be very difficult, if not impossible, to decide now what would be a more equitable sharing of this burden by imposing some sort of a maximum limitation. In the meantime, I believe that the general interest of the public is served by bringing the deposit insurance into effect on a flat rate premium even if arguments can be made that the banks are, to some extent, subsidizing their competition.

The CHAIRMAN: I think that we should give the floor to Mr. Fulton now.

Mr. FULTON: Mr. Sharp, I have not heard you say that you would not be able to institute an adequate and effective deposit insurance scheme even if you did have a sliding scale at the outset.

Mr. SHARP: That is right.

Mr. FULTON: Therefore, I am questioning you as to why you do not have a sliding scale at the outset?

Mr. SHARP: This is quite an arguable proposition and we gave quite a bit of consideration to it before we introduced this legislation. We believed that since we have not had any experience in Canada it would be better to begin with a flat rate premium. It would be very difficult to justify anything else until there has been some experience.

Mr. FULTON: Does that not mean that it will be established and be made to run to your satisfaction by imposing upon the banks and some of the large trust

companies, all of whom are sound, the heaviest burden with respect to deposit insurance?

Mr. SHARP: I agree.

Mr. FULTON: That does not seem to me to be really equitable but I do not know whether or not we are going to be able to change your mind.

Mr. MORE (*Regina City*): Mr. Sharp, you say this is a matter which is arguable and which could be considered after experience. I am wondering about the experience. I do not quite understand. These companies in respect of which we are asking you about a difference in rates are, in the main, old, well established firms. You have had inspections of them; you have knowledge of their operations; you have available knowledge now of what their operations over the years has involved that would bring them into using your deposit insurance, so what further experience do you need? All it means is that things that have happened during the previous 10, 15 or 20 years of their operation are now going to be more evident in the operation of deposit insurance. But, surely your knowledge of their business indicates a basis now where you could consider a difference in premiums.

Mr. SHARP: May I add one other consideration? I think it is desirable that we should collect premiums at the beginning at a somewhat higher rate than we will eventually have to collect them. It is provided in the bill that when the Deposit Insurance Corporation has a sufficient reserve that premiums may be adjusted, and that would seem to me to be a more appropriate time to consider whether a differential rate should be in effect. Otherwise, if we were now to place a maximum limitation upon the amount of total premium paid by an institution it would take longer before we reached that position when we could reduce the over-all rate upon all institutions.

Mr. FULTON: I would prefer to see you do it on a sliding scale, not just a maximum contribution, because all deposits are going to be insured. I think to set the ceiling at $200 million of deposits, then a lower rate on the next $200 million and a lower rate on the next, and so on, would be more equitable than just a flat maximum. You know what that would produce.

Mr. SHARP: Mr. Humphrys has asked if he might make a comment.

Mr. HUMPHRYS: There are two comments I would like to make. In the scheme in the United States, they have charged a flat rate on all institutions from the time it was started. In that plan they charged their premium rate on the entire deposits of the institutions even though the insurance only extends up to a maximum of, I think it is now, $15,000. This plan proposes to charge the rate only on the deposits that are up to the insured limit. To that extent, therefore, there will be a more equitable treatment for banks here than in the United States' plan because the chances of large deposits—over $20,000—are much greater in the banks than in the other institutions.

Mr. FULTON: Did I understand you to say, Mr. Humphrys, that supposing there is a deposit of $100,000 in a bank, the premium will only be paid on the first $20,000 of that individual's deposit?

Mr. HUMPHRYS: Yes, because the premium is on the deposit and the deposit is to be defined.

Mr. FULTON: It is just a matter of defining "deposits". It certainly does not appear from the act—

Mr. HUMPHRYS: It is on the total deposits that are insured.

Mr. THOMPSON: Up to $20,000.

Mr. HUMPHRYS: Whatever the definition says.

The CHAIRMAN: Do you take into account the fluctuating deposits in the course of a fiscal year?

Mr. HUMPHRYS: The plan is to require the insured institutions to pay a premium on the deposit balances calculated once a year at the end of April, which would be paid in two instalments.

Mr. FULTON: If they have $600 million on deposit at that time, they will not necessarily be paying one-thirtieth of one per cent of $600 million?

Mr. HUMPHRYS: No.

Mr. FULTON: But only on as many accounts within that $600 million as—

Mr. HUMPHRYS: They will eliminate the excess of any account that is over $20,000.

Mr. FULTON: I did not see it in the bill. I believe it is the amended definition.

Mr. HUMPHRYS: In section 19, Mr. Thompson, it states that the insured institution will pay an annual premium equal to the greater of $500 or one-thirtieth of 1 per cent of the total amount of such deposits as are deposited with the member institution on the 30th day of April and insured by the corporation; so that it would only be the insured deposit.

Therefore, in practice, the institution would add up its deposits, eliminating any excess over $20,000 in respect of each deposit, and then there would be a further adjustment, we believe, in order to allow for the fact that in some institutions one person might have a number of deposits. We would therefore have to make a further adjustment—probably on an approximate basis—to arrive as close as we can at a premium that is based on the insured deposits.

Mr. MORE: Do I understand, Mr. Humphrys, that a depositor could operate his account from May 1 to April 29 and be insured, and on April 29 take out his money and then there would be no premium paid on the insurance protection during that period. He could put it in again on May 1?

Mr. HUMPHRYS: That is right; but the premium is calculated on the balances once a year.

An hon. MEMBER: It has got to be somewhere.

Mr. HUMPHRYS: It is not likely, we think, that an institution would pay back all its deposits at the end of April in order to reduce its premium.

Mr. SHARP: Well, Mr. Humphrys, perhaps you should have an unheralded entrance.

Mr. MORE: Then I could ask for a compensating balance, or something, to make up the premium; and the depositor might want his deposit back if he could save this charge.

Mr. HUMPHRYS: I think, also, that the problem of trying to determine the probability of loss in an institution would be almost impossible. To grade the premium by the chance of loss would mean that some institutions would be paying zero, and the ones that need insurance would be paying the whole premium, which would defeat the whole plan.

Mr. FULTON: I wonder if I could just finish up with three short questions?

I have not been able to appreciate the significance of subclause (5) of clause 19. Could you tell me what is the reason for its inclusion, and how would it work? I can understand that if you find you have an adequate balance in your own funds to insure everything, you can reduce premiums, but what is the relationship of one-sixth of 1 per cent of the total amount of such deposits? What are the mathematics of this?

Mr. HUMPHRYS: The premium is one-thirtieth of 1 per cent per annum.

Mr. FULTON: Yes.

Mr. HUMPHRYS: One-sixth of 1 per cent represents five years' premiums. The idea is that after an institution has paid for five years, then, in effect, it would not have to pay any more after that if its deposits remained level. As soon as it had paid five years' premiums, if its deposit balances were not thereafter increasing, it would pay no more. If its deposits were increasing, however, it would pay then one-sixth of 1 per cent on the increase in the deposit from year to year.

Mr. FULTON: One-sixth of 1 per cent, which is a great deal more than one-thirtieth of 1 per cent.

Mr. HUMPHRYS: But only on the increase; so that, in effect, once an institution has a level deposit balance it would pay for five years, and then it would pay no more.

Mr. FULTON: If its deposits increased it would pay one-sixth of 1 per cent—

Mr. HUMPHRYS: —for that one year.

Mr. FULTON: —for that year; but—

Mr. HUMPHRYS: Never more than one-thirtieth of 1 per cent of its total insured deposits.

Mr. FULTON: I with we could get this record quicker, because I would like to read that. I still do not understand it. You assure me that it has the effect of relieving—

Mr. HUMPHRYS: Yes, indeed.

Mr. FULTON: —and not of adding a heavier burden?

Mr. HUMPHRYS: In a major, well-established institution, where the deposits perhaps are not increasing rapidly, this would mean that after five years its premiums would drop very sharply; whereas, a new institution that is growing up fairly rapidly would have to keep paying. It is a plan whereby the burden of the premium could be relieved on the major institutions that are well-established, but new institutions coming into the field, or institutions where their insured deposits are increasing rapidly, would have to continue to pay. It effects in fact, a more equitable distribution—

Mr. FULTON: Would it not be the case, and is it not the expectation and the hope, that as the economy expands, although some institutions may be growing relatively more rapidly than others—especially new institutions—all the institutions would have a steady expansion in the amount of their deposits, unless they become dead not only from the neck up but the neck down?

Mr. HUMPHRYS: I think that is the hope of all, Mr. Fulton, but this plan would sharply reduce the premium in any institution that is not growing at a rate that exceeds, I think, 25 per cent a year.

Mr. THOMPSON: You mean you are easing off on the level of deposits that are constant—

Mr. HUMPHRYS: Yes.

Mr. THOMPSON: —and increasing on the five year term basis on the new expansion.

Mr. FULTON: I am afraid my next question might again involve a lengthy exchange, so may I defer?

The CHAIRMAN: I recognize Mr. Thompson unless he was merely indicating—

Mr. THOMPSON: Mr. Chairman, I was concerned about this premium thing, but I have just a few questions on participation.

The CHAIRMAN: I just want to indicate to the Committee that my list following yourself, Mr. Thompson, we have Dr. McLean, Mr. Latulippe, Mr. Lind, and Mr. More.

Mr. THOMPSON: Immediately this legislation comes into effect it seems to me that it is going to place the presently chartered institutions, other than the banks, in a very advantageous position competitively as far as confidence with depositors are concerned. Therefore, it seems to me it is going to be the natural outcome that provincially-chartered institutions are going to want to come under the deposit insurance coverage, particularly in those provinces where there might not be a provincial law. So there will be pressure on individual institutions, and there will also be pressure on provincial governments to bring their provincially-chartered institutions under the legislation.

Is there adequate provision within the legislation to allow for provinces who want to bring their institutions in through an act of legislation in their own legislatures as part of this federal legislation? Is there adequate legislation? Is there encouragement for the provinces to do that?

Mr. SHARP: There is great encouragement, I believe, in this legislation for the provinces to give permission to their institutions to come in. The question of whether they should compel them, is another matter that would require legislation; but it would not require legislation for them to give permission to their institutions.

Mr. THOMPSON: I can well imagine that some of the provinces, rather than to set up a similar type of deposit insurance themselves, will just choose to pass legislation that will permit them to become part of this; am I correct that this would be an acceptable thing if provinces chose to do this.

Mr. SHARP: Yes; there are pressures, of course, upon the institutions themselves to come in, because apart altogether from the greater freedom that it would probably give them to operate outside the provinces in which they are incorporated, I would hope that a notice on their front door that they are insured by the Canada Deposit Insurance Corporation will help them to survive in competition with those who are in.

Mr. THOMPSON: I am concerned about making provision for those who are not in to come in. Apart from the provincial governments requiring their institutions to do this—which would require an act of legislation on their part—what means would an individual, specific institution have of becoming part of the corporation? Would they be required to take out a federal charter, or would there be a basis of affiliation without that, as individual institutions?

Mr. SHARP: Perhaps I will let Mr. Humphrys answer that, since it is a little technical.

Mr. HUMPHRYS: A provincial institution could apply if it has the authorization of its province. If it is in a financial position that is satisfactory to the corporation, it would be insured as a provincial institution.

Mr. THOMPSON: Providing it had the permission of the—

Mr. HUMPHRYS: —province.

Mr. THOMPSON: I can also foresee that there will be many provincial institutions which are sound institutions that would want to probably change their charter to a federal charter.

Mr. HUMPHRYS: I do not think this legislation would bear on that particularly, Mr. Thompson.

Mr. THOMPSON: It would not be necessary.

Mr. HUMPHRYS: No.

Mr. THOMPSON: If they could get the permission they could do it without taking out a federal charter.

Mr. HUMPHRYS: Yes.

Mr. THOMPSON: If they get permission from the province.

I think that covers the one point I wanted to cover, Mr. Chairman, except I am not satisfied with the Minister's answers in regard to this blanket set fee. I am not going to argue it further, but I think there ought to be some way of dealing with it more equitably than this does; although I appreciate the two points that have come up since Mr. Fulton first raised it, because I think they are relevant to it.

The CHAIRMAN: Dr. McLean?

Mr. MCLEAN (*Charlotte*): One of my questions is answered, because I thought that the thirtieth of 1 per cent applied to all deposits. There is one exception there, however, that is a deposit that is not payable in Canada, or in Canadian currency. There are deposits in the Canadian banks and in American banks.

Mr. SHARP: Mr. Chairman, those are not insured.

Mr. McLEAN (*Charlotte*): I see that they are not insured; but will they not pay any premiums?

Mr. SHARP: If they are not insured they do not pay premiums.

The CHAIRMAN: Is this the same practice under the American scheme?

Mr. THOMPSON: The incentive, I think, would be to convert it, Mr. McLean.

The CHAIRMAN: If you do not have the information readily available, it does not matter.

Do you have any further questions, Dr. McLean?

Mr. McLEAN (*Charlotte*): No, that is all I have.

(*Translation*)

The CHAIRMAN: Mr. Latulippe? Do you have any questions to ask?

Mr. LATULIPPE: Yes, I have a few questions to ask. I would first like to ask the Minister why this insurance is compulsory?

(*English*)

Mr. SHARP: It is compulsory for federal institutions.

(*Translation*)

Mr. LATULIPPE: Is it because, since this insurance is compulsory, you expect a certain depression in the future? Do you consider the institutions are not strong enough? There are some institutions that are stronger than the Government, so why make this insurance compulsory? If this insurance is good, surely the people will take it; if not good, those who don't need it won't take it. I would set up this insurance, but I would not make it compulsory. I think it should be left up to the individual.

(*English*)

Mr. SHARP: Mr. Chairman, with this point I disagree. I believe it is very much in the interests of Canada that the smaller depositor—and we are insuring deposits up to only $20,000—should be insured.

It is very difficult for individuals to be able to judge the financial soundness of these institutions, and as universal a system of deposit insurance as possible is going to add not only to the feeling of confidence of the depositors, but also contribute, I hope, to the general financial stability of the country.

(*Translation*)

Mr. LATULIPPE: In this case, would it not be logical to insure the Government's debentures? Some of these are only listed at 80 and 58 cents. Some have come down from 80 to 58 cents.

(*English*)

Mr. SHARP: Mr. Chairman, I can think of nothing safer than the securities of the federal government. They will all be paid when they fall due. We have never had any history in this country, fortunately, of our federal government's ever failing to meet its obligations. This is probably even safer than a deposit in a chartered bank.

(*Translation*)

Mr. LATULIPPE: Some people of my riding are writing letters and asking me why their debentures are only listed at 80 or 58 cents. They cannot understand it at all, they are beginning to doubt the Government's solvency. This is what I had in mind when I asked my question.

The CHAIRMAN: Could you clarify your question? Is it the Government which is not paying the entire market value?

Mr. LATULIPPE: No, but being on the market instead of being worth 80 cents or 58, people want to sell them at a better price because interest rates are going up and if we increase interest rate these debentures are not being sold since they have come down instead of going back up. Of course, we understand that the Government will pay full amount when they are due, but these citizens will have lost a certain amount in interest.

(*English*)

Mr. SHARP: Mr. Chairman, every time the rate of interest goes up the value of fixed interest securities goes down. Similarly, when the rate of interest goes down, as it has now been going down for a couple of months the value of these securities has been going up.

(*Translation*)

Mr. LATULIPPE: Now, I would like to point out to the Minister too that in our economy we have several other types of companies which are doing business and handle more capital than the ones you want to protect. There is no protection for them under any law, or regulation of any kind, and they are going bankrupt. They are losing millions, owe millions, but there is no insurance for them. But for capital which is partially entered in the books, there will be insurance to protect the books; but to protect the true wealth of the country, however, there is nothing, no one is doing anything in this regard. I would ask the Minister if he could not find some solution to this problem.

(*English*)

Mr. SHARP: Well, Mr. Chairman, if I could find a solution to the problem of protecting a businessman against any possibility of failure, I would probably have solved one of the great human problems. Every time we buy anything, or invest in anything, we incur certain risks.

This legislation is intended to protect those people who are making deposits in our banking and near-banking institutions, and I believe that this is a proper extension of the role of government.

I doubt very much whether it would be possible for the federal government to ensure the return of everyone's investment in any sort of an institution.

(*Translation*)

Mr. LATULIPPE: Perhaps in the future you might find a solution.

The CHAIRMAN: Mr. Latulippe, maybe you could help the Minister in this regard.

(*English*)

Mr. Lind?

Mr. LIND: Mr. Chairman and Mr. Sharp, I am going to look at this from a rather different angle.

Will deposit insurance not encourage a more complete disclosure? When we have full disclosure will this not create a greater confidence in our deposit-taking institutions?

Mr. SHARP: That is one of the prime objectives, Mr. Chairman.

I believe that we do need more adequate supervision of at least some of our deposit-taking institutions, and I can think of no more effective way of doing this at the present time than by the legislation that is before us.

Mr. LIND: Then our deposit insurance will give the man in the street the more complete protection in our deposit-taking institutions that we would like to create? Is that not the aim?

Mr. SHARP: That is right.

Mr. LIND: Thank you.

The CHAIRMAN: Mr. More?

Mr. MORE (*Regina City*): To follow up on Mr. Lind's question, do I understand, Mr. Sharp, that this bill will bring about more public disclosure than there is now in the investigation and reports that are made to the Inspector General and to Mr. Humphrys in his position, in regard to federally-incorporated companies?

Mr. SHARP: I have better ask Mr. Humphrys and Mr. Scott to speak on that point, because my offhand view would be that as far as federal institutions are concerned the procedures we now have are fairly adequate. I know that that is so in the case of our chartered banks. I am not quite certain whether we do not obtain certain extra powers of supervision over the non-banks.

Mr. HUMPHRYS: We do get complete information on federal institutions, and we publish an annual report giving the details of their financial statements. At the moment it is not planned to greatly expand the flow of information on those institutions. But the corporation would be making an annual report on its own affairs, and in that report some additional information might be disclosed.

Mr. MORE (*Regina City*): There is nothing in this bill requiring it?

Mr. HUMPHRYS: No; this bill requires the corporation to make an annual report.

In the case of provincial institutions it may be that there are some now who make no public disclosure of their financial statements and financial position. This procedure would help to achieve some increase in the amount of that disclosure.

Mr. MORE (*Regina City*): Only if they become members of this group.

Mr. HUMPHRYS: Yes.

Mr. MORE (*Regina City*): I thought, Mr. Sharp, that I ought to raise that, because your answer to Mr. Lind indicated something that I had not seen at all. I think that that answers the question.

Mr. SHARP: May I correct something? I did not think Mr. Lind was talking about disclosure; he was talking about protection.

Mr. MORE *(Regina City)*: He used the word "disclosure."

Mr. SHARP: Well, I answered the question, or at least one of the questions, as relating to the protection of depositors. It does improve the disclosure for those companies that are provincially incorporated and over which we now have no authority; and it certainly does improve the protection for the ordinary depositor.

M. MORE *(Regina City)*: I have no argument about that. Mr. Lind's was a combined question and you gave—and I say this without any criticism—what I thought was an offhand answer. I wanted clarification.

I wonder if we could get any indication of the size deposit you expect to get? You have a subscribed capital of $10 million; you have one-thirtieth of 1 p. 100 of the insured deposits as the premium; and you apparently have in mind reserves built up on a five-year basis before these factors are reduced and limited.

Before we had your bill and when there was just general discussion in the Committee we asked—and the question is hypothetical, I agree—"Suppose the deposit insurance bill that the Minister intends to present is on a basis similar to that of the United States". I understand the premium there is one-thirty-fifth of 1 p. 100. However, I did not know until today that it is on all deposits—insured, or otherwise. I think answers were given that it would cost the chartered banks between $4 million and $5 million annually in premiums, and that perhaps the cost to loan companies involved would be something of the order of $2 million.

I am wondering, in view of the fact that it is one thirtieth of 1 p. 100 of insured deposits only, if these figures are out of line, or if they are approximately correct even on this basis?

Mr. SHARP: I am advised that the estimate made by the banks is reasonably close. We are not in the position, as yet, to know whether the premiums paid by the other institutions would be accurate.

Mr. MORE *(Regina City)*: I think perhaps that the answers given were in regard to federally incorporated companies that had a compulsory obligation. Would that be approximately right for federally incorporated loan and trust companies which are compelled to take this insurance?

Mr. SHARP: Mr. Humphrys is just looking at the figures.

Mr. HUMPHRYS: Depending on the precise definition of "deposits", it would appear that federally-incorporated trust and loan companies would pay something less than $1 million.

Mr. MORE *(Regina City)*: Something less than $1 million; and the banks between $4 million and $5 million.

I want to put another question to you. About the compulsory feature of this and the extension of it to the chartered banks and the federally-incorporated companies. I have no doubt in my own mind that this is a group the experience of which in the main, or perhaps wholly, would indicate that they do not require this deposit insurance. They are sound; their operations are conducted strictly in accordance with the law; and the position of their depositors is without

question. Would you agree that this is the situation with the federally-incorporated companies that are put under this umbrella compulsorily?

Mr. SHARP: Well, Mr. Chairman, the question to bear in mind is that we are hoping that there will be some new banks; and there may be some new federal institutions—at least, we do not hope that, but it could be that there will be. Certainly in the case of the chartered banks, we are hoping that new banks will arise. This will help them in attracting deposits.

Mr. MORE (*Regina City*): The new banks?

Mr. SHARP: Yes; if they are members of this federal insurance plan. I think it is a good thing to encourage new banks to get started. Without reflecting in any way upon the existing banks, I have made it quite clear in introducing the banking legislation that I believe that there ought to be more competition in the banking system.

Mr. MORE (*Regina City*): Well, I do not disagree with your argument, Mr. Sharp, but I want to put the proposition to you that it seems to me—and I have been in business and had competitors—that what you are asking the present institutions to do is similar to asking a business that has provided its own capital and spent its own funds on advertising and other means to establish itself as a viable and sound business in the community to support a newcomer who enters the field, and whose problems in establishing himself are too great for him to face on his own, so that he can establish himself as a competitor. This is what seems to me to be the corollary here.

This is why I find it very hard to accept the flat rate premium idea. You are putting under the umbrella, for the purpose of establishing a sound basis throughout the whole system, established businesses and developing and new entrants, and you demand that those who, from their own resources, have established their position, must now bear the main brunt of providing the basis for competition to come in and operate. I find it very difficult, Mr. Sharp, to accept this in principle.

Mr. SHARP: Well, Mr. Chairman, there is another consideration involved here and that is that it is very much in the interests of our sound, well-established financial institutions that the general standards in this business be raised.

I am quite sure that none of our chartered banks is anything but sorry if there are unnecessary failures in institutions that are carrying on a similar kind of business. It is very much in the interests of not only the general public but of the banks themselves that our financial system should be stable; and that Canada should have a reputation for financial institutions, whether federally or provincially incorporated, that are run on sound lines.

I believe that the introduction of deposit insurance will underpin the whole system to the benefit of the well-established institutions.

Mr. MORE (*Regina City*): You are talking about the benefit of complete confidence by the public with this I do not argue. However, I do argue about the fact that you are asking the established companies, about whom there is no question, to pay too high a price to do this for their new competitors. This is the point that I think we are arguing, and I believe there is some general agreement, Mr. Sharp, that this is so.

Mr. SHARP: I do not disagree that this question should be looked at again. As I said in reply to Mr. Fulton, I think there is some validity to this argument. I believe, however, that we should get this institution established, have some experience, and then look at the question of equities. I think it is significant that in the United States, even after all these years, they are still proceeding on the basis of a flat premium.

Mr. MORE (*Regina City*): Of course they have a completely different system, and I would suggest that there is a much greater risk involved in some of the operations that function in their scheme.

I do not disagree too much with what you say, but I still find it very hard to accept that as a matter of expediency—that is about the only word I can use—you say that we go now with the flat rate.

I suggest, as I did earlier, that there is already in existence all the experience you need in regard to the present companies who are going to be compelled to enter this scheme. You have complete data for years of operation of these companies, which will cover any information you may want about the experience of these companies.

What you are asking, in fact, is that they pay this price for the experience you have to gain of provincial institutions and other parties who come into the scheme and of whose operations you do not have full knowledge now.

This seems to me to be the point, but I will leave it at that because I see that the Minister's position is, I think, adamant. I appreciate that he does agree that it is a matter of consideration, but not now.

The CHAIRMAN: I understand Mr. Monteith has one question. After that will recess until later this evening.

Mr. MONTEITH: Mr. Sharp, I do not know whether you will have this at your finger tips but possibly Mr. Humphrys or Mr. Scott might have some idea. Assuming, as we all hope, that there are no calls upon these funds, because of some institution defaulting one way or another, what sort of reserve do you expect to have by the end of about 5 years?

Mr. HUMPHRYS: We have not made nay projection of that, Mr. Monteith.

Mr. MONTEITH: How much have you estimated that your operating expenses will be, or have you got into that at all yet?

Mr. HUMPHRYS: We really have not gone into that in detail. We hope that the operating expenses will be extremely low and that we will not have to fall back on the insurance.

If claims did arise and the corporation had to take over the duties of liquidation, or receivership, there could be some substantial expense involved.

In the normal course the operating expense should not be large.

Mr. FULTON: When you refer to "operating expense" are you using it in the terms just of running this fund, of doing the accounting work with respect to fund, or are you contemplating also the increase in inspection staff that will be necessary because of the expected, and hoped for, large number of institutions that will come under it? Using "operating expenses" in that sense would your answer still be the same?

Mr. HUMPHRYS: If it should develop that the corporation had to do a lot of inspection services, then the expense could be substantial; but the federally-incorporated institutions will continue to be inspected under existing legislation in which the costs are charged back to the institutions.

For provincially-incorporated institutions, in some provinces they have, or are instituting, extensive inspection and supervisory services, and we think it would be possible for the corporation to make use of those services and the reports that come from that supervisory service. Therefore, it may not be necessary for the corporation itself to bear very extensive expenses for inspection.

However, it is very difficult to estimate at this point how much it would have to absorb in that respect.

Mr. FULTON: I have one further question, if Mr. Monteith is agreeable.

To the extent that additional inspection personnel are found to be necessary, will these personnel be on the staff of the new deposit insurance corporation, or will you simply expand the services and personnel of the Inspector General of Banks and your own inspection personnel? Will you have a third body of inspectors, in other words, or will those other two do the work for the corporation?

Mr. HUMPHRYS: The way the bill is set up it is open to the corporation to designate a person to do an inspection for it. The bill provides that for federal institutions the existing pattern will be maintained; so that the corporation could ask the Superintendent of Insurance to inspect the institutions on its behalf in a particular province, and to use the staff of the department; but it would be expected that the expense thereby incurred would be charged back to the corporation.

Mr. MORE (*Regina City*): Who might then pass it on to the institution that has been inspected?

Mr. HUMPHRYS: No; there is no provision for a direct charge by the corporation for inspection of a member institution. The expenses would be charged against the income of the corporation; and most of its income will, of course, arise from interest earned on the fund or the capital.

Mr. MORE (*Regina City*): Mr. Chairman, does this not then create greater discrimination than was obvious from the flat rate? The federally-incorporated, compelled institutions have to pay the cost of these inspections, plus the flat rate. Do you now suggest that provincially-incorporated institutions coming under this scheme will have to pay only the flat fee, and that the corporation will then pay the costs of the inspection? If so, this is further discrimination, Mr. Sharp.

Mr. FULTON: Have we got the facts right?

Mr. HUMPHRYS: Yes, the facts are right.

Mr. SHARP: This is a very minor increase in the burden upon these institutions and, as I say, they, too, benefit indirectly from the improved financial climate in which they are operating. They would prefer to have these institutions inspected and subject to adequate supervision. I am sure that this is their view. I am also sure that they would prefer to have a different system of premiums.

However, I think, everything considered, that it is not an undue burden on these institutions, and that it is preferable to proceed in this way than to attempt now to work out a much more sophisticated kind of premium system, pending some experience with the plan.

The CHAIRMAN: Gentlemen, I suggest that we recess until 8.00 p.m. and continue our considerations then.

EVENING SITTING

The CHAIRMAN: We are now in a position to resume our meeting. The Clerk feels that as a matter of procedure we should have a separate motion to print the proceedings of the deposit insurance bill. That being the case, I would invite a motion that we print the same number of copies of our proceedings on this deposit insurance bill as we have for the banking bills.

Mr. MACDONALD (*Rosedale*): I so move.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I second the motion.

Motion agreed to.

The CHAIRMAN: I have had the Clerk distribute to members copies of the amendments that the government is going to propose at the appropriate time in the hope that members would have had a chance to study them before we get to the actual stage of discussion. I think that when we recessed for supper we were in a general round of questions and discussions on the act and I would ask members whether they have any further questions or comments to exchange with the Minister or his officials at this time?

Mr. FULTON: I have a question I would like to ask Mr. Ryan, but he is not here at the moment and I will defer it until he comes back. I will ask Mr. Sharp a question, which I indicated earlier may involve some exchange of views, but I will try to keep it as short as possible.

I have on several occasions indicated my strong feeling—and I am speaking personally here or as an individual member of Parliament—that it is desirable to extend the umbrella of federal control, regulation and inspection as widely as possible over institutions engaged in the field of financial business in Canada, including what are generally described as finance and acceptance companies. May I lay this premise or basis for my question. In the Bank Act we have the means of inspection and control over the banks and, generally speaking, we have a satisfactory system in so far as their reliability is concerned. Under the Trust Companies Act and the Loan Companies act, we have by and large from this point of view the same system with respect to companies in that field.

Mr. SHARP: Federally.

Mr. FULTON: Federally incorporated. Under the deposit insurance legislation now being considered we have a device which—although I have reservations—if it works the way you think it will work, will have as one of its results, and I think a very important result, further extension of this umbrella over provincially incorporated companies carrying on business as defined in the federal loans

and trust companies acts. However in my view there is still this one important gap, and that is the finance and acceptance companies.

It is a fact that the failures which have given rise to very grave concern and which, I think, have had widespread repercussions in the field of financial institutions of Canada, have been on the part of two companies, Atlantic Acceptance and Prudential Finance, which are the type of company that I would refer to when I talk about finance and acceptance companies. As I see it, there is nothing in your proposed legislation which covers them or brings them in any way within the ambit of this federal umbrella. I have developed in the questioning of some of the witnesses before this Committee, including Mr. Rasminsky, the idea of—and I am not claiming any great originality in it, but I have been very much concerned with the prospect—making available to this kind of company, whether federally or provincially incorporated, what is called the device to the lender of last resort, and I am told—and as far as the evidence given here is concerned, it seems to substantiate it—is that they would be very happy to have such a device available to them and that they would—at least, this is my impression—be prepared to accept, as a condition of the availability of that device or resort, a very considerable degree, indeed whatever degree might be imposed of federal inspection and regulation.

In this bill before us, An Act to establish the Canada Deposit Insurance Corporation, it is provided that besides being an insurer of deposit, the corporation will be a lender of last resort to those companies whose subscription or adherence to the deposit insurance scheme is contemplated in this bill.

I am sorry about the long preface, but I wanted to ask you on the basis of that position, your reaction to the possibility of extending this legislation so as to make applicable the lender of last resort device on a voluntary basis—because here I think the constitutional position is such that it would have to be voluntary, certainly with respect to provincially incorporated companies—to finance and acceptance companies, thus completing the whole circle of federal coverage?

The CHAIRMAN: I think your question is of such important impact that the Minister will consult with his officials. I say this because when the tapes are being transcribed, the stenographers will not think we have adjourned for a while.

Mr. SHARP: Mr. Chairman, like Mr. Fulton, I have been concerned about the adverse effect upon our financial reputation of the failure of Atlantic Acceptance and Prudential Finance. I know that the provincial governments are similarly concerned. I already have told the provincial ministers who met with me when we were discussing with them the disclosure of the costs of consumer credit, and also the Ministers of Finance whom I met just before Christmas in connection with the pre-budget survey of economic prospects, that I intended to call a meeting of the provincial ministers to discuss with me the question of finance companies in particular, to which the response was very good. They were obviously very interested.

There are two problems involved, it seems to me. First of all, there is not now any framework of legislation to govern the operations of finance companies either at the federal or at the provincial level. One of the first steps that I would take, in calling such a conference, would be to be sure that we had, to place

before the provinces, a draft of a federal bill, which might serve as some sort of a model for the regulation of these companies.

Mr. FULTON: Federally incorporated?

Mr. SHARP: Federally incorporated finance companies. Thereafter the question of having a rediscount or a lender of last resort privilege could be considered, and certainly I would like to see this considered as a possible method of raising the standards of financial management of those companies. However, the first step undoubtedly is to establish rules within which they are to operate and these rules, I am told, do not exist at the present time. I think it is fair to say that none of the 11 governments has legislated adequately in this field. Those are my preliminary comments, Mr. Chairman.

Mr. FULTON: Do I understand the effect of what you are saying to be that until we have devised a federal finance and acceptance companies act—I am just giving it this title—under which the requirements for incorporation and the regulation of the activities of such companies under federal charter would be prescribed, that we would not even be in a position to suggest how they should be regulated and inspected. Is this what you are saying?

Mr. SHARP: Not quite that. In none of the 11 jurisdictions do we think that there is adequate legislation in relation to these companies. And you must have some body of accepted rules before you can consider the extension to these companies of the privilege of borrowing money in order to maintain or protect their liquidity. That is why I said that the first step would be to discuss the legislative regulation of these companies. For our part, we will place before that conference draft legislation relating to federal companies which, after discussion, we would place before Parliament; and we would hope that that model might be suitable for the provinces in passing legislation governing the activities of their finance and acceptance companies.

The second stage will come when we may consider the suggestion that Mr. Fulton has made; to provide a form of liquidity for these institutions—not institutions which have made bad investments but those who have borrowed short and lent long, or whatever the reason may be—so that they could avoid going into bankruptcy at the expense of the whole system. Mr. Chairman, I think that is as far as I feel I can go at the moment. So little has been done in this field to date that it would be premature to suggest that the first step would be the establishment of an institution, a bank of last resort, or a facility of last resort.

Mr. FULTON: You are really saying that if you did that at the present time you would hardly know what criteria should guide those who might then inspect and see whether they were qualified to come under that umbrella. That is what you are saying, is it not?

Mr. SHARP: That is what I am saying, yes.

Mr. FULTON: Mr. Sharp, can you give us an indication of a time table. Are you able to do that at the moment? I think this is quite urgent.

Mr. SHARP: The only point that I could make at this time is that I have been urged by the provinces to call a conference of this kind earlier than I had originally intended. I would call it tomorrow if there were not so many other things to do and if my officials were not engaged in getting this institution

established and otherwise dealing with urgent problems. It is my intention to call an early conference.

Mr. FULTON: You cannot give a guarantee, but is it your impression that proceeding along these lines provincial governments generally would be prepared to accept, once the groundwork is laid, an approach such as you and I have been discussing?

Mr. SHARP: I have reason to think that the provinces would welcome such an initiative on our part. One of them has mentioned this specific point about having an institution of last resort. I do not know if Mr. Humphrys knows anything more than that about the prospects.

The CHAIRMAN: I am wondering, Mr. Sharp—and perhaps I have been somewhat lax as Chairman—whether we are straying somewhat afield from the bill before us. Our position is somewhat different from our consideration of banking legislation, since we are looking at the whole system as such. I think, quite rightly, we took a very wide latitude in what we discussed. However, we now are dealing with a specific bill. I do not mean to imply by my comment that Mr. Fulton is not raising something which should be of concern to this Committee and to the country at large.

Mr. FULTON: Mr. Chairman, I could relate it to the subject under discussion by saying that I have been contemplating the possibility of drafting an amendment to this bill which would extend the lender of last resort system. I think it may be well beyond my capabilities, but it has been in my mind and it was because we are dealing here with something which is a lender of last resort that I was asking these questions.

The CHAIRMAN: I can see the relevance, but I thought I should make this comment.

Mr. MORE (*Regina City*): Mr. Chairman, we are not dealing with banking legislation; we are dealing with an insurance bill to bring more confidence to our financial markets.

Mr. MACKASEY: Perhaps we could settle this by discussion when Mr. Fulton's amendment is before us.

The CHAIRMAN: I am not suggesting that we should not proceed with this discussion; I am just bringing this thought to the attention of the Committee.

Mr. FULTON: I was about concluded. In view of what Mr. Sharp has said, he having all the resources of the federal government at his disposal and I have not, while I appreciate this kind of discussion, I do not think I am apt to proceed with my self-imposed task of drafting an amendment because it seems to me that Mr. Sharp has the matter under urgent and active consideration and I would be prepared to wait.

Mr. SHARP: May I just conclude this discussion, Mr. Chairman, by saying that I do not think it would be desirable to give the Canada Deposit Insurance Corporation authority to make loans to finance companies. I believe that the problem is a very different one and it might do damage to this institution to give it those additional responsibilities.

Mr. FULTON: If I have not exhausted my time, may I ask Mr. Ryan what I hope will be just one question. Mr. Ryan, if the Minister will permit me to put

this question to you—and I make that qualification because of the tenure of our earlier discussion—have you been asked for, given or would be prepared to give an opinion to the Committee as to whether Bill No. C-261 would still be within the jurisdictional competence of the federal Parliament to enact if clause 16 were to be amended by the deletion of subclause (a)? I am not asking for policy.

Mr. RYAN: Do I have your permission?

Mr. SHARP: Certainly.

Mr. RYAN: Mr. Chairman, I think it would be, yes.

Mr. SHARP: I will take my chances like Mr. Fulton.

Mr. RYAN: I do not think that the removal of that paragraph would alter the position of the bill at all, constitutionally.

Mr. FULTON: Thank you. Mr. Chairman, I am finished.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): In line with what Mr. Fulton said a moment ago about the lender of last resort, I was wondering, Mr. Sharp, what the implications of subclause (a) of clause 11 are in that connection. It says that the corporation may make loans or advances to member institutions. Is this not somewhat on the same line that Mr. Fulton just spoke about?

Mr. SHARP: Yes. The purpose here is to give a lender of last resort facility to trust and loan companies and other deposit-taking institutions.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): So the problem is that Mr. Fulton was talking about institutions that are not deposit-taking institutions?

Mr. SHARP: That is it.

Mr. FULTON: Except, I think, that Mr. Rasminsky gave evidence that there can be wide differences of interpretation as to what is or is not a deposit-taking institution. It is clear that the purpose of this bill is only to cover those institutions which are of the trust and loan type, and I would not argue that the kind of institution I have been talking about is readily identifiable to them. I was talking about an extension to cover them.

The CHAIRMAN: Mr. Thompson is next, followed by Mr. Macdonald.

Mr. THOMPSON: Mr. Chairman, I have one or two questions to ask either the Minister or Mr. Humphrys. How soon after this bill becomes law would you expect that the Canada Deposit Insurance Corporation would become effective?

Mr. SHARP: Perhaps you could reframe that question and ask: "How soon after it became law could it become effective?" and then perhaps Mr. Humphrys could answer that question.

Mr. THOMPSON: All right. How quickly do you see the Corporation actually extending its benefits to federally chartered institutions?

Mr. HUMPHRYS: I would hesitate to name a specific number of days, but I would think that it could come into operation very quickly after the bill becomes law.

Mr. THOMPSON: One or two months?

Mr. HUMPHRYS: I would think within a month, yes, easily.

Mr. MORE (*Regina City*): I take, from the amendment, that it would be 30 days.

Mr. HUMPHRYS: I would hope so. The problem would be to draft the bylaws, have them approved by the Governor in Council and set up a minimum amount of machinery to perform the functions. I think though with the help of the staff of existing departments, that it could be put into operation quite quickly.

Mr. THOMPSON: My reason for raising this question—centres around the thought of whether it would be your intention to recognize all of the institutions involved simultaneously—which would mean that you would have to investigate their financial position and this would take some time. There would be a likelihood of it being inequitable unless recognition could be extended in the first instance simultaneously.

Mr. SHARP: Mr. Chairman, may I draw attention again to the remarks, that I made on second reading of this bill when I dealt specifically with that question I said at page 12621 of *Hansard*:

> It would be undesirable for federal institutions to be insured earlier than insurance would be available to provincial institutions. To expedite making insurance available to provincial institutions it is contemplated that the deposit insurance corporation would be prepared to cover all the existing deposit accepting trust and loan companies of a province if the province concerned so requested, even before the corporation has made an examination into the affairs of the individual companies and ascertained if they were eligible for insurance.

Mr. THOMPSON: That is on page 12621?

Mr. SHARP: Yes.

Mr. THOMPSON: Well, this answers my other question. What I was going to ask was, would there be sufficient time allowed for those provincially chartered institutions who wish to come under the initial recognition to do so in the first instance. I would assume from this statement that that would be your intention.

Mr. SHARP: That is the intention. We would like to bring the scheme into effect over as wide an area as possible at the same time. If a province does not want to make a request like that to us, which has some financial responsibilities resting upon the provincial government, then they would simply tell their companies that they could insure or must insure and the Corporation would make an inspection, and after it was satisfied as to the financial management of the deposit taking corporation it would cover it.

Mr. THOMPSON: In other words, you are prepared to extend coverage and if more time was necessary for investigation this could be done afterwards. This question comes as a result of inquiries that have come to me. Also, at this particular moment practically all of the legislatures are in session and it becomes a very timely thing that they know this and that action be taken now so as to not work unfair hardship on any institution as far as competition is concerned. I think that is all, Mr. Chairman.

Mr. SHARP: I told the Committee, Mr. Chairman, as you will recall, that I had written to all the provincial governments, enclosing copies of my remarks on second reading of this bill.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I would like to revert to a line of questioning that I was pursuing this afternoon; it refers to clause 2, subclause (e), the definition of deposits. I think it is generally understood that what is meant primarily by "deposit" is deposit into a savings account. I am not so certain how far you would go with respect to other instruments issued by this type of institution, guaranteed investment certificates and so on. I realize that the way is left open to the Corporation to define what a deposit is but I wonder if the Minister has anything definite in mind.

Mr. SHARP: Mr. Chairman, this is an important question. I will try to be as forthcoming as possible.

In my speech on second reading I made some general comments, and I said this on February 3 at page 12622 of *Hansard*:

> Except in the matter of the maximum size of deposit to be insured, namely $20,000 it has been thought best to leave some room for flexibility in the definition of insurable deposits. It is proposed, therefore, to define the kinds of deposits eligible for insurance under the by-laws of the corporation which will require the approval of the Governor in Council. All the usual kinds of savings and current deposit accounts will be insured. In addition, it is the intention to include special forms of term and notice deposits and deposit-like instruments which are issued by some institutions.
>
> It may be desirable to ensure a clear, public understanding of what is insured and what is not insured by bringing about some clarification in the names used to describe certain deposit instruments. But so far as the existing situation is concerned the intention is to go as far as possible to make insurance available for all types of deposits and deposit-like instruments provided only that they are not instruments clearly in the category of securities rather than deposits.

I have been discussing this with my officials; they have suggested a general framework within which we will probably operate, and I know that this is a burden on Mr. Humphrys but I wonder if he might not describe in general terms what we have in mind. I cannot commit the Governor in Council so Mr. Humphrys will be talking in general about the kind of instruments that we think should be insured now, and he will give some indication of the sort of changes that might come about after we have insurance in effect to re-describe or re-define the instruments.

Mr. HUMPHRYS: The area that was being considered, as Mr. Sharp described, was to define the deposit as to include three types. The first would be deposits repayable on demand. These would include the type of instrument, the type of receipts and deposits normally thought of as deposits; that is, deposited to a running account with the receipt being acknowledged by an entry in a pass book or an entry in the institution's books. The second category would be deposits or moneys received that are repayable on notice, the notice not to exceed five years. The third category would be moneys received in exchange for an instrument that promises to repay the moneys at a fixed date in the future, the fixed date not to be more than five years from the date that the moneys were received.

In summary, on this plan deposits would be defined as demand deposits and term deposits up to five years.

After the plan comes into force it would be desirable that there be no confusion in the minds of the public as to which types of moneys or obligations are insured and which are not, so that we would propose some terminology that would make it clear which obligations of an institution are insured, probably by the use of the word "deposit" on an instrument given as receipt for moneys. Of course, the kind of moneys received and entered in a pass book would be insured and they would be recognized as deposits in the ordinary sense.

With respect to obligations on the books of an institution at the time the act comes into force, some expansion of this might have to be made to recognize the fact that terminology used prior to the date this plan became effective would not be quite as precise as we would want it to be after the insurance is effective.

The CHAIRMAN: Are there any further questions?

Mr. MACDONALD (*Rosedale*): You would therefore give the word "deposit" a secondary meaning, in the sense of the carrying out of the implications that are insured under this act.

Mr. HUMPHRYS: Yes.

Mr. MACDONALD (*Rosedale*): And would permit its use otherwise in respect of things of this kind.

Mr. HUMPHRYS: I think it would be desirable to forbid its use on instruments that are not insured, or at least if it is used to make sure that the instrument is clearly marked "Not Insured", so that there is no misunderstanding on the part of the holder.

Mr. MACDONALD (*Rosedale*): And if the particular instrument had anything on it about security, it would not be covered by the insurance.

Mr. HUMPHRYS: It was thought that if moneys are received in return for an instrument made payable to the bearer or an instrument that is clearly designed to be a negotiable instrument that that would not be insured.

Mr. WAHN: Do you think there would be any resistance on the part of any institutions to mark non-insured instruments clearly to that effect—in other words, to have them mark in red, "This is not an insured instrument." or "This security is not insured under the federal government Deposit Insurance Act." They might resist doing that, and yet insurance policies have marked in red, for example, something to this effect, "This policy contains a co-insurance clause". I can see that some confusion could be caused if an institution secures public recognition as one that is insured under this act, but if it is taking insured deposits and issuing uninsured securities the public might be mislead unless great care is taken to mark these instruments clearly.

Mr. HUMPHRYS: I would not think that any institution would want to stamp any of its instruments "not insured". Personally, I think that the better course would be to avoid the use of the word "deposit" except on instruments that are insured.

Mr. WAHN: You think that would be sufficient to avoid public confusion.

Mr. HUMPHRYS: And to include the word "deposit" in some fashion on every insured instrument.

Mr. MACDONALD (*Rosedale*): Perhaps this question should be addressed to Mr. Scott. As a matter of interest, are the certificates which the chartered banks

are currently issuing for payment over a longer period—that is, not on demand—negotiable instruments?

Mr. W. E. SCOTT (*Inspector General of Banks*): I think that some of them can be transferred and others cannot. I think it is a mixed bag.

Mr. MACDONALD (*Rosedale*): Then, Mr. Humphrys, would the quality of negotiability be an essential element in that type of instrument?

Mr. HUMPHRYS: I think that perhaps it is not possible to give a precise answer at the moment. It was thought that some instruments are issued clearly for the purpose of trading in the investment market and that it would be reasonably easy to identify them. But there are other instruments, such as debentures issued by loan companies, that are not primarily issued as negotiable instruments, although they may be traded, and there may be a limited market for them. We would think that instruments like that, that are not essentially issued for the purpose of investment trading, would be insured whereas the other type would not. It may be that we would get into some problems on borderline cases. These are some problems that will have to be worked out in the actual circumstance.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, may I put a question to Mr. Ryan with respect to his answer to the final question by Mr. Fulton. I take it that in the reply that he gave he felt that clause 16 (a) neither adds nor subtracts from the rights accruing to your clients but that you were not offering any opinion as to the probability of litigation.

Mr. RYAN: I was offering no comment on that point. I may clarify my reply, if I may, Mr. Chairman, and add one more thing. I do not think that its inclusion or removal affects the constitutional position as a matter of law.

Mr. MORE (*Regina City*): It would not alienate any of the jurisdictions by its inclusion?

Mr. RYAN: Not as a matter of law.

Mr. SHARP: This is a very important point, Mr. Chairman, because it had been urged by Mr. Fulton, whether for political or legal reasons, I am not certain.

Mr. MORE (*Regina City*): Let us keep this clean.

Mr. MACKASEY: Let us leave the legal reasons out of it.

Mr. FULTON: Politics is clean.

Mr. MACDONALD (*Rosedale*): Well, perhaps Mr. More could define for us which he thinks is cleaner.

Mr. SHARP: Well, it had been urged by Mr. Fulton, at least I thought it had, that the inclusion of such a provision would prejudice future rulings in relation to the jurisdiction of parliament over banking. I gather from what Mr. Ryan has said that he does not agree with you.

The CHAIRMAN: Are there other members who have questions at this time?

(*Translation*)

Mr. LATULIPPE: Mr. Chairman, I would have a comment to make on Clause 34. Reading this Clause I am struck by something which seems to be wrong. In

all due deference to the Minister of Finance, I see that the Governor in Council may authorize the Minister of Finance to advance, out of any unappropriated moneys in the Consolidated Revenue Fund... It seems that it is wrong to ask that the Minister of Finance be submitted to the authority of the Governor. There seems to be something wrong in Clause 34. What do you think of it, Mr. Minister?

(*English*)

Mr. SHARP: It is not often that I have a Member of Parliament who puts me over the government; because I find the Governor in Council resists my efforts to control it.

(*Translation*)

Mr. LATULIPPE: I understand that this is the governor of the corporation.

The CHAIRMAN: No, it is not the governor of the corporation. It is the Governor in Council, that is the Government, the Cabinet.

Mr. LATULIPPE: I thought it was the governor of the corporation.

The CHAIRMAN: This is a legal term which means the Cabinet.

Mr. LATULIPPE: Now, "Consolidated Revenue Funds up to five hundred million, to the corporation". Why five hundred millions, Mr. Minister? What would be the use of these five hundred million dollars advanced from the Consolidated Revenue Fund?

(*English*)

Mr. SHARP: Mr. Chairman, this is for purposes of making loans to companies that are insured in order to improve their liquidity. This is to meet the problems that sometimes arise with these organizations when they borrow on short term and lend for long periods and occasionally get into difficulty in meeting their maturing obligations.

This would enable the corporation to make advances to deposit-taking institutions to enable them to meet their obligations pending the maturity of their investments.

(*Translation*)

Mr. LATULIPPE: Do you think that there will always be money in this Fund? Should there not be any money left in the Consolidated Revenue Fund and the Corporation applies for some. Would it have to wait in such cases?

(*English*)

Mr. SHARP: Well, Mr. Latulippe, I should not tell you that if I followed your doctrine of Social Credit I would just print the money and make sure there was enough.

The CHAIRMAN: I think these discussions on monetary policy had better be reserved until we return to the Bank Act.

Mr. THOMPSON: You are speaking to the Minister of Finance, I hope and not to Mr. Latulippe.

The CHAIRMAN: I presume, Mr. Sharp, dealing with Mr. Latulippe's point, that the advances to be made under the clause are only in so far as the

Consolidated Revenue Fund is in funds to permit this to be done? That is your point.

Mr. SHARP: Oh, yes. The Consolidated Revenue Fund has all the revenues, taxation and borrowed money that the federal government has at its disposal, and I do not think any circumstances would arise under which the Consolidated Revenue Fund would run out of cash to meet its obligations.

(*Translation*)

Mr. LATULIPPE: If there is nothing left, the people are taxed.

The CHAIRMAN: Well, gentlemen, I think that I am in a position to ask the Committee whether clause 1 shall carry.

Clauses 1 and 2 agreed to.

The CHAIRMAN: Shall clause 3 carry? Did you have a question, Mr. Fulton?

Mr. FULTON: I thought I had some comments somewhere on clause 3. Will you give me one moment? No. I have no questions on clause 3.

Clauses 3 and 4 agreed to.

The CHAIRMAN: Shall clause 5 carry?

An hon. MEMBER: We have an amendment here.

On clause 5—Board of Directors.

The CHAIRMAN: Oh, I beg your pardon.

Mr. FULTON: We have some amendments here.

The CHAIRMAN: Oh, I am sorry. I have them out of order.

Before completing our consideration of clause 5, I understand that the government wishes to propose an amendment. It has been distributed.

Before putting it forward I would like someone on the Committee to move the amendment.

Mr. FULTON: I am sorry, the first one I have of the papers distributed is Clause 6. Did I miss one?

The CHAIRMAN: It is clause 5. I actually had my copy out of order, as well.

Mr. WAHN: I so move.

Mr. MACDONALD (*Rosedale*): I second the motion.

That Bill C-261, An Act to establish the Canada Deposit Insurance Corporation, be amended by striking out line 35 on page 2 thereof and by substituting therefor the following:

Acting Chairman.

"(3) Where the office of Chairman is vacant, the Minister may appoint, for a period not exceeding ninety days, an Acting Chairman who shall, while so acting, be a member of the Board of Directors and have and exercise all the powers of the Chairman.

Travelling allowances.

(4) A member of the Board of Directors of the"

The CHAIRMAN: Perhaps I should invite the officials and the Minister to give us any brief explanation they may want to put before us, although I think the amendment speaks for itself.

Mr. HUMPHRYS: Mr. Chairman, this amendment is designed to enable the Corporation to get into operation more quickly and to appoint a chairman for a temporary period.

The CHAIRMAN: Shall the amendment carry?

Mr. FULTON: This inserts a new provision, does it not?

Mr. HUMPHRYS: Yes.

Clause 5 as amended agreed to.

On Clause 6—*Chairman.*

The CHAIRMAN: The government is also proposing an amendment by adding after subclause (5) a new subclause (6).

Mr. THOMPSON: I do not have an amendment on 6.

The CHAIRMAN: Probably inadvertently they were not distributed in complete sets.

While they are being distributed, I will read the new proposed subclause (6).

(6) A vacancy on the Board of Directors does not impair the right of the remainder to act.

Mr. Wahn, perhaps you could propose this amendment.

Mr. WAHN: Yes, Mr. Chairman.

Mr. FULTON: Mr. Chairman, I am sorry, but would you mind my suggesting that this would be more appropriate as an addition to clause 5? Clause 5 constitutes the board, etc. and clause 6, it seems to me, is almost entirely concerned with the office of chairman. Here, it seems to be, we are going back to deal with the board.

Mr. WAHN: There is nothing in clause 6 dealing with the board.

Mr. SHARP: I am advised by our legal adviser that you have made a good point.

The CHAIRMAN: Shall we then revert to clause 5 and the motion moved by Mr. Wahn, seconded by Mr. Macdonald with respect to this amendment be deemed to be included under clause 5.

Mr. FULTON: Subclause (5) of clause 5.

The CHAIRMAN: Yes, and the amendment be such that it be changed to read that after subclause (4) of clause (5)—

Mr. FULTON: —of clause 5, the following be added.

The CHAIRMAN: —the following be added; and this, of course, would be—

Mr. FULTON: Subclause (5).

The CHAIRMAN: Subclause (5).

Mr. WAHN: Would it not be better after subclause 2 of the present clause 5? Clause 5(2) deals with absence and incapacity and this gives the right to those who are not absent or incapacitated. If we made it (3) and renumbered—

Mr. FULTON: Yes.

Mr. WAHN: —the present 3, 4 and 5 it seems to me it would be more in order.

The CHAIRMAN: We could do it that way as well. Mr. Ryan, do you have any suggestion?

Mr. RYAN: Not as long as it is in, Mr. Chairman. It was a drafting oversight. It is just one of these things.

The CHAIRMAN: Yes. All right. Let us give this another try. We wish, in effect, to propose that this subclause with regard to vacancy on the board of directors be inserted immediately after subclause (2) of clause 5 and that it be, therefore, (3) and that the other clauses following be renumbered (4) and (5).

Mr. RYAN: Right.

The CHAIRMAN: That is understood?

Clause 5 as further amended agreed to.

Clauses 6, 7, 8, and 9 agreed to.

On clause 10—*Provincial institutions.*

Mr. THOMPSON: All you are doing in clause 10 is defining a provincial institution as compared to clause 9 which does the same for federal institutions? Is that correct?

The CHAIRMAN: Mr. Ryan, would you care to answer the question?

Mr. RYAN: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, could I ask a question now of, perhaps, Mr. Humphrys?

Is it possible that there may be some institutions that we might want to have brought under this act that would not fall within the meaning of the Trust Companies Act or the meaning of Loan Companies Act? Would there be any that might be outside of these?

Mr. HUMPHREYS: Yes; financial investment companies.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No; they would not be depositors.

Mr. THOMPSON: I suggest, Mr. Chairman, that we might reword clause 10. It is a very, very long cumbersome sentence which is finally completed, in the last four words. Would it not be better to follow the pattern of clause 9 and say "For purposes of this Act a provincial institution is (1)..." and begin that way? It has only to do with grammatical structure. I struggled through this long sentence to find it completed in the last four words.

The CHAIRMAN: Mr. Ryan, would it be better to begin as you do in clause 9?

Mr. RYAN: It is not quite so easy in its grammatical structure because we are using an enumeration, Mr. Chairman, in clause 9. If you start clause 10 that way you have a bit of initial awkwardness—"For the purpose of this Act, a provincial institution is (1) an incorporated company that carries on under provincial..." etc. etc. etc., and it appears as though you are saying what shall be a provincial institution in a province, rather than—.

Mr. THOMPSON: Well, I am reading it as a school teacher not as a lawyer, I guess.

The CHAIRMAN: There is nothing wrong with that. A lawyer has got to stay in business. That is why you get these clauses.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): If you make it too simple, they would be out of work.

Mr. HUMPHRYS: To answer Mr. Cameron's question I think that this defines the type of institution that we thought should be included in a plan such as this. It may be that there are some types of institutions existing in a province that are pretty close to this but perhaps do not fall under it. I do not think we can really tell positively until we have had a complete survey of just what is existing. In some provinces they may not be too sure about the powers of some of the institutions that are in the financial intermediary business itself. Therefore, some things may have to be worked as we get more information.

Mr. GILBERT: Mr. Humphrys, what is a constating instrument?

Mr. HUMPHRYS: Perhaps I should have Mr. Ryan answer that. It is a good word. It is the document that creates the corporation, as I understand it.

Mr. RYAN: And which is publicly registered in some formal fashion.

As a matter of curiosity, it comes from the Insurance Act. Mr. Humphrys should be familiar with it.

Mr. HUMPHRYS: The federal Insurance Act.

Mr. RYAN: Yes, the federal Insurance Act.

The CHAIRMAN: Shall clause 10 carry?

Mr. LAFLAMME: Have we an amendment to clause 6 which we have missed?

The CHAIRMAN: No; we decided to insert it in clause 5.

Mr. LAFLAMME: All right.

Clause 10 agreed to.

On clause 11—*Powers of Corporation.*

Mr. FULTON: May I raise one question.

The CHAIRMAN: Yes.

Mr. FULTON: In subclause (g) I wonder if the words "or by by-law" should be included?

An hon. MEMBER: What clause is that?

The CHAIRMAN: Subclause (g) of clause 11.

Mr. FULTON:

> make or cause to be made such inspections of a member institution as may be authorized under this Act or the policy of deposit insurance;

Frankly, in the later clauses I do not see very many specific requirements for inspection, and I am wondering, therefore, whether it was the intention to cover this by by-law. If so, I am wondering if we should specifically say "or by by-law".

Mr. HUMPHRYS: I think there will be an amendment, Mr. Fulton, that bears on that point and requires an annual inspection of every insured institution.

Mr. FULTON: Where are the amendments proposed?

The CHAIRMAN: Clause 22.

Mr. FULTON: That answers my question.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I am sorry, Mr. Chairman; I wonder if I could refer to this again? I am revealing my ignorance.

> ... institution as may be authorized under this Act or the policy of deposit insurance.

I do not quite understand what that means.

Surely everything that is going to be done in this must be done under the authority of the Act?

Mr. SHARP: Well, it was pointed out, Mr. Chairman, that the federal companies may not be issued with policies, so they are required to be insured.

Clause 11 agreed to.

On clause 12—*Powers of directors and by-laws.*

Mr. FULTON: Again by way of question only, I wonder whether it would be desirable to add to sub clause (h) at the end thereof, the words: "and to provide for the inspection thereof".

The Board of Directors administer and may make bylaws to provide or as following:

> prescribing standards of sound business and financial practices for member institutions;

and to provide for the inspection thereof.

Is that also covered by the proposed amendment?

The CHAIRMAN: The proposed amendment to clause 22 reads:

> The Corporation may require; and the corporation shall cause an examination of the affairs of the company to be made at least one in each such year.

Mr. FULTON: At least once; so you may require, or shall cause, rather to be made; and that would not have to be included in the bylaw, in your opinion.

The CHAIRMAN: I do not know if Mr. Ryan will agree but it may be that subclause 1(a) and subclause 1(j) may be wide enough to cover making bylaws with regard to inspections. I just throw this thought out for consideration.

Mr. RYAN: Well, the inspections, as such, are covered by clauses 21 and 22. In the case of the federal companies it is prescribed by the statute. In the case of the provincial companies it is bound up in the policy of deposit insurance which in itself is in the form prescribed by the the bylaw.

Mr. MORE (*Regina City*): As the Corporation may require...

Mr. FULTON: The Corporation is probably required by bylaw.

Mr. HUMPHRYS: The idea is that the Corporation would have discretion to make an examination whenever it wished, depending on the circumstances.

Mr. FULTON: Would you not have to have a meeting of the directors each time and direct that an examination be made?

Mr. HUMPHRYS: Well, not necessarily. The directors might, for example, delegate a decision in that respect to the principal officer of the corporation.

Clauses 12 and 13 agreed to.

On clause 14—*Insuring Federal Institutions.*

We have an amendment to clause 14. It is an amendment calling for the striking out of the existing subclause (5) and the substituting of another subclause reading:

> This section shall come into force on a day to be fixed by proclamation of the Governor-in-Council.

Perhaps I can have Mr. Ryan and Mr. Macdonald move the amendment formally so that we have it before us. Are there any questions or explanations?

Mr. FULTON: Is this for the purpose the Minister has alluded to of bringing the provincial institutions under from the earliest possible date?

Mr. HUMPHRYS: Yes; it also enables this plan to go into force as quickly as can be managed without having to wait a minimum of thirty days.

The CHAIRMAN: Shall the amendment carry?

Clause 14 as amended agreed to.

Clause 15 agreed to.

On clause 16—*Insurance of Provincial Institutions.*

Mr. LAFLAMME: On this clause I would like to raise again what I think is a really important question. I do not want to embarrass the Minister but, unless the minister can give us the assurance, that any provincially-incorporated institution will not be vetoed by any provincial government saying No, I think that the words

> is authorized by the province of its incorporation

should be deleted.

I really think that we are creating difficulties for any provincial institution that would be willing to enter into the federal scheme. By not removing those words, any provincial government that wants to pass legislation forbidding any provincial institution from entering into the federal scheme should bear the burden of that responsibility in the minds of the public and should freely allow the provincial institutions to enter into the scheme if they wish to do so. Unless, Mr. Minister, you can give that assurance, that no provincial government could be in the position of just saying, "No, you will not enter," I cannot see what is the purpose of that clause saying that the provincial institution is authorized by, if the provincial institution is authorized by the province of its incorporation.

I have really strong feelings about it. We live in a free country. We should not forbid any provincial institution from entering into the federal scheme if they wish to do so. If we delete those words and we have a provincial institution that is forbidden entry into the federal scheme, then the provincial government will have to bear, in the minds of the public, the burden of any such legislation.

Mr. MACKASEY: Mr. Laflamme, this is only a point of clarification. I have noted two points of view tonight. I have seen this happen previously in the Fulton-Favreau formula, where both people claim they are right but for different reasons.

I sensed from Mr. Fulton's remarks earlier that he was concerned about the federal jurisdiction over banks being invaded by provincial governments, and I sense a little in yours—and I can be wrong here—the fear that we are infringing in provincial areas?

An hon. MEMBER: No, no; quite the contrary.

Mr. MACKASEY: All right. However, in the meantime, while this government is taking its responsibility, the provincial institutions have to wait for the provincial government to make up its mind; whereas, if this clause is in effect a particular institution in the province of Quebec can take the initiative and say, "We want to take advantage of this particular Act," and can then apply to the provincial authorities for permission. Would this not force the issue that you are concerned about?

Mr. LAFLAMME: If they say No, without legislation at all.

Mr. MACKASEY: Well, if they say No, will this not be made just as much public as if they do it by way of legislation?

Mr. LAFLAMME: Well, then, what kind of authorization is required from any provincial government?

Mr. MACKASEY: Perhaps Mr. Sharp can answer what, in his opinion, he would consider to be official assent or authorization by a province for a particular provincial institution to take advantage of this Act?

Mr. FULTON: I would say it is a matter between the provincial government and the applicant.

Mr. MACKASEY: You have not been promoted to minister yet. I want to get this from the Minister. Mind you, if I were a promoter I would place you there fast if there was an all-party coalition some day.

Mr. SHARP: I wanted to speak to this point which I understand is a matter of some delicacy. I can understand the misgivings of members of the Committee.

The purpose of putting this clause in the bill was to create a climate of co-operation with the provinces. It is our belief that if we do require the institutions to go to the provincial government to get permission before they apply we will then know that we will have the co-operation of the provincial government in carrying out the intent of the legislation.

It may be, for example, that after inspecting some of these institutions we may want the province to change its laws or its administration of the affairs of these companies.

By making it quite clear in the legislation that we will not take on one of these companies without the co-operation of the provincial government we believe that we will, in fact, improve the climate of co-operation; otherwise we would not have put it in.

As I say, I have every reason to believe that in nine provinces there will be no question about it. In the tenth province, I am by no means pessimistic, and I believe that the fact that we have invited their co-operation will improve the chances of getting all their deposit-taking institutions under this law.

For us to say that we will insure these institutions, even if the province does not give specific authority, will be to invite, we believe, a less co-operative attitude.

Now, this is purely a political consideration and I can only urge it upon the Committee in that light.

Mr. MACKASEY: What you are saying, Mr. Sharp, is that you are hoping by this clause to obtain the most desirable form of protection for all Canadians, in the particular case of Quebec, through co-operation rather than having a head-on battle about who has jurisdiction over what.

In other words, the interest of Canadians would be best served if you could arrive at the desired result through co-operation rather than through a legal battle?

Mr. SHARP: May I add this other word by way of explanation? When we originally spoke of this legislation, when I was discussing the Bank Act on second reading, and, even later, when I introduced the resolution, it had been our intention to give the provinces a much longer time to have a good look at the provisions of this legislation. We had promised this to the provincial ministers and to the provincial officials when we had informal discussions with them on the matter.

For reasons that I think are compelling, we are moving ahead with this legislation much more rapidly, and before there had been an opportunity for the kind of discussion that under other circumstances I think is most desirable. Therefore, I certainly do not want, by any action that we might take here, to prejudice in anyway the success of this legislation. I do believe that if we were now to remove that limitation it would not help to improve the climate of co-operation.

Mr. GILBERT: Mr. Sharp, are you saying that nine provinces have indicated their co-operation with regard to provincial institutions?

Mr. SHARP: I have not had personal contacts with the ministers, but my officials have with the officials of those governments. The officials who had those contacts are here and I think they will confirm that the attitude of nine of the provinces is very co-operative.

The CHAIRMAN: Are there any further questions or discussion?

Mr. FULTON: I can see the Minister's point. On the other hand, I can see very real chaos developing here if we leave any doubt about the matter, because there are important companies within the ambit of this bill, which are provincial incorporations; and they do business all across Canada. They, and financial institutions in general, as we have then now, would be, disrupted very severely if they were unable to carry on their cross-country operations.

What situation do we have, therefore? If company "A" is doing business in 10 provinces, and 9 of those provinces—or any number of those provinces, perhaps nine—were to say: No company may take a deposit in this province unless that deposit is insured under the federal legislation", but one province in which the head office of that company is located were to say, "This company may not subscribe to the federal deposit insurance scheme," the branch offices would either have to defy the authority of the province in which they are carrying on business, or they would have to close them up.

I wish the Minister could give us the assurance that Mr. Laflamme asked for. I appreciate that we are having to move more quickly than had been the original intention, as we have a dilemma here. As the resolution of the dilemma, though, the one that I have referred to would be far more damaging over-all than the to act in haste.

Personally, I do not think that that lack of co-operation will develop, if you possibility of a lack of co-operation on the part of one province because we had leave entirely up to the company whether it applies or not. You are not compelling it to apply, but you are giving the veto here to any province with respect to the operation of the federal scheme.

This is a scheme within federal jurisdiction, without question, and I find it, I am afraid, impossible to allow such a proposal to pass without my utmost resistance. I am not talking about the whole bill. I am talking about this particular section. There is only one way that I can carry my resistance to the utmost, as I see it.

Mr. MACKASEY: Mr. Chairman, unless Mr. Sharp wants to comment on Mr. Fulton's observation, may I say that I can appreciate that this is a federal act, and I certainly understand his very telling argument about an organization that does banking coast-to-coast; but I, as a Quebecer, am very aware, as is Mr. Laflamme, of a broader aspect of the problem. Obviously, whether or not it is fully established in Mr. Fulton's opinion about what is federal and what is provincial here, there is obviously in your mind, and in your officials' minds, a degree of uncertainty about who is right constitutionally.

You have put in this particular section to avoid what I might call another incident between the federal and provincial governments, which could, and in all probability will, be resoleved through a series of conferences which normally would have taken place before this bill become a reality. You do, intend to go ahead, I understand, with these conferences, and if they are as successful as you anticipate then this clause (a) will no longer assume the same significance.

In the meantime, however, it does permit Parliament to go ahead with a very desirable bill, and avoid another source of conflict between any provinces—not necessarily Quebec—and the federal government. Now, this, I feel, is the philosophy behind the inclusion of this particular clause. I am quite willing to agree to an amendment to remove it if somebody can convince me of the desirability of creating the possibility of a head-on collision with a particular province, which could jeopardize the whole bill.

Mr. FULTON: I would like to offer this possible compromise. I appreciate the delicacy of the position.

I think it may preserve Mr. Sharp's ability to negotiate, while preserving our position, if we were to add as an amendment: "Provided however that the operation of this section shall be reviewed by Parliament within six months", or something to that effect, so that we know the position.

The CHAIRMAN: Do you mean the whole section or as far as subclause (a) is concerned?

Mr. FULTON: Well, I think it should be the whole of Clause 16—six months after the act comes into force.

Mr. CHRÉTIEN: But is it not always possible to change the law if we see that there is something wrong with it?

Mr. FULTON: No private member can move—

Mr. CHRÉTIEN: But the government is concerned to have the law working well. If there is some problem at that time we can change it.

Mr. FULTON: This is our last chance.

The CHAIRMAN: Order, please. Mr. Chrétien had the floor.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, I think I asked exactly the same question, and the Minister's reply is on the record.

Mr. SHARP: May I, Mr. Chairman, just read what I said on second reading on this point. This is again at page 12621 of *Hansard*.

An hon. MEMBER: February 3?

Mr. SHARP: Yes.

> I realize that by going ahead at once on this proposal we will not have as full consultation with the provinces before the legislation comes into effect as we had originally hoped to have. It is not intended that passage of the legislation will close the door to further discussion with the provinces, and I will continue to give serious consideration to any suggestions that may be made. However, in the light of the views that have been expressed in the house and in the committee which is considering the bank bills, the government has reached the conclusion that we should not delay the availability of deposit insurance while further discussions with the provinces proceed.

This is one of the main reasons for our being doubly careful not to create the impression that we are forcing some legislation ahead without regard to the sensibilities of the provinces who may not have the same view of the constitution that we have.

Mr. MACKASEY: You made the statement that you were pushing this bill in hurry because of a possible adverse reaction at a provincial-federal conference.

The CHAIRMAN: I am sorry, Mr. Mackasey; Mr. Thompson has the floor.

Mr. THOMPSON: We have only a couple of minutes, Mr. Chairman, and I would say to Mr. Fulton: Supposing we agree with what is your basic thinking behind this—I think I understand what it is—are we, the federal Parliament, able to say to a provincial organization that has a provincial charter; "We will take you whether you have the permission of the provincial government or not?" I am just making a statement now. Can the created say to the creator, "Why have you made me thus?"

It would be an impossible situation, and it seems to me that in such an event the provincially-chartered institution that may not have the permission of its provincial government that granted its charter to accept, or come under, the coverage of this insurance would then only have the alternative of seeking a federal charter.

Some hon. MEMBERS: That is right.

Mr. THOMPSON: This is why I was questioning this before. As long as this law is open, and as long as the policy of the government is to encourage such to come, then you are, by legitimate means, bringing about the very thing that you believe is right, and which I would tend to agree with, which is the matter of federal control and jurisdiction over financial institutions and financial policies?

Mr. MORE (*Regina City*): Does it not work the other way, too. If we do not have this proviso in there then a provincial company, on a voluntary basis, is free to come within ambit of the act. It does not stop the provincial authority from vetoing it, and if they veto it then their alternative is to become federally chartered.

Mr. THOMPSON: Yes, but how can a provincial institution become part of this against the wishes of the government of that province, or the administration of that province that granted its incorporation?

Mr. MORE (*Regina City*): We are not aware that they are against it. All we are doing is providing a door.

Mr. THOMPSON: The door is there anyway, and it is a legitimate and a proper door, I think.

Mr. FULTON: I must say that my view is that what is involved here is the surrender of a federal juristiction, and the purported creation of provincial jurisdiction which is not conferred by the constituton. I do not care what province it is. I object ot the inclusion of ths clause, even if the ten provinces agree.

Mr. THOMPSON: Well, you saw what happened to the Fulton-Favreau formula. You have not faced the facts.

Mr. FULTON: There will be further discussion. We were seeking there an amendment to the constitution. Here we are dealing with a power conferred by the constitution which does not involve any amendment at all, in my submission.

Mr. THOMPSON: But as long as there is a provincially-chartered company, is it within our authority to say to that organization, "We are going to lay down what you should do"?

Mr. FULTON: We are not; and I am not suggesting it. We are legislating if my suggestion is adopted that in a field of undoubted federal jurisdiction—our authority over banks and banking—institutions that take deposits in Canada shall have available to them a federal deposit insurance scheme.

Mr. THOMPSON: But is not the way to do that—

Mr. FULTON: That is what I am suggesting we say; and I say that no province has the jurisdiction to veto the voluntary entry of a provincially-incorporated institution into such a scheme which is set up under our jurisdiction.

Mr. SHARP: Mr. Chairman, may I offer just one comment on that. I do not think this is quite the point. Our purpose in putting that in was to improve the climate for co-operation. We want to have the co-operation of the provinces in supervising these corporations. The provinces certainly have the power of supervising those corporations—they are their own corporations—and we would like to have them co-operating with us in doing that. Therefore, we put in this

clause so that it would be clear that we were not going to do these things without their specific approval.

The CHAIRMAN: Mr. Monteith wanted to raise a point of order.

Mr. MONTEITH: Our time is running out very rapidly; we have about another 30 seconds. I notice we are scheduled to meet tomorrow morning at 9.30. This does not give us too much opportunity to think about the matter. I am wondering if we might meet on Monday evening? This would give both the Minister and the officials time to think over the discussion that has taken place here.

Mr. FULTON: I am sorry, it is impossible for me to be here on Monday evening, or, indeed, on Tuesday.

Mr. SHARP: I would prefer, too, Mr. Chairman, to get this through. I would like to have it before the Senate as soon as possible.

Mr. MACKASEY: Mr. Chairman, we have heard the pros and cons. Why not let Mr. Fulton make a motion to remove clause (a) and see what the Committee feels about it?

Mr. SHARP: What is the possibility of a meeting tomorrow morning?

The CHAIRMAN: Well, it is scheduled, but it is up to the committee; the notices have been sent out.

Mr. FULTON: I will make the motion.

The CHAIRMAN: You are moving that—

Mr. FULTON: I move that Clause 16 be amended as follows:

1. By deleting (a)
2. By renumbering paragraphs (b) and (c) as paragraph (a) and (b) respectively.

The CHAIRMAN: Is there a seconder?

An hon. MEMBER: I do not know that it requires a seconder in a Committee.

The CHAIRMAN: You may be quite right.

Is there any further discussion? If not, I call for the question. All those in favour? All those opposed? I declare the amendment lost.

Mr. THOMPSON: I do not have the privilege of voting and that is why I am not doing so.

The CHAIRMAN: You are actually substituting for your regular member who is in Guelph.

Clause 16 agreed to on division.

On Clause 17: *Form and contents*

We have an amendment. We will again ask Mr. Wahn and Mr. Macdonald to formally propose the amendment which involves striking out existing subclause (2) and substituting another one.

Mr. WAHN: I so move, that bill C-261, An Act to establish the Canada Deposit Insurance Corporation, be amended by striking out subclause (2) of clause 17 thereof and by substituting therefor the following:

"(2) A contract of deposit insurance with a provincial institution shall be evidenced by an instrument in writing." Policy required.

Mr. MACDONALD (*Rosedale*): I will second the motion.

The CHAIRMAN: It would appear that this is just a simplification of the existing subclause (2). Is that right, Mr. Ryan?

Mr. RYAN: That is right, Mr. Chairman. The reason for it is that there is a desire to put into the contract some of the provisions of the bylaws and the words after the third line in the present clause, would restrict that operation, so they are being removed.

Clause 17 as amended agreed to.

Clause 18 agreed to. On Clause 19: *Assessment of premium*

Mr. FULTON: I have an amendment to offer on clause 19, Mr. Chairman. I will read it just before we adjourn in case we cannot be here tomorrow: That subclause (1) of clause 19 be amended by deleting paragraph (b) thereof, and substituting therefore the following:

(b) In the case of such deposits as are deposited with the member institution as of the 30th day of April in that year and insured by the Corporation

(1) One thirtieth of 1 per cent on the first 50 per cent thereof.

(2) One fortieth of 1 per cent of the next 25 per cent thereof.

(3) One fiftieth of 1 per cent thereafter.

That would have the effect, for all institutions, that the first 50 per cent of their insurable deposits would carry a rate of one thirtieth of 1 per cent; the next 25 per cent would carry a rate of one fortieth; and the final 25 per cent would carry a rate of one fiftieth.

Mr. MONTEITH: I will second that.

The CHAIRMAN: I think that perhaps we should leave that. You can submit that in the usual way to the clerk.

I would suggest that unless the Committee formally moves, we do not sit tomorrow. However, if such motion is carried, I think we should adjourn till 9.30 tomorrow morning.

An hon. MEMBER: Perhaps we could come back after the vote.

The CHAIRMAN: You can come back after the vote. I am agreeable to that me. Is the Committee willing to come back after the vote?

Mr. THOMPSON: We cannot meet tomorrow afternoon.

The CHAIRMAN: I think many members have to meet commitments in their own riding, and would probably have to get transportation.

Shall we meet at 10.00 a.m. tomorrow instead of 9.30 a.m.?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: We will adjourn until 10.00 a.m. tomorrow.

FRIDAY, February 10, 1967.

The CHAIRMAN: Gentlemen, I now call our meeting to order. Mr. Fulton has asked to be recognized at the beginning.

Mr. FULTON: Mr. Chairman, since we recessed I have been thinking over the amendment to clause 19 which I presented at the close of our meeting last night

and I have come to the conclusion that it does not really have the effect that I was seeking in proposing an amendment. I thought I had a good formula here. However, I do not claim to be strong in mathematics and I have come to the conclusion that really all it does is, in effect, to lower the rates for everybody from one-thirtieth to somewhere around one-thirty-sixth of one per cent. I have no information at my disposal to prove that a rate of one-thirty-sixth of one per cent is a better, more equitable, or more adequate rate than one-thirtieth. I had hoped, as the Committee will appreciate, to be able to introduce an amendment which would relieve what I believe to be an inequitable share of the burden borne by the institutions that least need deposit insurance. I have come to the conclusion this does not do that, and I would like to ask the Committee for permission to withdraw the amendment. Now, I think Mr. Cameron has something to say.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, I was rather taken aback when I found in front of me this morning the amendment which Mr. Fulton proposed, and my name put in as seconder.

The CHAIRMAN: I think it was Mr. Monteith.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, Mr. Monteith. Miss Ballantine confused this with the other amendment I seconded.

The CHAIRMAN: I think we have become such a closely-working team, even to respecting differences of ideology and party philosophy, that—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This is too great an affinity.

The CHAIRMAN: You think this is carrying things a little too far?

Mr. MACKASEY: Why is Mr. Cameron so appalled at the close affinity between the two philosophies?

The CHAIRMAN: It is not that exactly. The point of the fact is that he did not happen to second the amendment, and I think that should be noted.

Mr. FULTON: In common with Mr. Mackasey, at least we can say we each had a philosophy.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, that is a sharp distinction.

The CHAIRMAN: I think the Committee will accord Mr. Fulton the opportunity of withdrawing his amendment. I am sure he offered it in a constructive spirit and even Einstein was not very good in mathematics, so we are all in good company in that regard.

Are there further comments with respect to clause 19?

Clauses 19 and 21 inclusive agreed to.

On Clause 22—*Provincial institutions*

The CHAIRMAN: With respect to clause 22, we have an amendment. Perhaps I can ask Mr. Chrétien to move it formally and Mr. Mackasey to second it so that it will be before us. I believe we all have copies of the amendment. I will ask Mr. Sharp or his officials to give us any comments or explanations they feel are required to support it.

Mr. CHRÉTIEN: I move that Bill C-261, An Act to establish the Canada Deposit Insurance Corporation, be amended by striking out line 13 on page 10 thereof and by substituting therefor the following:

"Corporation may require; and the Corporation shall cause an examination of the affairs of the company to be made at least once in each such year."

Mr. MACKASEY: I second the motion.

The CHAIRMAN: Mr. Scott, would you like to comment on this amendment?

Mr. W. E. SCOTT (*Inspector General of Banks, Department of Finance*): Thank you, Mr. Chairman. The purpose of this amendment is just to make it quite clear that the corporation must examine each provincial institution at least once a year. Previously the institution was obliged to submit to inspection but the corporation was not specifically made responsible for doing it.

The CHAIRMAN: Are there further comments or questions with respect to the amendment? If not, I will ask if the amendment is carried.

Amendment agreed to.

Clause 22, as amended, agreed to.

On clause 23—*Contents of examiner's Report.*

On clause 24—*Reporting defects or breaches.*

Mr. FULTON: With respect to clauses 23 and 24, if it is a federal institution and the corporation finds on examination that it is following unsound business or financial practices, then the corporation reports by registered mail to the president or the chairman of the board of directors of the member institution. But it does not seem to me, if the same finding is made with respect to a member institution which is a provincial corporation, that there is any requirement to report. I am wondering why there is a distinction.

Mr. R. HUMPHRYS (*Superintendent, Department of Insurance*): Mr. Chairman, the difference in approach here is that with respect to a federal institution its membership in this corporation is required by law, so that it is not within the power of the corporation to terminate the insurance of a federal institution. There were some limitations to the power of the corporation in disciplining the federal institutions, so it was thought the corporation should ensure that the directors of the member institution knew the views of the corporation and then anything else that had to be done would be done pursuant to the other governing legislation, having in mind the Inspector General of Banks and the Superintendent of Insurance both would be on the board of directors of the corporation. It would be presumed that they would know the views of the corporation and, through the Minister of Finance, would apply the necessary sanctions to rectify improper practices on the part of federal institutions.

In so far as provincial institutions that are members of the corporation are concerned, the corporation would not have the power to force changes in their practices. The ultimate discipline in that event would be to follow the procedure discipline is the withdrawal of deposit insurance.

Mr. FULTON: In this case you would report only to the provincial minister concerned; you would not report directly to the directors of the corporation concerned?

Mr. HUMPHRYS: The corporation certainly would be in correspondence and close consultation with the member institution, but we were hesitant about the powers of the deposit corporation to force the provincial institution to even do such things as lay correspondence before the board of directors.

Mr. FULTON: I see.

Mr. SHARP: In other words, if I understand this correctly, the ultimate discipline is the withdrawal of deposit insurance.

Mr. FULTON: Well, it is bound to come to the directors of the member institutions sooner or later even though the corporation does not report it directly.

Mr. HUMPHRYS: That is correct.

The CHAIRMAN: Are there any further questions with respect to clauses 23 and 24? I gather that clauses 25, 26 and 27 go on to complete the scheme with respect to provincial institutions.

Clauses 23 and 24 agreed to.

Clauses 25 to 35 inclusive agreed to.

On clause 36—*Employment of staff.*

The CHAIRMAN: An amendment is before you to add a new subclause (3). I will ask Mr. Chrétien to move and Mr. Mackasey formally to second the amendment so that it is before us.

Mr. CHRÉTIEN: I move that bill C-261, An Act to establish the Canada Deposit Insurance Corporation, be amended by adding immediately after subclause (2) of clause 36 thereof the following:

Agreement for services.

"(3) In carrying out its functions under this Act, the Corporation may, with the approval of the Minister, make use of the personnel, facilities and services of the Department of Insurance and the Department of Finance to any extent not incompatible, in the opinion of the Minister, with the administration of those Departments."

Mr. MACKASEY: I second the motion.

The CHAIRMAN: Are there any comments in support of this amendment which you feel would be helpful?

Mr. HUMPHRYS: The purpose of this amendment, Mr. Chairman, is to clarify the power to use existing staff of the Department of Finance or the Department of Insurance in connection with the affairs of the corporation.

The CHAIRMAN: Is there anything further you wish to say, gentlemen, about this amendment.

Amendment agreed to.

Clause 36, as amended, agreed to.

On clause 37—*Application of other Acts*

Mr. FULTON: How does the Aeronautics Act creep in there?

Mr. J. W. RYAN (*Legislation Section, Department of Justice*): Under the Aeronautics Act regulations there is provision for compensation for certain public officials who are being carried by aircraft. It is necessary to make a reference there to bring these regulations into play.

Mr. MACDONALD (*Rosedale*): Is it not because it is a blue sky law?

The CHAIRMAN: I suppose it is also because you do not want to leave the affairs of any of these deposit taking institutions up in the air.

Clause 37 agreed to.

Clause 38 to 44 inclusive agreed to.

On Clause 45—*Coming into force.*

The CHAIRMAN: We will now have Mr. Chrétien move and Mr. Mackasey formally second the amendment which is before us.

Mr. CHRÉTIEN: I move that Bill-261, An Act to establish the Canada Deposit Insurance Corporation, be amended by striking out clause 45 thereof.

Mr. MACKASEY: I second the motion.

The CHAIRMAN: Do you wish to make any explanatory comments on this.

Mr. HUMPHRYS: The purpose was to enable the plan to come into force quickly. If this is struck out the act will come into force as soon as it receives royal assent, and then the provision affecting insurance of federal institutions will come into effect on proclamation as soon as the corporation can be organized.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, if a provincial institution comes under this act, operates under it and then withdraws how is the public going to know?

Mr. HUMPHRYS: The act requires the institution to notify all its depositors. If it does not do so then the act empowers the corporation itself to publish such public notice as it sees fit to draw attention to the matter.

The CHAIRMAN: Are you in a position to publish a notice in any event, or must you wait until the depositors are informed? I know it is there; I just want to make it clear that it is not necessary to wait until these institutions have informed their depositors.

Mr. HUMPHRYS: It is not necessary to wait.

Mr. FULTON: Do I understand, then, that federally incorporated institutions will be covered on a date to be determined by the Governor in Council, and provincial institutions that apply in the proper manner and become members will be covered as soon as their applications are accepted? There is no further proclamation necessary there? It is your intention to cover them as soon as they apply, leaving the inspection process, by necessity, to be carried out later. Is that correct?

Mr. HUMPHRYS: If the province concerned accepts the proposal that the Minister made in that connection, the corporation would cover the provincial institution as soon as it applied. But if the province does not want to follow that course, then it would be covered as soon as the corporation has approved the application and issued a policy or document evidencing the coverage.

Mr. DAVIS: I think I heard Mr. Humphrys say that this act would come into effect just as soon as the corporation could be organized. Could we have some idea when it might be possible to have it organized?

Mr. HUMPHRYS: As I mentioned last night, we hesitate to give a date. I think that everyone intends to push on with the organization as quickly as possible. It should be within a matter of weeks, anyway.

The CHAIRMAN: Is there any further discussion, gentlemen, on this aspect. If not, I will ask if the title shall carry.

Title agreed to.

For greater certainty, Mr. More, I will assume from the tenor of discussion that it was the unanimous view of the Committee that the amendment to clause 45 be struck out.

This bill, as amended, is carried. I will ask the Clerk of the Committee to prepare a report as quickly as possible. I presume that it will be available for Monday's sitting? That being the case, if you wish to inform the House Leader that it will be formally before the house at the opening of business Monday, it will be up to him and yourself to see how you should proceed.

Thank you, gentlemen, for giving us the opportunity to assist in what we hope will strengthen the deposit taking institutions.

Before adjourning I think we should—

Mr. SHARP: I would like to say a word of appreciation to the Committee first of all for giving priority to the consideration of this bill and for the very thorough examination of its main features. I was very much impressed by the informed comments of the members of this Committee. It shows that you benefited from your long sojourn in the field of banking.

The CHAIRMAN: I might add, of course, that we probably benefited, as you suggested, from hearing the views of many people both from the academic sphere and the financial sphere in our general hearings on banking and perhaps we have been able to apply this information here.

I do want to take just a moment with respect to our procedure. I think it is intended that we revert to our consideration of the banking legislation and it was our idea that once we had finished hearing from the Minister of Finance we would begin our clause by clause discussion. Are we in agreement that we have completed our questioning of the Minister of Finance with respect to the other legislation as well?

Mr. THOMPSON: Mr. Chairman, I have one question. I visualize that this machinery will be put into action very quickly; much more quickly, probably, than some of the provinces will be dealing with it, although most of the legislatures are in session. I can visualise, therefore, that perhaps there will be a number of provincially chartered trust companies and finance companies who are going to be seeking information and wanting to come under this immediately. I do not know just how to pose this question, but—

Mr. SHARP: May I clarify this, Mr. Chairman. Legislative action on the part of the provincial legislatures to bring provincial companies under deposit insurance will not be required. All that is required is the permission of the government, so I do not anticipate any difficulties of that kind. If the province wants to go further and require all institutions accepting deposits in the province to be federally insured, that might require legislative action. But the scheme itself can come into effect very quickly and it can apply to any provincial institutions that

the province wants it to apply to without requiring any legislation, as far as I am aware.

Mr. THOMPSON: In the event that permission is not readily available to institutions which do wish to come under, is the only way they can do so by federal charter, brought about through an act of Parliament?

Mr. HUMPHRYS: If an institution seeks federal incorporation within this field it must now be by a special act of Parliament.

Mr. THOMPSON: It must be?

Mr. HUMPHRYS: Yes.

Mr. THOMPSON: Which means it is a year off. I hope that as this goes through the House, initiative will come on your part to inform the various provinces of your own intentions to speed matters up and facilitate, I believe—if I read public reaction correctly—the intense interest in it by many trust companies and finance companies across the country who are not federally chartered.

The CHAIRMAN: Gentlemen is there anything further on this? Reverting to our brief procedural discussion, it was my understanding the consensus of the Committee was that the Minister of Finance would be our last witness, following which we would begin our clause by clause discussion. I assume we feel we have completed our questioning of the minister with respect to the banking legislation.

Mr. FULTON: May I ask whether, as we go through it clause by clause, the Minister could be here? I think we have only had two sittings with the Minister here for general questioning. I know he has been very hard pressed, but it would be helpful if he could be here as we review it clause by clause, because there may be some amendments which raise matters of policy. Rather than comb through it now as you have a lot more questions, that might be the more convenient method.

Mr. SHARP: May I suggest to you, Mr. Chairman, that I would be very happy to appear as often as I can before this Committee, but perhaps the questions of policy arising in the clause by clause discussion might be set aside and considered, if possible, at a continuous session rather than requiring me to sit here while more routine matters are under discussion.

Mr. MACKASEY: You suggested certain proposed amendments the other evening. Will you be here when they are introduced?

Mr. SHARP: Yes, I could be.

The CHAIRMAN: I was going to suggest to the Committee that we invite the officials immediately concerned to be with us for questioning; Mr. Scott, for example, and Mr. Elderkin who still has the status as special consultant on these matters, and so on, and I think they would be available to us as we consider this bill in any event. Do you have a further comment on this aspect?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I was just going to say that I hoped we would be able to comb out the sections on which we want the Minister's advice and as he suggests, we stand them until we accumulate several.

Mr. MORE (*Regina City*): Well, I think we all would agree with that, Mr. Cameron. That makes sense. I was just going to ask whether we have copies of all the proposed amendments the Minister has in mind?

The CHAIRMAN: So far we have only one; the others were stated by the minister in principle. I presume they are being prepared now.

Mr. SHARP: There will be amendments from Mr. Elderkin, or one of my other officials, to carry out the intent of the changes I suggested.

Mr. MORE (*Regina City*): Well, what I was getting at is whether it is going to be done in the same manner as amendments for this bill, where they were given to us en bloc. It might colour some of our thinking in regard to other clauses.

Mr. SHARP: Well I have already seen 51 changes, that are being proposed, according to Mr. Elderkin, and I believe that those are now available. With regard to the amendments that I have suggested, I gave one to the Committee which has been discussed at some length. Then there are amendments relating to two other matters, but they require consequential changes in a number of places.

Mr. MORE (*Regina City*): Well this is what I had in mind; could they be made available too? We might get into an argument about a clause when the amendment might clear the air; if we do not have it we are wasting time.

Mr. SHARP: I am told by Mr. Scott that they will be available on Monday.

Mr. MORE (*Regina City*): This would be the complete amendments that you now have in mind? You have no further considerations in view of the evidence given?

Mr. SHARP: I will not give a categorical answer to that question. There are one or two points upon which I still want to reserve my judgment. Thank you.

The CHAIRMAN: That brings me to the next point. Do we wish to begin our clause by clause discussion on Monday evening?

Mr. MORE (*Regina City*): No. I suggest we start on Tuesday.

The CHAIRMAN: Yes, I think that is sensible. That leads me to the final point I wish to raise with you and that is whether or not this consideration should be in camera. I had advanced informally to the Steering Committee, now that it is a definite motion, the thought that it could be open. I have looked into this matter since mentioning it, and I believe it is not obligatory—it is a matter of procedure for committees. Generally, I have found they sat in camera where they are actually writing a report which was a statement of opinion or fact; for example, the interim report of the Prices Committee and where they considered an actual bill. In some cases this consideration has been open; in some cases it has been closed to the public but a transcript of the discussions has been taken and published. I am not saying this is a precedent, but we have just considered an important piece of government legislation in open session here, and perhaps it has been useful for all concerned to see this discussion.

Mr. THOMPSON: There is no point why a clause by clause discussion should be in camera, is there? After all, the focus of attention has moved downstairs to Defence; it is no longer here.

The CHAIRMAN: I could be wrong in this, but it is my personal opinion that by having this discussion open to the press and the public it may have some positive limiting effect on discussion in the House. I am not saying definitely that it will, but it may help to air things in a way they might otherwise not be aired in the House. Perhaps I am wrong in this. I just advance this thought.

Mr. MORE (*Regina City*): Frankly, I cannot see any reason why it should not be open, and if we come to a position where we feel we are involved in something that might be—

The CHAIRMAN: We can move into closed executive session.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I would think, Mr. Chairman, after the entertainment record we have set we shall find that we are actually sitting *in camera.*

The CHAIRMAN: We will adjourn until Tuesday at 11 o'clock.

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. 47

TUESDAY, FEBRUARY 14, 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:

Mr. C. F. Elderkin, Special Adviser, Department of Finance; and
Dr. P. M. Ollivier, Parliamentary Counsel.

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

25716—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Basford,	Gilbert,	McLean (*Charlotte*),
Chrétien,	Irvine,	Monteith,
Clermont,	Lambert,	More (*Regina City*),
Coates,	Latulippe,	Munro,
Comtois,	Leboe,	Saltsman,
Davis,	Lind,	Valade,
Flemming,	Macdonald (*Rosedale*),	Wahn—(25).
Fulton,	Mackasey,	

Dorothy F. Ballantine,
Clerk of the Committee.

ORDER OF REFERENCE

MONDAY, February 13, 1967.

Ordered,—That the name of Mr. Saltsman be substituted for that of Mr. Cameron (*Nanaimo-Cowichan-The Islands*) on the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

25716—1½

MINUTES OF PROCEEDINGS

TUESDAY, February 14, 1967
(97)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:15 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Chrétien, Clermont, Flemming, Gilbert, Gray, Irvine, Laflamme, Lambert, Latulippe, Leboe, Macdonald (Rosedale), McLean (Charlotte), Monteith, Saltsman, Wahn—(15)

Also present: Mr. Addison.

In attendance: Mr. C. F. Elderkin, Special Adviser, Department of Finance; Dr. P. M. Ollivier, Parliamentary Counsel.

It was agreed to suspend the meeting called for 3:45 p.m. this day in order that the members might be present in the House for the debate on Bill C-261.

The Committee then proceeded to clause by clause study of Bill C-222, An Act respecting Banks and Banking.

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That the following clauses and schedules are passed *en bloc*:

Clauses: 3, 5, 7, 8, 9, 15, 16, 20, 21, 22, 23, 24, 27, 30, 32, 34, 37, 38, 40,, 41, 42, 43, 58, 59, 61, 62, 66, 67, 68, 70, 71, 73, 74, 78, 79, 80, 81, 94, 95, 98, 99, 100, 102, 104, 105, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 118, 119, 120, 121, 123, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 140, 141, 142, 143, 144, 146, 147, 148, 149, 152, 153, 154, 155, 156, 159, 160, 161.

Schedules: B, R and S.

On clause 1

Messrs. Elderkin and Ollivier were questioned.

At 12:00 noon the Vice-Chairman took the Chair and at 12:15 p.m. the Chairman resumed the Chair.

Clause 1 was allowed to stand.

Clause 2 was carried.

On clause 4

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 4 be amended by striking out the clause and substituting the following therefor:

"4. This Act applies to each bank named in Schedule A and does not apply to any other bank."

The clause was carried, as amended.

On clause 6

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 6 be amended by striking out the clause and substituting the following therefor:

"6. Subject to this Act,

(a) if Parliament sits on at least twenty days during the month of of June, 1977, the bank may carry on the business of banking until the first day of July, 1977, and no longer, and

(b) if Parliament does not sit on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the sixtieth sitting day of Parliament next thereafter, and no longer."

Clause 6 was carried, as amended.

On clause 10

Mr. Elderkin was questioned, and the clause was carried.

On clause 11

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 11 be amended by striking out lines 43 and 44 on page 7 and substituting therefor the following:

"scription, give his post office address, and this shall appear in the stock books in connec-"

The clause was carried, as amended.

On clause 12

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,

That clause 12 be amended

(1) by striking out line 22 on page 8 and substituting therefor the following: "poration as the place where the head office of the bank is to be situated, at such time and at"

(2) by striking out the word "and" in line 37 on page 8, and

(3) by striking out line 40 on page 8 and substituting therefor the following: "meeting of the shareholders, and

(d) appoint two persons having the qualifications specified in subsection (1) of section 63, but not being members of the same firm, to be the auditors of the bank until the first annual general meeting of the shareholders,"

The clause was carried, as amended.

Clauses 13, 14 and 17 were carried.

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 18 be amended by striking out line 18 on page 14 and by substituting therefor the following:

"(a) he is a director of a bank to which the *Quebec Savings Banks Act* applies or of a company incorporated"

The clause was carried, as amended.
Clause 19, was carried.
Clause 25 was carried.

On clause 26

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 26, be amended by striking out lines 10 and 11 on page 17 and substituting therefor the following:

"meeting of directors, and a summary thereof for a period of twelve months ending not earlier than sixty days before the notice showing the total"

The clause was carried, as amended.
Clause 28 was carried.

On clause 29

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 29, be amended by striking out lines 13 and 14 on page 18 and substituting therefor the following:

"current loans to any person that are included in the latest return made by the bank to the Minister under section 103 and the aggregate amount of which exceeds one-tenth of one per cent of the"

The clause, as amended, was carried.
Clause 31 was carried.

On clause 33

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 33 be amended

(1) by striking out line 45 on page 20 and by substituting the following therefor:

"section 53 or subsection (2) of section 56 be accepted by the bank; and"; and

(2) by striking out line 51 on page 20 thereof and by substituting therefor the following:

"fix a date, not earlier than the thirtieth day after the day on"

The clause, as amended, was carried.

On clause 35

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 29, be amended by striking out lines 13 and 14 on page 21 and substituting therefor the following:

"give his post office address and this shall appear in the stock books in connection with"

The clause, as amended, was carried.
Clause 36 was carried.

At 12.57 p.m. the Committee adjourned until 8:00 p.m. this day, subject to cancellation if the Sub-Committee on Agenda and Procedure so directs.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by electronic Apparatus)

TUESDAY, February 14, 1967.

The CHAIRMAN: Gentlemen, I think we are in a position to begin our meeting. As you know, we are now beginning our clause by clause consideration of the legislation that has been referred to us.

Before we began, Mr. Lambert, you were making a suggestion and perhaps you would like to state it at this time.

Mr LAMBERT: Yes, Mr. Chairman. In view of the fact that the government has scheduled for consideration in committee of the whole Bill C-261 and the fact that the members of this Committee have studied this bill, it is incumbent upon the majority of those members, at least, to be back in the House for the discussion, because the minutes of proceedings and evidence in connection with this bill will not be available generally for the members.

The CHAIRMAN: It will be available to the chief spokesmen of each party.

Mr. LAMBERT: If that is so, it is good to be able to see it just five minutes to the hour. In any event, my suggestion is that the Committee should not sit whilst we are considering that bill in the House.

The CHAIRMAN: Perhaps we could agree to suspend our meeting this afternoon when we see how we get along. I do not know how long the discussion in the House will take. Then we can decide amongst ourselves or in the steering committee, to see if we should sit this evening. I think your point is generally very well taken. I think that those members of the House who have the greatest background in this issue are on this Committee; however, we have to think about this other legislation, too. Perhaps the best way to start would be by agreeing not to meet this afternoon and we will decide this afternoon amongst ourselves whether we will meet this evening.

Mr. LAMBERT: I will also suggest to you, Mr. Chairman, that in view of the fact that the budget resolutions follow and it is generally the same people who are on the Finance Committee who are concerned with the financial provisions of the budget, that they too have some responsibility in the House.

The CHAIRMAN: This creates another problem, the time required to complete our clause by clause consideration of this bill. I am in the hands of the Committee ultimately as to when and to what length we sit, but if it is still the intention to prorogue the House on March 10th we have a heavy burden.

Mr. LAMBERT: Forget about that nonsense.

The CHAIRMAN: Mr. Lambert has suggested that we forget about it. I would like to, but I think it is up to you gentlemen to help work this out with the leaders of the various parties in the House.

Mr. MONTEITH: Mr. Chairman, we would be delighted to help out with the leadership of the House; it obviously needs a little. After having looked at that list of Committee meetings in the elevator this morning, and the various ones sitting morning, afternoon, and evening, it looks to me as though we are going to run out of business in the House because of lack of a quorum.

The CHAIRMAN: Perhaps we do the job better in committees.

Mr. MONTEITH: It will be either that or certain committees will not be able to meet.

The CHAIRMAN: Perhaps if it was left to those of us in this Committee, we might be able to work this out without undue difficulty.

(Translation)

Mr. CLERMONT: Mr. Chairman with regard to the point brought up by Mr. Lambert with regard to Bill C-261, I agree with his statement that the members of the committee should be in the House of Commons when Parliament considers second reading of this bill. I think we should be in the House of Commons.

(English)

The CHAIRMAN: Now that we have dealt with this procedural aspect, I suggest we proceed as follows. We will begin with Bill No. C-222, an act respecting banks and banking. Mr. Elderkin has prepared, shall I say, an up to date document setting forth the initially proposed amendments and, I believe, the subsequently proposed ones as well on the part of the government. Each of us has a copy of it. I will call each clause and those who wish to say something or ask questions will speak up, I am sure, as promptly as possible. To save time I would suggest that we consider these amendments, in turn, and as we reach them they will be moved formally by Mr. Clermont and seconded formally by Mr. McLean, at least for this morning's session, so we will not have to take the time to seek movers and seconders. This is simply to put before us the amendments proposed by the government in this document.

Mr. MONTEITH: Mr. Chairman, you had previously, I think, suggested, or it had been agreed upon, that we might make up a list of those clauses which we considered automatic and so on. We have done this and I think you or the Clerk passed out a list which apparently has been drawn up by Mr. Cameron.

The CHAIRMAN: Yes, this is the working document.

Mr. MONTEITH: Yes. I do not know if we should go through those first and clean them up. I thought that was your original suggestion.

The CHAIRMAN: It was, but of course there are some other extraneous matters that we have to deal with and we have not had the full opportunity we thought we would have to go into this. Does the Commitee wish to clear these up first or just note them and go through them, starting at clause 1 and continue on. What is the suggestion of the Committee? Do you have extra copies of your proposals?

Mr. MONTEITH: Yes, I can give you one list. Some of them are circled.

Mr. CLERMONT: Mr. Chairman, is this the list that was given to us a few weeks ago which represented the views of all the parties?

The CHAIRMAN: No. This was sort of a working document drafted by Mr. Cameron for the consideration of the members. What are the ones that are circled, Mr. Monteith?

Mr. MONTEITH: They are to be held out.

The CHAIRMAN: I think that perhaps you have come up with something that is very helpful. I would suggest that we circulate these other copies of Mr. Cameron's document and I will read out the ones that you suggest and if it is satisfactory to the Parliamentary Secretary and others present, perhaps I will take one motion to deal with all of them. There may be some problems because of the amendments.

Mr. LAMBERT: I do not know that any of them have amendments.

The CHAIRMAN: If we can use this procedure it will help.

Mr. ELDERKIN: I will underline the ones that have amendments.

The CHAIRMAN: If you will give me your working copy I will read out the ones that you suggest on behalf of your group are not contentious as a result of our discussions and consideration. Mr. Elderkin is looking at the ones for which there are proposed amendments. Does everybody have their copy?

Mr. LEBOE: Mr. Chairman, I just wanted to mention that yours truly has been out of commission for about two weeks with the flu and as a result I have not been able to consult with our group. However, I am quite willing at this particular point to go along with any arrangements between the New Democratic party and the Conservative party as to what they will let go en bloc. I am quite willing to go along with that because I do not think it would serve any useful purpose, at any rate at this late date, to get into any particular discussions on matters which the other opposition parties have pretty well agreed upon. From a practical point of view I think this would be the sensible approach.

The CHAIRMAN: Thank you, Mr. Leboe.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, are these the clauses that are agreed on by the N.D.P.?

The CHAIRMAN: Yes, the document you have is a working document, shall I say, prepared by Mr. Cameron in response to a suggestion from the steering committee that this would be a useful procedure. It has been circulated. Mr. Monteith, on behalf of his group has come back after analysing them and made suggestions as to those that would be satisfactory to his group, with certain exceptions. Will you all take a look at your copy while Mr. Elderkin is relating this document to the suggested amendments. Mr. Monteith and his group suggest that all the clauses and schedules listed in Mr. Cameron's working document are satisfactory with the exception of clause 1—and we will put a circle around that.

Mr. MCLEAN (*Charlotte*): Yes, just put a circle around it.

The CHAIRMAN: Yes, clause 1—

Mr. LAMBERT: Clause 6, Mr .Chairman, too, because there is an amendment.

The CHAIRMAN: We will get to that. I will deal with those afterwards. There is clause 39, clause 96, clause 137—Mr. Monteith, if I am skipping something will you interrupt me? You have also circled Mr. Monteith's schedules.

Mr. MONTEITH: All the schedules except B, R and S.

The CHAIRMAN: You have circled all the schedules except B, R and S, meaning that you are not in a position at this stage to say that there should not be further discussion.

Mr. LAMBERT: By way of explanation, all of those circled schedules have reference to either clause 82 or clause 88.

The CHAIRMAN: Yes.

Mr. C. F. ELDERKIN (*Special Adviser, Department of Finance*): Mr. Chairman, we have an amendment on clause 6.

The CHAIRMAN: The one you have the amendment on is clause 6. We will then also circle clause 6. I will circle it here for you on this document prepared by Mr. Lambert and Mr. Monteith. Just a minute while we make a note of these clauses.

Mr. ELDERKIN: Clauses 82, and 88.

The CHAIRMAN: Clauses 82 and 88. Are there any further comments on this working document with the suggestions put forth by Mr. Monteith? If not, I would propose to the Committee that we accept a motion at this time that all the clauses and schedules which have not been circled on this document headed "Clauses to be passed en bloc" be—

An hon. MEMBER: Read them.

The CHAIRMAN: Is it you suggestion to read all the clauses?

An hon. MEMBER: No, that is all right.

Mr. MONTEITH: I wonder, Mr. Chairman, if you should. I am only suggesting this so that everybody will be happy about it when we are finished. Perhaps you should just call the clause and give all the Committee members a chance to glance at the clause in the act.

The CHAIRMAN: This would only take a moment. There is no reason why we should not do that.

Mr. WAHN: I have had a question for some time and perhaps it was settled at a meeting when I was not able to be here. It is a question as to whether it is desirable that we should have a special act for the incorporation of a bank, which is rather difficult to get. Has that matter been discussed and settled.

The CHAIRMAN: I do not know if it has been settled; it has been discussed.

Mr. WAHN: If I wanted to raise this question, could I raise it under clause 8?

The CHAIRMAN: If you would like to reserve clause 8, we could do that, or you could discuss it under clause 1.

Mr. WAHN: In any event, I would like to have the opportunity of discussing it further.

The CHAIRMAN: Let us circle clause 8 then. Mr. Elderkin has pointed out to me that clause 8 is interrelated with other clauses. It is also related to the schedules. Is that your suggestion? Perhaps you would prefer to discuss this issue under clause 1.

Mr. WAHN: I will be perfectly satisfied with that.

The CHAIRMAN: Mr. Elderkin also has suggested that we circle clause 124 on the list.

Mr. ELDERKIN: It is a matter here in respect of the application in the case of insolvency, as to the standing of debentures. We just want to get it clear.

The CHAIRMAN: All right. Now I am going to read the clauses on this list—and for the sake of clarity I will refer to it as the list—which we have not circled, so we will make sure there is no misunderstanding as to what we are doing here. Clause 3; clause 5; clause 7; clause 8;—

Mr. LAMBERT: No; it is being held for Mr. Wahn.

The CHAIRMAN: I thought he had decided to reserve his comments for clause 1.

Mr. WAHN: As long as I can discuss it on clause 1, that will be all right.

The CHAIRMAN: That is all right, then. We will take the circle away from clause 8. Now clause 9; clause 15; clause 16;—if I am going too fast, let me know—clauses 20, 21, 22, 23, 24, 27, 30, 32, 34, 37, and 38. Clause 39 is circled—I guess we will call these blue-circled—and clauses 40, 41, 42, 43. We then move to clauses 58, 59, 61, 62, 66, 67, 68, 70, 71, 73, 74. We then move to clauses 78, 79, 80, 81. We then move on to clause 1 on page 77; clauses 95, 98, 99, 100, 102, 104 on page 84, 105, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 118—

An hon. MEMBER: Clause 14?

The CHAIRMAN: Yes, clause 114 on page 87; clause 116; clause 117 is not on the list. Then there are clauses 118, 119, 120, 121, 123, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 140, 141, 142, on page 96, 143, 144, 146, 147, 148, 149, 152, on page 99, 153, 154, 155, 156, 159, 160 and 161. Then the schedules: the first one is Schedule B on page 103; what about A, did you intend to—

Mr. ELDERKIN: Yes.

The CHAIRMAN: Then we move to Schedule R on page 118 and Schedule S on page 120.

These are clauses and schedules which the various party groups have considered and on the basis of the evidence from witnesses and our previous discussion they have noted their willingness to have them passed under a single motion. That being the case I would ask Mr. Clermont to formally move and Mr. Chrétien to formally second a motion that the clauses and schedules which I have read out be adopted at this time.

Mr. CLERMONT: I move that the clauses and schedules you read out be adopted by this Committee in a single motion.

Mr. CHRÉTIEN: I second the motion.

Motion agreed to.

The CHAIRMAN: This was a very good piece of work, I am sure. I think some thanks are due to the members of the Committee who have spent some time outside the formal sessions reviewing the clauses and in this way have made it possible for us to proceed expeditiously with respect to those on which there was found to be no need for lengthy discussion. I would ask the Clerk to make sure

that the copies of these lists in question are duplicated as soon as possible so that we will have them before us as we move on to the rest of the clauses.

We have with us as I have already mentioned, Mr. Elderkin. We also have with us Dr. Ollivier. It would be quite in order for Mr. Elderkin or Dr. Ollivier to interject with any necessary information with respect to the amendments.

The CHAIRMAN: Perhaps we can have an initial round of discussion on clause 1 and then stand it. Just to meet the formalities, shall clause 1 carry? Has anyone anything to say at this point, subject to this being stood for a further round of discussion at the end of our consideration of the remaining clauses?

Mr. LEBOE: Could we hear from Mr. Elderkin now?

The CHAIRMAN: What I intended to point out was that Mr. Elderkin would be available to us to provide any additional information that we needed about the clauses on the amendment which are under consideration.

Mr. Wahn, did you want to comment at this time about the procedure of incorporation.

Mr. WAHN: Yes, Mr. Chairman. I am concerned about the method of incorporation provided for in this bill. I gather that before a chartered bank can be incorporated a special act must be obtained. As we all know, these must be passed in private members hour. The procedure in private members hour has not worked out very satisfactorily and it has become extremely difficult to get even the most meritorious bills through private members hour expeditiously sometimes. I think all the witnesses who have appeared before us have indicated that it would be desirable to get more competition into the banking system, and to do that we need more chartered banks. It seems to me that the present system of incorporation presents people who are interested in forming banks with unnecessary obstacles.

I was not here, unfortunately, when the minister explained why the provision in the earlier bill which permitted incorporation of the letters patent had been deleted and why we reverted to this system. No doubt, it was because the government felt that it would be desirable to maintain some parliamentary control over the issue of charters. I do think that we must get away from the system of incorporating by special acts of parliament passed through private members hour. This just does not work. If if it is felt that some parliamentary control is necessary, perhaps provision could be made for incorporation by letters patent upon their being deposited with the Department of the Secretary of State, and the company's branch with the approval of a parliamentary committee, a House of Commons committee or a Senate committee, or both. I think we should avoid forcing people who wish to incorporate new chartered banks to go to the expense and the time that is involved in getting a private bill through parliament. I personally, cannot understand why it is at all necessary to have a special act. Why could it not be done by letters patent provided the Inspector General is satisfied with the financial arrangements, provided that no licence to commence business is issued until the inspector General is completely satisfied, and if money received from the sale of shares before the commencement of business is required to be deposited. I find it very difficult to understand what is the purpose for making incorporation of chartered banks so difficult. The fact is that at the present time we have about seven or eight chartered banks,

probably fewer chartered banks than we had about twenty-five or thirty-five years ago, and in these circumstances it is very difficult to get active competition.

The CHAIRMAN: Mr. Lambert, you wanted to comment on this issue raised by Mr. Wahn.

Mr. LAMBERT: Yes, Mr. Chairman, I do not think that the answer is necessarily a black or white type of answer. I personally welcome the decision of the government to revert back to the original formula. I certainly did not find the formula in Bill C102 at all acceptable because it seemed to me it had built-in dangers with regard to patronage and, regardless of whether the mechanics of the Inspector General's office and other requirements might be met, I believe that the experience recently, in dealing with the Bank of British Columbia and, in essence, the Bank of Western Canada, has been salutory in so far as the control or the examination by parliament is concerned. Now Mr. Wahn mentioned that it could be issued by letters patent, on the recommendation of a committee of the House, if they were deposited with the Secretary of State's office or with the Registrar of companies. I would point out that a committee of the House could not consider an application of a bill without having it referred to it by parliament and the matter would somehow have to get before the House of Commons. The whole matter of the referral to the committee in itself would present the same procedural difficulties against which Mr. Wahn has protested.

I agree; I do not think that a bill incorporating a bank or incorporating a number of insurance companies or some of the other proposals that are coming before parliament should be limited to the vagaries of a private members hour, especially near the end of the session. This is becoming a nonsense and I think that parliament must not only do justice by the proposals that are put before it but must appear to do justice. Frankly, during the last several months of this session there has been a denial of justice to a lot of applicants who are serious bonafide people, and immeasurable, irreparable damage may be done to them.

However, in the case of these banks I still do feel that parliament must have a look at it, and I think that if we put the appropriate value on the incorporation of a bank of this nature that the government could set aside one or two or three days of government time to handle it.

Mr. LAFLAMME: Do you mean to change the rules of parliament?

Mr. LAMBERT: No—well, it would be to the extent that instead of having to go through the mechanics of being heard during the private members hour that the government could transfer it to another day which it has set aside for this purpose. We have done this. We have set aside a day to consider private members' motions for the abolition of capital punishment. I think that this could be done and then we could have a much better discussion on it under these circumstances.

Mr. LEBOE: I was going to say that this last suggestion of Mr. Lambert's makes a lot of sense to me. I have been very much concerned over the fact that so much manipulation can go on in connection with private members bills. They can be spoken to to the point where they are dropped to the bottom of the list, and if the list is long it virtually kills a particular bill that should have been handled and passed. It is our responsibility to see that they are handled and yet,

under the circumstances, if they are not transferred to a day set aside by the government, they are not going to be handled. I think this is a good suggestion on the part of Mr. Lambert.

The CHAIRMAN: Do you have a comment, Mr. Chretien? Mr. Laflamme, do you have a further comment?

Mr. LAFLAMME: Personally, I support the point of view that whenever a private organization asks to incorporate a banking system we should not allow the House of Commons to put this private bill at the bottom of the list just because it is talked out. I think this is a very foolish practice. It spoils the good intentions of anyone who wants to get government approval.

Mr. WAHN: Mr. Chairman, I would be perfectly satisfied as long as some procedure could be worked out whereby the incorporators could be sure that their applications for a charter would come up for a vote say, at the same session during which they applied for it. I am a bit puzzled as to how you are going to ensure that under our present procedures. It seems to me that we dealt with a rather similar difficulty on divorce bills by referring it to a committee in the Senate, and in this case I think perhaps the committees of the House would have a function to perform as well.

With reference to the difficulty that Mr. Lambert mentioned, about getting a banking incorporation bill referred to a committee, I am merely wondering, if the bank acts contained a specific provision in effect referring all future bank incorporations to the committee on finance, whether that would not be sufficient authorization for the committee on finance to proceed with it. I am sure that some procedural provision could be worked out.

Mr. CHRÉTIEN: Mr. Chairman, I think that during the last year it was much easier to send bills to the committee. We developed new mechanics last year and this is why we were able to deal expeditiously with the Bank of Western Canada and the B.C. bank.

The CHAIRMAN: It would appear from the views expressed that if there is any consensus it would be aimed at having this issue dealt with through some reform in the rules of the House to enable parliamentary control to be kept over this type of thing.

May I make a suggestion. It may be that as we proceed through our clause by clause consideration of the bill the Committee may wish to make certain comments in the form of a textual report in addition to the report of the bill itself. Of course we cannot determine this, until we get almost to the end of our considerations. On the other hand, the Committee may feel that the statements made in discussion are, in effect, a sufficient signal to the government and to the rest of our colleagues for further action perhaps with the new rules committee, and so on. I suggest that when we come to the end of our consideration of this bill and the other bills we may want to decide whether we go into an in camera session to draft some textual comments in addition to the bill and the amendments itself.

Mr. LAMBERT: May I add something that might help Mr. Wahn in this regard. The point he was making about having it incorporated in the statute and referring such an application by statutory authority to the Committee is precisely what the government objected to under the transport bill. The opposition

wanted to have the report of the Transport Commission referred automatically, once a year to the Standing Committee on Transport; this was rejected by the government so I doubt if they would accept that principle. A way out, of course, which would eliminate a lot of the blockages, would be to move to change our rules so that the bill on first reading and printing is referred to the appropriate legislative committee.

The CHAIRMAN: Automatically.

Mr. LAMBERT: Automatically. That is within the rules. But to do away with this acceptance in principle at the beginning, the Committee then is seized with it, has its hearings, makes its recommendations, then there is a debate on the report and an acceptance in principle of the bill there.

Mr. WAHN: Mr. Chairman, would I be correct in stating that there is a consensus among the members that it is essential that we have some improvement. We do not quite know what form the improvement should take.

The CHAIRMAN: To take it a step further I think it is the consensus that this should be done through some amendment of the rules of the House. That is why I am saying that it may be that points of this nature, which we do not feel should be necessarily added into this bill in the form of amendments, could be covered by a textual comment in the report. Therefore I suggest that we make a note of these and, as we come down the home stretch of our consideration of these bills, then we may go into an in camera session and perhaps draft some comments, if at that point we feel it is desirable to do so. We may not feel it desirable; we may feel that our discussion in open session is, shall I say, a signal or a hint to either the government or our colleagues in the House as to how this matter should be dealt with. However, we may want to make a textual comment as well. Perhaps you might, for example, wish to consult with Mr. Lambert, and try and draw up some draft rules and procedures which we may recommend. This may be treading into dangerous waters here but I leave this thought for you.

Mr. LEBOE: Mr. Chairman, I do think that the time has come, in respect of a number of these questions, that provision must be made for the House to come to a decision on them; that they are not just left in abeyance by a juggling of the situation that exists in the rules today. I think that the time has come when something must be done so that the House can arrive at a decision. I think it is wrong that there can be a situation where the House is denied the right to make a decision by the failure of the rules to met the situation.

The CHAIRMAN: I think we have had an opportunity to review the points raised by Mr. Wahn. I will ask Mr. Wahn to keep in mind my comments on how we might carry this thought beyond the confines of this Committee.

Mr. LAMBERT: I would like to raise another point under clause 1. During a number of the hearings I indicated that I would be bringing forward an amendment to the act to define the business of banking. However, I have looked at this question very carefully, not because of the complexity of the definition of banking, because I think this is possible, but because this would result in a complete recasting of the act. There are many provisions with regard to supervision, status and conditions applicable to the chartered banks, as we know them—the chartered commercial banks—which do not apply in any way to the

near-banks. If we were to make a definition of banking it would require that the act be compartmentalized—to use a terrible term, one part applicable to the commercial banks, as we know them, and another part to the near-banks or anyone engaging in banking practices. I am sorry that the government did not see fit to do this. I think it would have been possible because we now see that we are going to do it in another way, at some future date, perhaps under three or four acts. We are going to do it under the Bank Act for the chartered banks; we are going to do it for deposit insurance under the Deposit Insurance Act. Then the minister the other day, in discussion on Bill 261, indicated it was the thinking of the government that they would like to have an act dealing with the inspection and control of near-banks to bring the whole of the banks and quasi banks under the one jurisdiction. I would have thought that it would have been better to have it all within one act but compartmentalized. It is for that reason that I am not going to advance my definition of the business of banking. I think in this day and age such a definition is perfectly feasible. I have had considerable research done in this regard. I think that there are many court decisions that go up as high as the Privy Council which do define the business of banking. I am sorry that on the basis of the recommendations of the Porter Commission the government has not seen fit to draft a new Bank Act which would apply to all banks and quasi banks and that we have to resort to interim legislation by the provinces to deal with the situation that we are going to get as a result of differing standards. If one province asserts the right and is able to do it, then all the other provinces have the right to do the same thing. I would also have thought that it would have kept the provinces out of the business of banking where they have no business whatsoever.

The CHAIRMAN: I recognize Mr. Leboe, followed by Mr. Macdonald.

Mr. LEBOE: One thing bothers me in connection with our procedure in the house dealing with the Bank Act. I think that the 10 year review has been all right in the past, but I certainly feel that at the rate changes are being made in the world today and in every phase of our lives, that a 10 year revision period is too long—and this I think has a direct bearing on what Mr. Lambert has just said. If we had the revision at five year intervals we could skip the old one if the House of Commons said there was no reason for dealing with it specifically. It seems to me that a decennial review of the Bank Act is too long because, the way the situation is, we cannot really look that far ahead; there are too many influences from outside and within our own country. I think we should take a good look at making some provision in the statutes whereby the Bank Act will be automatically reviewed in, say, five years instead of 10 years so that we will be more up to date with the Bank Act. Since it is not a comprehensive act to cover all financial institutions, as some of us think it should be, I think some consideration should be given, when we come to the appropriate place in the act, to get this cut down to five years.

The CHAIRMAN: Mr. Macdonald is next, followed by Mr. Monteith.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I would just say that I disagree with the opinion expressed by Mr. Lambert that the courts have sufficiently defined, in a comprehensive way, what the business of banking is. There have been, of course, individual decisions on certain aspects of the business of banking, but there has never, anywhere, been a comprehensive decision in this

regard. As to his remarks about whether it should be put in compartments in one act, or put in several different statutes, I do not think there is a great issue of principle involved. What you are doing is really applying the statutory structure to the commercial structure that exists. It seems to me that since you have had the banks and the business of banking built under one statute, and acceptance companies and other companies built under others, that there is nothing in it one way or the other.

Mr. MONTEITH: I can appreciate Mr. Leboe's thinking on this matter of review more often than every 10 years. At the same time, Mr. Chairman, I am inclined to think that we are facing rather an exceptional situation today. It is 13 years, not 10 years since a revision. In addition we are facing today a situation in the financial markets which could arise, I suppose, some other time, but I would be inclined to think that the banks are entitled to a firm undertaking as to the period of time that they are going to be in business.

I do not know whether the government can always open up an an act if they wish. For arguments sake, if a situation like that which has arisen in the last couple of years were to arise sometime in the future and demand review, I do not know whether it could be made or not; but I think the government could ask for it. Considering that the banks are entitled to some continuity in looking into the future and so on, I think I would be inclined to leave it at 10 years. I appreciate Mr. Leboe's thoughts but I still think I would leave it at 10 years.

Mr. LEBOE: In connection with that, Mr. Chairman, I think that history has some value here. Surely the banking institutions are not alarmed at the fact that their charters may have to come up for review in five years instead of ten. Surely, if they are afraid of being put out of business in five years, they are going to be afraid of being put out of business in 10 years. It just does not make sense to suggest that the banking fraternity would be alarmed at the fact that their charters were going to come under review in five years. History has some value here. If, for instance, the Bank Act can be opened up and their charters reviewed by some action of government at a moment's notice, surely it is much more difficult for the banking institutions if this takes place than if it is set out in the statutes that there will be a review within a five year period.

It seems to me that we are protecting the banks by letting them know ahead of time exactly what the situation is, rather than putting them on the spot where something might come up where the government takes immediate action because of an emergency. Now we have gone 13 years without a revision, as Mr. Lambert has pointed out, but if we had a review at five year intervals and there was a delay then it maybe would only run to eight years.

The VICE CHAIRMAN: I may be wrong, Mr. Leboe, but I am under the impression that the banking association itself recommended that the revision remain at 10 years.

Mr. MONTEITH: It is not also true, Mr. Chairman, that every time we do review the Bank Act this causes a great deal of extra work, I think even some unsettlement, some uncertainty within the banking structure itself? Unless it seemed absolutely necessary, I cannot see why we should be obligated to consider the bank Act more often than every 10 years.

(*Translation*)

Mr. LATULIPPE: Mr. Chairman, I am in full agreement with what Mr. Leboe said regarding the review of the Bank Act every five years. If there is anything in the Bank Act which does not suit the banks, it seems it would be in their interest to have shorter periods for this review. From the point of view of the people, or the government, if they want improvements in the Bank Act, ten years is a long time to wait. They could not even say a word in between these times with regard to the economic position of their county. If we could make this review every five years, this would be reasonable and acceptable, to the bank, to the Committee as well as to the government. The people would be in favour of a five-year review instead of a decennial review. Many factors should be considered. Banks have brought about many changes in the Act. If this Bank Act were reviewed every five years, the banks would not suffer so much from situations which they cannot change until the ten years are up. But if this Act could bring forward this review of the banks, it seems to me it would be in the interest of the people and also in the interest of the banks. All parties could bring forward ideas, and views. The people have something to say. We know that in some countries, many countries, they review this act every year. I do not think it is too much to ask for a review every five years when one compares our situation to that in other countries outside of Canada. The Bank Act is reviewed much oftener. Abroad, the Bank Act is revised every year, amendments are being brought in every year. But this is complicated and revision would be impossible as a yearly task. I think we should have this review once every five years. This would be in the interest of all parties, the people, the government and the banks. That is an observation. I am in full agreement with Mr. Leboe's suggestion.

The CHAIRMAN: Thank you, Mr. Latulippe.

(*English*)

I have Mr. McLean, followed by Mr. Saltsman, but I believe Mr. Elderkin has some information to give us that may be useful at this stage.

Mr. ELDERKIN: I was only going to say, Mr. Chairman, that parliament can always open the act at any time that they wish. The fact that the act mentioned five years or 10 years would be no guarantee that parliament would not do so in an interim period. The fact that you are mentioning five or 10 years does not give any guarantee to the banks that the act will not be opened in the interim period.

Mr. WAHN: Mr. Chairman, has the act, in fact, ever been opened up within the decennial period.

Mr. ELDERKIN: Not for a great many years, but it has in the past.

The CHAIRMAN: This has happened?

Mr. ELDERKIN: Yes.

The CHAIRMAN: Dr. McLean?

Mr. MCLEAN (*Charlotte*): I certainly would oppose the shorter period just because of the fact that we have been two or three years looking over the act, and I think that the banks should have at least 10 years to get straightened out and to get going. If it is set for every five years and we are going to take three

years to get straightened out again, I do not see much sense to it; I think a longer time is needed.

The CHAIRMAN: Mr. Saltsman?

Mr. SALTSMAN: Mr. Elderkin, someone anticipated a question that I was going to ask. Would you just elaborate a little further on your comments as to the actual mechanics that are available to parliament for an examination of the act before the expiry date.

Mr. ELDERKIN: Well, parliament could bring in an amendment to section 6, which is the term under which they have power to carry on business.

The CHAIRMAN: But without dealing with anything that specific, if, for example, the government wished to propose to parliament, say, a definition of banking, or a code of conduct covering near-banks, they would not have to wait 10 years.

Mr. ELDERKIN: No. I cannot recall the exact circumstances, but in 1914 there was an amendment put in because of the war situation.

Mr. MONTEITH: Am I correct, Mr. Chairman, to say that I seem to recall the Minister saying that he wanted a study made of the operation of agencies and so on, and that he would bring in a separate act at that time?

Mr. ELDERKIN: That is correct, Mr. Monteith.

The CHAIRMAN: Separate legislation.

Mr. MONTEITH: Separate legislation which would certainly be before the next revision of the Bank Act.

The CHAIRMAN: I presume that does not rule out adding a section to this Bank Act as the medium of doing it.

Mr. ELDERKIN: No. If it was considered, Mr. Chairman, that the provision regarding agencies should be by way of an amendment to the Bank Act, this could quite easily be done.

Mr. WAHN: Rather than a change in the decennial period, would it not be possible for us to make it clear in our report that there is nothing which prevents a revision of any section in the Bank Act before the expiration of the 10 year period? So if we do decide to do that at any time, there can be no argument made on behalf of any of the chartered banks that we are doing something which is retroactive or which is contrary to a basic understanding.

Mr. ELDERKIN: I am sure, Mr. Wahn, that there is no doubt in their minds about this.

The CHAIRMAN: Perhaps we should see if Mr. Saltsman is finished.

Mr. SALTSMAN: I think that Mr. Wahn's suggestion is a rather good one, since we have had some evidence before this Committee that there has been doubt in some people's minds as to what is going on in banking in this country, and that such a statement might be made along with this bill when it is returned so that this would be clearly understood and that it be on the record.

The CHAIRMAN: Do you have a supplementary question, Mr. Laflamme?

Mr. LAFLAMME: With regard to the agencies, if I recall correctly, the Minister of Finance stated that this could be done by particular legislation, by a different bill, rather than by amending the Bank Act.

Mr. ELDERKIN: He just said "by separate legislation". Now the legislation might mean an addition to the Bank Act.

Mr. LAFLAMME: Yes.

Mr. ELDERKIN: Or, it might mean a completely different—

Mr. LAFLAMME: Bill?

Mr. ELDERKIN: That is right.

(*Translation*)

The CHAIRMAN: Mr. Clermont?

Mr. CLERMONT: Could Dr. Ollivier give us his opinion, with regard to Parliament's powers about this ten year waiting period. Parliament need not wait ten years. Even if the Committee made no suggestion, does Parliament not have this right?

Dr. OLLIVIER: I think so, indeed. Parliament can legislate when it wants to. It is not tied by previous legislation, it cannot bind our future Parliament either. So, there is no difficulty involved; anytime Parliament wants to legislate on the Bank Act, next year, for instance, if it wants to, it can make another law.

Mr. CLERMONT: Thank you, doctor.

(*English*)

Mr. LEBOE: Mr. Chairman, I would like to make one point here. I do not want my suggestion to be construed as interference in any way with the operations of the banks; on the contrary, I do feel, however, that we are putting it in a one-sided position. We are putting the whole review in hands of the government whether or not within that 10 years we come before parliament with any changes.

On the other hand, if the banks knew that within five years it would come under review they would have some hope—if there were changes that they felt were very very necessary—of meeting that deadline within the five-year period. I do not want anything I have said to be construed as being aimed in any way at curtailing the action of the banks, or as interfering with the banking business in any way, shape, or form. This is not true.

For instance, for a number of years now I think it would have been desirable, from the banking fraternity's point of view, to have been able to take security on mortgages, which we have incorporated in this bill. It is long overdue. The banks should have been in this business before.

I could speak for half an hour on this, but I am not going to. There are a great many ramifications in connection with this very thing. The banks actually have been denied this opportunity and this opening because of this 10-year sacred cycle that we have been following. I call it a sacred cycle because it is felt, apparently, that this is how to handle it.

I agree with the suggestion that we should put something in our report to the effect that we should closely examine the idea of opening it up before the 10

year period comes up so that we would be in a position to have a look at it in case it becomes necessary to change something.

Mr. MONTEITH: I appreciate Mr. Leboe's viewpoint, but I do not think the banks have been hindered at all in putting forward their views on mortgages in the past. In all government work influences are brought to bear and information comes to their attention, and I am sure that the banks have in the past approached the Minister of Finance with these thoughts. I am certainly not speaking for him. I am speaking as an ex-minister. I know that pressures, or representations, are made along certain lines, and at the appropriate moment probably some action is taken. Now, I am only guessing in this case that the Minister of Finance thought that the appropriate moment was when the Bank Act was to be revised.

Mr. LEBOE: This is exactly the point. I think we have made a sacred position out of this decennial change. As pointed out by Mr. Lambert we have gone for 13 years now before we have really got to the point of making the change. I think it has been to the detriment of the banking institutions of this country. I was a little alarmed, although not too much, by the statement made by Mr. Elderkin when he suggested that he was not really afraid of—as I think he said—the near-banks' situation within the next 10 years. Do I recall your remarks correctly?

An hon. MEMBER: It was Mr. Rasminsky.

Mr. LEBOE: Oh, perhaps it was Mr. Rasminsky; I am sorry.

This indicated to me that there was at the back of his mind, a reservation about what time might do within the next 10 years in connection with the banking system.

I am quite content, Mr. Chairman, to let it go at this. I have said my piece.

The CHAIRMAN: Are there any further comments on this issue?

If not, I might mention that this also might be something to consider for the textual portion of our report. It may well be that, with the development of the system of active legislative committees, the concept of making changes as they may be deemed desirable, as distinct from a complete decennial revision, could become easier of acceptance by the public, the government and the crown as time moves on.

Are there further comments on clause 1?

Mr. MONTEITH: I would ask that it stand.

Mr. CHAIRMAN: It is asked by Mr. Monteith that clause 1 be stood. I think this is the basis at the outset of our discussion of clause 1.

On clause 2—*Definitions. "Agricultural equipment."*

(*Translation*)

Mr. CLERMONT: Just a translation, I realize; but the English bill speaks of "cattle" and in French they say the word "*bovins*".

The CHAIRMAN: What Clause?

Mr. CLERMONT: Two, paragraph two.

The CHAIRMAN: Paragraph two. What date?

(*English*)

Mr. CLERMONT: In the English bill it says "cattle", but in French we read it as "bovines".

(*Translation*)

It is not quite the same thing, I think. In the dictionary I consulted before leaving, it does not translate "cattle" the word "*bovin*".

The CHAIRMAN: The French is here with Dr. Ollivier.

Dr. OLLIVIER: I will might perhaps refer this to the translators, we will bring it to their attention. If there is an error in translation, they will correct it, they will make the correction without bringing in an amendment. I will draw their attention to it. I am not a translator.

The CHAIRMAN: Still, at the same time, you will have to draw the attention of the translators to this, so, they will make the necessary change.

Dr. OLLIVIER: This is right.

(*English*)

The CHAIRMAN: Mr. Flemming, were you attempting to catch my eye? We are on clause 2. This is one of the clauses not covered in the blanket motion.

Mr. MONTEITH: I think, originally, it was left out by Mr. Cameron. I do not know whether or not he had anything specific in mind.

The CHAIRMAN: This is the definition clause. We could take a moment to make a further review of the clause, and if there is nothing which—

Mr. MONTEITH: There was some discussion under subclause (h), was there not? I do not recall what it was but—

The CHAIRMAN: Yes, there was some discussion of definition, and so on. I believe Mr. Ryan of the Department of Justice attended and clarified the point.

Mr. ELDERKIN: Dr. Ollivier did also.

The CHAIRMAN: Dr. Ollivier did, as well. Mr. Clermont?

Mr. CLERMONT: I would like to ask Dr. Ollivier if he would define what exactly a farm is and the purpose of it.

Dr. OLLIVIER: My conclusion was that it was better not to define it.

(*Translation*)

Mr. CLERMONT: Clause 2, paragraph III: "general manager". Is this a definition by the bank, suggested by the Inspector General?

(*English*)

The CHAIRMAN: That is a new clause.

Mr. ELDERKIN: It is a new clause, Mr. Clermont. The reason for it is that some banks have used the title "general manager" for various positions, but have only one chief general manager; and some banks still have only a general

manager, not a chief general manager. To cover the situation the draftsmen have put in this subclause (3) so that in cases where a bank has a chief general manager that is the person to whom the rest of the bill refers.

(*Translation*)

Mr. CLERMONT: The reason for my question is that if I remember well, in one of the briefs we had before us, there was objection brought in, because they claimed that it centered the administration or management in few hands only.

(*English*)

Mr. ELDERKIN: This is only a definition clause which refers to the title "general manager" in other parts of the bill.

(*Translation*)

Mr. CLERMONT: Thank you, Mr. Elderkin.

(*English*)

The CHAIRMAN: Are there any further questions or comments with regard to clause 2, the definition or interpretation section?

Clause 2 agreed to.

On clause 4—*Banks to which Act applies.*

Mr. ELDERKIN: Mr. Chrétien has an amendment, which is before you.

The CHAIRMAN: Yes. We all have the amendment. I am not going to read it. For the sake of formality we will take it that the amendment before us is moved by Mr. Chrétien and seconded by Mr. Clermont.

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out clause 4 on page 6 thereof and by substituting therefor the following:

Application of Act.

"4. This Act applies to each bank named in Schedule A and does not apply to any other bank."

Mr. CLERMONT: It was mine, Mr. Chairman, but I will not object.

The CHAIRMAN: Oh; well, we will do it the other way.

Mr. CLERMONT: Moved by Clermont and seconded by Mr. Chrétien.

The CHAIRMAN: All right; either way the supporters of the motion are people of substance, so there will be no problem in having the motion accepted.

Are there any questions or comments with regard to, firstly, the amendment proposed, in effect, by the government?

Mr. LEBOE: Perhaps we could have just a short explanation—

Mr. ELDERKIN: The reason for this is that actually we wish to straighten out paragraph (b) in the bill as it is now worded. In clause 100 it states that when banks are amalgamated schedule A is amended accordingly, so that it is not necessary to make any reference in clause 4 to an amalgamated bank. It is simply straightening out, in effect, what is now redundant in paragraph (b).

Mr. WAHN: I have a question on this.

The CHAIRMAN: Yes, Mr. Wahn.

Mr. WAHN: This clause seems to imply pretty clearly that there may be banks that are not subject to this act. Is that the intention?

Mr. ELDERKIN: There are banks that are not subject to this act, Mr. Wahn—the Quebec Savings Bank, the Industrial Development Bank, the Bank of Canada; there are various banks that are not subject to this act.

Mr. WAHN: I see, yes; thank you.

The CHAIRMAN: Are there any further questions or comments on either the amendment or the clause itself? If not, I will ask if the amendment carries?

Some hon. MEMBERS: Carried.

Amendment agreed to.

Clause 4, as amended, agreed to.

On clause 6—*Duration of authority to carry on business.*

Mr. ELDERKIN: We have an amendment on that, Mr. Chairman.

Mr. CLERMONT: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out clause 6 on page 6 thereof and substituting therefor the following:

Duration of authority to carry on business.

"6. Subject to this Act,

(a) if Parliament sits on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the first day of July, 1977, and no longer, and

(b) if Parliament does not sit on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the sixtieth sitting day of Parliament next thereafter, and no longer."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: The amendment extends the expiry date from 1976 to 1977. As we are rapidly approaching June 1, 1967, and as the act will probably not be proclaimed much before that time, it was felt only right that the 10-year period should be extended to 1977.

The CHAIRMAN: I will not ask for a motion. Again, for the sake of convenience, we will assume that this is moved by Mr. Clermont and seconded by Mr. Chrétien. In fact I will not even repeat this as we go through these amendments.

Mr. LEBOE: From the discussion we have had, Mr. Chairman, I do not think there is any purpose in my moving an amendment.

The CHAIRMAN: That is the privilege of any member of the Committee, of course. Are there any questions or comments with respect to either the amendments or the clause itself?

Shall the amendment carry?

Amendment agreed to.

Clause 6, as amended, agreed to.

An hon. MEMBER: These, I think, were circled, were they not?

The CHAIRMAN: No; this was a suggestion to permit Mr. Wahn to discuss the technique of incorporating banks. We deal with it in clause 1 and came up with a way to handle it.

On Clause 10—*Provisional directors*

Are there any questions or comments or discussions with respect to clause 10?

I believe that this was omitted from the...

(*Translation*)

Mr. CLERMONT: Mr. Elderkin, when one mentions, under (a), (b), (c), $3,000, is this the total subscribed?

(*English*)

Mr. ELDERKIN: This is the total that it is necessary for a provisional director to subscribe when the bank has an authorized capital of a million dollars or less.

(*Translation*)

Mr. CLERMONT: And I think when you asked the question some time ago, (a), (b), (c) is in the Bank Act for some years now?

(*English*)

Mr. ELDERKIN: This is a provision which was brought in, I think, in 1944, to take care of...

(*Translation*)

Mr. CLERMONT: Are you satisfied that in 1967—are you satisfied these amounts are sufficient?

(*English*)

Mr. ELDERKIN: Oh, yes, I would think so, Mr. Clermont; quite sufficient.

Mr. WAHN: As a matter of interest, Mr. Chairman, what is the reason for permitting one quarter of the provisional directors to have a lower qualification.

Mr. ELDERKIN: This was brought in, Mr. Wahn, in 1944, I think, or maybe earlier, when some members of the Committee raised the point that even the amounts mentioned here might be too high for certain types of people who otherwise would like to become directors of banks and whom the banks would like to have. If I remember rightly, one of the instances was the question of having farming representation on the board. Therefore, it was decided to give the banks a leeway, to take care of people who could otherwise not afford, perhaps, to become members of the board.

Mr. WAHN: Thank you.

Mr. MONTEITH: Is there any conflict at all between subclause (4) and any intent that we have been expressing around this table?

Mr. ELDERKIN: This was, as—

Mr. MONTEITH: Excuse me for interrupting, but have we not, to quite a degree, been considering Canadian residents. This says "Canadian citizens ordinarily resident in Canada". I am just wondering whether there is any—

Mr. ELDERKIN: Yes; this is a definite and planned distinction. Here it is quite possible, with the small number involved, to determine whether or not a person is a Canadian citizen. When we are talking about shareholders later on we talk about "Canadian residents", because with the many thousands of shareholders it would be almost impossible for a bank to check to see whether or not a person was a citizen.

There is no conflict, I think. There is a distinction, and there is meant to be a distinction.

Clause 10 agreed to.

On Clause 11—*Opening of stock books*

Mr. CLERMONT: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 43 and 44 on page 7 thereof and substituting therefor the following:

"scription, give his post office address, and this shall appear in the stock books in connec—"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: The amendment is to subsection (3) and is entirely editorial. It is just a matter of deleting the words "description, and these particulars" to conform with other places where the same phrase exists.

The CHAIRMAN: Are there any questions or comments on clause 11, or on the amendment.

If not, shall the amendment carry?

Amendment agreed to.

Clause 11 as amended agreed to.

On Clause 12—*First meeting of subscribers.*

Mr. ELDERKIN: We have an amendment here, Mr. Chairman.

The CHAIRMAN: We have two amendments.

Mr. CLERMONT: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out line 22 on page 8 thereof and substituting therefor the following:

"poration as the place where the head office of the bank is to be situated, at such time and at"

Mr. CHRÉTIEN: And:

(a) by striking out the word "and" in line 37 on page 8 thereof, and

(b) by striking out line 40 on page 8 thereof and substituting therefor the following:

"meeting of the shareholders, and

(d) appoint two persons having the qualifications specified in subsection (1) of section 63, but not being members of the same firm, to be the auditors of the bank until the first annual general meeting of the shareholders,"

I second the motion.

Mr. ELDERKIN: We have an amendment to subclause (1) in the English text it is on line 22. This is again editorial to a great extent, to conform with lines 33 and 34 on page 6. It will read "the place where the head office of the bank is to be situated". It is purely editorial.

Amendment agreed to.

Mr. ELDERKIN: The next amendment, on subclause (3), is an addition to provide that the provisional directors may appoint two persons as auditors of the bank.

This was an omission which, I think, should have been corrected long ago. It did not occur to us because we did not have a situation arising. It meant that a special shareholders meeting would have had to be called to appoint the auditors; otherwise there would have been no auditors until the next annual meeting of the bank. This just gives the power to appoint them.

The CHAIRMAN: Are there any further questions or comments on the first amendment to subclause (3)

Mr. WAHN: Could Mr. Elderkin explain the procedure which is followed when subscriptions are taken? The promoters of the bank obtain subscriptions and they get the money for the shares. Are they required to deposit money anywhere with any public authority until such time as business commences?

Mr. ELDERKIN: They are required to deposit $250,000 with the Minister of Finance, which is held by him until such time as the certificate permitting them to do business is issued—by the Treasury Board now, later by the Governor in Council—at which time he releases the $250,000 to them.

If, as in the case of the Bank of Western Canada, there are special provisions regarding the issue of the certificate to do business, one of them may be a regulation or a provision about the handling of the rest of funds, as we did in that particular case.

Mr. WAHN: If they collected substantially more than $250,000 from subscribers—let us say they collected $3 million—and they only deposit $250,000 with you what protection is there?

Mr. ELDERKIN: They are not allowed to spend any of it at all. If you read on in those subclauses, you will see that they are not permitted to make any expenditure. For instance, if you look at subclause (4) on page 9 it says:

—no payments on account of...expenses shall be made out of moneys paid in by subscribers

Mr. WAHN: That nevertheless is under the complete control of the provisional directors? It is not deposited in any public funds?

Mr. ELDERKIN: No; not in any public fund. It is just that $250,000 comes into the hands of the Minister. They have to meet certain clerical expenses and

parliamentary expenses, and they are permitted to do so out of those subscribers' funds.

Mr. WAHN: You mean their fees for filing their special acts, and so on?

Mr. ELDERKIN: And, Mr. Wahn, perhaps I should explain that when they apply for their licence to start business they have to file a financial statement.

Mr. WAHN: Apart from the $250,000 which are deposited, there is really no protection to subscribers, though, except the reputation of the provisional directors.

Mr. ELDERKIN: No; there is also the question of violation of the act.

Mr. WAHN: Yes; but is there a prohibition against this...

Mr. ELDERKIN: And a penalty for violation.

Mr. WAHN: Yes; but there is no control over the money.

Mr. ELDERKIN: No; that is right.

Mr. WAHN: Do you think that is satisfactory?

Mr. ELDERKIN: It always has been in the past; we have never had any trouble whatsovever along that particular line.

What happens is that before a certificate of permission to do business is issued the bank is inspected by the Inspector General and if there has been anything not quite legal about their handling of the funds they will not get a certificate, of course.

Mr. WAHN: I can see that from there on they are protected; but the inspection does not become effective until the issue of certificate.

Mr. ELDERKIN: The inspection comes before the issue of the certificate, because the Treasury Board normally always has asked that the Inspector General recommend the certificate.

Mr. WAHN: For a period of time after the taking of subscriptions the money is completely under the control of the provisional directors, except for the $250,000 on deposit. They could, for example, abscond with it and there would be no way of preventing that.

Mr. ELDERKIN: That is right; but they must have some money at least to meet the expenses which are enumerated in the act, and which they are authorized to meet.

Mr. WAHN: The only question in my mind is whether it would not be preferable, until such time as the bank gets its operational certificate, for the entire amount to be deposited under the control of a public authority, with permission given to issue cheques for the payment of these expenses out of these funds. I cannot understand why this would not be a safer procedure than the one that has been adopted.

Mr. ELDERKIN: In the hands of the Minister of Finance these funds bear no interest, of course, whereas normally, as in the case of the last two corporations they are deposited at interest and earn money while they are waiting for the certificate to do business; and, as a matter of fact, still...

Mr. WAHN: I do not want to over-emphasize the point because I do not think there is any great danger, but there is a period of time there—and we are dealing now with a corporation which, for the purpose of collecting subscriptions, can call itself a bank—during which there is no public control over it until it really starts business. It seems to me, in theory at any rate, that the provisional directors could walk off with a very substantial portion of the funds entrusted to the bank. It would certainly violate the provision of the Bank Act, but that would be poor comfort for the subscribing shareholders.

Mr. ELDERKIN: I suppose they would be subject to criminal charges.

Mr. WAHN: Yes.

Mr. MACDONALD (*Rosedale*): In the same way, they could walk out with the funds at any time between inspections, could they not?

The CHAIRMAN: I presume that this problem might be justification for summoning the provisional directors before a parliamentary committee prior to a charter being granted so that an arm of parliament could look into their history and the prospects of their doing something that they should not.

Are there any further questions or comments on the amendment to clause 12(3).

Shall the amendment to clause 12(3) carry?

Amendment agreed to

Clause 12 as amended agreed to.

Clauses 13, 14 and 17 agreed to.

On Clause 18—*Management*

The CHAIRMAN: We have an amendment to subclause (6)

Mr. CLERMONT: I move

> That Bill C-222, An Act respecting Banks and Banking be amended by striking out line 18 on page 14 thereof and by substituting therefor the following:
>
> "(a) he is a director of a bank to which the *Quebec Savings Banks Act* applies or of a company incorporated

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: The amendment to subclause (6), Mr. Chairman is simply to add the Quebec Savings Banks to the institutions of which a director of a bank may not also be a director after a period of time. These were omitted in the first drafting. As it is the intention that there shall be no interlocking directors in banks and deposit-taking institutions we have to add that the Quebec Savings Banks will be included, too. That is the only point.

Mr. SALTSMAN: May I have a word of explanation here on clause 18, Going down to line 25 and 26 of page 13? In the event that a bank runs into such difficulties that it may be necessary for the government to step in as a director, or as an intermediary, does this clause exclude that possibility?

Mr. ELDERKIN: What happens there Mr. Saltsman is that there are, in effect—we will come to it later, if you want to discuss it—the powers of a curator which the government can appoint. That appears in clause 125 and following

clauses. When a curator is appointed he, in effect, takes charge of the bank and the directors are subject to his authority.

Mr. SALTSMAN: Yes, but that is in the event of the government taking over, almost as would a trustee; is that correct?

Mr. ELDERKIN: That is right.

Mr. SALTSMAN: But if a bank is in trouble, short of, let us say, failure or extreme difficulty, where the government may feel it necessary to have a director on this bank before some crisis position is reached, would this type of clause exclude the government from taking this kind of action?

Mr. ELDERKIN: It would exclude the government from taking any action. It would not exclude the bank from electing, or appointing, a director nominated by the government, if he was a shareholder.

Mr. SALTSMAN: But he would have to be a shareholder in his personal right, though. He could not act as a trustee? This is what I am getting at.

Mr. ELDERKIN: No. It has never been felt necessary, Mr. Saltsman, that this should happen. I doubt that the government would want to do this unless there was a danger of insolvency, in which case they can.

Mr. LAFLAMME: Will it become possible through the application of deposit insurance?

Mr. ELDERKIN: Well, under the deposit insurance act they would have very much more power from that point of view, because they will have the power of actually acting before a bank becomes insolvent.

Mr. SALTSMAN: What situation do you envisage would necessitate a curator's stepping in? How bad would the situation have to become to warrant that action?

Mr. ELDERKIN: Well, if you will look at clause 125, that provides for when a bank suspends payments of liabilities.

Mr. SALTSMAN: Yes; but that practically amounts to failure of the bank, does it not? In other words, the bank has in effect failed to meet the requirements of its depositors?

Mr. ELDERKIN: That is correct.

Mr. SALTSMAN: I am trying to imagine a situation short of that—of sort of anticipating a situation rather than waiting for this kind of collapse to take place.

Mr. ELDERKIN: Well, as Mr. Laflamme has said, I think much of your concern here would be covered by the powers of the deposit insurance corporations act. The government has never placed itself in the position of stepping into a bank unless it was in fear of insolvency.

The CHAIRMAN: But now, with the new legislation, there is an additional degree of prior control and supervision, I gather?

Mr. ELDERKIN: That is correct.

Mr. SALTSMAN: Under the deposit insurance act they do not have the power actually to step in; they have powers to investigate and to report.

Mr. ELDERKIN: They have the power to withdraw the insurance, which would be just the same as putting them into bankruptcy.

Mr. SALTSMAN: But do they not need additional powers beyond that, to appoint a director, before a situation becomes too difficult?

Mr. ELDERKIN: Well, Mr. Saltsman, I think perhaps what you have in mind here is something that is presently the function of the Inspector General of Banks. One director would not have any effect whatsoever on a board. The Inspector General of Banks has very much more power than one director.

Mr. MACDONALD (*Rosedale*): That was going to be my question: How the powers of a single director in minority would compare to those of the Inspector General.

The CHAIRMAN: I gather, Mr. Elderkin, as has come out in our previous discussions, that not only do you require very regular reports from the institution that is covered by this act, but you have wide powers yourself to seek information, and to step in and obtain it yourself, and to advise and so on?

Mr. ELDERKIN: Actually, under the act I can take over all their books and records.

The CHAIRMAN: You would probably need some help in carrying them!

Mr. ELDERKIN: Perhaps I should say that I can take control of their records.

The CHAIRMAN: Is there anything further on the amendment?

Amendment agreed to.

Clause 18 as amended agreed to.

Clauses 19, 25 and 26 agreed to.

On Clause 26—*Record of attendance.*

The CHAIRMAN: There is an amendment.

Mr. CLERMONT: I move

> That Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 10 and 11 on page 17 thereof and substituting therefor the following:
>
> "meeting of directors, and a summary thereof for a period of twelve months ending not earlier than sixty days before the notice showing the total"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: The way the clause is worded at the present time the summary has to be

> for the twelve months immediately preceding the notice—

—of the meetings. This is not practical. The amendment simply says

> for a period of twelve months ending not earlier than sixty days before the notice

—of meeting. I mean it might so happen that the meeting was practically the day before. This is just to give the banks a 60-day leeway.

Amendment agreed to.

Clause 26 as amended agreed to.

Clause 28 agreed to.

On Clause 29—*Report of directors.*

The CHAIRMAN: There is an amendment.

Mr. CLERMONT: I move

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 13 and 14 on page 18 thereof and substituting therefor the following:

"current loans to any person that are included in the latest return made by the bank to the Minister under section 103 and the aggregate amount of which exceeds one-tenth of one per cent of the"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: On lines 13 and 14 it refers to

current loans that are owing to the bank by any person—

We have been informed by counsel that this would mean any loan, whether written off or not and it may have been written off years ago—unless it was cancelled by legal action. Therefore, the amendment refers to

—current loans to any person that are included in the latest return made by the bank to the Minister under section 103—

In other words, it refers to the loans that are on the books of the bank.

The CHAIRMAN: Is there anything further on the amendment?

Amendment agreed to.

Clause 29 as amended agreed to.

Clause 31 agreed to

On clause 33—*Offer of shares of capital stock.*

The CHAIRMAN: There is an amendment here.

Mr. CLERMONT: I move

That Bill C-222, An Act respecting Banks and Banking, be amended

(a) by striking out line 45 on page 20 thereof and by substituting therefor the following:
"section 53 or subsection (2) of section 56 to be accepted by the bank; and"; and

(b) by striking out line 51 on page 20 thereof and by substituting therefor the following:
"fix a date, not earlier than the thirtieth day after the day on"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: There are two amendments to clause 33 Mr. Chairman. In line 45 of the English text, after "section 53" we add "or subsection (2) of section 56". This is to provide for the fact that in subclause (2) of clause 56 as amended there are certain non-residents who cannot subscribe for shares; therefore, this is to negate any suggestion that they should not be offered to them.

The second amendment is to subclause (2) on the last line on page 20 of the English version, where it refers to the "ninetieth day." This has been changed to the "thirtieth day". I explained the reason for this at an earlier hearing. It provides for a shorter period for acceptance by shareholders.

The CHAIRMAN: Is there anything further on these two amendments?

Amendments agreed to.

Clause 33 as amended agreed to.

On clause 35—*Stock books.*

Mr. CLERMONT: I move

> That Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 40 and 41 on page 21 thereof and substituting therefor the following:
> "give his post office address and this shall appear in the stock books in connection with"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: Again, this is an editorial amendment, Mr. Chairman, on line 40, taking out the words "occupation and these particulars". This is exactly the same as the amendment to 11(3). It conforms to the wording on clause 45(1).

The CHAIRMAN: Is there any question on the amendment?

Amendment agreed to

Clause 35 as amended agreed to.

Clause 36 agreed to.

On Clause 39—*Calls on shares.*

The CHAIRMAN: This has been circled.

As two of the spokesmen for the Conservative group have had to attend to other matters, and as it is almost 1 o'clock, perhaps it would be convenient to adjourn at this time so that they will be able to state their views on this clause later.

I suggest that we adjourn until 8 o'clock this evening, unless the Steering Committee decides otherwise.

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. 48

WEDNESDAY, FEBRUARY 15, 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:

Mr. C. F. Elderkin, Special Adviser, Department of Finance;
and Dr. P. M. Ollivier, Parliamentary Counsel.

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

25718—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Addison,
Chrétien,
Clermont,
Coates,
Comtois,
Flemming,
Fulton,
Gilbert,
Irvine,
Lambert,
Latulippe,
Leboe,
Lind,
Macdonald (*Rosedale*),
Mackasey,
McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Munro,
Saltsman,
Tremblay,
Valade,
Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

ORDER OF REFERENCE

TUESDAY, February 14, 1967.

Ordered,—That the names of Messrs. Addison and Tremblay be substituted for those of Messrs. Basford and Davis on the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

25718—1½

MINUTES OF PROCEEDINGS

WEDNESDAY, February 15, 1967.
(98)

The Standing Committee on Finance, Trade and Economic Affairs met at 3.55 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Clermont, Comtois, Flemming, Gilbert, Gray, Laflamme, Lambert, Latulippe, Leboe, Lind, Macdonald (*Rosedale*), McLean (*Charlotte*), Wahn, Tremblay—(14).

In attendance: Mr. C. F. Elderkin, Special Adviser, Department of Finance; Dr. P. M. Ollivier, Q.C., Parliamentary Counsel.

The Committee resumed consideration of Bill C-222, An Act respecting Banks and Banking.

Clause 39 was allowed to stand.

Clauses 44 to 50 inclusive were carried.

On clause 51

On motion of Mr. Clermont, seconded by Mr. Lind,

Resolved,—That clause 51 be amended by striking out line 15 on page 27 and substituting therefor the following:

"mission in accordance with the claim; but nothing in this subsection shall be construed to prevent the bank from refusing to record or give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

The clause, as amended, was carried.

At 4.15 p.m. the Vice-Chairman, Mr. Laflamme, took the Chair.

On clause 52

On motion of Mr Clermont, seconded by Mr. Lind,

Resolved,—That clause 52 be amended

(a) by striking out line 32 on page 27 and substituting therefor the following:

"right, but does not include an official or corporation per-";

(b) by striking out the word "or" in line 51 on page 28 and by striking out paragraph (f) on page 29 and substituting therefor the following:

"(f) both shareholders are agents of Her Majesty in right of Canada or officials or corporations performing on behalf of Her Majesty

in such right a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (a) of subsection (1);

(g) both shareholders are agents of Her Majesty in right of the same province or officials or corporations performing on behalf of Her Majesty in right of that province a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (a) of subsection (1); or

(h) both shareholders are associated within the meaning of paragraphs (a) to (g) with the same shareholder."; and

(c) by striking out line 41 on page 29 and substituting therefor the following:

"virtue of paragraph (h) of subsection (2) by".

The clause, as amended, was carried.

On clause 53

Mr. Gilbert, seconded by Mr. Leboe, moved that Clause 53 be amended by

(a) striking out paragraph (a) of subclause (3) of clause 53 thereof and substituting therefor the following:

"(a) Her Majesty in right of a province or an agent of Her Majesty in such right, or"; and

(b) striking out lines 9, 10 and 11 on page 31 thereof and substituting therefor the following:

"(a) by Her Majesty in right of a province or an agent of Her Majesty in such right or by the government of a".

Messrs. Elderkin and Ollivier were questioned.

After further discussion, and the question having been put, the amendment was negatived on the following division: Yeas, 1; Nays, 8.

On motion of Mr. Clermont, seconded by Mr. Lind,

Resolved,—That clause 53 be amended by striking out line 21 on page 30 and substituting therefor the following:

"of a share of the capital stock of the bank to any person, including, without restricting the generality of the foregoing, an official or corporation mentioned in clause (B) of subparagraph (i) of paragraph (a) of subsection (1) of section 52,"

The clause was carried, as amended.

On clause 54

On motion of Mr. Clermont, seconded by Mr. Lind,

Resolved,—That clause 54 be amended by striking out line 21 on page 33 and substituting therefor the following:

"(c) an official or corporation administering, managing or investing"

The clause was carried, as amended.

Clause 55 was carried.

On clause 56

On motion of Mr. Clermont, seconded by Mr. Comtois,

Resolved,—That clause 56 be amended by

(a) striking out lines 15 to 24 inclusive, on page 36 and by substituting therefor the following:

"(2) Where more than twenty-five per cent of the issued and outstanding shares of the capital stock of the bank were held on the 22nd day of September, 1964, in the name or right of or for the use or benefit of any one non-resident, the bank, so long as the total number of shares of the capital stock of the bank held by non-residents exceeds twenty-five per cent of the total number of issued and outstanding shares of the capital stock of the bank,

(a) shall refuse to allow a transfer of a share of the capital stock of the bank to a non-resident to be made or recorded in a register of transfers of the bank; and

(b) shall not accept a subscription for a share of the capital stock of the bank by a non-resident;

but if at any time after the 22nd day of September, 1964, there is no one person in whose name or right or for whose use or benefit more than ten per cent of the issued and outstanding shares of the capital stock of the bank are held, this subsection ceases thereafter to have any force or effect."

(b) by striking out line 21 on page 38 and substituting therefor the following:

"(b) an official or corporation administering, managing or investing"

The clause was carried, as amended.

Clause 57 was carried.

At 4.45 p.m., at the request of the Vice-Chairman, Mr. Clermont took the Chair as Acting Chairman.

On clause 60

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 60 be amended by striking out paragraph (c) of subclause (2) and substituting therefor the following:

"(c) a statement of accumulated appropriations for losses of the bank for the financial year, showing the information in the form specified in Schedule P and such additional information and particulars as in the opinion of the directors are necessary to present fairly the amount of appropriations available to meet losses other than those for which specific provisions have been made."

The clause was carried, as amended.

On clause 63

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 63 be amended by

(a) striking out subclause (12) and substituting therefor the following:

"(12) The auditors shall make a report to the shareholders on the statement of assets and liabilities, the statement of revenue, expenses and undivided profits and the statement of accumulated appropriations for losses of the bank to be submitted by the directors under section 60."

(b) striking out lines 45 and 46 on page 43 and substituting therefor the following:

"end of the financial year, its revenue, expenses and undivided profits for the year and its accumulated appropriations for losses for the year, and shall include such"

The clause was carried, as amended.

On clause 64

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*)

Resolved,—That clause 64 be amended by striking out subclauses (6) to (9) and substituting therefor the following:

"(6) The Inspector shall be paid a salary fixed by the Governor in Council on the recommendation of the Minister and shall be an officer of the Department of Finance, but the provisions of the *Public Service Employment Act* do not apply to him.

(7) The Inspector and any person temporarily performing the duties of the Inspector shall not borrow money from a bank unless he has first informed the Minister in writing of his intention to do so.

(8) Such other officers and employees as are necessary for the proper conduct of the duties of the Inspector shall be appointed in the manner authorized by law."

The clause, as amended, was carried.

Clause 65 was carried.

Clause 69 was carried.

On clause 72

Mr. Latulippe moved, seconded by Mr. Gilbert, that clause 72 be amended to provide that the reserves of the banks be increased from 8% to 10% a year until they reach 100 per cent, so that the banks will lend only when they are 100% covered.

The question having been put, the proposed amendment was negatived on the following division: Yeas, 1; Nays, 8.

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 72 be amended by

(a) striking out lines 11 and 12 on page 48 and substituting therefor the following:

"the average during any month than an";

(b) renumbering subclauses (3) to (6), inclusive, of clause 72 on pages 48 and 49 as subclauses (4) to (7), inclusive; and

(c) adding immediately after line 31 on page 48 the following:

"(3) Notwithstanding subsection (1), the cash reserve to be maintained by the bank pursuant to subsection (1) in any month following the twelfth month after the coming into force of this Act shall, if so required by the Bank of Canada, be not less on the average during each of the two separate periods comprised of the first fifteen days of that month and the remaining days of that month than the amount specified in subsection (1); and in the event of such a requirement, the Bank of Canada shall make its requirement apply generally to all banks, give written notice of its action specifying the months to which the requirement applies, publish such notice forthwith in the *Canada Gazette* and mail a copy of the notice to all banks not less than thirty days before the first day of the first of the months so specified, and may, at any time by advice notified in the same manner, reduce in number the months to which the requirement applies." and

(d) striking out lines 7 and 8 on page 49 and by substituting therefor the following:

"any month mentioned in subsection (1) or (4) or any period mentioned in subsection (3)"

Clause 72, as amended, was carried.

Clauses 75 and 76 were allowed to stand.

On clause 77

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 77 be amended by

(a) striking out the words and figures "in any financial year of the bank commencing after the 31st day of October, 1966" in lines 38 and 39 at page 55;

(b) striking out subclauses (5) and (6) at page 56 and substituting the following:

"(5) The bank shall not issue bank debentures dated more than sixty days before the date of the issue of the debentures; but this subsection does not apply to a debenture issued in exchange for or in replacement of one that has the same stated maturity and that is not then being redeemed or paid.

(6) The bank shall not issue bank debentures if, as a result of the issue, the aggregate principal amount of its bank debentures outstanding that have a stated maturity after the end of the financial year of the bank in which the issue is made, would exceed the lesser of

(a) an amount equal to one-half of the total of the paid-up capital stock and rest account of the bank at the time of the issue; or

(b) the amount obtained by multiplying the total of the paid-up capital stock and rest account of the bank at the time of the issue by the number of financial years of the bank completed after the 31st day of October, 1965, and dividing the product obtained by ten."

The clause, as amended, was carried.

Clauses 82 to 87 inclusive were carried.

Clauses 88 to 93 inclusive were allowed to stand.

Clause 96 was allowed to stand.

On clause 97

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 97 be amended by striking out line 24 on page 80 and substituting therefor the following:

"the transmission in accordance with the claim; but nothing in this section shall be construed to prevent the bank from refusing to give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

The clause, as amended was carried.

On clause 101

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 101 be amended by striking out lines 43 to 45, inclusive, on page 82 and substituting therefor the following:

"resolution carried by not less than two-thirds of the votes cast by the shareholders present in person or represented by proxy at the meeting, the"

The clause, as amended, was carried.

Clauses 103, 106 and 117 were carried.

On clause 122

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 122 be amended by striking out lines 11 to 22, inclusive, on page 90 and substituting therefor the following:

"months.

(3) In the event of proceedings being taken under any Act for the winding-up of the bank in consequence of the insolvency of the bank, any calls on shareholders made thereafter shall be made in accordance with such Act.

(4) Failure on the part of a shareholder to pay any call referred to in this section when due constitutes a forfeiture by the shareholder of all claim in or to any part of the assets of the bank; but the call and any

further call thereafter is recoverable from him as if no forfeiture had taken place."

The clause was carried, as amended.

Clauses 124, 137 and 138 were allowed to stand.

Clause 139 was carried.

Clause 145 was allowed to stand.

On clause 150

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 150 be amended by striking out line 35 on page 98 and substituting therefor the following:

"otherwise authorized by an Act of the Parliament of Canada."

The clause was carried, as amended.

Clause 151 was allowed to stand.

On clause 157

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 157 be amended by striking out line 23 on page 101 and substituting therefor the following:

"against this Act; but this subsection does not apply where such use is required by law and is confined to a statement contained in a prospectus that a corporation is the holder of shares of the capital stock or evidences of indebtedness of a bank."

The clause was carried, as amended.

On clause 158

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 158 be amended by

(a) striking out line 15 on page 101 and substituting therefor the following:

"section 53 or subsection (2) of section 56 is guilty of an offence and liable on summary"; and

(b) striking out line 19 on page 101 and substituting therefor the following:

"violation of any provision of section 53 or subsection (2) of section 56 is guilty of an"

The clause was carried, as amended.

On clause 162

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 162 be amended by striking out the clause and substituting the following therefor:

"162. (1) Except as otherwise expressly provided in this Act, this Act shall come into force on a day to be fixed by proclamation of the Governor in Council.

(2) Section 6 and this section shall come into force, and section 6 of the *Bank Act*, Chapter 48 of the Statutes of Canada, 1953-54, is repealed, on the day that this Act is assented to."

(3) Section 54 and subsection (6) of section 56 shall come into force three months after this Act comes into force."

The clause was carried, as amended.

On Schedule A

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That Schedule A be amended by inserting the following at the end of the Schedule under the appropriate headings:

"Bank of Western Canada	Banque de l'Ouest Canadien	$ 25,000,000	$10 Winnipeg
Bank of British Columbia	Banque de Colombie-Britannique .	$100,000,000	$10 Vancouver"

The Schedule was carried, as amended.

At 5.45 p.m. the Committee adjourned until 11.00 a.m., Thursday, February 16, 1967.

Dorothy F. Ballantine,
Clerk of the Committee

EVIDENCE

Recorded by Electronic Apparatus

WEDNESDAY, February 15, 1967.

The CHAIRMAN: I think we are in a position to begin our meeting, gentlemen. When we recessed I think I had just called clause 39 and I believe this is one of the clauses which the conservative group had suggested we put a circle around and that is why I thought we should not proceed with it until they had a chance to express their views.

Mr. FLEMMING: Mr. Chairman, I believe it was Mr. Fulton—I speak subject to Mr. Lambert's correction—who raised the point. Would it be satisfactory to let it stand for a little later consideration?

The CHAIRMAN: Yes.

Mr. LAMBERT: Mr. Fulton will be back here tonight.

The CHAIRMAN: Let us have clause 39 stand.

Clause 39 stands.

Then we move on to clause 44.

On clause 44—*Shares transferable.*

Mr. LAMBERT: What concerns me is the effect of the limitations imposed by, I think it is, clauses 53 and 75(2)(g). The first one is imposed upon the banks. I must confess that I have heard varying opinions on the administrative difficulty there is going to be for banks to determine whether there is an excess of 10 per cent of stock, or whether there is an excess of 25 per cent of stock, depending upon the two circumstances, ten per cent for the individual who may be buying stock in various parts of the country and there may be different transfer officers. What happens if the transfer books are, say in Montreal, Winnipeg and Vancouver; or there might even be a transfer agent with books of records in London, England. What happens there?

Mr. C. F. ELDERKIN (*Special Adviser, Department of Finance*): Mr. Lambert, may I say that your clauses 44 to 51 have no relationship because these are transmission clauses, not transfer clauses and the transmissions are not blocked by the subclauses in clause 53. Clauses 44 to 51 are simply rewriting of sections 48 to 55 in the present act and they were redrafted in order to simplify the procedures. This means that the proposed changes would leave a bank in a position to continue with book stock, as some have done, but they are intended to facilitate dealings with transfers and transmissions of shares represented by transferable certificates, so that such shares may be dealt with as easily as those of other corporations.

What has been added here, as a new item in clause 45(3) is provision is made for a register of shareholders to be kept at each office where a register of transfers is kept. This is new: previous to this the only register of shareholders was at the head office. But the point you raise, I think, Mr. Lambert, could be

better dealt with when we come to clauses 53 to 56. These are transmissions only, not transfers.

Mr. LAMBERT: Clause 44, and so on talk about transfers. And with the greatest respect, Mr. Elderkin when X sells the shares to Y he transfers those shares. That is not a transmission.

Mr. ELDERKIN: That is right.

Mr. LAMBERT: Therefore these clauses are all particularly applicable.

The CHAIRMAN: Can I make a suggestion that I think would take into account your point of view, Mr. Lambert, and what Mr. Elderkin has said. It would appear to me that clause 44 simply creates the principle that shares of the capital stock are transferable, subject to the provisions of this act, or the bylaw. The provisions are those that should come along later on, and it would seem to me that the points you have in mind, Mr. Lambert, which I think are quite valid to bring before the Committee, could equally well be discussed with respect to other specific clauses because it would seem to me that clause 44 establishes the principle of transferability; clause 45 imposes the obligation of keeping a register in a certain form and in certain places, and clause 46 sets out the technical requirements for transfer. Then as we get along to clause 49 we do get into transmission under operation of law. What I am trying to get is that it seems to me that clause 44 establishes the principle that the shares are transferable subject to later provisions of the act; clauses 45 to 48, inclusive, set forth what one might describe as technical requirements.

Mr. LAMBERT: Regardless of that, Mr. Chairman—I realize that it really has to do with clause 53—what concerns me is that it says here:

> Shares of the capital stock of the bank are transferable in such manner and subject to such conditions as are prescribed by this Act or by by-law.

The CHAIRMAN: That is right.

Mr. LAMBERT: Now, clause 45 provides for a number of registers, but clause 53, however, says that there shall be a refusal to allow a transfer of shares to a non-resident beyond the 25 per cent; then, under clause 53(2), beyond the 10 per cent. I am talking about the administrative difficulties that it would raise.

The CHAIRMAN: I think that is quite in order.

Mr. LAMBERT: I think the two are related. The 10 per cent or 25 per cent is not what I am getting at, but if you permit, under clause 45, multiple transfer records, how are you going to control that?

Mr. ELDERKIN: Because, Mr. Lambert, the transfer records are supposed to report to the share register every day, and they do.

Mr. LAMBERT: That they have an application for transfers.

Mr. ELDERKIN: That is right. Theoretically, at least, if a transfer appeared to be any place near the 25 per cent to a non-resident, the transfer agents would be warned always to check with head office if they had to register before they made this transfer.

Mr. LAMBERT: What about the 10 per cent for the individual?

Mr. ELDERKIN: Exactly the same thing. They have a record in their office of the 10 per cent of the holders of a period not more than four months behind.

Mr. LAMBERT: Yes, but what I could do with four months is amazing.

Mr. ELDERKIN: That is all right, then the bank is relieved; the banks are relieved of this liability if they are working on that register.

The CHAIRMAN: I do not want to interrupt but I want to make a suggestion to help you in your discussion. Perhaps we should discuss clauses 44 to, say, 48, inclusive, at the same time, because they do seem to create an administrative scheme for recording transfers. Does that make some sense?

Mr. LAMBERT: What I am worried about is how do you envisage their getting over what I think is a valid objection about administrative difficulty.

Mr. LAFLAMME: What kind of difficulty?

Mr. LAMBERT: The central register for a bank only has to be up to date within four months. Well, within four months, if I want to go out and buy a number of bank shares, and suppose I have only got 5 per cent, it is conceivable that in the last four months I can buy another 7 or 8 or 9 per cent and have them registerd on the various registry books.

Mr. ELDERKIN: No; there is only one main register.

Mr. LAMBERT: But the transfer books, and clause 53 it says it shall not transfer.

Mr. ELDERKIN: That is right.

Mr. LAFLAMME: The shareholder must give his address; he cannot have two addresses.

Mr. LAMBERT: But if I am registering in London, England, and I am registering in Vancouver, and I am registering in Winnipeg, there is nothing that prevents me from using a business address in each of those places within the country. The central register has only to be four months up to date; there is a four month gap.

Mr. ELDERKIN: Not necessarily, that is the maximum it can be, but not necessarily four months.

Mr. LAMBERT: Mr. Elderkin, I think I am pointing out a whole problem to you.

Mr. ELDERKIN: Nobody is denying the fact at all that there will be some difficulties arising. But various things have been done in this act, or in the amendments thereto, to make it as easy as possible. For instance, we have eliminated the difficulty about small shareholders altogether; that is, if they hold less than $5,000 worth of shares, we do not have to deal with it at all; they are not even considered as associates.

I think the difficulties are going to arise when you get into clause 53, and I will admit there are difficulties in administration here. But the difficulties are not insurmountable; you are working on a central register; you may have 10 transfer offices—as some of the banks have—but they report their transactions every day, as far as that is concerned.

Mr. GILBERT: Have you had any objections from the banks, Mr. Elderkin, with regard to these particular provisions concerning transfers?

Mr. ELDERKIN: I think from an administrative point of view they do not think they are very happy with them; naturally they would not be. We have done our best to meet any objections they have had, and still keep control over the non-resident shareholders.

I might say also, incidentally, that in so far as the non-resident features of this are concerned, that almost without exception they are dealt with in exactly the same way as parliament dealt with the insurance, trust and loan companies last year.

Mr. LAMBERT: Yes; but I am not entirely satisfied with that.

Mr. ELDERKIN: We have made it much easier in this bill, because here we have exemptions of $5,000 per share because of the numerous transactions on the stock exchange in bank shares; if we did not exempt the small transaction, this would cause a lot of hold-ups in the transfer offices. The only hold-up that you can get at the present time is, if a bank is under warning, and it should be under warning from all its transfer offices, that they are approaching the 25 per cent. In the meantime it is possible for a person to run over the 10 per cent, but if he does he loses his voting rights.

Mr. LAMBERT: Which transaction do you unscramble in the excess; the excess may be made up of a number of transactions.

Mr. ELDERKIN: If he acquires over 10 per cent, he loses his voting rights on all of the shares, and the penalty falls on him.

Mr. LAMBERT: On everything beyond 10 per cent, or—

Mr. ELDERKIN: No, on the whole thing.

Mr. LAMBERT: On the whole thing.

Mr. ELDERKIN: He loses all his voting rights. The penalty falls on the shareholder, not on the bank.

Mr. LAMBERT: Even for one share in excess?

Mr. ELDERKIN: Even for one share in excess of 10 per cent.

Mr. LAMBERT: The elephant gun to smite a mosquito.

Mr. ELDERKIN: Possibly; but he can get back his voting rights by selling.

Mr. LAMBERT: Well, I am raising a caveat, Mr. Elderkin; I think you are getting into an administrative can of worms here.

Mr. ELDERKIN: Well, I would not call it as bad as that. We are getting into some administrative difficulties for the banks, and nobody questions that at all. We have tried to make it as easy to manage as possible. They will have some difficulties from time to time, but the powers are there to obtain declarations, and the penalties are there for shareholders who violate it. On the whole, I think, we could not very well have made it much easier, if you want to keep the controls of the 25 and 10 per cent.

Mr. LEBOE: Suppose an individual wanted to buy a certain number of shares, who would be responsible to let him know what amounted to 10 per cent of the share stocks, so that he would not lose his voting rights.

Mr. ELDERKIN: He would be responsible himself.

Mr. LEBOE: He would have to ascertain that from some—

Mr. ELDERKIN: One expects that he would know what the capital stock of the bank was. It is a public figure, published monthly.

The CHAIRMAN: Are there further questions or comments on clauses 44 to 48 inclusive? If not, perhaps I can make one blanket request—

Mr. ELDERKIN: There is one amendment, Mr. Chairman, it is an editorial one, on page 27. I think you are doing up to clause 51?

The CHAIRMAN: No, to clause 48.

Mr. ELDERKIN: Oh, you are just doing it on the one section.

The CHAIRMAN: We are doing clause 44 to 48 inclusive.

Mr. ELDERKIN: I am sorry.

The CHAIRMAN: Shall clauses 44 to 48 inclusive carry?

Clauses 44 to 48 inclusive, agreed to.

On clause 49—*Sale of shares under process.*

The CHAIRMAN: Shall clause 49 carry?

Mr. LAMBERT: I have some difficulty too, about the sale of shares under process. Have you had any experience, Mr. Elderkin, about attempts to seize, not the actual share certificates, but the shareholdings by serving a writ of execution, or a writ of extent on behalf of the Crown on the transfer agent in possession of the share register? I have seen some very grave difficulties concerning this. When I was in National Revenue we had these problems in the case of a company executive who had very extensive shareholdings in an industrial company in the province of Alberta; he owed the crown something like $80,000 under an assessment for income tax, and they could not find the share certificates. They attempted to serve the writ of extent to attach the legitimate claim on behalf of the Crown by serving the writ of extent on the transfer agent, saying: "Well, you have the share registered, and we thereby seize the shares". Somehow, or another, I think someone in the Department of Justice got cold feet and did not pursue the matter. Despite a number of attempts I always find that the matter is still under advisement—the usual thing coming out of some sections of the Department of Justice.

Have you had, in your long experience as Inspector General of Banks, any experience about whether the actual share certificates had to be seized, or whether execution of claims could be served on the transfer agent?

Mr. ELDERKIN: The short answer to that is no. However, I would not necessarily hear of the cases. I might add, however, that we have three banks and both of the savings banks—five altogether—which operate on book stock; they do not issue share certificates; they simply issue what is a certificate that at a certain date the man was a registered holder of shares. There you would have to serve on the share register because the certificate which the person holds is not a valid certificate of ownership whatsoever, it was ownership as of a certain date at a certain time, that is all.

The remaining five banks do issue so-called street stock on which share certificates are exchanged, and often will be exchanged, without doubt, in the name of a broker without ever being transferred; they might pass from one person to another without ever being re-registered—this is quite common in the brokerage world.

Now, in that case, I cannot offer a legal opinion. I do not know whether it would be sufficient to serve the writ still on the share register. I should not be offering legal opinions, but, presumably, you could get a writ to prevent transfer. By the time you got around to that particular writ to prevent transfer, the ownership in that particular certificate might have passed to somebody else.

Mr. LAMBERT: I was just trying to find out whether you have heard about this.

Mr. ELDERKIN: I never have, but, as I say, I would not necessarily hear of it.

Mr. MACDONALD (*Rosedale*): I was just thinking out loud on this Mr. Chairman; in this context presumably it is a matter of interpretation of the relevant federal statute, whether it would be the Income Tax Act, or whatever statute it would be, that execution is being taken under rather than under the Bank Act; would that not be correct? Whether or not the right conferred on the crown under that, say, taxing statute, creates a prior security to all other claims including that of the purchaser, or whether it constitutes a lien only, or whether the lien to be regarded as of notice to the world once it is filed, and once a writ of extent is taken.

Mr. LAMBERT: No, the question comes up directly as to the writ of extent that comes under the jurisdiction of the province in that the execution of the administration of justice falls under the relevant executions act of the province. It is the execution act that tells you what you have to do, and directs the bailiff what he must do. This is a fine legal problem, but I was just wondering whether you had run into it.

Mr. ELDERKIN: No, I have not, but as I say I would not necessarily have learned of it.

The CHAIRMAN: Shall clause 49 carry?

Clause agreed to.

Clause 50 agreed to.

On clause 51—*Transmission by decease.*

The CHAIRMAN: There is an amendment on clause 51, and we will assume that the amendment is moved by Mr. Clermont, seconded by Mr. Lind; this will apply to any other amendments we deal with today.

Moved by Mr. Clermont, and seconded by Mr. Lind:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out line 15 on page 27 thereof and substituting therefor the following:

"mission in accordance with the claim; but nothing in this subsection shall be construed to prevent the bank from refusing to record or give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

Mr. ELDERKIN: It is only an addition to subsection (1), Mr. Chairman, to ensure that the bank has the authority to require all the necessary information; that is the only purpose of the amendment. It will be found at line 15, page 27.

Mr. LAMBERT: That is a new subclause?

Mr. ELDERKIN: No, it is an addition to subclause (1).

Mr. LAMBERT: Yes, all right.

The CHAIRMAN: It is an insertion, I presume, is it?

Mr. ELDERKIN: Yes.

The CHAIRMAN: If there are no further questions or comments with respect to the amendment, I will ask if the amendment carries?

Amendment agreed to.

The CHAIRMAN: Shall the clause as amended carry?

Clause 51, as amended, agreed to.

On clause 52—*Definitions. "Agent."*

The CHAIRMAN: There are amendments here, and before beginning our discussions here I would ask the Vice Chairman to take the chair. If it should be necessary for the Vice Chairman to meet other commitments, I have already indicated to our colleague, Mr. Clermont, I will be inviting him to replace the Vice Chairman. If tomorrow morning, at eleven o'clock, circumstances prevent either the Chairman or Vice Chairman to be in the chair, Mr. Clermont will be here.

As you know, this meeting this afternoon is held to help recapture some of the time we spent discussing the deposit insurance bill in the house. Therefore, if circumstances again prevent us from going right on until six o'clock, we will accept that as a matter of course, and adjourn.

Mr. LAMBERT: Mr. Chairman, I am just wondering; that is ordinary house duty, and I do not know that there is a question of capturing or recapturing time in Committee.

The CHAIRMAN: I was not using this in a critical sense.

Mr. LAMBERT: I know, myself, of personal problems, in that I have a long standing commitment to be speaker at a parliament of considerable importance in the province of Alberta starting as of tomorrow. Mr. Elderkin has today handed me a legal opinion from Mr. Ryan in connection with priorities I had raised on clause 88(5).

I have given this a fairly careful look, but Mr. Ryan has raised some very careful and, I may say, complicated legal implications, not only affecting the rights of individuals but affecting the rights of the crown. I would hope that, in the event you do get through, clause 88 will be held over.

The CHAIRMAN: We can come back to it.

Mr. LAMBERT: No, if I may say so, I think this is rather important. I do not know that you have seen this, Mr. Chairman, but—

The CHAIRMAN: What I was about to say was that I wish I shared your optimism of the progress we might make this afternoon.

Mr. LAMBERT: No, I am taking tomorrow into account, and I want to be able to consider this and to see whether what Mr. Ryan has indicated is acceptable or whether we should draw it to the attention of the Committee.

The CHAIRMAN: I am sure we will be able to accommodate your desire to take into account Mr. Ryan's submission.

Mr. CLERMONT: Mr. Chairman, I will request that clause 75(2)(g) stand, as I understand the Minister would like to appear before the Committee on this.

Mr. LAMBERT: Next week.

Mr. CLERMONT: You may make your comments when we reach those articles.

Mr. LAMBERT: Clause 5(2)(g) is a very contentious one; I would hope that we would hold it until next Tuesday as well, as clause 88.

Mr. ELDERKIN: The Minister wants 75(2)(g) held until he comes.

Mr. LAMBERT: Yes, well if that could be Tuesday, I think it would be of considerable importance to everyone concerned.

Mr. CLERMONT: Mr. Lambert, I think we can put both clause 75(2)(g) and 88 over for next week.

Mr. LAMBERT: That suits me fine. I think maybe we will have a look at clause 91, concerning interest rate, too.

Mr. GILBERT: Mr. Chairman, I wonder if we could have copies of that legal opinion that was given to Mr. Lambert?

Mr. LAMBERT: They are questions that I raised, and I will have the Clerk run off copies.

Mr. GILBERT: I see no reason why we cannot have them.

Mr. LAMBERT: All right, fine, I will have copies made, but these are matters that I did not raise privately—they are public—so I take it it would be of value to you.

Mr. ELDERKIN: As a matter of fact, we have passed on the tie voting Mr. Lambert, are you interested in that any more?

Mr. LAMBERT: I will look at that; I may ask to have another look at it but I do not think there is any difficulty about a tie voting because Mr. Ryan has come up with what I thought was the general picture.

Mr. ELDERKIN: It was 88(5).

Mr. LAMBERT: Yes.

The VICE-CHAIRMAN: Mr. Elderkin, do you have any comments to make regarding the amendment to clause 52?

Mr. ELDERKIN: Yes, on clause 52, Mr. Chairman, we have some amendments to paragraph (a). These all arise with respect to the definition of associate status, if any, of provincial agencies. You will recall that at a later date we are providing that there can be investment in non-voting shares of a bank by provincial agencies, such as, pension funds, trust funds, and so on. The amendment to the definition in clause 52(1)(a) is for the purpose of clarifying this. It

now relates to a person; whereas the new one will relate to an official or a corporation performing a function.

That is the only one there, and then if you pass on to page 28, at the very bottom of the page—actually at the beginning of page 29—there are three additional paragraphs proposed. All of these, again, refer to pension funds, and like funds of provincial institutions, and the ownership of shares.

The last item, which is just a consequential one, is in line 41 where it was necessary to change the reference from paragraph (f) to paragraph (h).

These amendments, as such, relate entirely to the ownership by provincial funds of shares in effect.

Mr. MACDONALD (*Rosedale*): Does the amendment assume, Mr. Elderkin, that any individual—living person, that is—would necessarily be an official? Would it not be possible to have some individual acting on behalf of Her Majesty the Queen who was not an official?

Mr. ELDERKIN: They refer to an official acting on behalf of Her Majesty.

Mr. MACDONALD (*Rosedale*): Is the official defined under the Interpretation Act?

Mr. ELDERKIN: They have used it all the way through rather than use the person, but I presume the literal translation means an official person; they have used it all the way through in these amendments, Mr. Macdonald.

The VICE-CHAIRMAN: Does the amendment to clause 52 carry?

Mr. GILBERT: Mr. Chairman, I have a sub-amendment to this clause, but it really refers to clause 53 on page 30, and it is (3) (a).

The VICE-CHAIRMAN: We are on clause 52 now.

Mr. GILBERT: Yes, well clause 52 is the definition clause, and clause 53 is the operative principal clause. If we change 53 we would have to go back and change 52, and any of these subsequent clauses.

The VICE-CHAIRMAN: Then we can have clause 52 as amended stand, and discuss clause 53 right away.

Mr. GILBERT: All right, fine.

On clause 53—*Limit on shares held by non-residents.*

Mr. ELDERKIN: On clause 53 we have one amendment, Mr. Chairman, to subclause (2). This is ancillary to the amendments of clause 52, and relates to the ownership of bank shares by provincial agencies. What was the other point, Mr. Gilbert, that you had in mind?

Mr. GILBERT: With regard to clause 53(3) (a), which says:

> The bank shall refuse to allow a transfer of a share of the capital stock of the bank to
>
> (a) Her Majesty in right of Canada or in right of a province or an agent of Her Majesty in either such right,—

We were going to move an amendment striking out "in right of Canada". I have the amendment here.

The VICE-CHAIRMAN: Mr. Gilbert, do you have a seconder for your amendment?

Mr. GILBERT: I do not think I need a seconder, do I?

The VICE-CHAIRMAN: Yes.

Mr. LEBOE: Do you need a seconder?

The VICE-CHAIRMAN: Yes.

Mr. LEBOE: I will second it to get it off the floor.

Moved by Mr. Gilbert, and seconded by Mr. Leboe:

That Bill C-222, An Act respecting Banks and Banking, be amended

(a) by striking out paragraph (a) of subclause (3) of clause 53 thereof and substituting therefor the following:

"(a) Her Majesty in right of a province or an agent of Her Majesty in such right, or"; and

(b) by striking out lines 9, 10 and 11 on page 31 thereof and substituting therefor the following:

"(a) by Her Majesty in right of a province or an agent of Her Majesty in such right or by the government of a".

Mr. ELDERKIN: The purpose of the amendment, presumably, Mr. Gilbert, is to permit the government of Canada to invest in bank shares?

Mr. GILBERT: Yes, that is one of the reasons, Mr. Elderkin, and also if per chance any of the chartered banks went under, then the government of Canada could step in to take over, because there is restriction on the transfer of shares.

Mr. ELDERKIN: But they can step in and take over if the bank goes under; they do not need to take the shares. They do not need to take ownership of a bank to step in under those circumstances.

Mr. GILBERT: It may not necessarily be the Bank of Canada; it may be some other crown corporation that would step in. What I am saying, Mr. Elderkin, is that even though the Bank of Canada could step in or any other agency—

Mr. ELDERKIN: No, the Bank of Canada is not considered an agent of the government; it is not a crown corporation; it is an agent of the government but not a crown corporation, I am sorry. It would not be necessary to own the shares, Mr. Gilbert.

Mr. GILBERT: If it wanted to continue to operate the bank, it would be, Mr. Elderkin. If a chartered bank got into difficulties, what would happen?

Mr. ELDERKIN: They would appoint a curator, and a curator would operate the bank.

Mr. GILBERT: Where would the curator have the authority to operate the bank?

Mr. ELDERKIN: Under clause 120.

Mr. GILBERT: Under 120?

Mr. ELDERKIN: I think it is 120, if I remember rightly.

An hon. MEMBER: It is clause 125, I think.

Mr. ELDERKIN: Yes, it is clause 125.

The VICE-CHAIRMAN: And the following.

Mr. GILBERT: Well, under clause 125, for a curator to take over, the bank has to be insolvent.

Mr. ELDERKIN: Well, if a bank is not insolvent, I cannot picture a situation where a government would want to take over. Can you?

Mr. GILBERT: Well, there may be circumstances. We sort of had a little light on that last week when we had a difference of opinion between Mr. Stevens and Mr. Coyne.

Mr. ELDERKIN: But there was no question of insolvency.

Mr. GILBERT: No, there is not. There may be other problems, Mr. Elderkin.

Mr. CLERMONT: Mr. Chairman, will Mr. Gilbert allow a question?

Mr. GILBERT: Certainly.

Mr. CLERMONT: Do you think that if the government thinks he should step in, he should have the right to do so. Was that the idea of your amendment?

Mr. GILBERT: No, it is not the right, it is the power to do so.

Mr. CLERMONT: Yes, but if you have the power, you have the right.

Mr. GILBERT: Yes, that is right.

Mr. ELDERKIN: But where would they get the power to acquire the shares? Would they go out on the market and buy the shares?

Mr. GILBERT: Well, they would certainly be restricted under this bill of yours.

Mr. ELDERKIN: But they could not seize the shares, could they? There is no power in the Bank Act to give them the right to seize shares.

Mr. GILBERT: You are right.

Mr. ELDERKIN: So, how do they acquire them?

Mr. GILBERT: They would have to purchase the shares, and this imposes the restriction on the government purchasing the shares.

Mr. ELDERKIN: Well, I should not speak for the government, except that this was very carefully considered by the government, and they had no desire to have the power whatsoever.

Mr. GILBERT: What we are really saying is that this limits the government from doing so, if it so wishes. And this goes for a period of 10 years, and it may be that one particular government does not want to do it and others might.

Mr. ELDERKIN: You can always amend the act, Mr. Gilbert. We had that yesterday.

Mr. CLERMONT: Mr. Gilbert, may I ask a question.

Mr. GILBERT: Yes, sir.

Mr. CLERMONT: Even if a bank is not insolvent, should the government have the power to buy the shares and control them?

Mr. GILBERT: Well, there may be certain circumstances, Mr. Chairman, whereby the government must, or should, step in.

Mr. CLERMONT: For what purposes?

Mr. GILBERT: Well, for purposes of operating the bank.

Mr. CLERMONT: Even if it is not solvent?

Mr. ELDERKIN: Mr. Gilbert, may I just add—I have no right to be talking on behalf of the government—but before they could do that they would have to buy over 51 per cent of the shares, to get control of the bank.

Mr. GILBERT: Well, it is not necessarily control.

Mr. ELDERKIN: Well, they cannot do anything unless they have control. They are minority shareholders and they cannot do anything.

Mr. GILBERT: Well, they can always take the position of the watchdog you know.

Mr. ELDERKIN: That is not going to do them much good.

Mr. LEBOE: They also have the privilege of borrowing from the Bank of Canada, do they not?

Mr. ELDERKIN: The bank has?

Mr. LEBOE: Yes.

Mr. ELDERKIN: Of course, it has.

Mr. LEBOE: If it does, I cannot see the situation arising at all. Although I seconded the motion to get it on the floor I—

Mr. ELDERKIN: No, if this is a question of illiquidity—not that illiquidity should ever happen—they can borrow from the Bank of Canada. For instance, you had an example within the last two weeks of the Montreal City and District Bank. Now, what you call illiquidity there was simply a lack of cash to meet the demand that was going on. They had quite sufficient securities and everything, and all they did was deposit the securities with the Bank of Canada, and the Bank of Canada provided them with the cash. The Bank of Canada, under its powers, if you study the Bank of Canada Act, can lend money on almost anything that the bank can lend money on. So, therefore, if the Bank of Canada is a lender of last resort, it can lend against practically all of the assets of the bank.

The VICE-CHAIRMAN: Is the Committee ready for the question.

Mr. MACDONALD (*Rosedale*): Perhaps I have got a slightly better opportunity of speaking for the government that Mr. Elderkin has. It seems to me that the bill that the government has presented here presents a number of circumstances under which government control of either the bank, or banking shares might be desirable. The most obvious situation is that of insolvency. Another situation, of course, where government dealing with bank shares would be of interest, is the one we have just passed under Clause 49 for the purpose of realizing on a private citizen's shareholding for the purpose of executing a debt that the government has against him. I think the view of the present government would be that it would not attempt to sequester the rights of the shareholders; or even,

by market operations, to gain control of a chartered bank so as to put itself in the banking business. We may, I think, have uncovered a basic philosophical difference between Mr. Gilbert and some of the rest of us here.

Mr. CLERMONT: Mr. Chairman, is there nothing to stop any government in the future from going into banking business besides the Bank of Canada, if they want to?

Mr. MACDONALD (*Rosedale*): It seems to me Mr. Chairman, that if there is the intention that the government should go into the chartered banking business in the future, I think it should be by a conscious and deliberate program of legislation, not essentially by the back door under this bill.

The VICE-CHAIRMAN: Is the Committee ready for the question?

Mr. FLEMMING: Mr. Chairman, could I ask Mr. Elderkin whether the government of Canada or the government of a province have the authority to go into the market and purchase bank shares at the present time? Would they have authority to do it?

Mr. ELDERKIN: I could not answer that question Mr. Flemming. I could not answer. Perhaps Dr. Ollivier could answer it, but I really do not know whether that is within the powers of the government. I should think it is actually, but I am only guessing.

Mr. OLLIVIER: I suppose not under this legislation; they would have to bring in new legislation to do it.

Mr. FLEMMING: That is my point. There is no existing legislation by which the government can legally acquire the shares?

Mr. OLLIVIER: No, I do not think so.

Mr. FLEMMING: Either in the open market or otherwise.

Mr. LEBOE: Mr. Chairman, maybe for a matter of clarity it might be just as well at this particular point to have Mr. Elderkin pass comment on the situation regarding the Industrial Development Bank in relation to the act.

Mr. ELDERKIN: Well, this is an example although it is, of course, a different type of bank. In many respects perhaps to have the name "bank" in it is not entirely appropriate to financing institutions. It acquires its money from the government or from sales of debentures, or from stock, not from deposits. It has no dealings on the liability side, if you will, with the public.

The VICE-CHAIRMAN: Is the Committee ready for the question?

Amendment negatived.

Mr. ELDERKIN: Can we then go back to Clause 52, Mr. Chairman?

The VICE-CHAIRMAN: Yes.

On Clause 52—*Definitions.*

Mr. CLERMONT: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended

(a) by striking out line 32 on page 27 thereof and substituting therefor the following:

"right, but does not include an official or corporation per-";

(b) by striking out the word "or" in line 51 on page 28 thereof and by striking out paragraph (f) on page 29 thereof and substituting therefor the following:

"(f) both shareholders are agents of Her Majesty in right of Canada or officials or corporations performing on behalf of Her Majesty in such right a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (a) of subsection (1);

(g) both shareholders are agents of Her Majesty in right of the same province or officials or corporations performing on behalf of Her Majesty in right of that province a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (a) of subsection (1); or

(h) both shareholders are associated within the meaning of paragraphs (a) to (g) with the same shareholder."; and

(c) by striking out line 41 on page 29 of the Bill and substituting therefor the following:

"virtue of paragraph (h) of subsection (2) by".

Mr. COMTOIS: I second the motion.

Amendment agreed to.

Clause 52, as amended, agreed to.

The VICE-CHAIRMAN: I do not think we passed the amendment to Clause 53.

Mr. ELDERKIN: No, the amendment has not been passed yet. The amendment was relevant to the provincial authorities.

The VICE-CHAIRMAN: Yes.

Mr. CLERMONT: I move that:

Bill C-222, An Act respecting Banks and Banking, be amended by striking out line 21 on page 30 thereof and substituting therefor the following:

"of a share of the capital stock of the bank to any person, including, without restricting the generality of the foregoing, an official or corporation mentioned in clause (B) of subparagraph (i) of paragraph (a) of subsection (1) of section 52,"

Mr. COMTOIS: I second the motion.

Amendment agreed to.

Clause 53, as amended, agreed to.

On Clause 54—*Voting by resident nominees of non-residents prohibited.*

Mr. ELDERKIN: Mr. Chairman, there is a small amendment to Clause 54. Again it is relevant to, or ancillary to the Clause 52 amendment regarding provincial holdings, using the word "an official or corporation" instead of a person. It is on page 33.

Mr. CLERMONT: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out line 21 on page 33 thereof and substituting therefor the following:

"(c) an official or corporation administering, managing or investing"

Mr. LEBOE: I second the motion.

Amendment agreed to.

Clause 54, as amended, agreed to.

The VICE-CHAIRMAN: Is there any discussion on Clause 55.

Clause 55 agreed to.

On Clause 56—*Definitions.*

Mr. ELDERKIN: Mr. Chairman, we have a very important amendment here; it is in your file. It is the one that the Minister announced he would propose with respect to transfers to non-residents, where more than 25 per cent of the shares of the bank are owned by non-residents. In other words, this prohibits the transfer of shares from a non-resident where he, the non-resident, owns more than 25 per cent, to another non-resident.

Mr. CLERMONT: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 15 to 24, inclusive, on page 36 thereof and by substituting therefor the following:

Non-resident ownership of bank.

"(2) Where more than twenty-five per cent of the issued and outstanding shares of the capital stock of the bank were held on the 22nd day of September, 1964, in the name or right of or for the use or benefit of any one non-resident, the bank, so long as the total number of shares of the capital stock of the bank held by non-residents exceeds twenty-five per cent of the total number of issued and outstanding shares of the capital stock of the bank,

(a) shall refuse to allow a transfer of a share of the capital stock of the bank to a non-resident to be made or recorded in a register of transfers of the bank; and

(b) shall not accept a subscription for a share of the capital stock of the bank by a non-resident;

but if at any time after the 22nd day of September, 1964, there is no one person in whose name or right or for whose use or benefit more than ten per cent of the issued and outstanding shares of the capital stock of the bank are held, this subsection ceases thereafter to have any force or effect."

Mr. COMTOIS: I second the motion.

The VICE-CHAIRMAN: Is there any discussion?

Mr. CLERMONT: Mr. Elderkin, are you satisfied that the loophole will be closed?

Mr. ELDERKIN: I beg your pardon, Mr. Clermont?

Mr. CLERMONT: Are you satisfied that the loophole is closed?

Mr. ELDERKIN: Oh, yes, definitely. This closes it is far as that is concerned, Mr. Clermont. It is obvious that this was a case of the Mercantile Bank. They now cannot transfer any shares to a non-resident, until they get down to 25 per cent of the outstanding shares.

Amendment agreed to.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I think there is another amendment to this clause at line 21 on page 38.

Mr. ELDERKIN: I am sorry, there is. Thank you; there are two amendments. There is one on Clause 56 (7) (b). There are two amendments. Again this is ancillary to Clause 52.

Mr. CLERMONT: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out line 21 on page 38 thereof and substituting therefor the following:

"(b) an official or corporation administering, managing or investing"

Mr. COMTOIS: I second the motion.

Amendment agreed to.

Clause 56, as amended, agreed to.

The VICE-CHAIRMAN: On Clause 57 there are no amendments and no discussion.

Clause 57 agreed to.

The VICE-CHAIRMAN: Now we go to Clause 60.

On clause 60—*Financial year.*

Mr. ELDERKIN: Now, Mr. Chairman, if I may explain this, the amendments which we are proposing are ancillary to statements which appear in the schedules having to do with the requirement of the banks to disclose their total accumulated appropriations, heretofore known as inner reserves, in a form shown in schedule P. This is completely new, as you no doubt, know, and—

The VICE-CHAIRMAN: If you do not mind gentlemen, I have an engagement and must leave right away, so I will ask Mr. Clermont to take the chair and continue the meeting.

Mr. ELDERKIN: In other words, Mr. Chairman, it is just an expansion of the financial statements and disclosure in the financial statements. It is, in effect, a disclosure of what we have previously called the inner reserves.

Mr. FLEMMING: Is this on page 40?

Mr. ELDERKIN: I beg your pardon?

Mr. FLEMMING: Is this on page 40?

Mr. ELDERKIN: This is on page 40, yes. Do you not have the amendments in front of you, Mr. Flemming?

Mr. FLEMMING: I have got the amendments, but I do not think it mentions any page.

Mr. ELDERKIN: It is clause 60 (2) (c). Clause 60 (2) (c) is the heading, I think, of the amendment. It does not mention the page; you are quite right. It is on page 40.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, you will have to change the form of moving the amendments. You were one of the movers. I would be prepared to substitute my name as a seconder to Mr. Lind's motion.

Mr. COMTOIS: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out paragraph (c) of subclause (2) of clause 60 thereof and substituting therefor the following:

"(c) a statement of accumulated appropriations for losses of the bank for the financial year, showing the information in the form specified in Schedule P and such additional information and particulars as in the opinion of the directors are necessary to present fairly the amount of appropriations available to meet losses other than those for which specific provisions have been made."

Mr. MACDONALD (*Rosedale*): I second the motion.

Amendments agreed to.

Clause 60 (2) (c), as amended, agreed to.

On clause 63—*Auditors.*

Mr. COMTOIS: I move:

On Clause 63 (12)

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out subclause (12) of clause 63 thereof and substituting therefor the following:

"(12) The auditors shall make a report to the shareholders on the statement of assets and liabilities, the statement of revenue, expenses and undivided profits and the statement of accumulated appropriations for losses of the bank to be sumitted by the directors under section 60."

And on Clause 63 (13):

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 45 and 46 on page 43 thereof and substituting therefor the following:

"end of the financial year, its revenue, expenses and undivided profits for the year and its accumulated appropriations for losses for the year, and shall include such"

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: There is an ancillary amendment here. In effect, this requires the auditors to report on the statement of accumulated appropriations mentioned in Clause 60. There is a further amendment in subclause (12), and in Clause (13); again it is a matter of the auditor's report. Both of these are relevant to the auditor's report on the financial statements of the bank and relate to the disclosure of the accumulated appropriations for losses for the year.

Mr. LEBOE: I presume that these auditor's statements will appear in the auditor's bank statement.

Mr. ELDERKIN: Oh yes; they are required to, Mr. Leboe.

The ACTING CHAIRMAN (*Mr. Clermont*): Does the Committee agree to amendments 12 and 13 of Clause 63. Does the committee approve clause 63 as amended.

Amendments agreed to. Clause 63, as amended, agreed to.

On clause 64—*Inspector General of Banks.*

Mr. COMTOIS: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out subclauses (6) to (9) of clause 64 thereof and substituting therefor the following:

Salary and status of inspector.

"(6) The Inspector shall be paid a salary fixed by the Governor in Council on the recommendation of the Minister and shall be an officer of the Department of Finance, but the provisions of the *Public Service Employment Act* do not apply to him.

Borrowing from banks.

(7) The Inspector and any person temporarily performing the duties of the Inspector shall not borrow money from a bank unless he has first informed the Minister in writing of his intention to do so.

Officers and employees.

(8) Such other officers and employees as are necessary for the proper conduct of the duties of the Inspector shall be appointed in the manner authorized by law."

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: The amendments to clause 64 are simply to provide that the staff of the office of the Inspector General of Banks shall be civil servants. Ever since the office of the Inspector General of Banks was set up, it has been a special division and the staff are not civil servants; they have been appointed by the minister of the recommendation of the Inspector General of Banks. There appears to be no reason now, why the staff should not be members of the civil service and the amendment is for that purpose."

Mr. LEBOE: If I remember correctly, Mr. Chairman, the staff is not very big.

Mr. ELDERKIN: No, the staff is not very big.

The ACTING CHAIRMAN (*Mr. Clermont*): Does the committee agree on the amendment?

Amendment agreed to.

Clause 64, as amended, agreed to.

Clauses 65 and 69 agreed to.

On Clause 72—*Cash reserve.*

Mr. COMTOIS: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended

(a) by striking out lines 11 and 12 on page 48 thereof and by substituting therefor the following:

"the average during any month than an";

(b) by renumbering subclauses (3) to (6), inclusive, of clause 72 on pages 48 and 49 thereof as subclauses (4) to (7), inclusive; and

(c) by adding immediately after line 31 on page 48 thereof the following:

Twice monthly averaging.

"(3) Notwithstanding subsection (1), the cash reserve to be maintained by the bank pursuant to subsection (1) in any month following the twelfth month after the coming into force of this Act shall, if so required by the Bank of Canada, be not less on the average during each of the two separate periods comprised of the first fifteen days of that month and the remaining days of that month than the amount specified in subsection (1); and in the event of such a requirement, the Bank of Canada shall make its requirement apply generally to all banks, give written notice of its action specifying the months to which the requirement applies, publish such notice forthwith in the *Canada Gazette* and mail a copy of the notice to all banks not less than thirty days before the first day of the first of the months so specified, and may, at any time by advice notified in the same manner, reduce in number the months to which the requirement applies." and

(d) by striking out lines 7 and 8 on page 49 thereof and by substituting therefor the following:

"any month mentioned in subsection (1) or (4) or any period mentioned in subsection (3)"

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: Mr. Chairman, there are some quite important amendments to clause 72. I might deal with them, I think, by the subclauses.

Mr. MACDONALD (*Rosedale*): Mr. Elderkin, if I understood, the Chairman himself suggested that this one should stand until next week.

The ACTING CHAIRMAN (*Mr. Clermont*): Yes; 72(g)—

Mr. ELDERKIN: No, clause 75(2) (g) was the one that was to stand.

Mr. GILBERT: He has pointed out that these are important clauses. We do not have a quorum. I was wondering if we should proceed.

The ACTING CHAIRMAN (*Mr. Clermont*): I am told that Mr. Flemming is just outside answering a telephone call. Maybe we can wait. Does Mr. Gilbert want to comment on Clause 72?

Mr. GILBERT: No.

Mr. ELDERKIN: We have a very important amendment here and I think I should bring it particularly to the attention of the Committee. In Clause 72, as it appears in the bill, subclause (1) provided for a cash reserve based on a split month; in other words a period during the first fifteen days of the month and then a period of the remaining days in the month. The Bank of Canada, after further consideration of this, decided that they would prefer to go back to what is the present practice, namely, to have the cash reserve based on the period of the full month; but they wish to reserve the right to place it on a twice monthly averaging period if, at some time in the future, monetary conditions appear to require it and, therefore, your first amendment to subclause (1) brings it back to the average of the month instead of the average of the two periods. Then there is a new subclause (3) which gives the Bank of Canada the power to require a twice monthly averaging if a month's notice is given and published in the *Canada Gazette*, and mailed to all the banks. It also provides that at any time

after such advice has been given, the Bank of Canada may withdraw the requirement. That is, as I say, quite an important administrative difference and I thought I would like to explain to you the effect of the four amendments to clause 72.

The ACTING CHAIRMAN (*Mr. Clermont*): Are there any comments on the amendments proposed for clause 72?

Mr. LEBOE: I think it is an improvement.

(*Translation*)

The ACTING CHAIRMAN: (*Mr. Clermont*): Mr. Latulippe, have you any comments?

Mr. LATULIPPE: On article 72?

The ACTING CHAIRMAN: Yes, Mr. Latulippe.

Mr. LATULIPPE: On article 72 about reserves, they were 5 per cent and raised to 8 per cent in 1966. That is an average of 7 per cent. I suggest that we gradually scale up the proportion of these reserves at the rate of 6 per cent a year so that the reserves come to equal 100 per cent of the deposits so that the banks will no longer be issuing credit. We have taken from them the right to issue their bank notes. This amendment I want to bring to article 72.

The ACTING CHAIRMAN: Have you got a written amendment?

Mr. LATULIPPE: I did not bring a written amendment, I did not think of it.

The ACTING CHAIRMAN: Are you prepared to draft an amendment?

Mr. LATULIPPE: Yes, I am. An amendment to be written as follows.

The ACTING CHAIRMAN: You will have to draft it. Would Dr. Ollivier be good enough to help Mr. Latulippe to draft his amendment?

Mr. LATULIPPE: If you want it drafted, it would read: "The reserves to be lowered by 7 per cent...

Dr. OLLIVIER: What are you referring to, what paragraph?

Mr. LATULIPPE: It is article 72.

Dr. OLLIVIER: 72 (2) or what?

Mr LATULIPPE: 72 (1) (a) and (b). Paragraph (b), we will take out paragraph one, particularly (b). "4 per cent as such of its deposit liabilities payable after notice in Canadian currency". It is subsections (a) and (b).

Dr. OLLIVIER: What are you going to do?

Mr. LATULIPPE: I am going to make an amendment so the banks will not lower their reserves to seven per cent, I suggest that this percentage of reserves be gradually raised by 10 per cent a year and the proportion of reserves correspond in ten years to 100 per cent deposit. That is the cash reserves be raised by 10 per cent each year until within 10 years the deposits correspond to cash reserves.

Dr. OLLIVIER: Give me your text.

The ACTING CHAIRMAN: Do you mean to say, Mr. Latulippe, increase or reduce?

Mr. LATULIPPE: Increase the cash reserves 10 per cent a year until you have 100 per cent.

(*English*)

Dr. OLLIVIER: I could give you the purpose of the amendment. It is simply that the reserve be increased by 10 per cent a year until you have reached 100 per cent, so that the banks finally will lend only to the amount of their reserve, this reserve being in the end 100 per cent instead of having only a reserve of 7 or 8 per cent. You could vote on that amendment subject to its being drafted afterwards if it should carry.

Mr. GILBERT: I was going to suggest, Mr. Chairman, that we let the clause stand until tomorrow to let Dr. Ollivier and Mr. Latulippe draft it.

The ACTING CHAIRMAN (*Mr. Clermont*): Is there any member present who would second this sub-amendment?

Mr. GILBERT: Yes, I will second it just to help Mr. Latulippe.

Dr. OLLIVIER: Is it necessary that you have it in writing. You can vote on it and if it is passed we can draft it afterwards.

(*Translation*)

Mr. MACDONALD (*Rosedale*): May I say that the Government is not in agreement with this amendment at all.

(*English*)

Mr. OLLIVIER: Why do you not vote on it, subject to it being drafted, if it is agreed to.

(*Translation*)

Mr. MACDONALD (*Rosedale*): I propose a vote, Mr. Chairman.

The ACTING CHAIRMAN (*Mr. Clermont*): I was going to ask Mr. Macdonald to wait for the return of a member, but I see that we have a quorum now and the sub-amendment can be brought up before the Committee.

Mr. OLLIVIER: The amendment is that the reserves, which are now 8 per cent, be increased 10 per cent a year until they reach 100 per cent, so that the banks will lend at the moment at 8 per cent and finally they will lend only when they are entirely covered 100 per cent.

The ACTING CHAIRMAN (*Mr. Clermont*): Mr. Wahn, we are on Clause 72. We have a sub-amendment brought before us by Mr. Latulippe seconded by Mr. Gilbert. Is the Committee ready for question? Will Dr. Ollivier read the amendment again.

Mr. OLLIVIER: The amendment is that the reserves be increased from 8 per cent, as it is now, by 10 per cent a year till it reaches 100 per cent, so that the bank will be protected by being able to loan only up to as much as it has in its funds and not 100 per cent for 10 per cent. Not $10.00 for $1.00.

Mr. LEBOE: Mr. Chairman, I would like to ask a question here for clarification. Is it not a fact that this would not apply to the trust companies or loan

companies, and therefore they would be at a distinct advantage in their operations over the banks.

Mr. ELDERKIN: Very much so.

The ACTING CHAIRMAN (*Mr. Clermont*): Is the committee ready for the question.

Sub-amendment negatived.

Mr. CLERMONT: As I said, Mr. Wahn, we are on clause 72 and the amendments that were explained to this Committee by Mr. Elderkin. Are there any comments on the amendment to clause 72, as explained by Mr. Elderkin.

Amendment agreed to.

Clause 72, as amended, agreed to.

Clause 75 stands.

The ACTING CHAIRMAN (*Mr. Clermont*): I think we now move on Clause 76.

Mr. ELDERKIN: You propose to stand the whole of Clause 75.

The ACTING CHAIRMAN (*Mr. Clermont*): Yes, sir. If the committee agrees, I would suggest that clause 75 stand. Is it agreed?

Some hon. MEMBERS: Agreed.

The ACTING CHAIRMAN (*Mr. Clermont*): Clause 76.

On Clause 76—*Ownership of corporate stock.*

The ACTING CHAIRMAN (*Mr. Clermont*): We have some suggested amendments to clause 76.

Mr. COMTOIS: I move, seconded by Mr. Macdonald (*Rosedale*):

That Bill C-222, An Act respecting Banks and Banking, be amended

(a) by striking out lines 41 to 49 inclusive, on page 53 thereof and by substituting therefor the following:

Ownership of corporate stock.

"76. (1) Except as provided in this section, the bank shall not own shares of the capital stock of

(a) a Canadian corporation, other than a trust or loan corporation,

(i) in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the corporation issued and outstanding, be voted by the holders thereof, or

(ii) in any number that would, on the basis of the price paid or agreed to be paid by the bank, make the investment of the bank in such of the shares of the capital stock of the Canadian corporation as have voting rights attached thereto more than five million dollars,

whichever is the greater number; or

(b) a trust or loan corporation in any number that would, under the voting rights attached to the shares owned by

the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the trust or loan corporation issued and outstanding, be voted by the holders thereof;

and any such shares in excess of the maximum number prescribed by this subsection owned by the";

(b) by striking out lines 11 to 16, inclusive, on page 54 thereof and by substituting therefor the following:

"outside Canada owns shares of the capital stock of

(a) a Canadian corporation, other than a trust or loan corporation,

(i) in any number that would, under the voting rights attached to the shares owned by the bank and the corporation incorporated outside Canada, permit the bank and the corporation incorporated outside Canada to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the Canadian corporation issued and outstanding, be voted by the holders thereof, or

(ii) in any number that would, on the basis of the price paid or agreed to be paid by the corporation incorporated outside Canada and the bank, make the combined investment of the corporation incorporated outside Canada and the bank in such of the shares of the capital stock of the Canadian corporation as have voting rights attached thereto more than five million dollars,

whichever is the greater number; or

(b) a trust or loan corporation in any number that would, under the voting rights attached to the shares owned by the bank and the corporation incorporated outside Canada, permit the bank and the corporation incorporated outside Canada to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the trust or loan corporation issued and outstanding, be voted by the holders thereof;

and any such shares in excess of the maximum number prescribed by this subsection owned by the bank at the coming into force of this Act, shall be sold or disposed of before the first day of July, 1971.";

(c) by adding after subclause (3) of clause 76 on page 54 thereof the following new subclause (4):

Exception.

"(4) The bank may own shares in excess of the maximum number prescribed by this section, if the shares are acquired through a realization of security for any loan or advance made by the bank or any debt or liability to the bank, but any such shares acquired after the coming into force of this Act shall be sold or disposed of by the bank within a period of five years from the day on which they were acquired.";

(d) by striking out subclause (6) of clause 76 on page 54 thereof and by renumbering the present subclauses (4) and (5) on page 54 as subclauses (5) and (6), respectively; and

(e) by striking out line 32 on page 55 thereof and by substituting therefor the following:

"province; and

"Trust or loan corporation."

(c) "trust or loan corporation" means a Canadian corporation that carries on the business of a trust company within the meaning of the *Trust Companies Act* or the business of a loan company within the meaning of the *Loan Companies Act* and that accepts deposits from the public."

Mr. ELDERKIN: Because of representations made here by members of the Committee and by other witnesses who appeared before it the Minister is proposing an amendment which he mentioned during his appearance here last week. The effect of the amendment is to really change pretty well the whole structure of the first four subclauses. In other words, the bank would be permitted to hold shares in a Canadian corporation other than a trust or loan corporation in any number that would, under the voting rights attached to the shares permit the bank to vote up to 10 per cent of the total votes or in any number that would, on the basis of the price paid or agreed to be paid by the bank, make the investment of the bank in such of the shares as have voting rights attached thereto up to $5 million. With respect to a trust or loan corporation, however, the restriction is entirely on the 10 per cent and no suggestion or provision for the $5 million investment.

Now, this has to carry over into subclause (2) because subclause (2) relates to a foreign corporation which, with the bank, holds shares in a Canadian corporation. In other words, subclause (1) restricts the investment of voting shares of Canadian trust and loan corporations to 10 per cent and other companies to 10 per cent or $5 million whichever is the greater.

The amendment to subclause (2) is to prevent an evasion of (1) by use of a foreign subsidiary. Subclause (4) is a change which has been made, again, at the suggestion of one of the members of the Committee here; where the bank acquires shares in excess of the maximum number prescribed through the realization of a loan, this provides that the shares must be disposed of within a period of five years from the day on which they are acquired.

Then, the remainder of the amendment—as you can see, it is quite a long one—is for the purpose of setting up definitions of what a trust or loan corporation is under the provisions of another clause.

This will, as I think the Minister mentioned in the course of his evidence the other day, and to supplement it by mine, mean that the ones we have discussed here, such as RoyNat and Kinross, will be able to continue with their present holdings and UNAS will be able to continue with its present holdings as well. The ones that will be affected will be where share ownership by a bank in a trust company accepting deposits from the public will over a period of five years or, with an extension, seven years, have to be reduced to 10 per cent.

The ACTING CHAIRMAN *(Mr. Clermont)*: Are there any comments?

Mr. WAHN: I would like to be sure that I know what is being done by this amendment. I am not speaking now of loan or trust corporations. Is it correct that there is not much change in the provision limiting the ownership in loan and trust corporations?

Mr. ELDERKIN: No, that is right.

Mr. WAHN: So we are referring now only to corporations other than trust and loan corporations?

Mr. ELDERKIN: Yes.

Mr. WAHN: Previously a bank had been forbidden to own more than 10 per cent of the voting stock of any such corporation?

Mr. ELDERKIN: That is right.

Mr. WAHN: Now, there is going to be in practice, and I think we should realize it, no limitation whatsoever, if this wording is adopted, upon what banks can do because they are permitted, as I gather, to own either 10 per cent or to invest up to $5 million in voting stock.

Mr. ELDERKIN: This is right.

Mr. WAHN: Whichever gives them the greater number of shares.

Mr. ELDERKIN: That is right.

Mr. WAHN: So the provision permitting them to invest up to $5 million in voting stock would give them leeway to make arrangements to acquire control of almost any corporation that you could think of in Canada because the limitation is not to a total investment of $5 million but to an investment of $5 million in voting stock.

Mr. ELDERKIN: That is correct.

Mr. WAHN: In other words, they could contemporaneously with taking up $5 million in voting stock, take up $100 million in non-voting preferred and $500 million or $600 million, if they wished, in debentures of any sort, so their total investment in any such corporation could be unlimited. I think we should recognize—I do not know whether it is a good thing or a bad thing—that, in fact, this wording will, for all practical purposes eliminate any restriction on the chartered banks with regard to the control of the great majority of Canadian corporations. There may be the odd one like General Motors of Canada or Chrysler Corporation of Canada or maybe Bell Telephone where the $5 million might be a restrictive feature, but I think that is probably the only type of corporation that would be affected.

Mr. ELDERKIN: This is so to a certain extent, Mr. Wahn. The $5 million is a figure that the royal commission suggested might be a measurement.

Mr. WAHN: In voting stock or total investment?

Mr. ELDERKIN: It is not very clear, as a matter of fact. They said that ownership—

Mr. WAHN: Mr. Chairman, I think you would have to agree that if it is in voting stock there is, in fact—apart from one or two very major corporations in Canada—no restriction at all because if, for example, a Canadian chartered bank

wanted to enter into a deal to acquire control of some other Canadian corporation, it could very easily so arrange matters that in addition to the voting stock—if additional investment over and above the $5 million were required—it could go in the form of debentures or non-voting preferred shares.

Mr. ELDERKIN: Really, this is not so very much of a change in one respect because even in the present bill they could have invested in non-voting preferred shares and in debentures. The only change here is the $5 million as an option. In the bill, as it stands today, it was limited to 10 per cent of the voting shares.

Mr. WAHN: That is right, but with the $5 million you could have 99 per cent or 100 per cent of the voting shares—

Mr. ELDERKIN: Of a very small company, you could.

Mr. WAHN: Of a very large company because $5 million in voting shares would make it a very large company.

Mr. ELDERKIN: It would depend on the other financing. I agree. This is quite correct. The thinking behind this actually is that the government has come to the conclusion that these institutions or corporations such as RoyNat, Kinross, UNAS et cetera, have done a good job, if you will, in the past and that it did not seem desirable at this time to try to put them out of business. As a matter of fact, the royal commission suggested and that they should not be put out of business and the royal commission's report, if I remember, was that the government should look at them to see—I do not have the exact words—whether in any of their actions they would place the public in jeopardy, or something to that effect. If we did not put the $5 million in this amendment it would not exclude those companies, it would not cover those companies and they would be forced out of business.

Mr. WAHN: You see, I object to this test because it is a meaningless test, completely meaningless. I think you have to establish the proper principle. Are you going to restrict them to a certain definite investment in the company? A $5 million investment in voting stock is not the type of test which is meaningful at all. I does not reflect any principle. It is just an arbitrary figure, as I see it.

Mr. ELDERKIN: Perhaps, that is true. Actually it was set to fit the present circumstances. That is all I can say.

Mr. WAHN: Should the test not be related to total investment rather than to investment in voting stock? If you adopt this test not only will you make the exception apply to those companies which you mentioned which really should be excepted, but you will completely destroy the basic principle.

Mr. ELDERKIN: If you did not relate this to voting stock you would not exempt those companies.

Mr. WAHN: I beg your pardon?

Mr. ELDERKIN: I said that if you did not give them the $5 million option instead of the 10 per cent, you would not exempt those companies.

Mr. WAHN: If you made the $5 million relate to the total investment, would you not—

Mr. ELDERKIN: No.

Mr. WAHN: Then, why not pick a figure which would exempt them?

Mr. ELDERKIN: Actually you would have to pick a very substantial figure of several millions—many, many millions—to exempt them because they own debentures, they own preferred shares—

Mr. WAHN: Whatever the figure might be it would be better than this which could be completely unlimited.

Mr. ELDERKIN: Then if you did that it would relate to future companies, too, on the same basis. You would have no limit on future companies.

Mr. WAHN: I say that with this test, in effect, you have no limit on any companies whatsoever, because if the bank wanted to do a take-over of a Canadian corporation—this could only be done by agreement anyway—they would so arrange matters that there could be a relatively small amount of voting stock and a great deal of non-voting stock or debentures.

Mr. ELDERKIN: That is true.

Mr. WAHN: All I am saying is that a bank under this test could take over any corporation in Canada with the consent of the present owners of that corporation because they could rearrange the stock accordingly.

Mr. ELDERKIN: One would expect that in view of the added powers that the banks have, that none of these corporations are going to continue to be as attractive to them as they were in the past.

Mr. WAHN: Then, of course, you do not need the provision.

Mr. ELDERKIN: I am not saying that they would not continue them, I am simply saying that they would not be so attractive to them as they were in the past.

Mr. WAHN: Mr. Chairman, it seems to me that the Committee should realize what it is doing. All I am saying is that it is quite clear to me that if this particular test is adopted, then the Committee is, in effect, accepting a complete deletion of the restriction, except on paper, but in practice it could involve the complete deletion of the restriction so far as non-trust or loan corporations are concerned because if a bank wants to take over any Canadian corporation by agreement with that corporation, even if the total voting stock was more than $5 million, things could be so arranged that the capital structure would be changed and the investment of the bank could go in the form of non-voting stock or in the form of debts. I do not think there is any very practical restriction upon what a bank can do under this new test. I would have thought that if the only purpose of this change is to preserve the rights of the bank to own existing companies, that could have been so stated or some different test been made.

Mr. MACDONALD (*Rosedale*): I am not sure I would agree with Mr. Wahn on this point, but, perhaps, Mr. Elderkin could correct my thinking on this. As I understand it subclause (1) and subclause (2) are alternatives. Subclause (2) is really talking about the man bites dog situation to which Mr. Wahn referred where you have such an enormous corporation that less than 10 per cent of the voting stock may mean effective control, but surely all these smaller corporations and one, say, the size of Bell Telephone will be caught under subclause (1) so that except by some kind of a device short of exercise of voting rights, the bank

can never control any other corporation because the maximum it can hold is 10 per cent of the stock. In other words,—

An hon. MEMBER: It does not say that?

Mr. MACDONALD (*Rosedale*): Yes, sure it does—

Mr. WAHN: Not as I read it. If that is correct, please let me know.

Mr. ELDERKIN: Whichever is the greater.

Mr. WAHN: So you could own 90 per cent of the stock as long as it is not more than $5 million worth of voting stock, as I read it. Is that not correct, Mr. Elderkin?

Mr. ELDERKIN: Yes, whichever is the greater.

Mr. WAHN: Whichever is greater. In other words, as I understand the provision, the bank can own 100 per cent of any corporation as long as the amount it pays for the voting stock in that corporation does not exceed $5 million. It can have a total investment in the corporation of a billion dollars but as long as the voting stock does not exceed $5 million it can own up to 100 per cent of that corporation.

Mr. MACDONALD (*Rosedale*): You are assuming that 90 per cent would be in the hands of strangers. Now, surely, that is effective control in the hands of strangers and out of the hands of the control of the bank.

Mr. WAHN: I am sorry, I do not follow that.

Mr. MACDONALD (*Rosedale*): Surely if 90 per cent of the voting stock is in the hands of strangers which would have to be the case—

Mr. WAHN: No, no, under this provision, as I understand it and Mr. Elderkin will correct me if I am wrong, the bank can own 100 per cent of the stock of any Canadian corporation other than a trust or loan corporation provided its investment in voting stock does not exceed $5 million.

Mr. MACDONALD (*Rosedale*): Exactly. No, no, it is not permitted to hold more than 10 per cent of the voting stock and the $5 million test only applies for less than 10 per cent.

Mr. WAHN: That is not my understanding.

Mr. ELDERKIN: It is whichever is the greater, Mr. Macdonald.

Mr. WAHN: Am I not correct in saying that if this test is adopted the banks can own 100 per cent of any corporation in Canada other than a trust or a loan corporation? It can own 100 per cent of the stock if investment in the voting stock of that corporation does not exceed $5 million. This is a complete denial of the basic principle of the clause which we originally had.

The ACTING CHAIRMAN (*Mr. Clermont*): Are there any comments from other members?

Mr. GILBERT: Mr. Chairman, probably Mr. Wahn has an amendment which he wishes to make.

Mr. WAHN: No, I have not.

Mr. GILBERT: He explained it very clearly.

Mr. WAHN: I would like the Minister to have a look at it. I would like to know what the interpretation means.

Mr. ELDERKIN: Mr. Wahn, the interpretation is quite right.

Mr. FLEMMING: Mr. Chairman, as I understand it now, the object of the amendment is to meet existing situations.

Mr. ELDERKIN: Yes, for the most part.

Mr. FLEMMING: There is a difference apparently between our legal friends around this board as to the language. I do not think there is any difference as to the object. Therefore, it seems to me that the clause might stand and we might proceed and get it cleared up to the satisfaction of all concerned, because I am sure if we understand the substance of what it is desired to do, then I think the people who draft the amendment can make the changes, if they are necessary, as outlined by Mr. Wahn.

The ACTING CHAIRMAN (*Mr. Clermont*): Does the Committee agree to stand clause 76.

Some hon. MEMBERS: Agreed.

Clause 76 stands.

On Clause 77—*Bank debentures.*

Mr. COMTOIS: I move that:

Clause 77(2)

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out the words and figures "in any financial year of the bank commencing after the 31st day of October, 1966," in lines 38 and 39 at page 55 thereof.

Clauses 77(5) and (6)

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out subclauses (5) and (6) of clause 77 at page 56 thereof and substituting the following:

Issue date.

"(5) The bank shall not issue bank debentures dated more than sixty days before the date of the issue of the debentures; but this subsection does not apply to a debenture issued in exchange for or in replacement of one that has the same stated maturity and that is not then being redeemed or paid.

Limit on bank debentures.

(6) The bank shall not issue bank debentures if, as a result of the issue, the aggregate principal amount of its bank debentures outstanding that have a stated maturity after the end of the financial year of the bank in which the issue is made, would exceed the lesser of

(a) an amount equal to one-half of the total of the paid-up capital stock and rest account of the bank at the time of the issue; or

(b) the amount obtained by multiplying the total of the paid-up capital stock and rest account of the bank at the time of the

issue by the number of financial years of the bank completed after the 31st day of October, 1965, and dividing the product obtained by ten."

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: The amendment on Clause 77, subclause (2) is simply to strike out the words "in any financial year of the bank commencing after the 31st day of October, 1966." Since we are long past that date now the words are redundant.

On clause 77, subclauses (5) and (6) there are some amendments which are necessary. Subclause (5) provides for the replacement of lost or mutilated certificates which we had not done in the original draft and subclause (6) strikes out the financial year 31st of October, 1966, and replaces it with the 31st of October, 1965, because there has to be a full, complete year on which to base this. Therefore, to allow the banks to issue debentures in 1967, the calculation has to be made for the financial year 1966; that is, in other words, the financial year following 1965. This is the purpose of these two amendments.

The ACTING CHAIRMAN (*Mr. Clermont*): Are there any comments on the amendment to Clause 77(2)? Are there any comments on clause 77(5)?

Mr. GILBERT: Mr. Chairman, I would like to ask Mr. Elderkin a question for information. Do all the banks have their fiscal year ending October 31?

Mr. ELDERKIN: Mr. Gilbert, that is required now if you look at clause 60. They all have their fiscal year ending October 31. This is one of the reasons we asked the banks to go on a uniform fiscal year. Last year they all reported as of October 31, and will in the future—all new banks will have to.

Mr. GILBERT: Did they in 1965, Mr. Elderkin?

Mr. ELDERKIN: Yes, they did in 1965. But in 1965 it was a broken period for three of the banks. For one bank it was 13 months and two banks were 11 months but they all reported as at October 31, 1965.

The ACTING CHAIRMAN (*Mr. Clermont*): Clause 77(2)?

(*Translation*)

Mr. LATULIPPE: I would like to have some information, if the banks had the right before that date to emit debentures—

(*English*)

Mr. ELDERKIN: No; they have no right at the present time to issue debentures. They will not have the right until this bill comes into force.

(*Translation*)

Mr. LATULIPPE: If I understand the bill right, this bill gives them the right to issue this type of debentures?

(*English*)

Mr. ELDERKIN: That is correct. Clause 77 gives them the right to issue debentures, for the first time.

(*Translation*)

Mr. LATULIPPE: The financial institutions will be on the same footing as any other institution, they request the same rights, but they have the additional right of being able to issue a form of credit which other financial institutions do not have. Is that correct, have I understood correctly?

(*English*)

Mr. ELDERKIN: The other trust and loan companies issue credit and the caisse populaire issues credit, as far as that is concerned, but that is not changing what powers they had before. These are additional powers and powers which, incidentally, loan companies have today to issue debentures as well.

(*Translation*)

Mr. LATULIPPE: This gives the banking institutions more privileges than they had previously, it gives them the right to issue new debentures, is that what I understand?

(*English*)

Mr. ELDERKIN: That is correct.

The ACTING CHAIRMAN (*Mr. Clermont*): Are the amendments brought up by Mr. Elderkin—Clause 77(2), (5) and (6) approved by the Committee.

Some hon. MEMBERS: Agreed.

Is clause 77, as amended, approved?

Amendment agreed to.

Clause 77, as amended, agreed to.

On Clause 82—*Loans on hydrocarbons*

Mr. ELDERKIN: There are no amendments to this, and there are no changes from the present act, with the small exception in subclause (1), which, in effect, provides for the security taken under section 82 of the present act, and which apparently would not be effective when held in support of a guarantee of an obligation. Since it is the practice in the oil industry to finance development through subsidiary companies with a guarantee by the parent company, this provision would ensure that the security taken under this section will be effective when held in support of such a guarantee. That is the purpose of the change but it is not an amendment. It is just a change from the old act.

The ACTING CHAIRMAN (*Mr. Clermont*): Are there any comments on Clause 82?

Clause 82 agreed to.

On clause 83—*Lien on bank shares.*

Mr. ELDERKIN: There is no change in the present act.

The ACTING CHAIRMAN (*Mr. Clermont*): Are there any comments on Clause 83?

Mr. GILBERT: Mr. Chairman, I wonder if Mr. Elderkin gave any consideration to the suggestions by Professor Ziegel with regard to these particular clauses?

Mr. ELDERKIN: I did not but the Department of Justice did, Mr. Gilbert, and they felt that no changes were necessary.

Mr. GILBERT: I see.

Mr. ELDERKIN: I referred Professor Ziegel's memorandum or brief to the Department of Justice and they felt that it was unnecessary to make any changes in Clauses 82 or 85.

One point that Professor Ziegel did bring up was the fact that some of these clauses appeared to be out of order and this is perfectly true. I mentioned this when I was introducing or tabling amendments at the first session. We got into a bit of trouble because in many provincial laws they refer to Section 82 or Section 88 of the Bank Act and if we do not stay with that particular numbering the provincial legislation will run into a considerable amount of trouble. Therefore, we had to do some juggling. Nobody likes the present order at all but we just had to do it to get them in the right numbers, that is all.

Clause 83 agreed to.

Clauses 84 to 87, inclusive, agreed to.

The ACTING CHAIRMAN (*Mr. Clermont*): I believe the Committee agreed that Clause 88 should stand.

Some hon. MEMBERS: Agreed.

Clause 88 stands.

On Clause 89—*Priority of bank's claim.*

Mr. GILBERT: Mr. Chairman, clauses 89 and 90 are dependent on 88. Is that correct, Mr. Elderkin?

Mr. ELDERKIN: Yes, there are some cross-references to it. Probably it would be better under the circumstances, Mr. Chairman, if clause 89 stood with clause 88.

The ACTING CHAIRMAN (*Mr. Clermont*): Is the Committee agreeable to let Clause 89 stand as we have stood Clause 88?

Some hon. MEMBERS: Agreed.

Clause 89 stands.

Mr. MACDONALD (*Rosedale*): Perhaps right up to clause 90.

Mr. ELDERKIN: Mr. Chairman, I think clause 90 should stand as well.

The ACTING CHAIRMAN (*Mr. Clermont*): Is the Committee agreeable to letting clause 90 stand as well?

Some hon. MEMBERS: Agreed.

Clause 90 stands.

On Clause 91—*Powers re interest.*

Mr. COMTOIS: I move:

91(3)(6) That Bill C-222, An Act respecting Banks and Banking, be amended,

(a) by striking out lines 35 to 48, inclusive, on page 74 thereof and by substituting therefor the following:

"advance referred to in subsection (2) is, for any part of an interest period commencing on or after the first day of January, 1967, one and three-quarters per cent plus the average of the market-yield on short-term bonds of Canada for all Wednesdays in the averaging period immediately preceding such interest period, calculated to the nearest one-quarter of one per cent or, if the result would be equidistant from two multiples of one-quarter of one per cent, to that multiple thereof that is the lower." and

(b) by striking out lines 22 to 24, inclusive, on page 75 thereof and by substituting therefor the following:

"Canada or of an equity of redemption therein or of an assignment of or mortgage on the interest of a lessee thereof;".

91(9) (10) That Bill C-222, An Act respecting Banks and Banking, be amended

(a) by striking out line 14 on page 76 thereof and by substituting therefor the following:

"subsections (2) to (8) of this section, subsection (1) of section 93, section 112 and subsection (1) of section 151 expire on the fifteenth"; and

(b) by striking out line 20 on page 76 thereof and by substituting therefor the following:

"(8) of this section and subsection (1) of section 93 expire shall be given by proclamation of"

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: Mr. Chairman, on clause 91, you will recall that the Minister announced in the house that he was going to present an amendment to this particular clause—well, in fact, to all the lending clauses for disclosure of costs. I am sorry, the first amendment does not relate to that. The first amendment that is here is with respect to the interest rate.

Mr. GILBERT: Mr. Chairman, before Mr. Elderkin gets into it, I think that Mr. Lambert asked that this section be stood.

The ACTING CHAIRMAN (*Mr. Clermont*): Is it agreeable to the Committee that we stand Clause 91.

Some hon. MEMBERS: Agreed.

Clause 91 stands.

On Clause 92—*Charges on discounts.*

On Clause 93—*No charge on government cheques.*

Mr. ELDERKIN: Mr. Chairman, there has been a considerable amount of redrafting and I think if you stand clause 91 you should probably stand clauses 92 and 93 as well because in drafting for disclosure of the cost of loans the draftsmen have done a considerable amount of changing around between clauses 91, 92 and 93 and I suggest that it might be well to stand the three of them.

The ACTING CHAIRMAN (*Mr. Clermont*): Is it the wish of this Committee that clauses 92 and 93, as suggested, stand.

Some hon. MEMBERS: Agreed.

Clauses 92 and 93 stand.

(*Translation*)

Mr. LATULIPPE: 91 stands as it is?

The ACTING CHAIRMAN (*Mr. Clermont*): Yes, Mr. Latulippe, 91, 92 and 93 stand as they are. Does this meet your views?

On Clause 96—*Banks not bound to see to trust in deposits.*

Mr. ELDERKIN: There are no amendments to clause 96.

The ACTING CHAIRMAN (*Mr. Clermont*): Are there any comments on Clause 96?

Mr. MACDONALD (*Rosedale*): I notice that (1) is circled. What was it circled for?

The ACTING CHAIRMAN (*Mr. Clermont*): I understand that a question was asked by Mr. Monteith and Mr. Flemming.

Mr. ELDERKIN: There is no amendment; I beg your pardon, there is a change in Clause 96 from what is in the present act; that is, in subclause (4) which provides that a process in the nature of a seizure shall be effective only as regards a branch in which it is served. Previous to this it was open to doubt whether you would not have to serve every branch of the bank in Canada.

The ACTING CHAIRMAN (*Mr. Clermont*): Mr. Flemming, there was a list given to us by Mr. Cameron which the Committee looked over yesterday and Mr. Monteith mentioned a few numbers, too, and one of them was Clause 96.

Mr. FLEMMING: Could we stand it Mr. Chairman then? I am not familiar with what Mr. Monteith suggested.

The ACTING CHAIRMAN (*Mr. Clermont*): Will the committee agree that we stand 96?

Some hon. MEMBERS: Agreed.

Clause 96 stands.

On Clause 97—*Transmission by death.*

Mr. COMTOIS: I move

> That Bill C-222, An Act respecting Banks and Banking, be amended by striking out line 24 on page 80 thereof and substituting therefor the following:
>
> "the transmission in accordance with the claim; but nothing in this section shall be construed to prevent the bank from refusing to give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: Mr. Chairman, the amendment which is the same, and for the same purpose as that for Section 51 (1), namely, this is to give the authority to the bank to obtain such information as they require before making a transmission.

The ACTING CHAIRMAN (*Mr. Clermont*): Any comments on Clause 97?

Mr. MACDONALD (*Rosedale*): I think we should put the amendment first, should we not?

The ACTING CHAIRMAN (*Mr. Clermont*): I asked if there were any comments. Then is the amendment accepted by this Committee?

Amendment agreed to.

Clause 97, as amended, agreed to.

On Clause 101—*Conditions applicable.*

Mr. COMTOIS: I move

> That Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 43 to 45, inclusive, on page 82 thereof and substituting therefor the following:
>
> "resolution carried by not less than two-thirds of the votes cast by the shareholders present in person or represented by proxy at the meeting, the"

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: Mr. Chairman, there is an amendment here. I explained this at an earlier meeting of the Committee. The amendment refers to voting on amalgamation proposals. Previously votes of two-thirds of the subscribed capital stock of the bank were required in the case of a merger or amalgamation. In view of the restrictions on voting that are included in Sections 52 to 57, it would probably be very difficult to obtain this number of votes. There are many other safeguards such as the approval of the Minister and of the Governor in Council and, I might mention, the Canada Corporations Act requires only a majority vote of shareholders present at the meeting. This amendment requires two-thirds of the votes cast by shareholders present at the meeting. I think it is a sensible arrangement because it would be very difficult in the future, I think, to obtain the majority which is now in effect.

The ACTING CHAIRMAN (*Mr. Clermont*): Any comments on this amendment, Mr. Leboe?

Mr. LEBOE: Present in person or represented by proxy?

Mr. ELDERKIN: Yes Mr. Leboe.

The ACTING CHAIRMAN (*Mr. Clermont*): Is this amendment approved by the Committee?

Amendment agreed to.

Clause 101, as amended, agreed to.

Clause 103 agreed to.

On Clause 106—*Return in form of Schedule Q.*

Mr. ELDERKIN: Clause 106 was not in the list, Mr. Chairman, but I do not know why, it is just a return, that is all.

The ACTING CHAIRMAN (*Mr. Clermont*): Mr. Gilbert, do you have any comments on 106? It was not on the list?

Mr. LEBOE: Well, if there is any doubt, Mr. Chairman, why do we not let it stand?

Mr. GILBERT: I understand it was because of the questions that arose on schedule Q.

Mr. ELDERKIN: This would not prevent a change in schedule Q, Mr. Gilbert. This provides only for the return being made, that is all.

The ACTING CHAIRMAN (*Mr. Clermont*): Is it satisfactory?

Mr. GILBERT: I have no objection to it.

The ACTING CHAIRMAN (*Mr. Clermont*): Does 106 carry?

Clause 106 agreed to.

On Clause 117—*Additional information.*

Mr. ELDERKIN: Clause 117 is also not on the list. This is the one which permits the Bank of Canada to require returns from the bank but the bank is not required "to furnish information with respect to the accounts or affairs of any particular person." Again, I do not know why this was not on the list. Well, it is a new principle, I will admit, but it really is putting into legislation what has been the practice for a long time, on a voluntary basis, and as much as anything else, it is for the benefit, if you will, of the banks because the banks have been doing this on a voluntary basis without any authority to do it in the legislation. They do supply the Bank of Canada with a considerable amount of information but not regarding individual accounts.

The ACTING CHAIRMAN (*Mr. Clermont*): Any comments on Clause 117? Yes, Mr. Flemming?

Mr. FLEMMING: What I was going to say was, as I understand it, it simply puts in the act what has been the practice previously?

Mr. ELDERKIN: Yes, to a great extent. Some of the banks felt they could not do this and so they sent them to me instead and I sent them to the Bank of Canada.

Clause 117 agreed to.

On Clause 122—*When directors to make calls.*

Mr. COMTOIS: I move

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 11 to 22, inclusive, on page 90 thereof and substituting therefor the following:

"months.

Under other proceedings.

(3) In the event of proceedings being taken under any Act for the winding-up of the bank in consequence of the insolvency of the bank, any calls on shareholders made thereafter shall be made in accordance with such Act.

Forfeiture.

(4) Failure on the part of a shareholder to pay any call referred to in this section when due constitutes a forfeiture by the shareholder of all claim in or to any part of the assets of the bank; but the call and any further call thereafter is recoverable from him as if no forfeiture had taken place."

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: The amendment is really to a great extent editoral. Paragraphs (g) and (h) of subclause (2) are not relative to subclause (2) at all. Some time along the way these got mixed up. These are properly separate subclauses and the effect of the amendment is to make them into separate subclauses. They are not relative to subclause (2).

The ACTING CHAIRMAN (*Mr. Clermont*): Any comments on the suggested amendment? Is the amendement approved?

Amendment agreed to.

Clause 122, as amended, agreed to.

Mr. ELDERKIN: Mr. Chairman, I would like to ask Clause 124 to stand. We may have to look at an amendment on that.

The ACTING CHAIRMAN (*Mr. Clermont*): Is the Committee agreeable that Clause 124 stand?

Some hon. MEMBERS: Agreed.

Clause 124 stands.

On Clause 137—*Statements not signed as required.*

The ACTING CHAIRMAN (*Mr. Clermont*): Any comments on Clause 137?

Mr. ELDERKIN: There is no amendment on it. It was circled by somebody.

Mr. LEBOE: It was Mr. Lambert.

The ACTING CHAIRMAN (*Mr. Clermont*): Mr. Lambert or Mr. Flemming?

Mr. FLEMMING: It was Mr. Monteith, I believe.

The ACTING CHAIRMAN (*Mr. Clermont*): Is it agreeable that we stand Clause 137?

Some hon. MEMBERS: Agreed.

Clause 137 stands.

Mr. MACDONALD (*Rosedale*): I think there may be further discussion on Clause 138. The Chairman indicated to me before he left that he had heard some comments on that.

The ACTING CHAIRMAN (*Mr. Clermont*): Is it agreeable that we stand Clause 138?

Some hon. MEMBERS: Agreed.

Clause 138 stands.

Clause 139 agreed to.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, could I ask that Clause 145 be allowed to stand?

The ACTING CHAIRMAN (*Mr. Clermont*): Is the Committee agreeable that we stand Clause 145?

Some hon. MEMBERS: Agreed.

Clause 145 stands.

On Clause 150—*Acquisition of warehouse receipts, bills of lading, etc.*

Mr. COMTOIS: I move

> That Bill C-222, An Act respecting Banks and Banking, be amended by striking out line 35 on page 98 thereof and substituting therefor the following:
>
> "otherwise authorized by an Act of the Parliament of Canada."

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: There is a small amendment here which is a drafting amendment only. On the last line of the clause, instead of saying "authorized by this act.", the draftsmen have suggested "authorized by an act of the parliament of Canada." There may be other acts which could affect this and provision is extended to exempt transactions authorized by any other act of parliament.

The ACTING CHAIRMAN (*Mr. Clermont*): Is the amendment approved?

Amendment agreed to.

Clause 150, as amended, agreed to.

The ACTING CHAIRMAN (*Mr. Clermont*): Clause 151.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I wonder if the Committee would agree to standing that one as well, along with the proposed amendments.

The ACTING CHAIRMAN (*Mr. Clermont*): Is it agreed that we stand Clause 151?

Some hon. MEMBERS: Agreed.

Clause 151 stands.

On Clause 157—*Unauthorized use of title "bank", etc.*

Mr. COMTOIS: I move

> That Bill C-222, An Act respecting Banks and Banking, be amended by striking out line 13 on page 101 thereof and substituting therefor the following:
>
> "against this Act; but this subsection does not apply where such use is required by law and is confined to a statement contained in a prospectus that a corporation is the holder of shares of the capital stock or evidences of indebtedness of a bank."

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: There is an amendment to Clause 157, to provide for a requirement in provincial laws. In some cases a prospectus must list the securities owned by the issuing corporation and where the amendment is to take care of this it says it

> —does not apply where such use is required by law and is confined to a statement contained in a prospectus that a corporation is the holder of shares of the capital stock or evidences of indebtedness of a bank.

In some provinces for instance, mutual funds prospectus must state the securities which they own at the time and it would be a violation if they put a bank's name on it at the present time. This is simply to accommodate to provincial law.

The ACTING CHAIRMAN (*Mr. Clermont*): Any comments on Clause 157(2)? Yes, Mr. Lind?

Mr. LIND: What is the violation, if they own bank shares? If they list the bank it would become a violation.

Mr. ELDERKIN: That is right. It becomes in effect a technical violation, that is all.

The ACTING CHAIRMAN (*Mr. Clermont*): The amendment is approved? Clause 157, as amended carries?

Amendment agreed to.

Clause 157, as amended, agreed to.

On Clause 158—*Unlawful transfer of bank stock.*

Mr. COMTOIS: I move

That Bill C-222, An Act respecting Banks and Banking, be amended

(a) by striking out line 15 on page 101 thereof and substituting therefor the following:

"section 53 or subsection (2) of section 56 is guilty of an offence and liable on summary"; and

(b) by striking out line 19 on page 101 thereof and substituting therefor the following:

"violation of any provision of section 53 or subsection (2) of section 56 is guilty of an".

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: The amendment in Clause 158, Mr. Chairman, is in two places; because of the amendments to subclause (2) of Clause 56 we have to include that reference on line 15 and again on line 19. These are the only amendments that are involved. These are penalties for violations and we have to add the penalty for violation of Clause 56 (2).

The ACTING CHAIRMAN (*Mr. Clermont*): Any comments on the amendment suggested. Amendment carried?

Amendment agreed to.

Clause 158, as amended, agreed to.

On Clause 162—*Coming into force.*

Mr. COMTOIS: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out clause 162 on page 102 thereof and by substituting therefor the following:

Coming into force.

"162. (1) Except as otherwise expressly provided in this Act, this Act shall come into force on a day to be fixed by proclamation of the Governor in Council.

Saving.

(2) Section 6 and this section shall come into force, and section 6 of the *Bank Act*, Chapter 48 of the Statutes of Canada, 1953-54, is repealed, on the day that this Act is assented to."

Commencement of voting restrictions.

(3) Section 54 and subsection (6) of section 56 shall come into force three months after this Act comes into force."

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: The amendment to Clause 162 I might explain. The first one is the standard provision,

—this Act shall come into force on a day to be fixed by proclamation—

The second one provides for the banks to carry on business upon assent of the act but before proclamation. The reason for this is that the act will probably not be proclaimed for as much as up to six weeks after assent is received, because a lot of things have to be done in the nature of statements, getting returns and that information; but this would carry us over the period in which they would be empowered to carry on business under the extension which is presently in force; and subsection (2), in other words, says that it comes into force immediately the act is assented to. The remainder of the act comes into force on proclamation.

Subsection (3) is new, for the purpose of permitting banks to hold shareholders' meetings for the stated period, namely three months, without applying the voting requirement and the requirements of eligibility of voters. The banks have indicated—some of them anyway—that they are going to, as soon as the act is passed, split their shares, and this means that they have to have a shareholders' meeting to do so. It is rather essential that probably they will want to do this as quickly as possible. If one does it they will all want to do it, or most of them will, and this would permit them to carry on under the present rules of the game, if you will, as far as shareholders' meetings are concerned, for a period of three months after the act comes into force. They will not have to, in other words, check out the shareholders as to voting privileges or anything. This is the purpose of the three amendments to Clause 162.

The ACTING CHAIRMAN (*Mr. Clermont*): Is Clause 162 as amended carried?

Amendment agreed to.

Clause 162, as amended, agreed to.

Mr. ELDERKIN: The amendments to schedule A Mr. Chairman, are simply to add the names of two banks that have been incorporated since this bill was first drafted, namely the Bank of Western Canada and the Bank of British Columbia. Their names are actually added by their charter, but in order to complete the picture we put them in here as well.

Mr. COMTOIS: I move

That Bill C-222, An Act respecting Banks and Banking, be amended by inserting at the end of Schedule A thereof, under the appropriate headings, the following:

"Bank of Western Canada	Banque de l'Ouest Canadien	$ 25,000,000	$10 Winnipeg
Bank of British Columbia	Banque de Colombie-Britannique .	$100,000,000	$10 Vancouver"

Mr. MACDONALD (*Rosedale*): I second the motion.

The ACTING CHAIRMAN (*Mr. Clermont*): Are there any comments on the amendment to schedule A?

Is schedule A, as amended, carried?

Schedule A as amended agreed to.

Mr. ELDERKIN: Schedule B was not circled; I am sorry.

Mr. LEBOE: Mr. Chairman, it is now 5.45; we have done very well, and I wonder if this would not be a reasonable time to adjourn. All of the other schedules except two are circled.

Mr. MACDONALD (*Rosedale*): If Mr. Leboe could bear with us for a moment, there are a couple of amended schedules here; perhaps we could carry those. Schedules B to L all relate to clause 88 which we have stood, and I think appropriately they should be stood.

Mr. LEBOE: There are only R and S left.

Mr. MACDONALD (*Rosedale*): No, schedules M,N,O and P also have amendments. I wonder if we could tidy this up?

Mr. LEBOE: I am sorry, but I have to leave.

The ACTING CHAIRMAN (*Mr. Clermont*): Are there any comments on the suggestion made by Mr. Leboe?

Mr. LEBOE: I have to leave now.

The ACTING CHAIRMAN (*Mr. Clermont*): I understand it is the thinking of this Committee that we adjourn until 11 o'clock tomorrow morning. Thank you, gentlemen.

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. 49

THURSDAY, FEBRUARY 16, 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:

Mr. C. F. Elderkin, Special Adviser, Department of Finance.
Mr. L. Rasminsky, Governor of the Bank of Canada.

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

25758—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Addison,	Gilbert,	McLean (*Charlotte*),
Basford,	Irvine,	Monteith,
Chrétien,	Lambert,	More (*Regina City*),
Clermont,	Latulippe,	Munro,
Coates,	Leboe,	Saltsman,
Comtois,	Lind,	Tremblay,
Flemming,	Macdonald (*Rosedale*),	Valade,
Fulton,	Mackasey,	Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, February 16, 1967.
(99)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:15 a.m., this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Chrétien, Clermont, Flemming, Fulton, Gilbert, Gray, Irvine, Laflamme, Latulippe, Leboe, Lind, Macdonald (*Rosedale*), McLean (*Charlotte*), Wahn (14).

Also present: Mr. Grégoire.

In attendance: Mr. C. F. Elderkin, Special Adviser, Department of Finance.

The Committee resumed consideration of Bill C-222, An Act respecting Banks and Banking.

It was unanimously agreed to revert to clause 36 and Mr. Elderkin was questioned. After further discussion and questioning, it was unanimously agreed that clause 36 be allowed to stand.

Schedule C, D, E, F, G, H, I, J, K, and L were allowed to stand.

On schedules M, N, O, P, and Q

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That Schedules M, N, O, P, and Q be deleted and the following substituted therefor:

SCHEDULE M

(Section 103)

Return of Assets and Liabilities
of the .....Bank
as at .....19.....
(In thousands of dollars)

ASSETS

1. Gold coin and bullion ..... $
2. Other coin in Canada .....
3. Other coin outside Canada .....
4. Notes of and deposits with Bank of Canada .....
5. Government and bank notes other than Canadian .....
6. Deposits with banks, in Canadian currency .....
7. Deposits with banks, in currencies other than Canadian .....
8. Cheques and other items in transit, net .....

25758—1½

9. Treasury bills of Canada, at amortized value .....
10. Other securities issued or guaranteed by Canada maturing within three years, at amortized value .....
11. Securities issued or guaranteed by Canada not maturing within three years, at amortized value .....
12. Securities issued or guaranteed by a province, at amortized value
13. Securities issued or guaranteed by a municipal or school corporation in Canada, not exceeding market value .....
14. Securities of other Canadian issuers, not exceeding market value
15. Securities of issuers other than Canadian, not exceeding market value .....
16. Mortgages and hypothecs insured under the National Housing Act, 1954 .....
17. Day, call and short loans to investment dealers and brokers, in Canadian currency, secured .....
18. Day, call and short loans to investment dealers and brokers, in currencies other than Canadian, secured .....
19. Loans to a province, in Canadian currency .....
20. Loans to a municipal or school corporation in Canada, in Canadian currency, less provision for losses .....
21. Other loans in Canadian currency, less provision for losses ....
22. Other loans in currencies other than Canadian, less provision for losses .....
23. Bank premises at cost, less amounts written off .....
24. Securities of and loans to a corporation controlled by the bank ..
25. Customers' liability under acceptances, guarantees and letters of credit, as per contra .....
26. Other assets .....

Total assets ..... $

LIABILITIES

1. Deposits by Canada, in Canadian currency ..... $
2. Deposits by a province, in Canadian currency .....
3. Deposits by banks, in Canadian currency .....
4. Deposits by banks, in currencies other than Canadian .....
5. Personal savings deposits payable after notice, in Canada, in Canadian currency .....
6. Other deposits payable after notice, in Canadian currency .....
7. Other deposits payable on demand, in Canadian currency .....
8. Other deposits, in currencies other than Canadian .....
9. Advances from Bank of Canada, secured .....
10. Acceptances, guarantees and letters of credit .....
11. Other liabilities .....
12. Debentures issued and outstanding .....
13. Capital paid up .....
14. Rest account .....
15. Undivided profits at latest financial year end .....

Total liabilities ..... $

SUPPLEMENTARY INFORMATION

Aggregate amount of loans to directors and firms of which they are members and loans for which they are guarantors $

Amount in currencies other than Canadian included in

Asset 8	Asset 10	Asset 11	Asset 12	Asset 13	Asset 14
$.....	$.....	$.....	$.....	$.....	$.....

Branch returns antedating the last day of the month used in the preparation of this return:

Branch	Date of return

Controlled banking corporations whose assets and liabilities are included in this return .....

SCHEDULE N

(Section 60(2)(a))

Statement of Assets and Liabilities

of the ..... Bank

as at October 31, 19.....

ASSETS

1. Cash and due from banks	$
2. Cheques and other items in transit, net	
3. Securities issued or guaranteed by Canada, at amortized value	
4. Securities issued or guaranteed by a province, at amortized value	
6. Day, call and short loans to investment dealers and brokers, secured	
7. Other loans, including mortgages, less provision for losses	
8. Bank premises at cost, less amounts written off	
9. Securities of and loans to a corporation controlled by the bank	
10. Customers' liability under acceptances, guarantees and letters of credit, as per contra	
11. Other assets	
	$

LIABILITIES

1. Deposits by Canada	$
2. Deposits by a province	
3. Deposits by banks	
4. Personal savings deposits payable after notice, in Canada, in Canadian currency	
5. Other deposits	
6. Advances from Bank of Canada, secured	
7. Acceptances, guarantees and letters of credit	
8. Other liabilities	
9. Accumulated appropriations for losses	

10. Debentures issued and outstanding .....
11. Capital paid up .....
12. Rest account .....
13. Undivided profits .....

$

Note: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.

SCHEDULE O

(Section 60(2)(b))

Statement of Revenue, Expenses and Undivided Profits

of the ..... Bank

for the financial year ended October 31, 19.....

Revenue

1. Income from loans ..... $
2. Income from securities .....
3. Other operating revenue .....
4. Total revenue .....

Expenses

5. Interest on deposits and bank debentures .....
6. Salaries, pension contributions and other staff benefits ..
7. Property expenses, including depreciation .....
8. Other operating expenses, including provision for losses on loans based on five-year average loss experience .....
9. Total expenses .....
10. Balance of revenue .....
11. Appropriation for losses .....
12. Balance of profits before income taxes .....
13. Provision for income taxes relating thereto .....
14. Balance of profits for the year .....
15. Dividends .....
16. Amount carried forward .....
17. Undivided profits at beginning of year .....
18. Transfer from accumulated appropriations for losses .....
19. Transferred to Rest account .....
20. Undivided profits at end of year ..... $

Note: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.

SCHEDULE P

(Section 60(2)(c))

Statement of Accumulated Appropriations for Losses

of the ..... Bank

for the financial year ended October 31, 19 .....

1. Accumulated appropriations at beginning of year
   General ..... Tax-paid ..... Total ..... $
2. Appropriation from current year's operations .....
3. Loss experience on loans less provision included in other operating expenses .....

4. Profits and losses on securities, including provisions to reduce securities other than those of Canada and a province to values not exceeding market .....
5. Other profits, losses and non-recurring items, net .....
6. Provision for income taxes .....
7. Transferred to undivided profits ..... _____
8. Accumulated appropriations at end of year

General ..... Tax-paid ..... Total ..... $_____

Note: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.

SCHEDULE Q

(Section 106)

Return of Revenue, Expenses and Other Information

of the ..... Bank

for the financial year ended October 31, 19 .....

(In thousands of dollars)

Revenue

1. Income from loans ..... $
2. Income from securities .....
3. Other operating revenue ..... _____
4. Total revenue ..... _____

Expenses

5. Interest on deposits and bank debentures .....
6. Salaries, pension contributions and other staff benefits .....
7. Property expenses, including depreciation .....
8. Other operating expenses, including provision for losses on loans based on five-year average loss experience ..... _____
9. Total expenses ..... _____

Supplementary Information

10. Provision for income taxes .....
11. Dividends to shareholders .....
12. Loss experience on loans, securities and other investments less provision included in other operating expenses ..... _____
13. Leaving for shareholders' equity and accumulated appropriations for losses .....
14. Capital contributions from shareholders ..... _____
15. Net additions to shareholders' equity and accumulated appropriations for losses .....
16. Allocated to:
    - Undivided profits .....
    - Rest account .....
    - Capital paid up .....
    - General appropriations .....
    - Tax-paid appropriations ..... _____

Schedules M, N, O, P, and Q were carried, as amended.

The Committee then proceeded to consideration of *Bill C-223, An Act respecting Savings Banks in the Province of Quebec.*

Clause 1 was allowed to stand.

Clauses 2 to 5 inclusive were carried.

On clause 6

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 6 be amended by striking out the clause and substituting the following therefor:

"6. Subject to this Act,

(a) if Parliament sits on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the 1st day of July, 1977, and no longer; and

(b) if Parliament does not sit on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the sixtieth sitting day of Parliament next thereafter, and no longer."

The clause was carried, as amended.

Clauses 7 to 9, inclusive, were carried.

On clause 10

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 10 be amended by striking out paragraph (g) on page 4 and substituting therefor the following:

"(g) the remuneration of the chairman of the board, the president, vice-presidents and other directors;"

The clause, as amended, was carried.

Clauses 11 to 15, inclusive, were carried.

On clause 16

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 16 be amended by striking out line 7 on page 6 and substituting therefor the following:

"(2) The directors may elect by ballot from their number a chairman of the board of directors.

(3) A person elected to an office under this"

The clause was carried, as amended.

Clauses 17 and 18 were carried.

On clause 19

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 19 be amended by striking out subclauses (1) and (2) on page 6 and by substituting therefor the following:

"19. (1) The Chairman of the board, if any, or in his absence, the president, or in their absence, a vice-president, shall preside at all meetings of the directors.

(2) Where at any meeting of the directors, the chairman of the board, if any, the president and all vice-presidents are absent, one of the directors present, chosen to act *pro tempore,* shall preside."

The clause was carried, as amended.

On clause 20

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 20 be amended by striking out line 33 on page 6 and by substituting therefor the following:

"fixed by a shareholders' by-law, to be paid to the chairman of the board, the president,"

The clause was carried, as amended.

Clauses 21, 22 and 23 were carried.

On clause 24

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 24 be amended by striking out line 25 on page 8 and by substituting therefor the following:

"City and District Savings Bank is three million"

The clause was carried, as amended.

Clauses 25 and 26 were carried.

On clause 27

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 27 be amended by striking out line 46 on page 9 and substituting therefor the following:

"a date, not earlier than the thirtieth day after the day on"

The clause was carried, as amended.

Clause 28 was carried.

On clause 29

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 29 be amended by striking out lines 39 and 40 on page 10 and subtsituting therefor the following:

"give his post office address and this shall appear in the stock books in connection with"

The clause was carried, as amended.

Clause 30 was allowed to stand.

Clause 31 was carried.

Clause 32 was allowed to stand.

Clauses 33 to 43, inclusive, were allowed to stand.

On clause 44

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 44 be amended by striking out line 35 on page 15 and by substituting therefor the following:

"misson in accordance with the claim; but nothing in this subsection shall be construed to prevent the bank from refusing to record or give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

The clause was carried, as amended.

On clause 45

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 45 be amended by

(a) striking out lines 11 and 12 at page 16 and substituting therefor the following:

"right, but does not include an official or corporation performing a function or duty in"

(b) striking out lines 37 to 40, inclusive, at page 17 and substituting therefor the following:

"bank;

(f) both shareholders are agents of Her Majesty in right of Canada or officials or corporations performing on behalf of Her Majesty in such right a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (a) of subsection (1);

(g) both shareholders are agents of Her Majesty in right of the same province or officials or corporations performing on behalf of Her Majesty in right of that province a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (a) of subsection (1); or

(h) both shareholders are associated within the meaning of paragraphs (a) to (g) with the same shareholder."

and

(c) striking out line 33 on page 18 and substituting therefor the following:

"virtue of paragraph (h) of subsection (2) by"

The clause, as amended, was carried.

On clause 46

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 46 be amended by striking out line 21 on page 19 and substituting therefor the following:

"of a share of the capital stock of the bank to any person, including, without restricting the generality of the foregoing, an official or corporation mentioned in clause (B) of subparagraph (i) of paragraph (a) of subsection (1) of section 45,"

The clause was carried, as amended.

On clause 47

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 47 be amended by striking out line 17 on page 22 and substituting therefor the following:

"(c) an official or corporation administering, managing or investing"

The clause was carried, as amended.

Clause 48 was carried.

On clause 49

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 49 be amended by

(a) striking out subclause (2) of clause 49 on page 25;

(b) renumbering subclauses (3) to (8) of clause 49 on pages 25 to 27, inclusive, of the Bill as subclauses (2) to (7), respectively;

(c) striking out line 27 on page 27 and substituting therefor the following:

"(b) an official or corporation administering, managing or investing"; and

(d) striking out the figure (6) in line 34 on page 27 and by substituting therefor the figure "(5)".

The clause was carried, as amended.

Clauses 50, 51 and 52 were carried.

On clause 53

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 53 be amended by

(a) renumbering subclauses (1), (2) and (3) of clause 53 as subclauses (2), (3) and (4), respectively, and

(b) inserting the following as subclause (1) of clause 53

"Financial year."

53. (1) The financial year of the bank shall end on the expiration of the 31st day of October in each year."

(c) striking out the word "and" in line 48 on page 28;

(d) striking out line 8 on page 29 and substituting therefor the following:

"earned in the financial year; and

(c) a statement of accumulated appropriations for losses of the bank for the financial year, showing the information in the form

specified in Schedule C and such additional information and particulars as in the opinion of the directors are necessary to present fairly the amount of appropriations available to meet losses other than those for which specific provisions have been made."

(e) striking out line 17 on page 29 and substituting therefor the following:

"Schedules A, B and C."

The clause, as amended, was carried.

Clause 54 was carried.

On clause 55

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 55 be amended by

(a) striking out subclause (11) of clause 55 and substituting therefor the following:

"(1) The auditors shall make a report to the shareholders on the statement of assets and liabilities, the statement of revenue, expenses and undivided profits and the statement of accumulated appropriations for losses of the bank to be submitted by the directors to the shareholders under section 53."

(b) striking out lines 46 and 47 on page 30 and substituting therefor the following:

"of the financial year, its revenue, expenses and undivided profits for the year and its accumulated appropriations for the year, and shall include such remarks as they"

The clause, as amended, was carried.

Clauses 56 to 79, inclusive, were carried.

Clauses 80 and 81 were allowed to stand.

Clauses 82 to 85, inclusive, were carried.

On clause 86

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 86 be amended by striking out line 35 on page 45 and substituting therefor the following:

"the transmission in accordance with the claim; but nothing in this section shall be construed to prevent the bank from refusing to give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

The clause was carried, as amended.

Clauses 87 to 99, inclusive, were carried.

On clause 100

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 100 be amended by striking out line 36 on page 49 and substituting the following therefor:

"declaration in the form set out in Schedule D, signed"

The clause, as amended, was carried.

Clauses 101 and 102 were carried.

On clause 103

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 103 be amended by striking out lines 3 to 14 on page 51 and substituting the following therefor:

"months.

(3) In the event of proceedings being taken under any Act for the winding-up of the bank in consequence of the insolvency of the bank, any calls on shareholders made thereafter shall be in accordance with such Act.

(4) Failure on the part of a shareholder to pay any call referred to in this section when due constitutes a forfeiture by the shareholder of all claim in or to any part of the assets of the bank, but the call and any further call thereafter is recoverable from him as if no forfeiture had taken place."

The clause was carried, as amended.

Clauses 104 to 119, inclusive, were carried.

Clause 120 was allowed to stand.

Clauses 121 to 130, inclusive, were carried.

On clause 131

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 131 be amended by striking out the clause and substituting the following therefor:

"131. (1) Except as otherwise expressly provided in this Act, this Act shall come into force on a day to be fixed by proclamation of the Governor in Council.

(2) Section 6 and this section shall come into force and section 6 of the *Quebec Savings Banks Act*, Chapter 41 of the Statutes of 1953-54, is repealed on the day that this Act is assented to.

(3) Section 47 and subsection (5) of section 49 shall come into force three months after this Act comes into force."

The clause was carried, as amended.

On Schedule A

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That Schedule A be amended.

(a) by striking out items 6, 10, 11, 12 and 14 on page 59 thereof and substituting therefor the following:

"6. Securities issued or guaranteed by a province, at amortized value .....
10. Other mortgages and hypothecs, less provision for losses ....
11. Loans otherwise secured, less provision for losses .....
12. Loans without security, less provision for losses .....
14. Bank premises at cost, less amounts written off."

and

(b) by striking out item 2 on page 60 thereof and substituting therefor the following:

"2. Deposits by a province, in Canadian currency ....."

The Schedule, as amended, was carried.

On Schedule B

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That Schedule B be amended by striking out the Schedule and substituting the following therefor:

"SCHEDULE B

(Section 53(2)(b))

Statement of Revenue, Expenses and Undivided Profits

of the ..... Bank

for the financial year ended October 31, 19.....

Revenue	
Income from loans	$
Income from securities	
Other operating revenue	
Total revenue	
Expenses	
Interest on deposits	
Salaries, pension contributions and other staff benefits	
Property expenses, including depreciation	
Other operating expenses, including provision for losses on loans based on five-year average loss experience	
Total expenses	
Balance of revenue	
Appropriation for losses	
Balance of profits before income taxes	
Provision for income taxes relating thereto	

Balance of profits for the year .....
Dividends .....

Amount carried forward .....
Undivided profits at beginning of year .....
Transfer from accumulated appropriations for losses .....

Transferred to Rest account .....
Undivided profits at end of year ..... $

Note: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents."

The Schedule was carried, as amended.

On Schedule C

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That Schedule C be amended.

"SCHEDULE C

(Section 53(2)(c))

Statement of Accumulated Appropriations for Losses of the ..... Bank for the financial year ended October 31, 19 .....

1. Accumulated appropriations at beginning of year
   General ..... Tax-paid ..... Total ..... $
2. Appropriation from current year's operations .....
3. Loss experience on loans less provision included in other operating expenses .....
4. Profits and losses on securities, including provisions to reduce securities other than those of Canada and a province to values not exceeding market .....
5. Other profits, losses and non-recurring items, net .....
6. Provision for income taxes .....
7. Transferred to undivided profits .....
8. Accumulated appropriations at end of year
   General ..... Tax-paid ..... Total ..... $

Note: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents."

and

(b) by striking out the words "SCHEDULE C" on page 62 thereof and substituting therefor the following:

"SCHEDULE D

Declaration Required by Section 100."

The Committee then reverted to clause 1 which was carried.

At 12.15 p.m. the Committee adjourned until 3.45 p.m. this day.

AFTERNOON SITTING
(100)

The Committee resumed at 3:45 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Chrétien, Clermont, Comtois, Flemming, Fulton, Gilbert, Gray, Laflamme, Latulippe, Leboe, Macdonald (*Rosedale*), Tremblay, Wahn (13).

In attendance: Representing the Bank of Canada: Messrs. Louis Rasminsky, Governor; J. R. Beattie, Deputy Governor; L. Hébert, Deputy Governor; G. K. Bouey, Adviser. *And also:* Mr. C. F. Elderkin, Special Adviser, Department of Finance.

The Committee proceeded to consideration of Bill C-190, An Act to amend the Bank of Canada Act.

On clause 1

Mr. Rasminsky was questioned, and the clause was carried.

Clauses 2 to 8, inclusive were carried.

Clauses 9 and 10

The Committee agreed to consider clauses 9 and 10 simultaneously and Mr. Rasminsky was questioned.

At 5:00 p.m., the division bells having rung, the Committee adjourned until 8:00 p.m. this day.

EVENING SITTING
(101)

The Committee resumed at 8:12 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Clermont, Comtois, Flemming, Fulton, Gilbert, Gray, Latulippe, Leboe, Macdonald (*Rosedale*), Mackasey, McLean (*Charlotte*), Saltsman, Tremblay, Wahn (14).

In attendance: The same as at the afternoon sitting, and Dr. P. M. Ollivier, Parliamentary Counsel.

Questioning was resumed on clauses 9 and 10 and clause 9 was carried.

On clause 10

Mr. Fulton moved, seconded by Mr. Flemming, that clause 10 be deleted and the following substituted therefor:

"10. Paragraph (e) of section 19 of the said Act is repealed."

After further discussion and questioning, and the question having been put, the proposed amendment was negatived, on the following division: Yeas, 2; Nays, 7.

Clause 10 was carried.

Clauses 11 to 20, inclusive were carried.

The title and the Bill were carried.

Ordered,—That the Chairman report the Bill without amendment.

The Chairman thanked the witnesses, who were permitted to retire.

At 9:25 p.m. the Committee adjourned until 11:00 a.m., Tuesday, February 21, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(*Recorded by Electronic Apparatus*)

THURSDAY, February 16, 1967.
11.17 a.m.

The CHAIRMAN: Gentlemen, I will now call the meeting to order. We certainly have been making very constructive and adequate progress in our consideration up until now and I gather that this morning we are going to be considering the Quebec Savings Bank Act.

Mr. CLERMONT: Mr. Chairman, are we not going to finish the schedules.

The CHAIRMAN: Yes, we could do that.

Mr. CLERMONT: The intention was to go over the schedules, then move to the Quebec Savings Bank Act.

The CHAIRMAN: All right, Mr. Clermont, I think that would be more orderly. So let us revert to the Bank Act. It is understood, and perhaps Mr. Clermont could confirm this, that as far as the Bank Act is concerned Clauses 39, 75, 76, 88, 89, 90, 91, 92, 93, 96, 124, 137, 138, 145, 151 have been stood. The idea was that we would complete our discussion of those clauses next week.

Mr. CLERMONT: These clauses were stood at the request of different members. For instance Mr. Lambert wanted to discuss clause 88. I think Mr. Wahn wanted to discuss Clause 76.

The CHAIRMAN: Yes; I just wanted to make sure we understood what still remains to be passed.

Mr. CLERMONT: The clauses you enumerate—

The CHAIRMAN: I enumerated the list correctly according to your own recollection?

Mr. WAHN: Mr. Chairman, could I have the clauses you mentioned before Clause 75?

The CHAIRMAN: Before Clause 75?

Mr. WAHN: Before Clause 75.

The CHAIRMAN: The only one I read out was Clause 39.

Mr. WAHN: Mr. Chairman, you will recall when we were on the first day of clause by clause discussion we moved pretty rapidly through them and there was one—Clause 36—I spoke to you about after the meeting, and I asked you if we could possibly revert to that. Could that, by unanimous consent, be added to the list of those which are to be stood.

The CHAIRMAN: Yes, I think that could be done. You have some comments to make on it?

25758—2½

Mr. WAHN: There is some explanation required on the issue of rights. There is also, Mr. Chairman, the clause which we discussed on the executive committee which we thought might require a little further discussion. I have forgotten which clause that was.

The CHAIRMAN: We also stood Clause 1 which would be held to the very end of our consideration of the individual clauses of the bill. We had an initial round of discussion of Clause 1 and we agreed that it be stood. Perhaps it would be convenient, since you are the member who took a particular interest in Clause 36, if we reverted to that with unanimous consent. Perhaps you could make your comment and Mr. Elderkin could reply.

On Clause 36—*Allotment of shares not income.*

Mr. WAHN: It is really just a question of what is the purpose of Clause 36. It seems to say:

Notwithstanding any other Act—

—which I presume is the Income Tax Act—it could include the Income Tax Act—the value of any right issued to shareholders is not subject to income tax.

Mr. C. F. ELDERKIN (*Special Adviser, Department of Finance*): That is correct, Mr. Wahn. This was the intention that the rights issued with respect to any new issues of capital stock of a bank would not be considered income in the hands of the shareholders.

Mr. WAHN: Are rights issued generally in the case of other corporations subject to income tax under the Income Tax Act.

Mr. ELDERKIN: Quite frankly, I cannot answer that question in general.

Mr. WAHN: My question was why an exception would be made in this case. In other words, if rights are taxable generally—and I do not think they are—if they are not taxable then it is not necessary to make the exception. If they are taxable, or if they should become taxable in the future, why should bank shares be in a different position from, say, trust company shares or loan company shares or finance company shares or oil company shares or any other shares?

Mr. ELDERKIN: I think the section was put in here in 1954 or in an earlier revision—I am not sure which—just to clarify the situation as far as the Bank Act was concerned that these were not taxable.

Mr. WAHN: Originally there was some provision which resulted in bank shares being issued at a very substantial discount from market value. Is that correct, Mr. Elderkin?

Mr. ELDERKIN: That is correct. In 1954 the change was made, there of coruse, as far as issue to foreign holders—were concerned,—which is probably not relevant here—but under the present act shares can only be issued at a price equivalent to the capital and rest account value; in other words, to the balance sheet value. Under the provisions in this bill there is no restriction, and one would expect that the price of shares issued would be very much closer to the market.

Mr. WAHN: Under those circumstances I wonder if the reason for the clause has not disappeared. I can understand that when the statute required the rights

to purchase new shares be issued at far below the market value it might well have been unfair to subject shareholders to the tax, but when the banks now have the privilege of issuing shares just like every other company at a price reasonably close to the market price why should bank shares be entitled to this special treatment.

Mr. ELDERKIN: Mr. Wahn, I am not at all sure there is a special treatment. We will have to find out but I do not think rights are taxable as income.

Mr. WAHN: Then why—

Mr. ELDERKIN: Because they wanted to be certain that this was the case as far as the banks were concerned.

Mr. WAHN: But you are putting the bank shares in a different category from trust company shares or loan company shares or shares of any other company. What is the reason for this.

Mr. ELDERKIN: I cannot give you any other reason other than that was the purpose of the section.

Mr. WAHN: I would like to have it stood, Mr. Gray, until we get some explanation of this section.

The CHAIRMAN: Perhaps, Mr. Elderkin, you could consult with the Department of Justice or the Department of National Revenue then you might be able to provide some further information next week when we return to these clauses which have been stood.

Mr. FULTON: Mr. Chairman, may I ask whether the amendments which were put forward by the government or the department were dealt with and approved yesterday?

Mr. ELDERKIN: Mr. Fulton, not all of them because some of the clauses which are stood are clauses in which there are amendments.

The CHAIRMAN: Some of the amendments in this booklet were dealt with as the clauses to which they pertained were called and the Committee approved them. Others were not dealt with because they pertained to one or more of the clauses which I read out as having been stood.

Mr. CLERMONT: For instance, Mr. Chairman, there were amendments to clause 76. Those amendments stood as the clause stood.

Mr. FULTON: I was wondering whether we dealt with the amendment proposed to take account of the situation of Kinross and RoyNat.

Mr. ELDERKIN: No, that was stood.

Mr. FULTON: That was stood?

Mr. CLERMONT: Mr. Fulton, that is clause 76.

Mr. FULTON: The earlier clause was clause 18, was it not?

Mr. CLERMONT: Clause 76 stood.

Mr. FULTON: It seems to me that Clause 18(6) (b) would be involved in this amendment. I am sorry I was not here.

Mr. ELDERKIN: I think this is quite a different matter. One relates to directors and the other relates to shareholders. Mr. Fulton, I do not think that 18(6) (b) does relate to it. I think the two are quite different.

The CHAIRMAN: Mr. Fulton, perhaps you can give this further consideration and raise it if you feel it is necessary when we get to clause 76 and if it is necessary we can revert to the earlier clause.

Mr. Wahn, was there another matter you wished to raise about a clause.

Mr. WAHN: There was the clause dealing with the membership of the executive committee. It was pointed out that there was no provision that the majority of the members of the executive committee should be residents of Canada. The question is raised whether this would not be a desirable provision. I have been trying to find out which clause that is.

Mr. ELDERKIN: It is clause 25.

The CHAIRMAN: Yes, the executive committee is clause 25.

Mr. ELDERKIN: I think a provision along these lines would really have little, if any effect, Mr. Wahn. The only situation where one could imagine that the executive committee would not be composed of a majority of residents would be one, I presume, in which the bank was under the control of foreign interests, and insisted, through their directors, notwithstanding the fact that three-quarters of them have to be residents, that the executive committee should be composed of a majority of non-residents. If you put in a provision that three-quarters of the executive committee would be composed of residents they can exercise exactly the same influence on the executive committee, so I think the matter is rather academic.

Mr. WAHN: I do not feel strongly about it, Mr. Chairman.

The CHAIRMAN: Let us then proceed to the schedules. Schedule A was approved and I think we had agreed on Schedule B previously. The next one is—

Mr. CLERMONT: Schedules M and N.

Mr. ELDERKIN: I am not sure whether Schedule B got approval or not, Mr. Clermont. I do not have a record whether it was voted on or not.

Mr. CLERMONT: No, we stopped at Schedule A.

The CHAIRMAN: Shall Schedule B carry.

Some hon. MEMBERS: Agreed.

Mr. GILBERT: On my schedule I have Schedule B underlined. I think there is a question of Mr. Lambert that, together with Schedule R and Schedule S, they should stand.

Mr. ELDERKIN: No, Schedule B was not on the list which Mr. Lambert gave us.

Mr. GILBERT: I am sorry.

The CHAIRMAN: I am sorry, we should be talking about Schedule C not B. You may recall that—I am just coming to that. We are dealing with so many numbers and letters—Schedule B was adopted when we agreed on a number of clauses. The Schedules we are talking about are C,D,E,F,G,H,I,J,K, and L. These

were requested to be stood by your group, Mr. Fulton. Let us see where we are. We move to Schedule M.

On Schedule M.

Mr. ELDERKIN: Schedule M appears in your amendment, Mr. Chairman, and the changes from the wording on pages 112 and 113 are almost entirely editorial. There are punctuation changes, and so on, but there are no changes in meaning in the schedule.

Mr. GILBERT: I wonder if Mr. Elderkin can tell us whether he or his officials gave any consideration to the brief of Professor Caterina and his changes to schedules M, N, O, and P.

The CHAIRMAN: While you are pondering the answer I think I should ask that Mr. Clermont propose, and Mr. Chrétien second that the schedules in the draft bill listed as M, N, O, P, and Q, be struck out and the new schedules in the book of amendments be substituted in their place. I presume you will formally move this.

Mr. CLERMONT: I move:

> That Bill C-222, An Act respecting Banks and Banking, be amended by striking out Schedules M, N, O, P and Q thereof at pages 112 to 117, inclusive, and substituting therefor the following Schedules:

Mr. CHRÉTIEN: I second the motion.

SCHEDULE M

Return of Assets and Liabilities
of the .....Bank
as at .....19.....
(In thousands of dollars)

ASSETS

1.	Gold coin and bullion	$
2.	Other coin in Canada	
3.	Other coin outside Canada	
4.	Notes of and deposits with Bank of Canada	
5.	Government and bank notes other than Canadian	
6.	Deposits with banks, in Canadian currency	
7.	Deposits with banks, in currencies other than Canadian	
8.	Cheques and other items in transit, net	
9.	Treasury bills of Canada, at amortized value	
10.	Other securities issued or guaranteed by Canada maturing within three years, at amortized value	
11.	Securities issued or guaranteed by Canada not maturing within three years, at amortized value	
12.	Securities issued or guaranteed by a province, at amortized value	
13.	Securities issued or guaranteed by a municipal or school corporation in Canada, not exceeding market value	
14.	Securities of other Canadian issuers, not exceeding market value	
15.	Securities of issuers other than Canadian, not exceeding market value	

16. Mortgages and hypothecs insured under the National Housing Act, 1954 .....
17. Day, call and short loans to investment dealers and brokers, in Canadian currency, secured .....
18. Day, call and short loans to investment dealers and brokers, in currencies other than Canadian, secured .....
19. Loans to a province, in Canadian currency .....
20. Loans to a municipal or school corporation in Canada, in Canadian currency, less provision for losses .....
21. Other loans in Canadian currency, less provision for losses ....
22. Other loans in currencies other than Canadian, less provision for losses .....
23. Bank premises at cost, less amounts written off .....
24. Securities of and loans to a corporation controlled by the bank ..
25. Customers' liability under acceptances, guarantees and letters of credit, as per contra .....
26. Other assets .....

Total assets ..... $

SCHEDULE N

(Section 60(2)(a))

Statement of Assets and Liabilities
of the ..... Bank
as at October 31, 19.....

ASSETS

1. Cash and due from banks ..... $
2. Cheques and other items in transit, net .....
3. Securities issued or guaranteed by Canada, at amortized value
4. Securities issued or guaranteed by a province, at amortized value .....
5. Other securities, not exceeding market value .....
6. Day, call and short loans to investment dealers and brokers, secured .....
7. Other loans, including mortgages, less provision for losses ....
8. Bank premises at cost, less amounts written off .....
9. Securities of and loans to a corporation controlled by the bank
10. Customers' liability under acceptances, guarantees and letters of credit, as per contra .....
11. Other assets .....

$

LIABILITIES

1. Deposits by Canada ..... $
2. Deposits by a province .....
3. Deposits by banks .....
4. Personal savings deposits payable after notice, in Canada, in Canadian currency .....

5. Other deposits .....
6. Advances from Bank of Canada, secured .....
7. Acceptances, guarantees and letters of credit .....
8. Other liabilities .....
9. Accumulated appropriations for losses .....
10. Debentures issued and outstanding .....
11. Capital paid up .....
12. Rest account .....
13. Undivided profits .....

$

Note: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.

SCHEDULE O

(Section 60(2)(b))

Statement of Revenue, Expenses and Undivided Profits of the ..... Bank for the financial year ended October 31, 19.....

Revenue

1. Income from loans ..... $
2. Income from securities .....
3. Other operating revenue .....
4. Total revenue .....

Expenses

5. Interest on deposits and bank debentures .....
6. Salaries, pension contributions and other staff benefits ..
7. Property expenses, including depreciation .....
8. Other operating expenses, including provision for losses on loans based on five-year average loss experience .....
9. Total expenses .....
10. Balance of revenue .....
11. Appropriation for losses .....
12. Balance of profits before income taxes .....
13. Provision for income taxes relating thereto .....
14. Balance of profits for the year .....
15. Dividends .....
16. Amount carried forward .....
17. Undivided profits at beginning of year .....
18. Transfer from accumulated appropriations for losses .....
19. Transferred to Rest account .....
20. Undivided profits at end of year ..... $

Note: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.

SCHEDULE P

(Section 60(2)(c))

Statement of Accumulated Appropriations for Losses
of the ..... Bank
for the financial year ended October 31, 19 .....

1. Accumulated appropriations at beginning of year General ..... Tax-paid ..... Total	$
2. Appropriation from current year's operations	
3. Loss experience on loans less provision included in other operating expenses	
4. Profits and losses on securities, including provisions to reduce securities other than those of Canada and a province to values not exceeding market	
5. Other profits, losses and non-recurring items, net	
6. Provision for income taxes	
7. Transferred to undivided profits	
8. Accumulated appropriations at end of year General ..... Tax-paid ..... Total	$

Note: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.

SCHEDULE Q

(Section 106)

Return of Revenue, Expenses and Other Information
of the ..... Bank
for the financial year ended October 31, 19 .....
(In thousands of dollars)

Revenue

1. Income from loans	$
2. Income from securities	
3. Other operating revenue	
4. Total revenue	

Expenses

5. Interest on deposits and bank debentures	
6. Salaries, pension contributions and other staff benefits	
7. Property expenses, including depreciation	
8. Other operating expenses, including provision for losses on loans based on five-year average loss experience	
9. Total expenses	

Supplementary Information

10. Provision for income taxes .....
11. Dividends to shareholders .....
12. Loss experience on loans, securities and other investments less provision included in other operating expenses .....
13. Leaving for shareholders' equity and accumulated appropriations for losses .....
14. Capital contributions from shareholders .....
15. Net additions to shareholders' equity and accumulated appropriations for losses .....
16. Allocated to:
    - Undivided profits .....
    - Rest account .....
    - Capital paid up .....
    - General appropriations .....
    - Tax-paid appropriations .....

Mr. CLERMONT: But, it is only for the amendment, the schedules are not approved.

The CHAIRMAN: No, no. The amendment is actually to strike out schedules in the draft bill and insert new schedules. So that we will save time, we will deal with them all at once.

Mr. ELDERKIN: On your point, Mr. Gilbert, we did give serious consideration to Professor Caterina and his suggestions, and we have discussed these with other chartered accountants—and I happen to be one—and we felt that really we were presenting more information here than had ever been done before by far, and as much information as we think was necessary. I think to go to the detail that Professor Caterina suggested would really present an extremely cumbersome statement, with all due respect to him. These have been discussed, I will assure you, with all of the shareholders' auditors of the banks, and with the banks themselves, and as I mentioned, we are disclosing far more than has ever been done in banking legislation before.

The CHAIRMAN: Do you feel, Mr. Elderkin, that as a result of these amendments, chartered banks will now be in a position similar to other Canadian corporations with respect to disclosure to the shareholders.

Mr. ELDERKIN: I would think far more than most Canadian corporations with respect to disclosure, and on a par with all of the larger banks in the United States, which have been doing this now for several years; not by law, but by request.

(*Translation*)

Mr. CLERMONT: Are we on Schedule M?

The CHAIRMAN: The motion proposes adoption of a whole group of annexes, M, N, O, P. First of all, Schedule M.

Mr. CLERMONT: Mr. Elderkin, on Schedule M, Item 16, Mortgage and Hypothecs Insured Under the National Housing Act of 1954—the sum is to be specified, is it not? But why the sum of conventional mortgages in assets and liabilities? Why not insist on the expenditures and under the conventional mortgage type? You only ask for mortgages under the National Housing Act. Why not for those issued under another system?

(*English*)

Mr. ELDERKIN: It is a very good point Mr. Clermont, and one that received very serious consideration. The reason is that in bank lending a disclosure of what were conventional mortgages, as a separate item, would be rather misleading because in many cases the lending will be on a composite basis, namely that the mortgage will be part of the security and other assets will be used as security, too. We felt it was impossible really, to divide this out except in the cases where there was just, what one might call, a clean mortgage loan, and nothing else. And this would not cover all the mortgages by any means that the banks would be lending on.

The CHAIRMAN: Do you have a supplementary question Mr. Gilbert? Mr. Clermont?

(*Translation*)

Mr. CLERMONT: Mr. Elderkin, on Item 21 for returns of assets and liabilities, you say: "Other Loans in Canadian Currency Less Provision For Estimated Loss". I come back to the question. Could shareholders in the public be informed? What would be the total of consumer loans? This is to be included in the grand total, is it not? Twenty-one? We are on that clause still?

(*English*)

Mr. ELDERKIN: That would be right, normally, yes, they would be in there. Now, we do bring in other returns, Mr. Clermont. At the present time we bring in returns four times a year, on each quarter, and these are published in the Canada *Gazette*, and show the consumer loans.

Mr. CLERMONT: But they are not in the schedules here?

Mr. ELDERKIN: No, but they are published separately from the schedule in another—

Mr. CLERMONT: They are.

Mr. ELDERKIN: And published in the Canada *Gazette*.

(*Translation*)

Mr. CLERMONT: On the same topic, I note loans of Canada and the provinces. Would it not be a good thing to have the same distinction made for loans under Section 21, "Other Loans"? One year, two years, three years, four years?

(*English*)

Mr. ELDERKIN: Well, the reason of the loans to a province in Canadian currency, has no relationship—if you are talking about the loans—to term at all. It is all loans.

(*Translation*)

Mr. CLERMONT: You are right, but for securities?

(*English*)

Mr. ELDERKIN: Oh, well on the securities—you are speaking of securities of Canada—the reason for the division there is entirely for the purpose of dividing them into money market securities and non-money market securities. Securities under three years are considered money market securities; they are used in support of day loans, they are used in—

(*Translation*)

Mr. CLERMONT: Under 25, there is a mention of "Customers Liabilities Under Acceptances, Guarantees, Letters of Credit". Mr. Elderkin, I do not remember what brief was submitted to us, but in a brief we heard from, I think, an economics professor, this gentleman objected to this. He objected to this being "assets and liabilities" because he said it added to assets but changed nothing. If I go by the annual report of a bank for 1966, I see the same sum in assets and liabilities.

(*English*)

Mr. ELDERKIN: It was Professor Caterina, I think, who raised the point that these were contingent assets and liabilities, and he is not entirely correct. Some of these are very definite, and to the extent that they are definite liabilities, the bank is primarily responsible for the payment of them. On the asset side they have a claim from the person or the corporation for whom they have accepted or guaranteed a particular transaction. In many cases this claim has already arisen but has not appeared yet, as far as the bank is concerned. It may be in the hands of another bank just like a covered cheque. The point is that it is perfectly true that some of these are contingent liabilities only, and therefore contingent assets. But some of them are real liabilities and with an offset of real assets. It would be almost impossible to break these out as to which class they should fall in, so therefore we set them up on both sides of the balance sheet.

(*Translation*)

Mr. CLERMONT: My last question,—it relates to M. At the end, you have "Other Assets" and I read:

Amount in other than Canadian Currency Included.

Ten and eleven deal with Canadian securities, Canadian securities. Does Canada have a rather large percentage of securities that are payable in American currency or other currencies?

(*English*)

Mr. ELDERKIN: No; as a matter of fact, I do not know that there are any direct issues of Canada that are now payable in Canadian currency. But, there may be in the future, and we are providing for it. And I think there may be indirect issues that are payable in Canadian currency.

The CHAIRMAN: I note with respect to schedule M, which has to be made to the government, that the Governor in Council can, in fact, amend it.

Mr. ELDERKIN: That is correct, and in the past it has been amended from time to time.

The CHAIRMAN: And the same applies to schedules N, O, and P, which unlike schedule M, are those which compose the annual, and other, statements made available to the shareholders. Do I understand that?

Mr. ELDERKIN: That is right. If you wish to take them separately I might comment on schedule N. The changes here are also editorial to conform with schedule M except for two others. "Assets 1. Gold and coin," is a combination of the first 3 assets in Schedule M, it is just for the sake of brevity in the annual statement. And liability 9. in schedule N, which is, as I say, the annual statement of the bank, shows in the amendment the total of the accumulated appropriations for losses, which will be published as a balance sheet item for the first time; otherwise, the changes are editorial.

The CHAIRMAN: Schedule O?

Mr. ELDERKIN: There have been material changes in schedule O, principally to bring out the two or three major changes; the first one being the last item under expenses, where we have now included in the operations provision for losses on loans based on five-year average loss experience. This is a rather recent development in banking reporting. It has received approval of financial critics, and in many cases is used in some of the banks in the United States at the present time, on the theory that some part of the operating losses on loans should be regarded as a normal expense for the purpose of the financial statement.

The CHAIRMAN: This is the practice in other business firms that engage in credit business?

Mr. ELDERKIN: That is right. The rest of the changes are editorial entirely.

The CHAIRMAN: Are there further questions or comments on schedules M. N. O. P. and Q?

(Translation)

Mr. CLERMONT: Concerning P, Mr. Elderkin, is this a completely new schedule?

(English)

Mr. ELDERKIN: Schedule P is a completely new schedule, Mr. Clermont. It is in the Bank Act for the first time, and it is a statement of the accumulated appropriations for losses of the banks. In other words, a statement of the inner reserves and also a statement of their profits and losses on securities during the year, and a statement of their loss experience on loans, less whatever is charged out to the annual operations.

(Translation)

Mr. CLERMONT: Is this going to meet shareholders' requirements and the requirements on the part of the public?

(English)

Mr. ELDERKIN: It is a complete disclosure of the inner reserves, Mr. Clermont, for the first time.

The CHAIRMAN: And I also note, Mr. Elderkin, that schedules N, O and P are also amendable by the Governor in Council, which I presume means that if it appeared desirable to have additional information disclosed, it would not be necessary for a formal amendment of the Bank Act to take place.

Mr. ELDERKIN: That is the purpose. We have done that in the past, and it came in very handy at times when we wanted to add additional information, or changes.

The CHAIRMAN: And you are satisfied that, in general at least, the complaints or criticisms made by financial analysts, and professors of economy and so on, about the lower standard of disclosure for banks, as compared to other institutions, have, in substance, been dealt with?

Mr. ELDERKIN: I would think we are taking the lead here, Mr. Chairman, in many respects.

The CHAIRMAN: So that the banks now will have to disclose at least as much information as they require of their customers before they give their customers a loan.

Mr. ELDERKIN: You ask the banks.

The CHAIRMAN: But you feel that this standard is being met, at least in some reasonable fashion?

Mr. ELDERKIN: Oh, yes, I do, very definitely.

Mr. WAHN: Mr. Chairman, I have one question by way of clarification. These returns are filed with the minister. They are not available to the shareholders generally.

Mr. ELDERKIN: Oh, no, schedules N, O and P, are part of the annual statements to the shareholders. Schedules M, and Q are filed with the minister.

Mr. CLERMONT: Which ones did you say were reported every three months and will appear in the Canada *Gazette*?

Mr. ELDERKIN: Something which falls outside of this act. It is the classification of loans.

The CHAIRMAN: All right. Shall the amendments with respect to schedules M, N, O, P and Q carry?

Amendments agreed to.

Schedules M-Q, inclusive, as amended, agreed to.

Now we have already carried schedules R and S. This means that we have already agreed that the remainder of the Bank Act will stand until next week, and we will move on to Bill No. C-223, an Act respecting Savings Banks in the province of Quebec.

We have a booklet of amendments with respect to this act.

If I am not mistaken, Mr. Elderkin, it will not be possible to deal completely with this act before we complete our study of the Bank Act because there is some similarity.

Mr. ELDERKIN: Yes, there are relative sections. I will name them as I go along, Mr. Chairman.

The CHAIRMAN: All right. I will call the clauses and Mr. Elderkin and members can interrupt at the appropriate time.

Shall Clause 1 carry?

An hon. MEMBER: Do we not stand this clause?

The CHAIRMAN: I just called it in case there are any preliminary comments before we get into the formal discussion.

No preliminary comments. Clause 1 stands until the end?

Some hon. MEMBERS: Agreed.

Clauses 2 to 5, inclusive, agreed to.

The CHAIRMAN: I will just interrupt here.

We will take it as a matter of form and procedure that the amendments will be moved formally by Mr. Clermont and seconded by Mr. Chrétien.

On Clause 6—*Duration of authority to carry on business*

Mr. CLERMONT: I move

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out clause 6 on page 3 thereof and by substituting the following:

Duration of authority to carry on business

"6. Subject to this Act,

(a) if Parliament sits on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the 1st day of July, 1977, and no longer; and

(b) if Parliament does not sit on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the sixtieth sitting day of Parliament next thereafter, and no longer."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: The amendment to Clause 6 is similar to an amendment in the Bank Act and extends the powers of the bank until 1977 as compared with 1976 as now appears.

Mr. LAFLAMME: Do I understand, Mr. Elderkin, that all of those amendments are about the same or precisely the same as the other amendments to the Bank Act.

Mr. ELDERKIN: I will name them when they are. This is exactly the same as the Bank Act.

Mr. LAFLAMME: Would it be possible to ask Mr. Elderkin not to repeat what he has already stated.

The CHAIRMAN: That is right. I think that is a very useful suggestion. If it is clear that the amendments are the same as those we have already discussed and adopted I think it will be sufficient if Mr. Elderkin merely indicates this to us so we will only deal with them where the Quebec Savings Bank Act departs from the national Bank Act.

Amendment agreed to. Clause as amended, agreed to.

Clauses 7 to 9, inclusive, agreed to.

On Clause 10—*By-Laws*

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out paragraph (g) on page 4 thereof and by substituting therefor the following:

"(g) the remuneration of the chairman of the board, the president, vice-presidents and other directors;"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: There is an amendment to Clause 10, Mr. Chairman, to the effect that the bank will have the power to appoint a chairman of the board. This is in Clause 16 and we will come to it later, but since we are dealing with a remuneration in this Clause, it will have to be amended as well.

Amendment agreed to.

Clause, as amended, agreed to.

Clauses 11 to 15 inclusive, agreed to.

On Clause 16—*Election of officers*

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out line 7 on page 6 thereof and by substituting therefor the following:

Chairman of the board.

"(2) The directors may elect by ballot from their number a chairman of the board of directors.

(3) A person elected to an office under this"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: In Clause 16, Mr. Chairman, there is an amendment to provide for the appointment of a chairman of the board made at the request of the bank.

The CHAIRMAN: It so happens that my book of amendments somehow or other does not have this one.

In any event shall the amendment carry?

Amendment agreed to.

Clause 16, as amended, agreed to.

Clauses 17 and 18 agreed to.

On Clause 19—*Meetings of directors*

Mr. CLERMONT: I move

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out subclauses (1) and (2) of clause 19 on page 6 thereof and by substituting therefor the following:

Meetings of directors.

"19. (1) The chairman of the board, if any, or in his absence, the president, or in their absence, a vice-president, shall preside at all meetings of the directors.

Temporary chairman.

(2) Where at any meeting of the directors, the chairman of the board, if any, the president and all vice-presidents are absent, one of the directors present, chosen to act *pro tempore,* shall preside."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: In Clause 16 there is an amendment to provide for the appointment of a Chairman of the Board.

The CHAIRMAN: Shall the amendment carry?

Amendment agreed to.

Clause 19, as amended, agreed to.

On Clause 20—*General powers of directors*

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out line 33 on page 6 thereof and by substituting therefor the following:
"fixed by a shareholders' by-law, to be paid to the chairman of the board, the president,"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: Clause 20 is the same thing. There is an amendment to provide for the remuneration of a chairman of the board.

The CHAIRMAN: Shall the amendment carry?

Amendment agreed to.

Clause 20, as amended, agreed to.

We are now at the section Meetings of Shareholders.

I think we can deal with these in a series.

Clauses 22 and 23 agreed to.

On Clause 24—*Capital stock*

Mr. CLERMONT: I move

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out line 24 on page 8 thereof and by substituting therefor the following:
"City and District Savings Bank is three million"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: The amendment is a correction. Mr. Chairman. In the bill it states the authorized capital stock of the Montreal City and District Savings Bank is $2 million. The amendment states the correct amount is $3 million.

The CHAIRMAN: Shall the amendment carry?

Amendment agreed to.

Clause 24, as amended, agreed to.

Clauses 25 and 26 agreed to.

On Clause 27—*Notice of offer.*

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out line 46 on page 9 thereof and substituting therefor the following:
"a date, not earlier than the thirtieth day after the day on"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: In Clause 27 there is a similar amendment to Clause 33 in the Bank Act.

The CHAIRMAN: Shall the amendment carry?

Amendment agreed to.

Clause 27, as amended, agreed to.

Clause 28 agreed to.

On Clause 29—*Stock books.*

Mr. CLERMONT: I move

> That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out lines 39 and 40 on page 10 thereof and substituting therefor the following:
>
> "give his post office address and this shall appear in the stock books in connection with"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: It is similar to Clause 35 in the Bank Act which you have passed.

The CHAIRMAN: Shall the amendment carry?

Amendment agreed to.

Clause 29, as amended, agreed to.

Clause 30 agreed to.

The CHAIRMAN: Now, we are at the section headed Shares and Calls, Clauses 31 to 36.

Shall this group of clauses carry.

Clauses 31 to 36 inclusive, agreed to.

Now we will move on to the Transfer and Transmission of Shares section.

Mr. ELDERKIN: All of these are similar to the ones in the Bank Act Sections 44 to 51 which were approved yesterday.

Mr. FULTON: Mr. Chairman, in this connection, I did not expect there would be a meeting on Wednesday and therefore was not here. I wanted to raise this point under the Bank Act itself.

I notice that it appears to be optional with the bank whether or not it keeps a register, whether it records transfer of shares in the books of the bank itself. I am wondering why that is. My thought is, would it not be better to delete the power of the bank to provide by bylaw that the transfer of shares need not be recorded on the books of the bank.

Surely, they should be so recorded. I expect they are. I think probably in practice they always are, but I see there is a power to provide by bylaw that they need not be.

Mr. ELDERKIN: Will you give me the reference please? Are you speaking of the Bank Act?

Mr. FULTON: Yes, and these sections here.

Clause 37(1) reads:

> Shares of the capital stock of the bank are transferable in such manner and subject to such conditions as are prescribed by this Act or by by-law.

Mr. ELDERKIN: Then you go on to Clause 38—"The Bank shall keep in Canada a register of shareholders."—

Mr. FULTON: Yes, but is there not—

Mr. ELDERKIN: There is no exemption from that.

Mr. FULTON: Well, look at Clause 39.

> Unless otherwise provided by by-law, no transfer of shares of the capital stock of the bank is valid unless—
> (a) it is made in a register of transfers of the bank;

Mr. ELDERKIN: That is right.

That is only on the transfer. But there must be a register of transfers.

Mr. FULTON: Look at Clause 40.

> Unless under the by-laws of the bank it is unnecessary that transfers of shares of its capital stock be made in the books of the bank—

Mr. ELDERKIN: Well, that is to take care of street stocks. A transfer of ownership can be made outside the banks books.

You will get this, Mr. Fulton, to a great extent in the transfer of street certificates. They may pass through several hands without ever coming back to the bank for registration.

The CHAIRMAN: The term "transfer" or "transferable" refers to transfer of title in a broad sense not merely on the books as such.

Mr. ELDERKIN: That is right.

This is quite common, of course, and particularly with certificate stocks, if you will, namely, street stocks.

Mr. FULTON: There seems to me to be a contradiction between Clause 38, as you say, and Clause 40. Perhaps I do not grasp the significance of the difference that you are speaking of. Could you enlarge on this point.

Mr. ELDERKIN: Well, stocks that are traded, that are so-called street stocks, in other words for which certificates are issued, may be traded on the stock exchange and may pass through three or four or many owners before they are ever brought back for registration in the name of a new owner. Therefore, the bylaw will permit this—the bylaw will permit a transfer without registration.

Mr. MCLEAN (*Charlotte*): Mr. Elderkin, are there two banks that will not allow that?

Mr. ELDERKIN: There are three banks that have book stock, as we call it. That is the Nationale, the Provinciale and the Mercantile. The two savings banks also have book stock, not street stock. The other five have street stock.

Mr. FULTON: It would be possible then, would it not, for shares to be held or to be owned by persons for some considerable time and in some considerable quantity of whose ownership there is no record on the books of the bank.

Mr. ELDERKIN: That is correct. That is bound to be and the same with all other corporations. This is quite so; as long as these are dealt with on a stock exchange, this can happen quite easily.

Mr. FULTON: How then are you going to enforce the provisions of about 25 percent and 10 percent by an individual.

Mr. ELDERKIN: As far as the shares, for instance, that may be in the name of a broker or dealer, are concerned and this is where you would find most of these were being transferred around, without any change in the books of the bank, the bank is required to find out from the dealer whether he is a nominee or an owner in his own right.

Mr. FULTON: That is when he comes to register.

Mr. ELDERKIN: That is when he comes to register, but he cannot vote—

Mr. FULTON: Until he is registered.

Mr. ELDERKIN: No.

The CHAIRMAN: I suppose that applies to individual owners as well.

Mr. ELDERKIN: That is right.

The CHAIRMAN: So the ownership would not really have much meaning unless they attempted to register and then the other clauses would come into effect to prevent the registration of transfer.

Mr. ELDERKIN: That is right.

These sections, as they are repetitions of similar sections in the Bank Act, have been—

Mr. FULTON: I believe they have a particular moment now that we are bringing in—

Mr. ELDERKIN: Yes, they do but they were redrafted with that in mind and also redrafted to make shares more easily transferable on the stock exchange, because there are very heavy dealings in stocks of the banks.

Mr. FULTON: But the fact is that no voting right can be exercized until the register is made. That is really what you are after.

Mr. ELDERKIN: That is right.

The CHAIRMAN: If there is nothing further on this group of clauses, 37 to 43 inclusive, shall they carry.

Clauses 37 to 43 inclusive, agreed to.

On Clause 44—*Transmission by decease*

Mr. CLERMONT: I move:

> That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out line 35 on page 15 thereof and by substituting therefor the following:
>
> "mission in accordance with the claim; but nothing in this subsection shall be construed to prevent the bank from refusing to record or give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: Well, Clause 44 is the same amendment as you passed to Clause 55 (1) of the Bank Act.

Shall the amendment carry?

Amendment agreed to.

Clause 44, as amended, agreed to.

On Clause 45—*Definitions.*

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended

(a) by striking out lines 11 and 12 at page 16 thereof and substituting therefor the following:

"right, but does not include an official or corporation performing a function or duty in"

(b) by striking out lines 37 to 40, inclusive, at page 17 thereof and substituting therefor the following:

"bank;

(f) both shareholders are agents of Her Majesty in right of Canada or officials or corporations performing on behalf of Her Majesty in such right a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of sub-paragraph (i) of paragraph (a) of subsection (1);

(g) both shareholders are agents of Her Majesty in right of the same province or officials or corporations performing on behalf of Her Majesty in right of that province a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (a) of subsection (1); or

(h) both shareholders are associated within the meaning of paragraphs (a) to (g) with the same shareholder."

and

(c) by striking out line 33 on page 18 thereof and substituting therefor the following:

"virtue of paragraph (h) of subsection (2) by"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: This is exactly the same amendment that was passed to Clause 52 of the Bank Act.

The CHAIRMAN: Shall the amendment carry?

Amendment agreed to.

Clause 45, as amended, agreed to.

On Clause 46—*Limit on shares held by non-residents.*

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out line 21 on page 19 thereof and substituting therefor the following:
"of a share of the capital stock of the bank to any person, including, without restricting the generality of the foregoing, an official or corporation mentioned in clause (B) of subparagraph (i) of paragraph (a) of subsection (1) of section 45."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: It is a similar amendment to Clause 53 of the Bank Act.

The CHAIRMAN: Shall the amendment carry?

Mr. FULTON: I was just wondering whether Clause 46 is not a little bit difficult for the bank if, on the one hand, you permit them—at least, I think, it is incontrovertible—to be traded and sold without registration. How can you enact that the banks shall refuse to allow transfer of a share to a non-resident to be made? I can see the point about being recorded, but how can you—

Mr. ELDERKIN: Well, this is a transfer on their books.

You cannot stop a transfer of ownership if it is a street stock, but you can stop a transfer on the books of the bank.

Mr. FULTON: Does the word "made" apply to, in a register of transfers of the bank or does the word apply to the work "recorded".

Mr. ELDERKIN: That is right, to refuse to allow a transfer. In other words, that is a transfer by the bank.

Mr. FULTON: It really means that the bank shall refuse to allow a transfer of a share of the capital stock of the bank to a non-resident to be made in a register of transfers of the bank.

Mr. ELDERKIN: In effect, that is it, yes.

Mr. FULTON: Or recorded in a register of transfers of the bank.

Mr. ELDERKIN: It cannot be made until it is recorded.

Mr. FULTON: My point, however, is it not the word "made". The bank cannot stop a transfer from being made. It can stop it being recorded or being made in its books.

Mr. ELDERKIN: No, but the term is used all through here and in the Bank Act, too, that where the bank has authority to make a transfer or to refuse a transfer it means a transfer in the books.

The CHAIRMAN: Shall the amendment carry?

Amendment agreed to.

Clause 46 as amended agreed to.

On Clause 47—*Voting by resident nominees of non-residents prohibited.*

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out line 17 on page 22 thereof and substituting therefor the following:
"(c) an official or corporation administering, managing or investing"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: This is the same amendment as in the Bank Bill 54 (3) (C).

The CHAIRMAN: Shall the amendment carry?

Amendment agreed to.

Clause 47, as amended, agreed to.

Mr. WAHN: Mr. Chairman, on a question of procedure; we have stood certain of the clauses of the Bank Act. Is it understood that we are standing the corresponding clauses of this act.

The CHAIRMAN: That is right.

I assume that Mr. Elderkin will indicate to me when we come to the corresponding clause and we will then make sure that they are stood. We will have to revert to them after we have completed our study of the similar clauses in the Bank Act.

Clause 48 agreed to.

On Clause 49—*Definitions.*

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended

(a) by striking out subclause (2) of clause 49 on page 25 thereof;

(b) by renumbering subclauses (3) to (8) of clause 49 on pages 25 to 27, inclusive, of the Bill as subclauses (2) to (7), respectively;

(c) by striking out line 27 on page 27 thereof and substituting therefor the following:

"(b) an official or corporation administering, managing or investing"; and

(d) by striking out the figure (6) in line 34 on page 27 thereof and by substituting therefor the figure "(5)".

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: These are really similar to the ones in the Bank Act, too. The difference is that the first amendment, "by striking out subclause (2) of Clause 49", is new because it was found that subclause (2) did not apply to the savings banks at all and so this is simply a removal of that; the other changes are editorial changes, paragraphs (b) and (d) of the amendment are ancillary to striking out 49 (2).

Item (c) of the amendment is similar to the one that has been passed in the Bank Act, namely it relates to shareholding of provincial agencies. The rest of it relates entirely to the fact that you are striking out a subclause altogether as not being relevant to the savings banks.

The CHAIRMAN: Anything further?

Amendment agreed to.

Clause 49, as amended, agreed to.

Clauses 50 to 52 inclusive agreed to.

On Clause 53—*Statement required at annual general meeting.*

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended

(a) by renumbering subclauses (1), (2) and (3) of clause 53 thereof as subclauses (2), (3) and (4), respectively, and

(b) by inserting the following as subclause (1) of clause 53 thereof:

"Financial year.

53. (1) The financial year of the bank shall end on the expiration of the 31st day of October in each year."

(c) by striking out the word "and" in line 48 on page 28 thereof;

(d) by striking out line 8 on page 29 thereof and substituting therefor the following:

(c) "earned in the financial year; and a statement of accumulated appropriations for losses of the bank for the financial year, showing the information in the form specified in Schedule C and such additional information and particulars as in the opinion of the directors are necessary to present fairly the amount of appropriations available to meet losses other than those for which specific provisions have been made."

(e) by striking out line 17 on page 29 thereof and substituting therefor the following:

"Schedules A, B and C."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: The amendments here are the same as in the Bank Act. The first amendment provides for setting a uniform financial year, the same as Clause 60, subclause (1) of the Bank Act. Subclause (3) is the same as an amendment to the Bank Act, Clause 62(c). In other words it is bringing the annual and other statements into the same requirements as in the Bank Act.

The CHAIRMAN: Shall the amendment to Clause 53 carry?

Amendment agreed to.

Clause 53, as amended, agreed to.

Clause 54 agreed to.

On Clause 55—*Auditors.*

Mr. CLERMONT: I move;

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended

(a) by striking out subclause (11) of clause 55 thereof and substituting therefor the following:

"(11) The auditors shall make a report to the shareholders on the statement of assets and liabilities, the statement of revenue, expenses and undivided profits and the statement of accumulated appropriations for losses of the bank to be submitted by the directors to the shareholders under section 53."

(b) by striking out lines 46 and 47 on page 30 thereof and substituting therefor the following:

"of the financial year, its revenue, expenses and undivided profits for the year and its accumulated appropriations for the year, and shall include such remarks as they"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: Clause 55 relates to the responsibilities of the auditors with respect to the annual statements and the amendments are the same as in Clause 63 (12) and (13) of the Bank Act.

The CHAIRMAN: Shall the Amendment carry?

Amendment agreed to.

Clause 55, as amended, agreed to.

Mr. FULTON: Mr. Chairman, I am going to raise a procedural point again. Clause 39 of the main bank bill stood; that is dealing with shares and calls, and I do not think we stood this corresponding clause in the Quebec Savings Bank bill. Have we?

Mr. ELDERKIN: It would be Clause 32 in this bill. I am sorry; that is right. I marked it for a bank Act stand and I did not call it.

The CHAIRMAN: By unanimous consent then Clause 32 stands and we rescind our previous passage of it. Clause 32 stands.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Thank you Mr. Fulton. Now we move on to the section headed "Inspection." Shall the group of clauses under this heading carry?

Clauses 56 to 77, inclusive, agreed to.

Mr. FULTON: Is there any relationship to clause 75?

Mr. ELDERKIN: There is no relationship between this and Clause 75 in the bank bill. They are completely separate powers, Mr. Fulton.

Mr. FULTON: Is there a provision in the Quebec act corresponding to Clause 75 of the bank act bill?

Mr. ELDERKIN: Yes. To some extent, Clauses 71 and 72 correspond to parts of Clause 75 in the bank bill.

Mr. FULTON: That stood, did it not?

Mr. ELDERKIN: It stood, I think, for Clause 75 (2) (g). I do not think there is anything in here that has any direct relationship to Clause 75.

Mr. WAHN: Mr. Chairman, I note that Clause 30 of this bill corresponds to Clause 36 of the bank bill which is the one we stood earlier today, so I wonder if we could add that?

The CHAIRMAN: Clause 30 of the Quebec Savings Banks bill you are suggesting corresponds to Clause 36 of the bank act bill which we agreed to stand: so we will also by unanimous consent rescind our previous decision and have Clause 30 stand as well in the Quebec Savings Bank bill. Now, we have carried a group of Clauses 73 to 77 inclusive under the heading Security.

We move on to the heading "Real Property," Clause 78; shall Clause 78 carry?

Clauses 78 and 79 agreed to.

The CHAIRMAN: Clauses 80 and 81 should stand.

Some hon. MEMBERS: Agreed.

Clauses 80 and 81 stand.

Clauses 82 and 83 agreed to.

Mr. ELDERKIN: Clause 84 should stand.

Clause 84 stands.

Clause 85 agreed to.

On Clause 86—*Transmission by death.*

Mr. CLERMONT: I move:

> That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out line 35 on page 45 thereof and substituting therefor the following:
>
> "the transmission in accordance with the claim; but nothing in this section shall be construed to prevent the bank from refusing to give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: It is the same amendment as in Clause 97 of the bank act bill.

Amendment agreed to.

Clause 86, as amended, agreed to.

Clause 87 agreed to.

Clauses 88 to 99, inclusive agreed to.

On Clause 100—*Declaration to be annexed.*

Mr. CLERMONT: I move:

> That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out line 36 on page 49 thereof and substituting therefor the following:
>
> "declaration in the form set out in Schedule D, signed"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: It is simply an amendment changing the reference to Schedule B to Schedule D, it is editorial only.

Amendment agreed to.

Clause 100, as amended, agreed to.

Clauses 101 and 102 agreed to.

On Clause 103—*When directors to make calls.*

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out lines 3 to 14 on page 51 thereof and substituting therefor the following:

"months.

When winding-up proceedings taken.

(3) In the event of proceedings being taken under any Act for the winding-up of the bank in consequence of the insolvency of the bank, any calls on shareholders made thereafter shall be in accordance with such Act.

Failure to pay call.

(4) Failure on the part of a shareholder to pay any call referred to in this section when due constitutes a forfeiture by the shareholder of all claim in or to any part of the assets of the bank, but the call and any further call thereafter is recoverable from him as if no forfeiture had taken place."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: It is the same amendment as Clause 122, subsection (2) of the Bank act bill which is passed.

Amendment agreed to.

Clause 103, as amended, agreed to.

Clauses 104 and 105 agreed to.

Clauses 106 to 119, inclusive, agreed to.

The CHAIRMAN: Clause 120 stands.

Mr. CLERMONT: This Clause corresponds to what clause of the Bank Act Bill?

Mr. ELDERKIN: Clause 151, Mr. Clermont.

Clauses 121 to 130, inclusive, agreed to.

On Clause 131—*Coming into force.*

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out clause 131 on page 58 thereof and by substituting therefor the following:

Coming into force.

"131. (1) Except as otherwise expressly provided in this Act, this Act shall come into force on a day to be fixed by proclamation of the Governor in Council.

Saving.

(2) Section 6 and this section shall come into force and section 6 of the *Quebec Savings Banks Act*, Chapter 41 of the Statutes of 1953-54, is repealed on the day that this Act is assented to.

Commencement of voting restrictions.

(3) Section 47 and subsection (5) of section 49 shall come into force three months after this Act comes into force."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: This amendment is exactly the same as the amendment to Clause 162 in the bank act bill.

The CHAIRMAN: Shall the amendment carry?

Amendment agreed to.

Clause 131, as amended, agreed to.

Now we move to the Schedules.

On Schedule A.

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended

(a) by striking out items 6, 10, 11, 12 and 14 on page 59 thereof and substituting therefor the following:

"6. Securities issued or guaranteed by a province, at amortized value .....
10. Other mortgages and hypothecs, less provision for losses ....
11. Loans otherwise secured, less provision for losses .....
12. Loans without security, less provision for losses .....
14. Bank premises at cost, less amounts written off."

and

(b) by striking out item 2 on page 60 thereof and substituting therefor the following:

"2. Deposits by a province, in Canadian currency...

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: There are amendments, Mr. Chairman, to Items 6, 10, 11, 12 and 14. They are mostly editorial. The first one, if you want me to detail them, is simply striking out "of Canada" after "province" because it is reduntant.

In 10, it is the same—changing the title to the same as in the bank act bill and 12, the same as in the bank act bill, and 14, the same as in the bank act bill. On the liabilities side, on term 2 we strike out "of Canada" after "province" as being redundant.

(*Translation*)

The CHAIRMAN: Mr. Clermont?

Mr. CLERMONT: Mr. Chairman, I notice in schedule "A" the two groups of mortgages and hypothecs are to be reported, 9 and 10. 9 and 10 under "Assets" in Schedule "A".

(*English*)

Mr. ELDERKIN: This is correct. There is a difference here in the operation, Mr. Clermont. In the savings banks their mortgage loans must be what they call clean mortgage loans, and therefore, we can set it up as a separate item, and it has been that way for the last two amendments of the act, since 1944.

The CHAIRMAN: They are not security for commercial loans?

Mr. ELDERKIN: They have no commercial loans.

The CHAIRMAN: Shall the amendment to Schedule A carry?

Amendment agreed to.

Schedule A, as amended, agreed to.

Mr. FULTON: There was an amendment to Schedule A in the main Bank Act bill that does not appear to be affected in the amendments to Schedule A in the Quebec Savings Bank bill. Under the supplementary information, Mr. Elderkin, should it be the same?

Mr. ELDERKIN: No. It is not necessary, because these people have nothing but Canadian currency. They deal entirely with Canadian currency, except in deposits. They may have some deposits.

Mr. FULTON: And controlled banking corporations?

Mr. ELDERKIN: No controlled banking corporations; none.

On Schedule B.

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out Schedule B thereof and substituting therefor the following:

"SCHEDULE B

(Section 53(2)(b))

Statement of Revenue, Expenses and Undivided Profits
of the ..... Bank
for the financial year ended October 31, 19.....

Revenue	
Income from loans	$
Income from securities	
Other operating revenue	
Total revenue	
Expenses	
Interest on deposits	
Salaries, pension contributions and other staff benefits	
Property expenses, including depreciation	
Other operating expenses, including provision for losses on loans based on five-year average loss experience	
Total expenses	
Balance of revenue	
Appropriation for losses	
Balance of profits before income taxes	
Provision for income taxes relating thereto	
Balance of profits for the year	
Dividends	
Amount carried forward	
Undivided profits at beginning of year	
Transfer from accumulated appropriations for losses	
Transferred to Rest account	
Undivided profits at end of year	$

Note: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: Schedule B is amended to conform with the similar schedule in the Bank Act bill, Schedule O.

Amendment agreed to.

Schedule B, as amended, agreed to.

On Schedule C.

Mr. CLERMONT: I move

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended

(a) by inserting immediately before Schedule C on page 62 thereof, the following:

"SCHEDULE C

(Section 53(2)(c))

Statement of Accumulated Appropriations for Losses of the ..... Bank for the financial year ended October 31, 19 .....

1. Accumulated appropriations at beginning of year
   General ..... Tax-paid ..... Total ..... $
2. Appropriation from current year's operations .....
3. Loss experience on loans less provision included in other operating expenses .....
4. Profits and losses on securities, including provisions to reduce securities other than those of Canada and a province to values not exceeding market .....
5. Other profits, losses and non-recurring items, net .....
6. Provision for income taxes .....
7. Transferred to undivided profits .....

8. Accumulated appropriations at end of year
   General ..... Tax-paid ..... Total ..... $

Note: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents."

(b) by striking out the words "SCHEDULE C" on page 62 thereof and substituting therefor the following:

"SCHEDULE D

Declaration Required by section 100."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: Schedule C is amended to conform with Schedule P in the Bank Act bill. It is the same as Schedule P in the Bank Act bill, as amended.

The CHAIRMAN: Shall the amendment carry?

Amendment agreed to.

Schedule C, as amended, agreed to.

The CHAIRMAN: We are now on Item 1. We should perhaps pause for a moment and make certain we have stood everything we should stand with

respect to any interrelationship between the Bank Act bill and the Quebec Savings Bank Act bill.

Mr. ELDERKIN: We are standing Clause 30; we are standing Clause 32.

Mr. CLERMONT: Clause 32 will correspond to what Clause in the Bank Act bill?

Mr. ELDERKIN: Clause 39.

The CHAIRMAN: And 30 corresponds to—

Mr. ELDERKIN: And 30 corresponds to 36. We are standing clauses 80 and 81, corresponding to sections 90 and 93 of the Bank Act Bill. We are standing clause 84 corresponding to section 96 of the Bank Act bill. We are standing clause 120 corresponding to section 151 of the Bank Act bill. That is all, Mr. Chairman.

The CHAIRMAN: Are there any further questions or comments at this stage on Item 1. If there are not, I will ask if Item 1 carries.

Clause 1 agreed to.

Does the title carry?

I am not going to carry the whole bill. I was not going to ask if the bill as amended carries, but if as a matter of procedure it is felt that to carry the title is going too far, I shall not ask that it carry. As far as I am concerned it is a matter of agreeing to the short title of the bill. There is no doubt about that, is there? That is all I had in mind, really.

Mr. CLERMONT: Mr. Chairman, this afternoon will it be the Bank of Canada?

The CHAIRMAN: Yes, that is right. I would suggest that since we have continued to make excellent progress it would be in order for us to adjourn at this point and begin our consideration, clause by clause, of the amendments to the Bank of Canada Act.

Mr. CHRETIEN: Will we be able to make some comments on clauses 32 and 39 this afternoon?

Mr. ELDERKIN: Of this bill or of the Bank of Canada bill?

Mr. CHRETIEN: No, of this bill, the savings bank bill.

The CHAIRMAN: Clause 32?

Mr. CHRETIEN: Clause 32 and 39.

The CHAIRMAN: No, they were stood.

Mr. CHRETIEN: In order to complete the bill today, we want to complete it as soon as possible.

The CHAIRMAN: Well, we cannot complete either bill today, although we would all like to if we could. We could dispose of these two clauses, 30 and 32 of this bill.

Mr. ELDERKIN: I cannot do anything with them. These are ones that were stood in the Bank Act bill too.

Mr. CHRETIEN: Perhaps you could give us a reply this afternoon.

The CHAIRMAN: I think that what Mr. Chretien means is that if Mr. Elderkin can provide further information to satisfy the members who have asked that those groups of clauses to stand we could dispose of them this afternoon.

Mr. CHRETIEN: Yes.

The CHAIRMAN: And perhaps save some time for discussion on the other clauses when we resume our consideration of the Bank Act bill next week. I think that is what you had in mind.

Mr. ELDERKIN: Do you wish to try to do this before you hear the Bank of Canada reference?

The CHAIRMAN: Well, if you have the information—

Mr. ELDERKIN: Well, I do not know but I will try.

The CHAIRMAN: If Mr. Elderkin is able to consult his other officials and supply the information we will try and deal with the clauses I have just mentioned. If not, we will deal with them when we meet next week to conclude our consideration of the Bank Act bill.

This meeting is suspended until 3.45 p.m. this afternoon.

AFTERNOON SITTING

The CHAIRMAN: Gentlemen, we will resume our sitting. I believe Mr. Clermont has some general questions which he wants to complete from the last time we had the Governor of the Bank of Canada with us and we can deal with this informally until we are in a position actually to begin considering the bill.

(*Translation*)

Mr. CLERMONT: There are two or three members and myself who wished to put questions in regard to this topic. Among other things, Mr. Rasminsky, under section 18 of the Bank of Canada Act the Bank must, at all times, make public the minimum rates of interest at which it is ready to grant loans and advances. Is the present rate not 5 per cent?

(*English*)

Mr. RASMINSKY: We are required to publish the rates at which we make advances to banks. Yes, we do that. It is announced—the rate is publicly announced from time to time. It was announced most recently on January 27, I believe.

Mr. CLERMONT: I believe it was January 28.

Mr. RASMINSKY: Yes, January 28. The rate was reduced from 5¼ per cent to 5 per cent; that is, the minimum rate.

(*Translation*)

Mr. CLERMONT: Mr. Rasminsky, was this rate reached following consultations between the directors of the Bank of Canada and the Minister of Finance, or was this a decision that was reached by yourself and officers?

(*English*)

Mr. RASMINSKY: It is a decision which is taken by the Governor after such consultations as he finds it appropriate to make from time to time. The character of those consultations has varied from time to time. Sometimes, on occasions, it is

necessary to act between meetings of the directors of the Bank of Canada. That was the case on this occasion; the directors of the Bank of Canada were meeting on February 13, and it was desirable to act before that. It was, however, possible on this occasion to discuss the matter with the executive committee of the bank which meets weekly. Once the bank has formed a view that the bank rates should be changed there has always been discussion with the Minister of Finance, and on each occasion when, during the period I have been Governor —which is the only period I have knowledge of—I have informed the Minister of Finance that it would be my intention to change the bank rate, the Minister— and I have discussed the matter with him and explained the reasons for having formed that view—has reached the conclusion that the action was one which was appropriate in the circumstances.

(*Translation*)

Mr. CLERMONT: Following my request, I am basing my questions on recommendations by the Porter Commission in regard to the Bank of Canada. On page 544, of this voluminous report, the recommendation is found that the Directors of the Bank of Canada have greater authority granted them, be consulted more frequently and share more actively in the administration of the affairs of the Bank of Canada. I note that in bill C-190, some suggestions and recommendations of the Porter Commission are to be carried out and others not. That is the reason behind some of my questions. My question about the interest rate arises from page 544 of the Porter Report. The Commission recommended that Directors play a greater role in decision-taking and administration of the Bank in monetary matters. Is that the case?

(*English*)

Mr. RASMINSKY: I would like to see the precise words of the Porter Commission on that subject.

(*Translation*)

The CHAIRMAN: We are now in a position where we are acting in an official capacity, and we perhaps might agree that this discussion is on Item 1.

(*English*)

And we will be in agreement that I called clause 1 and we will proceed on that basis. We agree on this unanimously.

On clause 1—*Short title.*

Mr. CLERMONT: Mr. Rasminsky, if you refer to pages 544, 545, and 546 of the Porter Royal Commission Report—

Mr. RASMINSKY: That is what I am looking at. I would like to find the direct reference to the recommendations as regards monetary policy.

Mr. CLERMONT: I will read page 544 of the Porter Royal Commission which states:

> —we believe that the legislation should explicitly impose the duty to maintain close and continuing contact and assure the Governor access to the Minister as an adviser on government financial policy.

I think this was carried out by clause 6 of the present Bill No. C-190.

Mr. RASMINSKY: Yes, that is correct.

Mr. CLERMONT: If you refer to page 545 you will see that the Commission proposes a more active role for the board of directors of the bank, in addition to performing a number of housekeeping functions, to ensure the efficiency of the bank. The commission states:

> A more important function of the directors, however, is that of appointing staff, seeing that salaries are reasonable, ensuring that the proper personnel is recruited—

—In our view, however, the most important of the board's functions is to accept collectively the final responsibility for the management and policies of the Bank—subject to the Minister's right of directive.

Mr. RASMINSKY: Yes. I would say, Mr. Clermont, that the conduct of the bank's operations as regards their responsibility for monetary policy is fully in line with the suggestions of the Porter Commission. The directors of the bank meet several times a year. At each of the meetings I give the directors of the bank a very complete and detailed account of the monetary operations of the bank since the last meeting. Putting that in the perspective of the economic developments, I tell the directors of the bank what the over-all objectives of monetary policy are and I provide the directors of the bank with an opportunity to comment on our monetary operations and to express views regarding the correctness or the propriety of the monetary objectives in the light of the economic circumstances. I believe there is, therefore, a collective sharing of responsibility for monetary policy on the part of the directors of the bank. If they were not satisfied with the monetary policy which had been recently followed, or if they were of the opinion that I was not looking at the economic situation in the right way, they are provided with the opportunity at the regular board meetings of indicating these views. In the nature of the thing the conduct of monetary operations is necessarily a day to day affair which has to be carried out by the management of the bank.

So much for monetary policy. On the other matters referred to by the Porter Royal Commission, that is, to see that the business and administrative procedures are sensible and efficient; that expenses are well controlled; that our staff recruitment policies are adequate to the needs of the bank, and so on, the board takes a very helpful and detailed interest in those matters which they show not only at board meetings but also in the fact that there are standing committees of the directors which meet from time to time as required between board meetings and concern themselves in detail with these administrative matters.

I would say, firstly, that we are conducting our affairs along the lines suggested by the Porter Commission and, secondly, I would add that the directors of the bank provide an enormous amount of help to me and to the management of the bank in the conduct of our affairs.

Mr. CLERMONT: Mr. Rasminsky, the week the bank announced its new rate from 5¼ per cent to 5 per cent—the same week or the day before—a New York bank—The Chase Manhattan Bank—announced a new rate too on its prime loans.

Mr. RASMINSKY: Yes, sir.

Mr. CLERMONT: According to a press release from New York "it was decided the cut effective today, could trigger lower interest across the country". Did this come true or not?

Mr. RASMINSKY: I do not know whether the decision of the New York banks to cut their prime rates was influenced by our decision to reduce the Bank rate in Canada. All that I know is that their decision to cut their rate had no influence on our decision at all.

Mr. CLERMONT: I know that but what I mean, Mr. Rasminsky is this: I think theirs appeared in the Ottawa *Citizen* on January 27, dated from New York. According to that press release there was an impression in the financial world that this cut by the Chase Manhattan Bank would be a trigger for a lower rate of interest through the United States? Do you think this will materialize?

Mr. RASMINSKY: Through the United States?

Mr. CLERMONT: Yes.

Mr. RASMINSKY: No. I would say, Mr. Clermont, that the reduction in the prime rate of the American banks reflects the easing in credit conditions that have already taken place in the United States. It did not initiate anything; it reflected something. At the present time there is a curious situation with regard to the prime commercial rate in the United States, in that most of the banks reduced their prime rate from 6 per cent to 5¾ per cent but one bank—a large bank, and I had the impression that it was in fact the Chase Manhattan Bank—reduced its rate from 6 per cent to 5½ per cent, so that at the present time you have a rather unusual situation in that different New York banks are charging different prime rates; normally there is a uniform rate.

Mr. CLERMONT: You mentioned it reflected an easing of credit in the United States. Do we have the same reaction in Canada.

Mr. RASMINSKY: Yes, there has in fact been quite a substantial decline in the market rates of interest in Canada over the course of the last couple of months. These market rates of interest fluctuate from day to day and I would not want to be too precise as to what they are. But if one takes—for example, if one starts at the Treasury bill rate, going back to last November, the average rate of interest on government of Canada 90 day or 3 months Treasury bills was just under 5¼ per cent; it was about 5.20 per cent. The rate at the tender today was 4.61 per cent; that is, a decline of 60/100 of one per cent, something more than half of one per cent on the yield on Treasury bills. If one thinks of the long-term interest rates—going back to December—the average yield on long-term government of Canada securities was just under 6 per cent. It was about 5.90 per cent, while a couple of days ago it was down to about 5½ per cent—it may be a bit above that now. So there has in fact in the past couple of months been a fair decline in the yield. This has been reflected also in the yields on provincial securities and corporate securities in new issues that have come out in the course of this year, particularly in the last few weeks. They have come out at lower rates than the rates which prevailed a couple of months ago.

Mr. CLERMONT: Mr. Rosminisky, if parliament gave the power to the chartered banks to make convention loans, can the mortgages be accepted as collateral by the Bank of Canada, if the banks want to apply for short-term loans?

Mr. RASMINSKY: I must say that I regard the question as a very hypothetical one. We would certainly ordinarily expect loans to be on the basis of government securities. But so far as our powers are concerned, under Section 18, subsection (1), paragraph (h) of the present Bank of Canada Act—this is not being substantially amended in the bill before the Committee—we can make loans and advances for periods not exceeding six months to chartered banks, to banks to which the Quebec Savings Bank Act applies, on the pledge of a wide variety of securities that are enumerated in the act. Among the securities which are enumerated are mortgages or hypothecs so that legally the Bank of Canada has the power to make an advance to a chartered bank or a bank incorporated under the Quebec Savings Bank Act against the security of a mortgage.

(*Translation*)

The CHAIRMAN: I have just been informed by the clerk that your question period is over.

(*English*)

Mr. CLERMONT: All right, Mr. Chairman, I will ask the other questions on the clauses in question.

The CHAIRMAN: Do we have any further initial comments or questions on clause 1. Perhaps it would not be misinterpreted if I mention at this point that we are very fortunate to have the Governor with us again at this time. He must like to visit with us and discuss these matters of national policy. At the same time, he has been with us on a number of occasions in the past in the course of our general public hearings on the legislation referred to us by parliament. Our aim now is to discuss and, if possible, vote on this bill clause by clause. Perhaps the nature of questions and comments which are to be posed might be considered in the light of our particular function at this time.

Mr. LEBOE: Mr. Chairman, as you know, I caught up with a virus which took me out of circulation for over two weeks and I was not able to be in the Committee. There are several questions I would like to pose to the Governor, Mr. Chairman, if I may. The first question I would like to ask, and this is for clarification, is what is the relation between the policy and the governing of the Industrial Development Bank and the Bank of Canada itself; the Industrial Development Bank being a child of the Bank of Canada. What relationship is there in policy making between the Industrial Development Bank and the Bank of Canada. How are they tied in?

Mr. RASMINSKY: The Governor of the Bank of Canada is ex officio the President of the Industrial Development Bank. The board of directors of the Industrial Development Bank is ex officio those people who are named as directors of the Bank of Canada. The Bank of Canada provides certain services to the Industrial Development Bank—services regarding staff and management of an administrative sort, so there is an organizational link between them. But the Industrial Development Bank is operated as quite a separate institution from the Bank of Canada.

Mr. LEBOE: As the Governor of the Bank of Canada you have this interrelationship, which is ex officio, as you say. At the same time it brings with it, certainly I would think, some measure of responsibility and a sort of keeping a weather eye on the Industrial Development Bank. The thing I am interested in is

the very, very high rate which the Industrial Development Bank is charging those who are borrowing from it at this particular time. It seems to me that it is completely out of proportion. Now, how do you as the Governor of the Bank of Canada view, for instance, 8½ per cent interest charges? I am thinking of the economic development of Canada. Canada is a young country and needs a tremendous amount of economic development. The people who need this service, need these credit arrangements, find themselves in a position where they have to pay such exhorbitant interest rates as 8½ per cent.

Mr. RASMINSKY: Under the terms of the Industrial Development Bank Act, the bank is not permitted to make loans where the credit is available elsewhere under reasonable terms and conditions. The Industrial Development Bank has taken the position that the over-all credit conditions prevailing in the country, must be regarded by it as reasonable, and it is supposed to be, in a certain sense, a lender of last resort for its applicants. If any applicant can raise the money from a conventional lender, then the Industrial Development Bank should not, under the instructions under which it is operated in parliament, make the loan at all. If conventional lenders, in the prevailing economic climate, are charging 7½ or 8 per cent for mortgage loans, it provides a certain protection, a certain assurance, that the Industrial Development Bank will not be making loans which would be available from conventional lenders, if its rate is somewhat higher than the rate charged by conventional lenders.

Mr. LEBOE: I have a great deal of difficulty in my mind relating this position to the testimony that we had here, and the changes that we are making now in the amendments that are coming up in the Bank Act regarding RoyNat and Kincross et cetera. The argument there—and I thought it was a very sound one—was that there was a place in the financial field for these people. Now, it is very hard for me to relate the position of the Industrial Development Bank and their activities in regard to this when they say, "well we can charge 8½ per cent because these people cannot get a conventional lender." Now, say a person wanted to borrow $250,000; who would that conventional lender be? Would it be RoyNat, Kinross or would it be some other—

Mr. RASMINSKY: It could be an insurance company, it could be a trust company.

The CHAIRMAN: This is term lending?

Mr. RASMINSKY: Yes; all Industrial Development Bank lending is term lending.

Mr. LEBOE: The evidence we had here was that you would not be able to float debentures profitably under a million dollars. That would be the floor, according to the evidence given before this Committee. It does seem to me that—really I was asking you whether you think that this is a reasonable situation, where the individual actually has not got access really to a conventional lender, in many cases, although his position financially as far as productivity and ability to handle the proposition is concerned, is in A.1 condition? The geographical location may be such that what you call conventional lenders may not be interested, and this is happening all the time, not because of the individual or the prospectus, but because of the geographical location of this particular firm or its operations. I am very much concerned about this, because I come from the northern part of a province where we are running into this type

of thing right along. It does seem to me that the Industrial Development Bank is not being realistic in charging this type of interest rate in places where the difficulty is perhaps just the geographical location rather than anything else, and the inability, in the eyes of a conventional lender, to service the area. It does seem to me that since it is a government institution it should expand its horizon. I think it is important that perhaps you give some serious consideration to this, especially in light of what we are doing in the Bank Act at this present moment, so that the banks will be able to make conventional loans and take mortgages. If you study the picture you will find out that the Industrial Development Bank will not be able to make loans at 8½ per cent, or anything like it.

Mr. RASMINSKY: Well, if the conventional rates come down, then the test that the Industrial Development Bank applies will lead to a different result. And, I very much hope that the effect of the banks having the mortgage power, is to make money—mortgage money, term loans—more readily available to small businesses that cannot undergo the expense of large flotation. If one looks at the Industrial Development Bank accounts, the Industrial Development Bank cost of funds, naturally reflects prevailing market rates of interest. And the cost of funds has been increasing in recent years, more rapidly than has been reflected in the rates charged by the Industrial Development Bank. The net income of the Industrial Development Bank, expressed as a percentage of loans in the Industrial Development Bank portfolio of loans and investments outstanding, the net income, before making provision for losses, is hardly more than one half of 1 per cent of its loans and investments outstanding. And that is certainly not a rate of return that any conventional lender would be satisfied with.

Mr. LEBOE: Would it be possible that the routine that the Industrial Development Bank goes through, and the amount of dollars that they spend in connection with the loan, are very much higher than will be under the, shall we say, loans made by the banks, once they are able to take securities.

Mr. RASMINSKY: I do not know, Mr. Leboe, whether that is the case or not. I do not think that the Industrial Development Bank cost per unit of loan money disbursed are particularly high.

Mr. LEBOE: I do not want to prolong this because we want to get into something else, but the reason for my question is that I know of one case, at this particular moment, where there have been investigations going on for nigh on two years, and finally they now turned it down. Well, there is no revenue at all, but there is the expense of spending two years looking at the proposition, and undoubtedly the individual will get money from the banking system as soon as this—

Mr. RASMINSKY: Well, I do not know who it is—

The CHAIRMAN: I wonder if I can interrupt at this time. I would think that it would be in order to ask questions on the relationship between the Bank of Canada and the Industrial Development Bank and the general Bank of Canada policies on the monetary system; but I do not think our terms of reference permit us to go into the operations of the Industrial Development Bank as such, because it is the subject of its own act of parliament governing its incorporation and operations, and this act is not before us. Perhaps it should be, but it is not. Perhaps I am at fault, I think I am, in allowing the discussion to move into an

area which is very interesting, but which I think relates more to the operations of the Industrial Development Bank itself, rather than the Bank of Canada.

Mr. LEBOE: Well, I think you have misunderstood, Mr. Chairman, the point I was trying to make. I think that the Governor understands, that I am really presenting this as something to be looked at; not as of yesterday, but to be looked at in the future, Mr. Rasminsky is the Governor of the Bank of Canada, and the relationship exists, therefore, some influence should be brought to bear to make a much more effective instrument, for the good of the general public, as far as the bank is concerned. I will leave it right there.

Mr. RASMINSKY: Well, I do,—if I can make this observation—I do take that point, Mr. Leboe, that you want us to be forward looking. At the same time I would like to register that I think that the Industrial Development Bank has been an extremely effective instrument in accomplishing the purpose as set out in the act by which it is established. The Industrial Development Bank has a portfolio, has outstanding on its books, loans in an amount of about $300 million, which is a large amount of money for the constituency that it serves, and the greater part of which, I feel quite confident, would never have been made by any institution, by any conventional lending institutions. The Industrial Development Bank, in the course of its history, has made loans which are at least double that amount, because it has received repayments. I think, and I say this subject to correction, it has made about $750 million worth of loans. The Industrial Development Bank, in quantitative terms, has done much more than any of the other quasi-conventional institutions that are operating in this field. So while I take your point that we should seek to expand our services, I would like to register that I think the Industrial Development Bank has made a very important contribution to the economic development of small business in this country.

Mr. LEBOE: I think you are right, and I agree with that. But, I suppose I am observing it much the same as the CBC combating the influence of the United States to their viewers, and spending millions of dollars trying to woo one viewer, while the whole of the north country goes without television. We will leave it at that.

The CHAIRMAN: Perhaps we may want to recommend to the house we have a chance to review the operations of the Industrial Development Bank as such. But, inasmuch as we have Mr. Rasminsky here in his capacity as Governor of the Bank of Canada, and not in his capacity as Chairman of the Board of the Industrial Development Bank, perhaps we might move along and perhaps we might have item 1 stand—no it is not item 1 as such; actually item 1 in this bill is a specific amendment. We will say the preamble stands: Clause 1 of this bill is not—

Mr. FULTON: Go straight ahead with Item 1. Clause 1.

The CHAIRMAN: Yes, well I will call the clauses, and as I said before, we have had considerable information from the Governor who was with us when we began. It seems to be longer and longer back as we move along. There are some useful explanatory notes, and we have the proceedings of our hearings with us, so if any of the members have any questions or comments as we proceed, I will ask you to signify promptly. Now I will call Clause 1.

On Clause 1—*Deputy Governor.*

(*Translation*)

Mr. LATULIPPE: Mr. Chairman, you are carrying section 1. We are on general questions, are we not? We will not be able to speak on the Bill in general will we?

The CHAIRMAN: My idea was rather to stand over the general discussion that is remaining. To avoid a technical discussion is procedural matters, we would like to have a period for general discussion, now, if you would like that. This general discussion might lead us into some difficulty. Do you want to have a general discussion?

Mr. LATULIPPE: I have not had the occasion to put questions to Mr. Rasminsky. I would have some questions of general character and technical character to put to him. I also want to bring up some questions of a philosophical character with regard to the banking system generally. I would like to examine the question as a whole more or less.

The CHAIRMAN: It is my fault, as Chairman, Mr. Latulippe indicates he wants to be recognized. I forgot, we cannot have general discussions on the Bank Act.

Mr. FULTON: We can put general questions in regard of the Bank of Canada, can we not?

The CHAIRMAN: I allowed Mr. Clermont and Mr. Leboe to put questions.

Mr. FULTON: Should we have a general discussion on monetary policy?

The CHAIRMAN: Mr. Fulton has raised a very important point. Should we have a general discussion in the sessions when we meet the general public. That is why we sometimes have the Governor with us. Mr. Fulton has pointed out the general ideas and topics. It could perhaps be bound up with specific articles on the Bank of Canada Act.

Mr. FULTON: It seems to me that we have completed that phase.

The CHAIRMAN: I think you are right.

Mr. LATULIPPE: I had several questions in mind and we did not get exact replies and would like to put questions.

The CHAIRMAN: But you must realize it is difficult to have all kinds of witnesses here. If you do not feel the replies are sufficiently precise, this is something we cannot fully control at a Committee hearing like this one.

Mr. LATULIPPE: If I have not been able to put some questions to Mr. Rasminsky, I would like to put different questions, I have a lot of questions on the Bank of Canada which are related to the monetary system, but all are related to the Bank of Canada since the Bank of Canada keeps the whole system going.

The CHAIRMAN: Put your questions and if I and the Committee feel that the procedure does not allow you to put the questions, we will point them out.

Mr. LAFLAMME: We want to inform Mr. Rasminsky that it is not necessary to repeat what he has already stated.

Mr. LATULIPPE: The Bank of Canada was founded in 1934. It sets its interest rate at 2 percent per Treasury bills to make loans to chartered banks. This 2 per cent rate remained stable, from 1934 to 1956, although we had gone through a war and a depression and afterwards a post war period of prosperity. I would like to know why the Bank of Canada began playing about with interest rates. The Bank of Canada began manipulating interest rates and ended the stability which it had put in practice for twenty years and which had been so useful, and the Bank of Canada interest rate was then raised by 1½ per cent to 6¼ per cent in the same year. Further Canadian Government bonds, in the conversion of wartime bonds of 6 billion 400 million dollars, were renewed at rates of 5½ per cent, instead of 2, 2½ or 3 per cent which has been paid in a war.

I would like Mr. Rasminsky to tell me why the Bank of Canada is manipulating rates in this way.

Mr. RASMINSKY: First of all, I do not admit that we manipulate. We change the rates depending on economic conditions at the time. The reason is that economic conditions have changed.

Mr. LATULIPPE: How is it that after the war we did not have the same economic conditions? The rates stayed at 2¼ per cent and then you began manipulating interest rates, and now we cannot understand a thing? The rates of interest are tremendous and the debentures are 6, 7 and 8 per cent for municipalities and school boards have to pay very high rates and the banks have to borrow money at 5, 5½ and 6 per cent from the Bank of Canada. Why does the Bank of Canada not maintain its rates at a lower level, it seems to me it would help?

Mr. RASMINSKY: This is to prevent inflation, Mr. Latulippe.

Mr. LATULIPPE: But why was there no inflation during the war at 2¼ per cent?

Mr. RASMINSKY: Because we had price controls. The conditions were governed by controls.

Mr. LATULIPPE: That is easier to understand, and it is easier for the Government and the Bank of Canada to administer in wartime than it is in peacetime.

Mr. RASMINSKY: It was not the Bank of Canada that administered this. It was the Wartime Prices and Trade Board.

Mr. LATULIPPE: But when the rates change it is usually the Bank of Canada that announces the change in the interest rates, through the Minister of Finance. Then all rates go up. Now there is an increase in the interest rates allowed, and this is going to contribute still further to an increase in debenture rates. Those who have debentures now are going to sell the debentures as they did when we had this conversion loan involving 6 billion dollars. Mr. Diefenbaker pointed this out in the House. This contributes to inflation. There is no means of settling inflation this way.

Mr. RASMINSKI: I take note of your opinion.

Mr. LATULIPPE: The situation is not as good as it was when the rates were 2¼ per cent and economic conditions were better than today. If we had stood by

those principles, the situation might be better. We have more inflation now than we ever had in wartime or in any other time. We are going through unprecedented inflation. The country has never been through such a period of inflation.

The CHAIRMAN: Do you agree with that?

Mr. RASMINSKY: No, I do not agree that this is true.

Mr. LATULIPPE: When we examine interest rates and see the cost of living goes up everywhere, this means a reduction in the purchasing power, and consequently, inflation. Inflation is certainly brought about when the interest rates go up, and these big companies do not know what to do. The great majority of the people do not have the money they need. The great majority of people are ruined by taxes, by the Government sales of debentures. The public can no longer meet these financial needs. If you go into different parishes, you will find properties that are sold for school taxes. We never had this before.

The CHAIRMAN: Are you going to put a question now or are you making a statement?

Mr. LATULIPPE: It is a question I put in a general way.

Mr. RASMINSKY: I did not understand the question.

Mr. LAFLAMME: You do not have to understand!

Mr. LATULIPPE: You do not understand me perhaps but others need to.

Mr. LAFLAMME: Did your leader say that?

Mr. LATULIPPE: No, I am saying it. So, Mr. Rasminsky, if it is right to say that all new monies come out of the bank in the form of loans, and all money in circulation was originally loaned by financial institutions then this means that all new currency is a debt and bears interest?

Mr. RASMINSKY: No, that is not correct.

Mr. LATULIPPE: Then not all money brings interest? Can you define for me what sum of money in circulation does not bring interest?

Mr. RASMINSKY: The Bank of Canada bills.

Mr. LATULIPPE: Bank of Canada bills do not bear interest?

Mr. RASMINSKY: No, sir.

Mr. LATULIPPE: But when they are loaned to banks they bring interest.

Mr. RASMINSKY: Yes, but we are speaking of bills in circulation. This is not the case here.

Mr. LATULIPPE: What amount of bills has the Bank of Canada put into circulation? What is the value of Bank of Canada bills put in circulation?

Mr. RASMINSKY: The active circulation of Bank of Canada bills in the hands of Canadians and Canadian residents, on the first of February, 1967 was 2 billion 176 million dollars.

Mr. LATULIPPE: Let us say that maybe 3 billion dollars, to give a round figure. If there is 3 billion—

Mr. RASMINSKY: Let us say 2 billion dollars.

Mr. LATULIPPE: Well, 2 billion 160 million dollars, then. Let us say 2 billion dollars. So there are 2 billion dollars in circulation. How is that the banks, by their 8 per cent deposit, have over 1 billion dollars in reserves with the Bank of Canada and after that the inner reserves which the banks have available to

them. In addition to these sums, a good many other institutions have other reserves. How is it that there is that much money in circulation?

Mr. RASMINSKY: I do not see the relationship you are trying to make between these two elements as expressed in your question.

Mr. LATULIPPE: I might perhaps put it another way. How is it that there are 26 billion dollars in currency and 2 billion in circulation?

Mr. RASMINSKY: It is that we have developed the economy to the point that most transactions are carried out by cheque. Moreover we are talking of 21 billion dollars and not 26 billion dollars.

Mr. LATULIPPE: Is it fair to say that the banks create new money and become proprietors and lend at interests and at a profit to themselves?

Mr. RASMINSKY: Would you repeat your question?

Mr. LATULIPPE: Is it fair to say that the Bank create new money and become proprietors of it and lend it for their own profit?

Mr. RASMINSKY: No, that is not the case.

Mr. LATULIPPE: How is it then, if that is not the case, that in Canada we have 87 billion dollars in debt, owed by individuals and governments? These are the figures for indebtedness. If the Bank is not the owner of the assets of the Government and assets of private persons, who is the owner of these assets?

Mr. RASMINSKY: The debts are in part Government debts or debts of the private sector, but these constitute the assets of those holding bonds.

Mr. LATULIPPE: About these assets, these holdings you refer to. Were these not financed by the bank. If they were to be paid back tomorrow morning, if the financiers were to call in their debts tomorrow morning, would this not mean a risk of bankruptcy? How could we pay our debts?

Mr. RASMINSKY: It would be difficult, but it will not happen.

Mr. LATULIPPE: Then let us stay with Government bonds. We know what the Government is doing with these bonds. If the Government bonds are put on the banker's registry and become money, could they not become money on the books of the Government or another institution?

Mr. RASMINSKY: No.

Mr. LATULIPPE: These could not become money, why? Government bonds put on the books of the banks mean money to them. How is it then that this would not mean money on the books of the Government?

Mr. RASMINSKY: Well, it is a question of balancing all debts. If we use deposits to reimburse a loan that a bank has issued, the deposits decrease and the loans become extinct.

Mr. LATULIPPE: Since the Government makes a gift of national credit to institutions, could the same gift not be made to the citizens of this country?

Mr. RASMINSKY: I am sorry, I do not understand your question.

Mr. LATULIPPE: Since the Government makes a gift of national holdings to private institutions, could the Government not make the same gifts to the citizens of this country?

The CHAIRMAN: Do you agree that the Government makes a gift?

Mr. RASMINSKY: No, I do not know to what gift you refer.

Mr. LATULIPPE: The Government itself is not proprietor of the national credit. It has it created by private institutions. Now since these institutions have the right to create this credit for the Government, they record it as an asset and then this becomes a liability to the Government. Would it not be fair then that at least a part of this asset be granted by the Bank of Canada to finance public projects at a nominal interest rate designed merely to cover administration costs? I am thinking of schools, universities, highways, roads, these are very difficult to pay for to-day. In the present system, we have to pay five times over before we can get them, when we calculate the interest rate owing. You administer the Bank of Canada, could you not do this, could you see this being done?

Mr. RASMINSKY: The greatest part of the holdings of the Bank of Canada are Government securities. The total amount of our asset, consisting mainly of such bonds, depends on the monetary policy of the bank. And this monetary policy is designed to serve the needs of the economy of the country.

The CHAIRMAN: Mr. Latulippe, I am very sorry but your question period has come to an end and this being the case, I must—

Mr. LATULIPPE: Did you shorten up the question period?

The CHAIRMAN: No, no, the clerk informs me. I examined her watch, took notes and found that your question period is over. Perhaps you have very precise questions in regards to amendments that will follow and you can put them when I call these particular amendments.

Mr. LATULIPPE: If you will allow me, Mr. Chairman, I have only one further question for Mr. Rasminsky. I have a lot, but I will only put one more.

The CHAIRMAN: Yes.

Mr. LATULIPPE: I would want some information, if you would allow me?

The CHAIRMAN: Yes.

Mr. LATULIPPE: Could you tell us, Mr. Rasminsky, are capital works financed by private capital?

Mr. RASMINSKY: If the—

Mr. LATULIPPE: Could you tell us if it is the private capital that is used to finance capital works?

Mr. RASMINSKY: I cannot tell you.

The CHAIRMAN: Now, I must tell the Committee that I call clause 1—

(*English*)

Shall clause 1 carry?

Clause agreed to.

Clauses 2 to 8, inclusive, agreed to.

Mr. CLERMONT: You said 8?

The CHAIRMAN: Yes.

Mr. CLERMONT: O.K.

The CHAIRMAN: I do not want to be unfair. If I have moved too quickly—

Mr. CLERMONT: It is O.K., sir.

The CHAIRMAN: Does someone want me to revert to a particular clause because of a special question?

Mr. CLERMONT: No.

The CHAIRMAN: We are at clause 9.

Mr. FULTON: Can we stand clause 9, Mr. Chairman, until we discuss clause 10?

The CHAIRMAN: Yes.

Mr. FULTON: There are some questions I want to raise that may have a bearing on clause 9. Perhaps I can put it this way, could we discuss the two together?

The CHAIRMAN: It is clause 10 you wanted to question, on?

Mr. FULTON: Yes, but the two points I wanted to make are perhaps related.

The CHAIRMAN: Yes, we will discuss clauses 9 and 10 together.

On clauses 9 and 10.

The CHAIRMAN: Mr. Fulton?

Mr. FULTON: Thank you, Mr. Chairman. Mr. Rasminsky, we had some discussion when you were here earlier on the matter of principle, whether the Bank of Canada should be allowed to pay interest to the chartered banks on at least some portion of the deposits that the chartered banks are required to maintain with the Bank of Canada. Because of the difficulty with the transcript, I have not been able to go over it in detail to refresh my memory on the precise points that have been covered. I would like you to correct me if I am wrong in saying that you did not express an opinion as a matter of policy—your own judgment—whether this would be desirable. You said that there were certain reasons, if I recall it, that indicated in your mind that the Bank of Canada should not pay interest on the total of the deposits. Perhaps I should not try to summarize it; I should just ask you to summarize it.

Mr. RASMINSKY: If I did not express an opinion on that as a matter of principle, it was through an oversight.

Mr. FULTON: Perhaps I did not follow you closely enough.

Mr. RASMINSKY: I do not, in fact, think that the bank should be required or authorized to pay interest on chartered bank deposits with us.

Mr. FULTON: Did we get so far as to perhaps arrive closer at a possible agreement with respect to—I never remember what it is called—those secondary deposits; that they might be more susceptible to the payment of interest?

Mr. RASMINSKY: Yes; in fact, Mr. Fulton, the secondary reserves are interest bearing assets. The secondary reserves consist of deposits with the Bank of Canada, and day to day loans to the money market, and treasury bills. The day to day loans to the money market, and treasury bills, are, of course, interest bearing assets; they are the secondary reserves.

Mr. FULTON: Are they not deposits with you?

Mr. RASMINSKY: No, sir, they are not. They are assets of the chartered banks. The only deposits with us are the cash reserves that the banks are required to keep under the Bank Act and the Bank of Canada Act.

Mr. FULTON: They may now go up to 12 per cent under the new proposed act?

Mr. RASMINSKY: No, sir; under the act as it stands, the banks are required to keep a minimum cash reserve with us of 8 per cent on the monthly average. The bank has the power to raise that figure in stages from 8 per cent to 12 per cent.

Mr. FULTON: Yes, 12 per cent.

Mr. RASMINSKY: First of all, if the legislation at present before parliament is adopted, the basic cash reserve requirement will be changed, as you know, from 8 per cent to a figure which at the present time works out to something like 6.6 per cent.

Mr. FULTON: Yes.

Mr. RASMINSKY: Second, the bank will be giving up the power to vary the cash reserve ratio; that power will disappear. It will be replaced, in a certain sense, by a power to require the banks to hold secondary reserves. Those secondary reserves are assets of the banks which bear interest; they are of this character which I have mentioned, day to day loans or treasury bills. If this legislation is adopted by parliament, the bank will have the power to require the banks to hold secondary reserves of 6 per cent and the further power to raise that requirement from 6 per cent to 12 per cent. So that, on the one hand, we are giving up the power under this proposed legislation to vary the cash reserves and we are asking instead, or parliament is instead asked to consider giving us power to impose a secondary reserve ratio and to vary that secondary reserve ratio.

Mr. FULTON: At the moment when the banks go to you, or if they were to go to you to discuss with you the payment of interest on some portion of the deposits they keep with you, your answer would be "I am sorry, I cannot discuss that with you because there is a prohibition in the act", would it not?

Mr. RASMINSKY: Well, I would say that, I might even say "and I think there should be a prohibition".

Mr. FULTON: There would be no point in a discussion anyway, so long as the act remains as it is.

Mr. RASMINSKY: No point whatever.

Mr. LEBOE: I wonder if I could ask a supplementary question here?

The CHAIRMAN: Will Mr. Fulton yield? If not you will have to hold it over.

Mr. FULTON: Yes.

Mr. LEBOE: I wonder if the Governor could tell us whether there would be any possibility, because of the situation that is arising where the Minister of Finance is now going to have the final say, of any influence being brought to bear on the bank, by the government, to increase the secondary reserves of the banks to almost put them in a position where they should be reaching out and buying government securities? This may be away out in left field, I do not know; it just occurred to me as a possibility. This is the way my mind works as far as some of these things are concerned.

Mr. RASMINSKY: I hope it is away out in left field, Mr. Leboe. One cannot say that this is absolutely excluded, that the government would seek to have the secondary reserve ratio vary for reasons connected with the management of the public debt, or to find a home for treasury bills. I would very much hope, and

expect, that the government would not, and that no government would wish to do that. If that were done, for reasons unrelated to monetary policy, I must say that I would take a very poor view of that.

Mr. LEBOE: Thank you very much, Mr. Rasminsky.

Mr. FULTON: Are other deposit taking institutions, other than banks, required to maintain any deposits anywhere on which they do not receive interest? They do not maintain deposits with you do they?

Mr. RASMINSKY: No, I am afraid that I am not completely familiar, Mr. Fulton, with all the legislation governing these non-bank financial institutions that compete with banks. In the case of the banks that are incorporated under the Quebec Savings Bank Act, there I know what the cash requirement is. There the cash requirement is 5 per cent on a daily minimum basis, not on a monthly average basis, which is the way it works with the chartered banks. And that cash can be held either with us, or with a chartered bank.

Mr. FULTON: Where do they hold it?

Mr. RASMINSKY: They hold it in both places. I believe that provincial laws do impose cash and liquidity requirements on provincially incorporated trust companies, but I am afraid I do not know what they are.

The CHAIRMAN: Well gentlemen, the bell is ringing calling us to a vote in the house. I suggest we suspend the meeting and resume after the vote has been taken. Perhaps I should get the advice of the Committee. Do you think we will have time before 6.00 o'clock to go on?

Some hon. MEMBERS: No, no.

Mr. FULTON: Eight o'clock.

The CHAIRMAN: Will you be available Mr. Rasminsky at 8.00 o'clock this evening?

Mr. RASMINSKY: Yes.

The CHAIRMAN: Then the meeting is recessed until 8.00 o'clock this evening. Mr. Clermont will follow Mr. Fulton.

EVENING SITTING

The CHAIRMAN: Gentlemen, I think we are in a position to resume our meeting. When we recessed, I believe Mr. Fulton had the floor. He will be followed by Mr. Clermont. We were on clauses 9 and 10. Before calling on Mr. Fulton, again, I might draw to the Committee's attention the fact that

(*Translation*)

We have the honour of having tonight with us the Chairman of the Montreal District Savings Bank, Mr. Vanier and Senator Gouin. I think they will be quite surprised to see the speed with which we are dealing with our work. It is a pleasure to have them amongst us tonight.

(*English*)

Mr. Fulton, would you like to resume your questioning?

Mr. FULTON: Thank you, Mr. Chairman. I had asked Mr. Rasminsky whether to his knowledge non-bank financial institutions were required to maintain on deposit the sums on which they did not gain interest. I think Mr. Rasminsky said that he could not speak authoritatively because he did not know in detail the provisions of the various provincial acts. I think, Mr. Rasminsky, you were not able to say they did have to keep such sums on deposit.

Mr. RASMINSKY: That is right, Mr. Fulton; and I think I could add to that that in actual fact the amounts of cash, presumably non-interest bearing, which are normally held by institutions of the type you have in mind are less—a smaller percentage of their deposit liabilities—than the banks are required to hold under the Bank Act.

Mr. FULTON: In fact, if I said that the non-bank financial institutions, which are also deposit taking institutions, are not required to keep with some other body substantial amounts on deposit upon which they earn no interest, you would not be able to disagree?

Mr. RASMINSKY: I would not be able to quote chapter and verse of the legislation, Mr. Fulton, but, of course, to the extent that these institutions operate checking accounts which their customers can draw upon by cheque, and to the extent that they have other forms of borrowing from the public, which mature, from time to time, they must be in a position to meet adverse clearing balances. So, they must, in the nature of things, keep a certain amount of cash reserves on hand; but I am afraid I do not know what the various pieces of provincial legislation provide in that respect.

Mr. FULTON: You would not be able to disagree if I said they did not have to keep them in the form of sterile deposits upon which they can earn nothing?

Mr. RASMINSKY: I would think it most unlikely, Mr. Fulton, that these non-bank financial institutions were in a position to hold cash reserves which formed the function of clearing balances and earn interest on those reserves. I think it is most unlikely.

Mr. FULTON: But then no portion of the reserves they have to hold, or do hold themselves, form a part of the instrumentality of the monetary control in the way the banks' deposits with you do?

Mr. RASMINSKY: They do not form an instrumentality in the sense that they are required by the law regulating monetary control which is essentially the Bank of Canada Act and the Bank Act. They are not an instrumentality in the sense that they are required by law to hold certain cash reserves. On the other hand, the whole financial process, the whole process of competition between various types or among various types of financial institutions is essentially a struggle for cash reserves and the non-bank financial institutions take part in that struggle just as much as anybody else, as the banks do. They have to try to attract the deposits that will enable them to make a living; to operate profitably; to hold assets on which they can earn higher rates of return and, at the same time, be in a position to meet adverse clearing balances. I do not regard the cash reserve situation as it affects the chartered banks, subject as they are to federal

law, and the cash situation as it affects the non-bank financial institutions as essentially different from an economic point of view, but, admittedly, it is very different from a legal point of view.

Mr. FULTON: Perhaps I should ask you to explain to me the difference between a cash reserve and a reserve, if they wish to keep it in the form of short-term government securities. That would be an adequate reserve, would it not?

Mr. RASMINSKY: It would not be adequate to meet clearing balances.

Mr. FULTON: No?

Mr. RASMINSKY: No, sir; if they lose money in the clearing they have to be in a position to transfer cash to the bank or other financial institution to which they have lost funds. The non-bank financial institutions, like the banks, hold liquid assets which are readily convertible into cash, but in both cases, they are a necessary asset of the financial institutions; they are not cash.

Mr. FULTON: How do the trust companies—non-bank financial institutions —hold their reserves? In what form do they hold them?

Mr. RASMINSKY: I think that most of them—this is their cash reserves you are referring to, I presume?

Mr. FULTON: I want to equate them to the deposits which the chartered banks are required to maintain with you.

Mr. RASMINSKY: I think that most of the non-bank financial institutions, most of the trust companies which are the important ones, hold their cash reserves in the form of deposits with the chartered banks.

Mr. FULTON: In what form, savings or current?

Mr. RASMINSKY: I am afraid I cannot really answer the question with confidence, but I would think that their true cash reserves—there are, I think, perhaps people in this room who are chartered bankers who would be able to answer this with more authority than I—are held in the form of current accounts, non-interest bearing current accounts. They may, in addition, hold some interest bearing deposits with chartered banks as an alternative investment to a Treasury bill or some other liquid asset. Their true clearing balances would be held in the form of non-interest bearing current accounts with chartered banks, as a rule.

Mr. FULTON: Would you really equate these to the deposits the chartered banks hold with you?

Mr. RASMINSKY: In the sense that any financial institution which is in the position where it may suffer a withdrawal of deposits, or a loss of funds through the clearing, has to hold cash reserves. In that sense they perform the same function. The amount of cash reserves which the chartered banks hold is regulated by law, and the law before parliament now is proposing certain revisions in that amount, the general effect of which is to reduce the amount of cash reserves that the chartered banks are required to maintain and calculated on a different basis. The cash reserves which the trust companies and other non-bank financial institutions hold, in many cases, probably result from their own decisions. It may be regulated in some provincial jurisdictions, but I do not

know. The only difference between the two would arise if the federal law required the chartered banks to hold a higher proportion of their deposit liabilities in the form of what you have described as "sterile cash" than they would wish to hold. It is left entirely to their own devices.

Mr. FULTON: It seems to me that they feel that they are, Mr. Rasminsky, and you said, I think, that you feel that they are required to hold a higher proportion than they would if left to their own devices. You said that you have, to put it mildly, some reservations about paying interest on any portion of those deposits. However, my point is that whether you thought it equitable, right or not, you could not do it under the present act and under the provisions as they will be maintained notwithstanding this revision.

I would, therefore, like to move, Mr. Chairman, that—

The CHAIRMAN: Mr. Fulton, I do not want to create any technical difficulties, but our meeting at this stage is still of an unofficial nature.

Mr. FULTON: We have been adopting clauses.

An hon. MEMBER: We do not have a quorum.

Mr. FULTON: This is a reconstituted meeting, is it not?

The CHAIRMAN: Let me put it this way. I would be happy to accept your amendment. I want it understood that we do not want to create any later difficulties if we are not in an official capacity when the time comes, when we have finished the discussion.

Mr. FULTON: You mean you want lots of time to get in the members.

The CHAIRMAN: It is not a question of getting in the members but I am afraid that anybody can raise a technical difficulty in the meeting at this time. I am saying this to be fair to you. I am just saying now that—I would be happy to receive the amendment. I am just pointing this out, shall I say, to be fair to yourself.

Mr. FULTON: Do not worry about being fair to me; let us just worry about being fair to the Committee.

Mr. LEBOE: We do not have a quorum at the moment, Mr. Chairman.

Mr. FULTON: Well, then you do not have to vote on it, do you.

Mr. LEBOE: No.

Mr. CHAIRMAN: No, no.

Mr. FULTON: But I am going to make a motion.

The CHAIRMAN: Fine.

Mr. FULTON: That clause 10 of the bill be deleted—that is the one we are discussing—and the following be substituted therefor:

> Paragraph (e) of section 19 of the said Act is repealed.

That is my motion and I will sign it and pass it up. If you look at clause 10 of the bill, as it presently stands, you will find that it proposes to delete one portion of paragraph (e), namely, the portion reading, and I will go back to the opening words of section 19:

> The bank shall not, except as authorized by this Act, (e) accept deposits for a fixed term or—

So, does not clause 10 propose to delete those words "accept deposits for a fixed

term or". In other words, it is agreed, and the explanatory note says that "this restriction is no longer necessary"; that is, the restriction which has the effect of saying the bank shall not except as authorized by this Act accept deposits for a fixed term is no longer necessary, and it is proposed to delete that. The effect of my amendment then would simply be to delete the second half of the restriction contained at the moment in paragraph (e) namely, that the Bank shall not pay interest on any money deposited with the bank. So my amendment would not strike out anything that is regarded as a necessary restriction because the explanatory note says that the restriction proposed to be deleted is no longer necessary. All that my amendment would be doing would be to strike out the prohibition against the payment of interest on deposits which would, therefore, leave it entirely up to a matter of negotiation and subsequent decision whether the Bank of Canada should pay interest on deposits or not. In other words, the effect of the amendment would be to end the situation under which the Governor of the Bank of Canada must say, I think, must say, well, there is no point in discussing this because the act prohibits the payment of interest on these deposits, and would leave the matter subject to negotiation. If a case were established that all, or a part of these deposits should, in justice, earn interest, then that might be negotiated. It does not require the payment of interest; it merely ends the situation in which interest cannot be paid at all.

Then, I refer you back to other provisions in the present Bank of Canada Act which say that where deposits are accepted from international or foreign institutions, interest may be paid. This is carried forward in subclause (3) of clause 9 of the bill on page 4. The Bank may:

(m) open accounts in a central bank in any other country—

And so on. It may:

accept deposits from central banks in other countries,—

I am not reading all the words, and may

—act as agent, depository or correspondent for any of such banks or organizations; and the Bank may pay interest on any such deposits;—

It does not say they have to. It says they "may pay interest", so the purpose and effect of the amendment that I propose to the Committee is simply to delete the prohibition against the payment of interest and leave it open for discussion and negotiation whether any portion of the deposits maintained with the Bank of Canada by the chartered banks, a portion of which deposits as I understand it, is primarily for the purpose of assisting in the exercise of monetary control and is not, therefore, an insurance of the maintenance of adequate reserves, pure and simple, by the banks, but is a part of the instrumentality of over-all monetary control, whether that portion at least of their deposits might be interest bearing.

The CHAIRMAN: Are you in a position to make any comments on Mr. Fulton's proposal at this time?

Mr. RASMINSKY: If you wish me to comment on it, I will do so.

Mr. LEBOE: I was wondering, Mr. Chairman, if I could ask a question which is related to this. I sometimes ask questions when I think I know the answer but in this particular case, I am not aware of what the circumstances are. I am asking you whether or not the Governor of the Bank of Canada or the Bank of Canada

has any way of refusal of a bank purchasing notes of the Bank of Canada, with, let us say, reserves that they have accumulated which they have not been using in this way, and I ask the question because if they were interest bearing it might be difficult for the Bank of Canada to have the type of monetary control that it would like to have if money could be deposited with the Bank of Canada reserves increased in that way.

Mr. RASMINSKY: The Bank of Canada does not issue any liabilities which are interest bearing, Mr. Leboe.

Mr. LEBOE: Not at the moment?

Mr. RASMINSKY: No. The only liabilities of the Bank of Canada are either in the form of notes, that is, actual currency which circulates from hand to hand, or in the form of deposits with us which are maintained by the chartered banks or the government or the banks that operate under the Quebec Savings Bank Act.

Mr. LEBOE: Well, may be I have not made myself clear. What I was thinking about was the case of a bank having cash assets which were not in your possession as the Bank of Canada in a reserve account. Suppose they could get interest on it, as the amendment suggests, and you decided to give them interest on their deposits, then they could put more money in the reserve account with the Bank of Canada and, therefore, increase their ability to make loans.

Mr. RASMINSKY: I think that the amount of the cash reserves of the commercial banking system which determines the size of the banking system and their ability to make loans is always within the control of the Bank of Canada. We can always control the total amount of our deposits outstanding, the total amount of our liabilities outstanding, and I do not think that the ability of the banks to shift from one form of liability, for example, to shift from notes to deposits with us or from deposits to notes would impair our ability to control.

Mr. LEBOE: The reason I asked the question is that I think it has a bearing on my thinking in connection with the amendment.

Mr. RASMINSKY: Yes. Mr. Fulton, if I can just make this comment on Mr. Leboe's question. The cash reserves of the commercial banks with the Bank of Canada are the fulcrum. They are the fulcrum of the monetary system. They are the central technique through which monetary policy is made effective. It is the decisions of the central bank to increase or to diminish and usually to increase the amount of those reserves which determines whether the monetary system shall be subjected to an impulse of expansion or to an impulse of less rapid expansion or perhaps, on occasion to an impulse of contraction. In order for this system to work it is essential that the chartered banks should work to a reasonably close ratio, a reasonably predictable ratio, between the amount of cash that we put into the system and their own deposit liabilities. Otherwise, you have a moving fulcrum and you do not know where you are and monetary policy would become extremely difficult to operate and the effects of what the central bank did would become quite unpredictable. What makes that fulcrum a fixed point—what gives you this relationship is in fact the fact that the cash held by the commercial banking system with us is non-interest bearing, because that fact provides us with the assurance that if we put additional cash in, the commercial banks will want to do something with it. They hate the idea of not earning a profit on the extra cash.

Mr. FULTON: May I interrupt a moment and ask you what happens if you ask them to put additional cash with you. They do it, do they not?

Mr. RASMINSKY: Well, you know you cannot ask them to put additional cash with you. They put what the law requires.

Mr. FULTON: Then do you not raise it?

Mr. RASMINSKY: Well, under the present act, Mr. Fulton, the Bank of Canada has the power to raise it but that power has never been exercised, and we are proposing—

Mr. FULTON: That is not what I heard.

Mr. RASMINSKY: Well,—

Mr. FULTON: May be I am misinformed; this was long before you were Governor, but I heard of a certain case where the limit was raised arbitrarily and rapidly.

Mr. RASMINSKY: Not the cash limit, Mr. Fulton. In the 1954 revision of the Bank Act the cash reserve ratio required by the banks was changed from the previous system which was a minimum of 5 per cent on a daily basis; that is, they could not ever fall below 5 per cent, to an average of 8 per cent on a monthly basis.

Mr. FULTON: Yes.

Mr. RASMINSKY: And at the same time the Bank of Canada was given the power to raise that required cash reserve from 8 per cent to 12 per cent.

Mr. FULTON: Yes.

Mr. RASMINSKI: That power has never been exercised. It may be that you have something else in mind. You may have the liquid asset provision in mind, but so far as cash is concerned that power has never been exercised. The essential point, and I just repeat it once more to underline it, is for monetary policy operating through the cash reserve system to be effective the required reserves of the chartered banks have to be fixed a little above the amount that they would want to hold—

Mr. FULTON: On their own.

Mr. RASMINSKY: —if they were left completely on their own. Well, then it becomes a question of how much above is it fair or is it reasonable to fix it. I think the answer would be not too much above because you introduce some possible elements of inequity there. I do not know how much above they are under the proposed arrangements. I do know that if this legislation is adopted they will be about 1½ per cent less above what the banks would in any case want to hold than they are under the existing legislation.

Mr. FULTON: Mr. Chairman, I do not want to take too much time but I wonder if I could just pursue this subject. Mr. Rasminsky, then—

(*Translation*)

Mr. CLERMONT: A point of order. I do not know if it counts for the amendment but, this afternoon, you stopped Mr. Latulippe because he had come to the end of his time of questioning.

Mr. CHAIRMAN: Yes, that is true.

(*English*)

I wonder, Mr. Fulton, in order to be consistent with the way in which I have been asking the other members of the Committee to handle their questions, If I could pass on to the next name on my list, which is Mr. Clermont. You have proposed an amendment. I think it is obvious that over the last period of time we have been sitting it is not my approach to be unduly technical; however, it is my understanding, which is supported by a citation in Beauchesne's, that while under standing orders motions need not be seconded in Committee of the whole, this rule does not apply to special or standing committees where every motion must be seconded.

I presume, Mr. Flemming, that you are willing to second Mr. Fulton's amendment. Do not say no; otherwise you will really surprise Mr. Fulton.

Mr. FLEMMING: Well, I do not want to shock anyone.

The CHAIRMAN: I take it, Mr. Fulton, that you have moved and Mr. Flemming has seconded the amendment which you have handed to the clerk in writing; it is formally before us and I have given you some extra time to have—

Mr. FULTON: I wonder if the hon. members would be generous enough to let me conclude this one question.

The CHAIRMAN: Well,—

Some hon. MEMBERS: No objection!

Mr. FULTON: I am thinking of this overage, Mr. Rasminsky, and that is why my amendment is phrased as it is; it does not require the payment of interest, it really removes the prohibition against the payment of interest. Therefore, my point is, to the extent now, as I understand it, that the banks must maintain these cash deposits with you at a certain level twice a month which is quite sharp from their point of view, if after discussion with them you find your requirements have been a little more sharp than you intended and that they have responded to them, as we must expect them to do, then could they discuss with you the possibility of an interest adjustment on this excess over what would be required for their purposes but which you would require in your view for the maintenance of an effective and responsive system of monetary control? That is my first point, and the other is this, and you may weaken my argument very considerably. As I understand it, the cash deposits maintained with you by the Bank of Canada and properly so and, therefore, in the over-all sense earning; on the part of the banks, but not sterile in your vaults. They are put to use by the Bank of Canada and properly so and,therefore, in the over-all sense earning; in a sense I am asking that a discussion be opened about the possibility of a share of these earnings going back to the people who maintain the deposits with you.

Mr. RASMINSKY: Mr. Fulton, from the point of view of monetary control, what has to be non-interest bearing is the excess cash that the banks hold above their statutory requirements because if one were to follow the proposition you have just put forward and if the banks received interest on the excess cash they held with us over and above what they would normally hold, then you would have eliminated or, at any rate, reduced very substantially the incentive that the banks have to employ the excess cash which is the fulcrum of monetary control.

Mr. FULTON: I think the rate might be set at something which would not give much of an incentive to maintain it—

Mr. RASMINSKY: Yes, that is right. It would give them less incentive than they have now when they do not earn any. If I can just complete the answer—so far as the payment of interest on the basic cash reserve is concerned,—

Mr. FULTON: No, I am not suggesting that.

Mr. RASMINSKY: You are not suggesting that.

Mr. FULTON: You have to keep those reserves until—

Mr. RASMINSKY: Then I have given the reason why it seems to me one could not consistently with effective monetary control pay interest on the excess cash that the banks hold with us.

The CHAIRMAN: I should state for the record that shortly after Mr. Fulton proposed the motion formally we were in a position to act officially and therefore I take it we agree unanimously that everything that went before that point should be incorporated officially into our record.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Of course, his amendment is officially before us and I wonder whether the Committee would agree that the best way to proceed at this stage would be to see whether we have any further discussion by the members of the Committee on Mr. Fulton's amendment.

I believe you have, Mr. Leboe, and I gather from Mr. Clermont's signal that he has a question—

(*Translation*)

Mr. CLERMONT: Mr. Chairman, I have no comments to make on Mr. Fulton's amendment.

(*English*)

The CHAIRMAN: Do you have a question, Mr. Leboe?

Mr. LEBOE: Yes, I have a question in my mind. I was trying to follow through the reasons in connection with the amendment which proposes that interest be paid on the cash deposits, as I understand it. The amendment makes this possible by removing the prohibition. Is it not a fact then that the reason the Bank of Canda desires this is that when it wants to create a situation where there is an increase in the money supply it also wants the chartered banks to take advantage of that situation and expand the money supply in the country by virtue of using the liabilities of the Bank of Canada in such a way that they would increase their loans?

Mr. RASMINSKY: To acquire assets of some sort or another. That is exactly right, yes, sir.

The CHAIRMAN: Are there any other questions on the amendment?

Mr. MCLEAN (*Charlotte*): I cannot see how Mr. Fulton's amendment would leave the question open to argument.

Mr. FULTON: It removes the prohibition and makes this possible, not compulsory.

Mr. RASMINSKY: I guess I am not enthusiastic about it because I do not like arguments.

The CHAIRMAN: Is there any further discussion?

Mr. FULTON: I understand that you and the chartered banks get along very well.

Mr. RASMINSKY: We have up to now.

The CHAIRMAN: This might be what is called the apple of discord.

Mr. RASMINSKY: It might be the kiss of death.

The CHAIRMAN: Is there not a phrase "apple of discord"? Perhaps this would not be the case one way or another. Perhaps we should put the amendment.

Mr. FULTON: I have one other argument in favour of it. I am influenced in putting this forward by the fact that the chartered banks are now going to have to put up another form of, as I appreciate it, sterile deposit; that is, in the form of deposit insurance. They will go along with this if they must, under the law, but it is another payment they are required to make which, as I appreciate the situation at the moment, they do not really need to make because their deposits are pretty safe. I think, if we are going to try to introduce competition here, it is in that spirit that I have introduced the amendment, as I think the chartered banks are being placed under a strait-jacket in one respect and I would like to remove a little strait-jacket in the other.

Mr. CLERMONT: Mr. Chairman, when Mr. Fulton used the world "trial", it made me wonder because of what happened in Montreal a few weeks ago whether the banks were of the opinion that an insurance plan is not necessary.

Mr. FULTON: They do not oppose it, as I understand it. The city and district bank did not go bust and there was no deposit insurance scheme in effect at that time.

Mr. CLERMONT: No.

Mr. FULTON: Their deposits are safe.

Mr. LEBOE: Mr. Chairman, I think it can be readily said though that the effect of the amendment, if it was carried through by the Governor of the Bank of Canada if he yielded because of pressure of negotiations, would be detrimental, in my understanding, to monetary control; whereas if we look at the actual net profits of the banking institution I think there is plenty of room for them to pay a little deposit insurance without hurting the banks at all.

Mr. FULTON: The customers are going to pay as well.

The CHAIRMAN: I think we are now getting into the area of deposit insurance as such which is—

Mr. LEBOE: No, I was referring to the cost of insurance to the bank, not deposit insurance, because Mr. Fulton's argument was one of profit.

Mr. FULTON: I was trying to protect the customer who is the one who usually pays.

The CHAIRMAN: Is there any further discussion on the amendment? I will put the amendment and then we will proceed to a general discussion on the clause itself, starting with Mr. Clermont.

Moved by Mr. Fulton, seconded by Mr. Flemming:

That clause 10 of the bill be deleted and the following substituted therefor:

Paragraph (e) of subsection 19 of the said act is repealed.

I believe I have read that correctly.

Amendment negatived.

(*Translation*)

Mr. CLERMONT: I will hold over my comments for another section.

(*English*)

The CHAIRMAN: We were taking clauses 9 and 10 together, as far as discussion is concerned. Is there any further discussion on either clauses 9 or 10?

Mr. MCLEAN (*Charlotte*): I would like to ask Mr. Rasminsky whether there is any restriction put on the price which you would pay for gold, silver, nickel, and bronze coin or any other coin, and gold and silver bullion?

Mr. RASMINSKY: No, there is no restriction placed in this act, Mr. McLean.

Mr. MCLEAN (*Charlotte*): Does that mean that you can pay a price as high as you like for gold and silver, bullion?

Mr. RASMINSKY: To pay a higher price than the gold parity of the Canadian dollar would be contrary to other legislation. There is no restriction in this particular act, but if we paid more for gold than $35 U.S. an ounce multiplied by 1.08, or whatever the Canadian exchange rate was, then that would be illegal under other legislation.

Mr. MCLEAN (*Charlotte*): Well, the Bank Act comes under the Bretton Woods Agreement which governs the buying and selling of gold and silver. Perhaps it is just gold.

Mr. RASMINSKY: Gold is the only thing that would be affected by the Bretton Woods Agreement.

Mr. MCLEAN (*Charlotte*): Silver, I suppose, is governed by the $1.29 an ounce paid by the American government in buying and selling.

Mr. RASMINSKY: We would, of course, have no reason for paying anything other than the ordinary price. We do not buy or sell silver as a commodity. As a matter of fact, in that paragraph I think silver modifies "coin".

Mr. MCLEAN (*Charlotte*): Silver is a commodity.

Mr. RASMINSKY: Yes, indeed it is, but the bank has never, to my knowledge, dealt in silver as a commodity. We have on occasion held silver coin.

Mr. MCLEAN (*Charlotte*): Did you say that gold was a commodity?

Mr. RASMINSKY: Would I say that gold is a commodity?

Mr. MCLEAN (*Charlotte*): Yes.

Mr. RASMINSKY: Yes, gold is a commodity that serves monetary purposes as well as others.

Mr. McLEAN (*Charlotte*): Mr. Martin, the Chairman of the Federal Reserve Bank in the United States, says that gold is not a commodity. It is a monetary measure.

Mr. RASMINSKY: It is both.

Mr. FULTON: One cannot buy and sell gold freely, can one?

Mr. RASMINSKY: There are no restrictions in Canadian law against the purchase, sale, holding, export or import of gold. Canadians are perfectly free to buy and sell gold at any price they want to.

Mr. MACDONALD (*Rosedale*): There is, in fact, a market in Toronto, is there not?

Mr. RASMINSKY: I believe that there is.

Mr. McLEAN: (*Charlotte*): But we have no backing of gold against our currency at the present time, have we?

Mr. RASMINSKY: No, sir.

Mr. McLEAN (*Charlotte*): But in the International Monetary Fund they require 25 per cent backing.

Mr. RASMINSKY: No, I am afraid that is not the case, Mr. McLean. There is nothing in the International Monetary Fund agreement that attempts to dictate in any way, that has anything to say about the backing that any country shall have against its currency.

Mr. McLEAN (*Charlotte*): But do they not require, if you put up $100 million in the International Monetary Fund, Canada must put up 25 per cent of that in gold?

Mr. RASMINSKY: In arranging their subscriptions to the International Monetary Fund, the normal rule is that each country shall pay 25 per cent of its subscription in gold and the balance in non-interest bearing notes, which are cashable on demand as the fund denominated in its own currency.

Mr. McLEAN (*Charlotte*): What I cannot understand it as Mr. Martin says, gold is a monetary measure,—we know that to get a yard of cloth has nothing to do with the price. So if it is a monetary measure I cannot see how it has anything to do with the price. If it is an ounce of gold I cannot see how it has anything to do with the price. He says it is a monetary measure. If it was a monetary measure in 1945, it seems to me it should be a monetary measure in 1967. The buying power should be the same, but it is not. We are now paying our mines between $15 and $16 for gold in American currency. I cannot see the relation at all.

The CHAIRMAN: Have you anything to bring forward to deal with that?

Mr. RASMINSKY: No.

Mr. McLEAN (*Charlotte*): Do you agree with me?

Mr. RASMINSKY: No. I have noted Mr. McLean's opinion on that, the opinion regarding the cost of gold—

Mr. McLEAN (*Charlotte*): I go back for 100 years to—

The CHAIRMAN: You are not that old.

Mr. McLEAN (*Charlotte*): No, but I was reading a book which was written 100 years ago and the economist was French. He said the only way that you could tell the value of gold at that time was to find out how much it would buy in silver. So I took 1945, when the price of gold was changed to $35 an ounce, and silver was worth 45 cents an ounce, and I worked it out and we should be paying $105 for gold at the present time. He wrote that 100 years ago.

Mr. RASMINSKY: A lot of progress has been made in the last 100 years.

Mr. McLEAN (*Charlotte*): I know. The progress has been made, but I do not think it has been made in the international banking system, because our international trade has gone up from about $46 billion to $164 billion, but we are doing it on less and less gold which is recognized as the backbone of the international monetary system.

Mr. RASMINSKY: We have economized in the use of all sorts of things, Mr. McLean.

Mr. McLEAN (*Charlotte*): It seems to me when we have gold from coast to coast there is no need to economize, because all we have to do is dig it out.

The CHAIRMAN: Do you have any further questions, Mr. McLean? Any further discussion on clauses 9 and 10?

Mr. LEBOE: I would like an explanation from Mr. Rasminsky if he would not mind on subclause (4) (p) at the bottom of page 4 of the amendments in Bill No. C-190.

The CHAIRMAN: Subclause (4) (p) of clause 9.

Mr. LEBOE: It says:

> (p) do any other banking business incidental to or consequential upon the provisions of this Act and not prohibited by this Act."

I do not want a long and detailed discussion of what is involved, but I was wondering basically if there was anything that you might tell the Committee that would enlighten us on just exactly what this clause means?

Mr. RASMINSKY: Mr. Leboe, I really think that that is just a catch-all clause which was intended to sweep in anything that the drafters of the legislation may have omitted. But the powers of the bank with regard to banking transactions are really very considerable and they are spelled out in a good deal of detail. I think that that is just intended for the purpose that I have indicated to you. If you had asked me can I name any banking business done under paragraph (p) which we have no other authority to do, under other paragraphs of the legislation, I could not think of it at the moment. I could find out when I got back to the office.

Mr. LEBOE: The question in my mind was simply this: I was wondering, for instance, whether or not through the purchase of debentures, shares or anything else which is going to be under the Bank Act now, you could actually, in effect, loan money to others than, say the government of Canada, to the provincial governments municipalities by virtue of a transaction through the central bank?

Mr. RASMINSKY: We have a separate power to do that, Mr. Leboe. That power—at least as regards the purchase of provincial securities—is stated in

another section. In paragraph (j) of the same section we may make loans to the government of Canada or to the government of any province.

The CHAIRMAN: That is not amended?

Mr. RASMINSKY: No that remains in the act.

Mr. FULTON: This is not an amendment either, Mr. Chairman, this is the re-enactment of provision already in the act.

Mr. RASMINSKY: That is right. Of course anything we do, even under paragraph (p), has to be incidental to and consequential upon the provisions of the act. I mean we could not simply go out and buy some shares because we thought they were a good buy.

(*Translation*)

The CHAIRMAN: Supplementary for Mr. Latulippe.

Mr. LATULIPPE: Mr. Rasminsky, could you tell us whether the Bank of Canada have advanced a credit or loan to the Government of Canada?

Mr. RASMINSKY: Could you please repeat your question?

Mr. LATULIPPE: Could you tell us whether the procedure of a credit being made available to the Government of Canada has been used or have you made a loan to the Government of Canada?

Mr. RASMINSKY: On occasions. The Bank of Canada has made direct loans to the Government of Canada, although this has been rare. At this time, there are no direct loans made by the Bank of Canada to the Government.

Mr. LATULIPPE: There have been in the past though.

Mr. RASMINSKY: Yes, there have been.

Mr. LATULIPPE: It was a supplementary question. I will come back later on this.

(*English*)

The CHAIRMAN: Mr. Leboe, have you finished your discussion?

Mr. LEBOE: Yes.

The CHAIRMAN: Shall clauses 9 and 10 carry?

Clauses 9 to 12, inclusive, agreed to.

On clause 13.

Mr. GILBERT: Mr. Chairman, there is an editorial amendment necessary in line 40 it reads: "of notes of the Canadian banks listed in Schedule P." It should be Schedule R.

Mr. FULTON: Yes it should.

Mr. ELDERKIN: That editorial has been noted by the parliamentary counsel.

The CHAIRMAN: Is that necessary to be moved in this Committee?

Mr. ELDERKIN: No, he says it is not necessary to move it; it is editorial.

The CHAIRMAN: It will happen automatically as part of the parliamentary counsel's responsibility is concerned. Shall clause 13 carry subject to this being taken care of?

Clauses 13 to 16 inclusive agreed to.

On clause 17.

Mr. GILBERT: I was just wondering why section 30 of the said act is repealed?

Mr. RASMINSKY: I think the answer is that there is no provision of this act which requires the chartered bank to transmit any statement to the Minister. I think this is covered in the Bank Act.

Mr. ELDERKIN: That is right; it is covered in the Bank Act. It has nothing to do with this act at all, really.

The CHAIRMAN: But I gather from Mr. Elderkin's comment that there is a punishment for a false statement made to the Minister and so on, under the Bank Act.

Mr. ELDERKIN: That is correct.

Mr. RASMINSKY: Mr. Bouey tells me that before 1954 there were some returns required under the Bank of Canada Act and this is just a cultural lag.

Clause 17 agreed to.

On clause 18.

(*Translation*)

Mr. CLERMONT: I think sections 18 to 20 concern the schedules, do they not involve the schedules.

Mr. CHAIRMAN: Yes.

Mr. CLERMONT: Mr. Chairman, I would like to have comments from Mr. Rasminsky about the recommendation of the Porter Commission. Page 557 and I quote:

(*English*)

> . . . we suggest that schedules be appended to the Act which would oblige the Bank to show in fair detail the sources of its revenue, the classifications of its expenditures, the numbers and functions of its staff, and other relevant information;. . .

(*Translation*)

The CHAIRMAN: What page?

Mr. CLERMONT: Page 557.

The CHAIRMAN: French or English version?

Mr. CLERMONT: Mr. Chairman, the banks are asked whether Parliament is going to approve Bill C-222, as amended, and the amendments brought to it but they will also be obligated to give more information, won't they?

(*English*)

Mr. RASMINSKY: I am sorry, have I interrupted you, Mr. Clermont.

Mr. Clermont, for the past five years the Bank of Canada has given, in its annual statement, a very complete breakdown of its income and expenses. Perhaps I could pass this copy of our last annual report to you. We have already been carrying on—

(*Translation*)

Mr. CLERMONT: If these are recommendations by the Porter Commission; it is five years since they made their report public.

The CHAIRMAN: Partial explanation. Even if the report of the Porter Commission dates back to 1964—
(no interpretation.)

(*English*)

I think there is something to that.

(*Translation*)

Mr. CLERMONT: Mr. Chairman I won't insist. If it is in the statement of Mr. Rasminsky, the annual report should contain the information which the Porter Commission suggested be incorporated.

(*English*)

Mr. RASMINSKY: I am sorry, I did not get that.

The CHAIRMAN: Mr. Clermont was saying that he would not insist on this particular point if in fact it appears the bank is already, in an administrative way, carrying on the recommendations of the Porter Commission.

Mr. RASMINSKY: That is indeed the case.

The CHAIRMAN: Is there further discussion on clause 18.

Clauses 18 to 20, inclusive, agreed to.

Shall the preamble carry?

On the preamble.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, in the preamble, I would like to have the comments of the Governor of the Bank of Canada with regard to the recommendation of the Porter Commission, on page 539, and I quote:

(*English*)

> —we believe it would be useful to redraft the preamble so that it more accurately reflects the full range of economic policy objectives.

Mr. RASMINSKY: My comment on that would be that what is really important is that the activities of the bank should reflect the objectives of economic policy rather than the preamble to the act. I think that the preamble to the act as it stands now reflects the time at which it was written; the language sounds a little bit old fashioned. But the broad objectives stated in the preamble to the act are about the same as the objectives we have now. I think that my view would be that if you start drafting preambles you get into—

Mr. CLERMONT: Mr. Rasminsky, may I say that you prefer the results rather than the words.

Mr. RASMINSKY: Yes, that is correct.

The CHAIRMAN: Shall the title carry?

Mr. GILBERT: Mr. Chairman, just before we pass this I wonder if I could ask Mr. Rasminsky how many economists the Bank of Canada has. How many economists do you have on your staff?

Mr. RASMINSKY: How many professional economists do we have?

Mr. GILBERT: Yes.

The CHAIRMAN: How would you define a professional economist?

Mr. RASMINSKY: I would define a professional economist as a graduate in economics from a recognized university. I would estimate that we have in the neighbourhood of 25 economists.

Mr. GILBERT: What type of studies do they pursue?

Mr. RASMINSKY: All types.

Mr. GILBERT: Do they issue any papers on the studies, for public purposes?

Mr. RASMINSKY: Our economists make contributions from time to time to learned periodicals. They give papers at meetings of learned societies.

Mr. GILBERT: Do they come out under the authority of the Bank of Canada?

Mr. RASMINSKY: No; they have not done that as yet.

Mr. FULTON: Do they produce papers for you?

Mr. RASMINSKY: Oh, yes, indeed, thousands of them; very good ones, too. We have considered from time to time and are considering whether we should provide an official vehicle to carry personal articles, so to speak—signed articles—by economists or other qualified professionals on our staff.

Mr. GILBERT: The Reserve Bank does that in the United States.

Mr. RASMINSKY: Yes, they do. They do a good deal of very interesting and useful work along those lines.

Mr. GILBERT: So it may be wise if the Bank of Canada does the same.

Mr. RASMINSKY: I think when we get through the royal commissions, the amendments to the Bank Act and the Bank of Canada Act, we will be able to think of that. I think is is worth thinking about.

Mr. WAHN: Mr. Chairman, perhaps the reason was given when I was not here but—and I do not wish to revert—we do delete clause 23 dealing with reserves of the Bank of Canada. What is the reason for that or has the reason been given earlier to the Committee? Clause 14 deletes the heading preceding section 23 and section 23.

Mr. RASMINSKY: Mr. Wahn, what clause is that in the bill?

Mr. WAHN: Clause 14 on page 7.

Mr. RASMINSKY: The reason is that it is otiose. The gold reserve requirement has in one way or another been suspended practically ever since it was put into the legislation.

Mr. WAHN: It really has never been applied.

Mr. RASMINSKY: It really never has been applied.

Mr. WAHN: How does the Bank of Canada avoid—the section appears to be mandatory—

The CHAIRMAN: Not since we have carried this clause.

Mr. RASMINSKY: I have a history of it here—

The CHAIRMAN: It says in subclause (3) that:

> (3) At the request in writing of the Board, the Governor in Council may suspend the operation of this section—

Mr. WAHN: That answers it.

Mr. RASMINSKY: Yes, that is right. It has been suspended either by the Governor in Council or by the Foreign Exchange Control Act or by the Currency, Mint and Exchange Fund Act.

The CHAIRMAN: Now we have legitimized the procedure properly by legislation.

Mr. RASMINSKY: That is correct.

Mr. McLEAN (*Charlotte*): Mr. Chairman, I would like to ask a question supplementary to Mr. Gilbert's. Mr. Rasminsky, do your economists always agree?

Mr. RASMINSKY: No; practically never!

The CHAIRMAN: Shall the title carry?

Some hon. MEMBERS: Agreed.

Title agreed to.

The CHAIRMAN: Shall the bill carry?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Gentlemen, we have marked an historic moment. This is the first of a series of banking bills that we have actually been able to carry after long and arduous study, and I hope this is a good omen for our remaining legislation in which you have already made very good progress. Although we have already thanked you and your associates on previous occasions, Mr. Rasminsky, perhaps I can again on behalf of the Committee express a word of thanks to your associates and to you personally for your very helpful discussions with us. It may be, as this committee system evolves you will be coming more frequently than every 10 years. I do not say that as a threat but as perhaps something which may be mutually beneficial both to the bank, parliament and the country at large.

Mr. RASMINSKY: Thank you very much.

The CHAIRMAN: Gentlemen, I think we are finished with our order of business for today.

Mr. GILBERT: Mr. Wahn was going to make a suggestion with respect to clause 76 of the Bank Act. He was going to ask Mr. Elderkin or the officials of the Department of Justice to reconsider the wording of clause 76.

Mr. ELDERKIN: Mr. Gilbert, it is under study and may we leave it until the next meeting when we will be able to present it to you.

The CHAIRMAN: I suggest that in view of the progress we have made that we suspend our ordinarily scheduled Friday morning sitting. I am sure there is no objection to that and that we resume Tuesday morning. It is my understanding that the Minister of Finance will want to comment—or someone on his behalf—on at least one of the clauses. He will not be able to be with us because of other commitments until Wednesday afternoon. May I make a suggestion: It is my understanding, and Mr. Clermont's, and perhaps the others who were here at the conclusion of last night's session can assist, that the Minister's attendance is not necessarily relevant to every one of the clauses which have been stood. There may be some that can be dealt with in his absence, with the assistance of Mr.

Elderkin and perhaps other officials. If that is the case may I suggest in order to continue our progress that we sit Tuesday morning—

Mr. CLERMONT: I do not think there was any question on most of the clauses which were stood that the presence of the Minister would be required except that the Minister wanted to discuss 75(g) with the Committee.

The CHAIRMAN: In particular I think that Mr. Lambert wanted to comment on clause 88. It is my understanding that he will be able—

Mr. CLERMONT: Mr. Fulton, clause 88 was stood at the request of Mr. Lambert yesterday.

Mr. FULTON: Yes; I understand that.

The CHAIRMAN: Did you also want to comment on it? Surely we can resolve it in this way: we can deal with clauses except for clause 88.

Mr. FULTON: Mr. Chairman, if the Committee felt inclined there are about three clauses that I would like to have an opportunity to comment on, I would not like to hold the bill up but I will be back on Wednesday and I would like to comment on these clauses.

The CHAIRMAN: Could you indicate which clauses they are?

Mr. FULTON: I will send you a message or a note.

The CHAIRMAN: Let us adjourn until Tuesday morning. I am sure we can work this out in a way that is fair to all concerned.

(*Translation*)

Mr. LATULIPPE: Mr. Chairman, I would like to know whether all the briefs that were tabled, will be in the proceedings of our discussion. Will they be in the reports?

The CHAIRMAN: Yes, I think so. The briefs that were officially tabled with us, yes, those will appear in the minutes. Are you referring to certain specific statements?

Mr. LATULIPPE: Yes. I tabled a brief, will it appear?

The CHAIRMAN: Yes, I believe that we have already agreed to print and have it circulated to all members of the Committee for their personal study. I am just about certain that it will be printed with the minutes and proceedings of this Committee.

Mr. LATULIPPE: That is what I am asking, but I was supposed to appear, so, I would ask that they be put in the minutes.

The CHAIRMAN: Miss Ballantine tells me that we have agreed to have them printed in the last issue of the minutes. So, they will be a public document.

Mr. LATULIPPE: Thank you.

(*English*)

Mr. CLERMONT: With respect to the clauses which are stood—I think they number about 12 or 14—will we be able to discuss some of them on Tuesday; otherwise we will have to wait until Wednesday. What is the use of having a meeting on Tuesday?

The CHAIRMAN: Certainly, we can discuss them and pass them. As a matter of courtesy to some of our colleagues who may not be able to be present Tuesday perhaps we will decide not to deal with them all on Tuesday.

Mr. CLERMONT: My question is: Will we be able to decide on some clauses on Tuesday, otherwise there is no need for a meeting Tuesday.

The CHAIRMAN: Certainly, we will have a regular meeting on Tuesday, and we will deal officially with as many clauses as possible.

We will adjourn until Tuesday morning.

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. 50

TUESDAY, FEBRUARY 21, 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:

Mr. C. F. Elderkin, Special Adviser, Department of Finance; and Mr. J. W. Ryan, Department of Justice.

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

25760—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

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

Dorothy F. Ballantine,
Clerk of the Committee.

*Replaced Mr. Saltsman at the afternoon sitting, February 21, 1967.

ORDER OF REFERENCE

TUESDAY, February 21, 1967.

Ordered,—That the name of Mr. Cameron (Nanaimo-Cowichan-The Islands) be substituted for that of Mr. Saltsman on the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

25760—1½

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

CHAIRMAN: Mr. Ovide Laflamme

VICE-CHAIRMAN: Mr. Irvine

Addison,	Fulton,	McLean (*Charlotte*),
Cameron (*Nanaimo-Cowichan-The Islands*),	Gilbert,	Monteith,
Chrétien,	Lebœ,	Munro,
Clermont,	Lind,	Valade,
Contes,	Macdonald (*Rosedale*),	Tremblay,
Comtois,	Mahoney,	Webb—(25).
Flemming,		

Dorothy F. Ballantine,
Clerk of the Committee.

*Replaced Mr. Saltsman at the afternoon sitting, February 21, 1967.

MINUTES OF PROCEEDINGS

TUESDAY, February 21, 1967.
(102)

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. Chrétien, Clermont, Comtois, Gilbert, Gray, Laflamme, Lambert, Leboe, Lind, Macdonald (*Rosedale*), McLean (*Charlotte*), Monteith, More (*Regina City*), Valade, Wahn (15).

Also present: Mr. Cameron (*Nanaimo-Cowichan-The Islands*).

In attendance: Messrs. C. F. Elderkin, Special Adviser, Department of Finance; and P. M. Ollivier, Parliamentary Counsel.

The Committee resumed consideration of Bill C-222, An Act respecting Banks and Banking.

On clauses 34, 35 and 36

The Committee agreed unanimously to rescind the decision previously taken on clauses 34 and 35.

On motion of Mr. Clermont, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clauses 34, 35 and 36 be amended

(a) by renumbering subclauses (1) and (2) of clause 34 on page 21 thereof as clauses 34 and 35, respectively;

(b) by striking out line 15 on page 21 thereof and by substituting therefor the following:

"disposal of shares under section 34 exceeds the price per";

(c) by renumbering clause 35, as amended, on page 21 thereof, as clause 36;

(d) by striking out the reference to section 33 or 34 in line 36 on page 21 thereof and by substituting therefor "sections 33 to 35,"; and

(e) by striking out clause 36 on page 21 thereof.

The clauses, as amended, were carried.

On clause 56

The Committee agreed unanimously to rescind the decision previously taken on subclause (2) of clause 56.

On motion of Mr. Clermont, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 56 be amended by striking out lines 15 to 24, inclusive, on page 36 and by substituting therefor the following:

"(2) Where more than twenty-five per cent of the issued and outstanding shares of the capital stock of the bank were held on the 22nd day

of September, 1964, in the name or right of or for the use or benefit of any one non-resident, the bank, so long as the total number of shares of the capital stock of the bank held by non-residents exceeds twenty-five per cent of the total number of issued and outstanding shares of the capital stock of the bank,

(a) shall refuse to allow a transfer of a share of the capital stock of the bank to a non-resident to be made or recorded in a register of transfers of the bank unless the transfer is from a non-resident to any associates of the non-resident; and

(b) shall not accept a subscription for a share of the capital stock of the bank by a non-resident;

but if at any time after the 22nd day of September, 1964, there is no one person in whose name or right or for whose use or benefit more than ten per cent of the issued and outstanding shares of the capital stock of the bank are held, this subsection ceases thereafter to have any force or effect."

The clause was carried, as amended.

On clause 63

By unanimous consent, the Committee reverted to consideration of clause 63.

On motion of Mr. Clermont, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That subclause (17) of clause 63 be amended by adding the following at the end of line 22 on page 44:

"but this subsection does not apply in the case of a corporation controlled by the bank that carries on its operations in a country other than Canada if the law of that country makes provision with respect to auditors."

The clause, as further amended, was carried.

On clauses 76, 88, 91, 92 and 93

Mr. Elderkin was questioned and the clauses were allowed to stand.

On clause 124

On motion of Mr. Clermont, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 124 be amended by striking out lines 5 to 8, inclusive, on page 91 and by substituting therefor the following:

"assets;

(d) the indebtedness evidenced by a bank debenture is subordinate in right of payment to the prior payment in full of the deposit liabilities of the bank and such other liabilities of the bank as are mentioned in that debenture or in any document under which it was issued; and

(e) the amount of any penalties for which the bank is liable shall be a last charge upon the assets of the bank."

The clause, as amended, was carried.

On clause 138

Mr. Elderkin was questioned and the clause was allowed to stand.

On clause 145

On motion of Mr. Clermont, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 145 be amended by striking out lines 7 and 8 on page 97 and by substituting therefor the following:

"sions of that paragraph is subject to a penalty of one thousand dollars a day for each day in which the violation"

The clause was carried, as amended.

On clause 151

Mr. Elderkin was questioned and the clause was allowed to stand.

At 12:55 p.m. the Committee adjourned until 3:45 p.m. this day.

AFTERNOON SITTING

(103)

The Committee resumed at 3:55 p.m., the Chairman, Mr. Gray, presiding.

Members present: Messrs. Chrétien, Clermont, Comtois, Gilbert, Gray, Laflamme, Lambert, Leboe, Lind, Macdonald (*Rosedale*), Mackasey, Monteith, More (*Regina City*), Wahn (14).

In attendance: The same as at the morning sitting, and Mr. J. W. Ryan, Director of Legislation Section, Department of Justice.

On clause 96

Mr. Ryan was questioned and the clause was carried.

The Committee again reverted to consideration of clauses 88 and 89. Messrs. Ryan and Elderkin were questioned and the clauses continued to stand.

The Committee resumed consideration of Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

On clauses 28, 29 and 30

On motion of Mr. Clermont, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clauses 28, 29 and 30 be amended

(a) by renumbering subclauses (1) and (2) of clause 28 on page 10 thereof as clauses 28 and 29, respectively;

(b) by striking out line 14 on page 10 thereof and by substituting therefor the following:
"disposal of shares under section 28 exceeds the price per";

(c) by renumbering clause 29, as amended, on page 10 thereof as clause 30;

(d) by striking out the reference to section 26 or 28 in line 35 on page 10 thereof and by substituting therefor "sections 26, 28 or 29"; and

(e) by striking out clause 30 on page 10 thereof.

The clauses were carried, as amended.

Clause 84 was carried.

At 4:30 p.m. the Committe adjourned until 3:45 p.m., Wednesday, February 22, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, February 21, 1967.

The CHAIRMAN: Gentlemen, the meeting is called to order.

Another booklet of amendments has been distributed and I ask the Committee first to look at clause 36 which was one of the clauses that was stood, in this case at the request of Mr. Wahn. Mr. Wahn's comments have been looked into and I would like you to deal with this matter.

Mr. C. F. ELDERKIN (*Department of Finance*): We will have to revert to that, Mr. Chairman.

The CHAIRMAN: We have not passed clause 36. It was stood, but I gather there are some consequential matters involving clauses 34 and 35. Is that right?

Mr. ELDERKIN: It is only a redrafting to eliminate clause 36. Clause 36 was the one that gave an exemption from income tax when new shares were issued. Mr. Wahn raised the point of whether banks should have a special exemption. On checking back I found the reason for putting this in was that at the time it was put in—1954—there was a considerable amount of uncertainty in the income tax rulings as to whether rights were taxable or not. At the present time rights are considered to be non-taxable income; therefore, there is no reason for the provision being in and if, later on, the law is changed to make them taxable, then the banks' shareholders should not be exempted. The remainder is a redrafting of clauses 34 and 35 to eliminate clause 36.

The CHAIRMAN: Are there any questions or comments on this?

First of all, I think to have this properly before us that we would want the unanimous consent of the Committee to rescind our votes on clauses 34 and 35, which I presume we have. Secondly, to have this officially before us as well as the other amendments that will be put forward today, I ask that they be moved formally by Mr. Clermont and seconded by Mr. Macdonald, and we will take that as the case for any other amendments moved today on behalf of the government.

Mr. CLERMONT: I move that Bill C-222, An Act, respecting Banks and Banking, be amended

(a) by renumbering subclauses (1) and (2) of clause 34 on page 21 thereof as clauses 34 and 35, respectively;

(b) by striking out line 15 on page 21 thereof and by substituting therefor the following:

"disposal of shares under section 34 exceeds the price per";

(c) by renumbering clause 35, as amended, on page 21 thereof, as clause 36;

(d) by striking out the reference to section 33 or 34 in line 36 on page 21 thereof and by substituting therefor "sections 33 to 35,"; and

(e) by striking out clause 36 on page 21 thereof.

Mr. MACDONALD (*Rosedale*): I second the motion.

The CHAIRMAN: I invite questions or comments from the Committee with respect to the proposed amendments to clauses 34 to 36 inclusive. I gather the amendments to clauses 34 and 35 are to give effect to the amendment to clause 36, which is to delete it.

Mr. ELDERKIN: That is right. It is only for that purpose, Mr. Chairman.

Mr. LAMBERT: Mr. Chairman, is the purpose of this, in effect to amend the Income Tax Act, or to confirm a stand taken by the income tax department?

Mr. ELDERKIN: No, on the contrary, Mr. Lambert. It is to eliminate from this bill any special provisions for bank shareholders. In other words, they will fall under the Income Tax Act no matter what it is.

Mr. LAMBERT: Well, yes, but there are many people who have acquired bank shares on the basis of clause 36.

Mr. ELDERKIN: Well, they are not taxable at the present time.

Mr. LAMBERT: They are not taxable? All right. But with respect to those shares, in the event that any rights are issued with regard to them they will then be taxable?

Mr. ELDERKIN: No. Any new issue of shares will not be taxable under present Income Tax Act but it is possible, with a change in income tax, that the rights may become taxable; whether they would or not, I do not know. This only eliminates a provision which had previously exempted them from income tax.

Mr. LAMBERT: What concerns me is that if there is to be an income tax change it shall be made only under the Income Tax Act and not in this act?

Mr. ELDERKIN: That is right. That is what it is. We are taking out a provision which can affect the Income Tax Act. We are taking it out altogether.

The CHAIRMAN: You are saying that the removal of this clause will still leave the holders of rights, and so on, in the tax-free position they were with the clause in.

Mr. ELDERKIN: There are no holders of rights at the present time.

The CHAIRMAN: Not rights, but whatever the nature of the security issued under this clause might have been.

Mr. ELDERKIN: At that time they were tax free and they are tax free as far as the income tax rulings are today, so all we are doing here is taking out a special provision that was put in to meet a situation that existed in 1954.

Mr. LAMBERT: Well, I hope this is correct, and I hope it is interpreted in that way, because I would not want us, by this act, to do something by the back door to the Income Tax Act.

Mr. ELDERKIN: On the contrary, Mr. Lambert, we are taking out something which did affect the Income Tax Act; there is no question about it.

Mr. LAMBERT: Also, I am concerned about the protection of the rights of individuals who own bank shares. They have rights as well as anybody else, and what you may be saying is quite right, but I want to make it absolutely clear that if anything is to be done to affect the rights of bank shareholders, vis-à-vis rights, it will be done only by the Minister of Finance by a direct amendment to the Income Tax Act.

Mr. ELDERKIN: That is correct.

Mr. LAMBERT: If that happens, then it is all right.

Mr. ELDERKIN: That is correct, Mr. Lambert.

The CHAIRMAN: Shall the amendment to clauses 34 and 35 carry?

Amendments to Clauses 34 and 35 agreed to.

Clauses 34 and 35 as amended agreed to.

The CHAIRMAN: Shall the amendment to clause 36—in effect, striking it out—carry?

Amendment to clause 36 agreed to.

Clause 36 as amended agreed to.

The CHAIRMAN: Clause 39 had been stood.

Mr. ELDERKIN: I am not sure what the reason was; I have not been told.

Mr. CLERMONT: I think it was at the request of Mr. Wahn, for what reason I do not know.

Mr. ELDERKIN: It was Mr. Wahn on clause 36, but I think it was Mr. Fulton on clause 39 and I am not quite sure what objection there is, if any, to the present wording. As you can see, it simply governs the question of calls.

The CHAIRMAN: Well, let us stand this again until this afternoon to see whether Mr. Fulton can be here, without prejudice to—

Mr. LAMBERT: It may be that there would be some disability of voting rights in the event of unpaid calls; that the holder of a share who has not paid a call and is in default would thereby be disentitled from voting his shares.

Mr. ELDERKIN: That will come under the voting and not under the call.

Mr. LAMBERT: But I am not sure if this is the problem.

Mr. ELDERKIN: I do not know either.

The CHAIRMAN: Well, let us deal with it this way: I will let it continue to stand at least until this afternoon, and perhaps the Clerk can check and see when Mr. Fulton will be with us.

If you look at the booklet presented this morning you will see there is a suggested amendment to clause 56.

Mr. CLERMONT: I move that Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 15 to 24, inclusive, on page 36 thereof and by substituting therefor the following:

Non-resident ownership of bank.

"(2) Where more than twenty-five per cent of the issued and outstanding shares of the capital stock of the bank were held on the 22nd day of September, 1964, in the name or right of or for the use or benefit of any one non-resident, the bank, so long as the total

number of shares of the capital stock of the bank held by non-residents exceeds twenty-five per cent of the total number of issued and outstanding shares of the capital stock of the bank,

(a) shall refuse to allow a transfer of a share of the capital stock of the bank to a non-resident to be made or recorded in a register of transfers of the bank unless the transfer is from a non-resident to any associates of the non-resident; and

(b) shall not accept a subscription or a share of the capital stock of the bank by a non-resident;

but if at any time after the 22nd day of September, 1964, there is no one person in whose name or right or for whose use or benefit more than ten per cent of the issued and outstanding shares of the capital stock of the bank are held, this subsection ceases thereafter to have any force or effect."

Mr. MACDONALD (*Rosedale*): I second the motion.

(*Translation*)

The CHAIRMAN: Mr. Clermont?

Mr. CLERMONT: In regard to clause 56—

The CHAIRMAN: Yes.

Mr. CLERMONT: Could Mr. Elderkin give us an explanation with regard to the last paragraph:

(*English*)

...but if, at any time—

after the 22nd day of September, 1964

there is no one person in whose name or right or for whose use or benefit more than ten per cent,

If the Citibank owns up to 25 per cent instead of 100 per cent, what about that 10 per cent?

Mr. ELDERKIN: They may hold 25 per cent, Mr. Clermont. Because of the exemption at the date that the bill was presented, they held more than 25 per cent, they may continue to hold 25 per cent.

Mr. CLERMONT: Will they be able to increase their assets?

Mr. ELDERKIN: No.

Mr. CLERMONT: They will have to stay within 20 to 1?

Mr. ELDERKIN: Oh, that is another section altogether. If they go down to 25 per cent, they get rid of clause 75 (2) (g).

Mr. CLERMONT: Yes, but does there not seem to be a conflict between (2) and the last paragraph that I just quoted, Mr. Elderkin? Part 2 of your amendment—non-resident ownership of banks—you mention 25 per cent and then you come down.

Mr. ELDERKIN: Yes, but if you go to clause 75 (2)(g) which is the one you are referring to—

Mr. CLERMONT: The exemption will be there?

Mr. ELDERKIN: Yes it is in clause 75 (2)(g),which provides that:

> ...if more than 25 per cent of its issued shares are held by any one resident or non-resident...

so, it is when more than 25 per cent is involved that clause 75 (2)(g) takes effect. That amendment, if I may speak—

The CHAIRMAN: Before we allow you to continue, it appears that the Committee dealt with this, I think last Wednesday. We will need the unanimous consent of the Committee to rescind the previous decision so we can open this matter again.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Mr. Elderkin, the Committee has agreed to this unanimously, so will you proceed?

Mr. ELDERKIN: The only difference between this amendment, Mr. Chairman, and the amendment that was approved before actually is contained in paragraph (a) which refers to transfers from a non-resident to associates. Before that, the way it was worded overlooked the fact that there could be no transfer between non-residents. You have a situation where there are directors of the Mercantile who may be retiring from their parent bank and the parent bank may wish to replace them as directors on the board of the Mercantile. All that this amendment to the amendment does is to permit transfers between those people; that is all.

Mr. LAMBERT: In other words, within clause 75 (2) (g), you are allowing transfers between associates.

Mr. ELDERKIN: Between themselves; that is right. That is all there is to this amendment. That is the only change involved.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): They cannot make a sale to another non-resident?

Mr. ELDERKIN: No, it has to be an associate which means a director, probably of the first National City Bank or of the IBC.

Mr. LAMBERT: I want to get clear that the effect of clause 56(2) is that if the total shares held by non-residents drop below the 25 per cent and no individual non-resident shareholder owns more than 10 per cent, then clauses 53 and 54 are automatically triggered and clause 75(2) (g) no longer applies.

Mr. ELDERKIN: That is right. Also I might add—and I think you implied this in your question—that if ownership by one non-resident got down to 25 per cent, he then could transfer to other non-residents quite freely, but no more than 10 per cent to any one non-resident.

Mr. LAMBERT: Yes, that is right, and the 10 per cent rule comes into effect.

Mr. ELDERKIN: Yes, the 10 per cent rule would come into effect.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): If you want to get rid of clause 75 (2) (g) there would have to be that transfer to reduce the holdings of any one non-resident to 10 per cent?

Mr. ELDERKIN: No, reducing the holdings of the one non-resident to 25 per cent would get rid of clause 75 (2) (g).

The CHAIRMAN: Then you could transfer?

Mr. ELDERKIN: Once they got down to that 25 per cent status they could transfer to another non-resident, but not more than 10 per cent to any one non-resident.

Mr. LAMBERT: What effect is there with respect to a non-resident shareholder who owns more than 10 per cent at the time clause 53 comes into effect, which says that you cannot own more than 10 per cent?

Mr. ELDERKIN: Any person who owns more than 10 per cent at the time this act comes into force is exempted from that, but if he goes down to 10 per cent he can never go up again.

Mr. LAMBERT: Once you go below that line you can never come above it?

Mr. ELDERKIN: That is correct or, if you do, you lose all your voting rights.

Mr. LAMBERT: All your voting rights?

Mr. ELDERKIN: All your voting rights.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): For the ten per cent as well?

Mr. ELDERKIN: Yes, for the 10 per cent as well.

Mr. LAMBERT: This is the thing that gets me. You can get a technical disqualification and you lose everything. Why is it that you—

Mr. ELDERKIN: Well, I do not know of any other way you can control it, quite frankly. If you only took away their exemption from 10 per cent, then you get yourself into a position where it is theoretically possible for one shareholder to buy up 100 per cent and with his remaining 10 per cent, if he could vote it, he could control the corporation.

Mr. MACDONALD (*Rosedale*): Mr. Elderkin, would you agre that this kind of sanction is useful encouragement to anybody to avoid a technical disqualification?

Mr. ELDERKIN: Oh, yes, and we hope that the banks will point this out to their shareholders and management. And he can correct this situation if he finds himself temporarily disqualified. He can correct it by getting rid of his excess down to 10 per cent at any time.

Mr. LAMBERT: This smacks of some of the taxing statutes in this country where, if you have anything up to $50,000, you are not subject to tax but if you are up to $51,000 the whole darn lot is caught.

Mr. ELDERKIN: The inheritance tax.

Mr. LAMBERT: Yes, the province of Ontario is one.

The CHAIRMAN: Are there any further comments or discussion with respect to this?

Mr. LAMBERT: The principle is quite wrong.

The CHAIRMAN: Perhaps we can relate our comments to the specific amendment and if there are no further comments or discussion with respect to it, I would ask if the amendment carries?

Amendment agreed to.

Clause 56 as amended agreed to.

The CHAIRMAN: I would ask again for the Committee to agree unanimously that we rescind our previous decision with respect to clause 63, subclause 17. In the booklet tabled today there is a further change suggested.

Mr. CLERMONT: I move that Bill C-222, An Act respecting Banks and Banking, be amended by adding at the end of line 22 on page 44 thereof the following:

> "but this subsection does not apply in the case of a corporation controlled by the bank that carries on its operations in a country other than Canada if the law of that country makes provision with respect to auditors."

Mr. MACDONALD (*Rosedale*): I second the motion.

The CHAIRMAN: I will ask Mr Elderkin to explain what we are dealing with here.

Mr. ELDERKIN: At the present time the Bank Act requires that where a bank owns a subsidiary corporation—a controlled corporation—it must insist that the auditors of the bank become the auditors of the controlled corporation. We are in the midst of various arguments about extra-territorial jurisdiction these days and the idea of this amendment is to provide only that if there is a law in another country where a controlled corporation of a bank exists which requires that local auditors should be used—

An hon MEMBER: The provision does not take effect.

Mr. ELDERKIN: In practice, what will happen on this, if there is such a law, is that the bank auditors will probably do a review of the work of the auditors in the foreign country. This is to take out any tinge, if you will, of extra territorial jurisdiction in this particular provision, which is the only one we can find in the Bank Act that has that effect.

Mr. LAMBERT: I was just wondering whether it was envisaged within the meaning of this amendment, that if the country in which there was a carrying on of the subsidiary other than in Canada, that the laws of that country would require the auditors to examine the whole shooting match.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That is when we get into trouble.

Mr. ELDERKIN: One of the things that is up for discussion at the present time, Mr. Lambert, in the new federal reserve regulations which have not yet been brought into effect, is a provision that the federal reserve, in effect, can insist on naming the auditors of the foreign subsidiary of an American bank. Actually this is not new; it is just that it is now in two of their regulations, instead of one. They have never used this as far as the Mercantile is concerned, but the Canadian government has taken the stand that this is extra territorial and that the Mercantile should not respond to such an order. This is one reason for putting forth this amendment, because we are saying that we would not even ask for that particular provision for a foreign subsidiary of a Canadian bank.

The CHAIRMAN: At the same time, however, I gather that you retain your authority as Inspector General of Banks to ask for information of the parent, or head office.

Mr. ELDERKIN: Oh, yes, through the head office, which is the way we have always operated, anyways. We never have operated any other way and we never have objected to the Americans asking for information about the Mercantile through the parent bank at any time. I can carry this further for the information of the Committee. We would never object if we had branches or agencies in this country.We would never object to inspection by the parent country because these are only part of the bank. We do inspect in a way; we inspect branches of Canadian banks in other countries but only because they are part of the banks—they are not an entity in law.

Mr. LAMBERT: What I am getting at is the reverse; if Canadian banks carry on operations in a foreign country and that foreign country dictates that it shall appoint auditors for the operations of either the subsidiary or the branch, this should not include authority for those auditors to come in and carry on here.

Mr. ELDERKIN: I am quite sure that would not be permitted, Mr. Lambert.

Mr. MACDONALD (*Rosedale*): Mr. Elderkin, in connection with the inspection of the emanations of Canadian bank, when the Canadian chartered banks were evading the foreign exchange control regulations was it not possible to inspect their American operations? Were all the agencies separate American corporations?

Mr. ELDERKIN: I am not quite sure what you mean, Mr. Macdonald, when you say, when the Canadian banks were evading the foreign exchange control regulations.

Mr. MACDONALD (*Rosedale*): Well, it is fairly common general knowledge that they were not exactly helpful at the time we had foreign exchange control in this country, and I wondered to what extent we have been able to examine those operations.

Mr. ELDERKIN: Well, if this is the case, the Foreign Exchange Control Act had all the powers necessary to examine.

Mr. MACDONALD: (*Rosedale*): Did the fact that they were foreign entities not discourage this at all?

Mr. ELDERKIN: Do you mean foreign subsidiaries of Canadian banks?

Mr. MACDONALD (*Rosedale*): No, I mean the agencies in New York City, specifically, of the Canadian chartered banks.

Mr. ELDERKIN: There has been no argument about examining agencies in New York City. They are agencies; they are part of the main structure of the bank.

Mr. MACDONALD (*Rosedale*): They are not separate corporate persons?

Mr. ELDERKIN: No, they are not separate corporate people.

The CHAIRMAN: Is there any further discussion or comment? Mr. Elderkin, in the past have they actually gone physically into the branches or agencies of Canadian banks in the United States to carry out inspections?

Mr. ELDERKIN: No, but we have required the auditors to go in.

The CHAIRMAN: You have required the auditors to go in?

Mr. ELDERKIN: That is right.

The CHAIRMAN: What has been the practice of your own office?

Mr. ELDERKIN: We do not actually go in. We have never actually gone into the New York agencies nor have we gone into the California agencies, but we have required the auditors to report and the reports are available to us.

The CHAIRMAN: I am referring specifically to branches and agencies which I consider direct emanations of the parent entity.

Mr. ELDERKIN: Under the Bank Act, Mr. Chairman, the Inspector General may use the facilities and the operations of the shareholders auditors for any purpose that he sees fit, and we do that in the case of the New York agencies and in many of the foreign countries. We ask the auditors to report, and then their reports are available to the office of the Inspector.

Mr. MACDONALD (*Rosedale*): How can the same corporate person be its own agency?

Mr. ELDERKIN: It is not a corporate person.

Mr. MACDONALD (*Rosedale*): Well, then, it is a branch; it is not an agency at all.

Mr. ELDERKIN: A branch or an agency is the same thing from the point of view of a legal entity.

Mr. MACDONALD (*Rosedale*): I am sorry, it is not a legal entity. In legal terms they are branches; they are not really agencies at all.

The CHAIRMAN: I think this may be a matter of the local law.

Mr. ELDERKIN: It is just a matter of local law, as the Chairman says. They are branches of the main company.

The CHAIRMAN: From the point of view of the local laws.

Mr. MACDONALD (*Rosedale*): And they are not separate incorporations?

Mr. ELDERKIN: No, the only separate incorporations of Canadian banks up until very recently were the two in Paris and the one in California.

Mr. LAFLAMME: Are the operations of the Canadian branches abroad subject to the provisions of the local authority too?

Mr. ELDERKIN: In some cases, yes. In most cases, yes. Certainly in the United States they are.

The CHAIRMAN: So, by this amendment you are, in effect, creating an example through our own banking legislation which you think would be useful for other countries to take cognizance of?

Mr. ELDERKIN: That is right, sir.

The CHAIRMAN: I am not referring to any other national entity. Are there any further questions or comments on this amendment? If not, I shall ask if the amendment carries.

Amendment agreed to.

Clause 63 as amended agreed to.

The CHAIRMAN: Now, clause 75 has been stood. I think we agreed that this would be stood until tomorrow afternoon at which time, I gather, the Minister wishes to come and make some further comments about it.

Mr. ELDERKIN: I have had a request that the amendment to clause 76 stand at the present moment. Could we stand it for this morning, Mr. Chairman?

An hon. MEMBER: We agreed to this last week. Everybody agreed on it.

Mr. CLERMONT: Mr. Elderkin, did you say you had a request that the amendment to clause 76 be stood?

Mr. ELDERKIN: For this morning, yes.

Mr. GILBERT: I wonder if Mr. Elderkin could explain clause 76, even though we are—

Mr. ELDERKIN: Yes, I would be pleased to. Clause 76 is changed from what it was by the amendment which was submitted to you under date of February 14. The only change is in connection with the investment of $5 million limit. It was pointed out at that time, I think by Mr. Wahn, that as there was no limit to the holding of shares under the $5 million investment, a bank could own all of the voting shares of a company, and this could be very small in comparison with the size of the company. In view of the fact that they did have all the voting shares, they could then put money into non-voting shares to any extent they wanted and so build a very large corporation out of it. This would only take place, of course, under the circumstances mentioned by Mr. Wahn—where they owned all the shares.

The only change by this particular amendment is to provide that this $5 million investment applies only up to, and not more than, 50 per cent of the shares. Therefore, the amendment provides that a bank may own not more than 10 per cent in a trust or loan company. That is one set. With respect to other Canadian corporations it may own 10 per cent, no matter what the size of the investment, or up to 50 per cent if the investment is not more than $5 million. Is that clear, Mr. Gilbert?

Mr. GILBERT: Yes, it is.

Mr. ELDERKIN: Now, this also requires consequential changes in subclause (2) which is for the purpose of controlling investment through a foreign subsidiary, and it has exactly the same changes in it, just for the purposes of control.

M. LAMBERT: I want to be clear here. This is now coming back to the position that you can own up to 10 per cent.

Mr. ELDERKIN: In any company.

Mr. LAMBERT: In any company? But the amendment that was proposed the other day by the Minister was that it could own anything up to $5 million.

Mr. ELDERKIN: Mr. Lambert, this was the point, I think, which Mr. Wahn raised—and quite properly—and which I have just tried to explain. In the original one, it could own up to any amount in a company. As I mentioned a few minutes ago, if the bank owned 100 per cent the voting shares of a company which do not exceed a cost of $5 million, it then could build the company to any size it wished by putting money into non-voting shares. There was no limit. To cover this, after discussion it was the Minister's suggestion that to prevent this

we cut down the share ownership under the $5 million investment limit to 50 per cent. In other words, it would not be worthwhile for a bank to put money into non-voting shares except in partnership with somebody else.

Mr. LAMBERT: This is quite a different thing.

Mr. ELDERKIN: But it still covers all the present situations.

Mr. LAMBERT: Well, does it?

Mr. ELDERKIN: Yes. Well, it covers all the present situations that it was intended to cover. I am sorry; there may be one or two that will require some divesting. Certainly, there will be divesting in some cases in the shares in trust and loan companies.

Mr. LAMBERT: Well, that is separate.

Mr. ELDERKIN: Yes.

Mr. LAMBERT: I am concerned about a situation where they held the shares under some form of security.

Mr. ELDERKIN: No; if they hold them as security it is another matter entirely. This is the question of voting shares.

The CHAIRMAN: Beneficially held.

Mr. ELDERKIN: Yes, beneficially held for votes.

Mr. LAMBERT: In many instances the banks have acted as the holder of voting shares, and everything like that, of smaller companies. They will have the whole shooting match.

Mr. ELDERKIN: Well, they cannot vote more than 50 per cent.

Mr. LAMBERT: Well, this is a wide deviation from what the Minister said he was prepared to do.

Mr. ELDERKIN: It is a wide deviation from the first amendment put in, but it covers all the present situations which, perhaps, he wished to have covered.

Mr. MACDONALD (*Rosedale*): I would like to ask Mr. Elderkin how shares, which only carry the right to vote in the event of a certain contingency, fit into this particular analysis?

Mr. ELDERKIN: There is a provision here that if the shares acquire voting rights later on they may be held, if I remember rightly, for two years, but must be disposed of if they exceed the limit. That is covered in a provision now. Otherwise, I think this is a sensible amendment because really it prevents the banks from owning more than 50 per cent of any company. In the meantime, as I say, I have had a request to stand it.

An hon. MEMBER: Yes.

Mr. ELDERKIN: Perhaps we could discuss it this afternoon, Mr. Chairman.

The CHAIRMAN: Yes.

Mr. ELDERKIN: Unless there are some further explanations that I can offer at this time.

The CHAIRMAN: The specific comments, when we had our public hearings with respect to this clause, came from representatives of certain chartered banks

who were concerned about their holdings in companies such as RoyNat, Kinross and so on.

Mr. ELDERKIN: This covers it.

The CHAIRMAN: What would be the effect of this newly proposed amendment?

Mr. ELDERKIN: They are covered. Those are all right. RoyNat, Kinross, UNAS will all fall in this group.

Mr. LAMBERT: But then this is only a pragmatic approach. It so happens that their holdings today are such. Fifty per cent is an arbitrary figure.

Mr. ELDERKIN: No, 50 per cent is not an arbitrary figure, if I may say so, Mr. Lambert. It is the difference between a corporation controlled by the bank under the definition in the Bank Act. In the Bank Act definition you will find a corporation controlled by the bank is a corporation in which the bank owns more than 50 per cent of the shares. This is the dividing line which was used here for the same purpose.

Mr. LAMBERT: Is that in a Canadian company?

Mr. ELDERKIN: It is in any company.

Mr. LAMBERT: What about a case where Canadian banks, through some means or other, were able to acquire the whole voting stock of some American state banks?

Mr. ELDERKIN: We have no objection to them acquiring 100 per cent ownership in a foreign subsidiary if they wish to. They have it now.

Mr. LAMBERT: Well, I know they had, but we are now acting on a cut-back.

Mr. ELDERKIN: No, we are not as far as foreign ownership is concerned. This clause deals entirely with Canadian corporations.

Mr. LAMBERT: Well, that is what I wanted to confirm. This deals entirely with Canadian corporations.

Mr. ELDERKIN: That is right.

Mr. LAMBERT: You have also, though, a provision for a foreign holding company coming in.

Mr. ELDERKIN: We have to have a provision for a foreign holding company coming back in because otherwise all that would be necessary would be for the bank to set up a foreign subsidiary and buy the shares. This has to be protected in the same way, and subclause (2) provides that you have to add the two holdings together.

The CHAIRMAN: We are not intending to complete our consideration of this clause this morning, although we have certainly have had a thorough discussion. If there are no further questions immediately, we can stand it now and leave it until this afternoon for further discussion.

Mr. LAMBERT: Yes. Would you look at this proposition in the interval, Mr. Elderkin. Where the bank is acting as a trustee—

Mr. ELDERKIN: No, they could not.

The CHAIRMAN: The next clause that was stood is clause 88.

(*Translation*)

The CHAIRMAN: Mr. Clermont?

Mr. CLERMONT: In clause 88, there is coverage only for products delivered, is that right? The producer can deliver his product to wholesalers, to a broker in agricultural products? The producer's perishable goods are not covered, is that right?

(*English*)

The CHAIRMAN: Mr. Elderkin, did you follow that.

Mr. ELDERKIN: I am afraid I did not follow it, Mr. Clermont. Would you mind repeating it? We are talking about—

(*Translation*)

Mr. CLERMONT: We are speaking of article 88, paragraph 5 (b); a claim of $5,000 for sums due by a manufacturer, so if the producer of perishable goods delivers his products to a wholesaler, a shipper or a broker in agricultural products, he has no protection, has he?

(*English*)

Mr. ELDERKIN: That has nothing to do with the bank, Mr. Clermont. If the shipper becomes insolvent, and the bank has taken security on the goods of the shipper, then this claim would stand up.

(*Translation*)

Mr. CLERMONT: Mr. Elderkin, section 88 (b), mentions only the perishable goods delivered to a manufacturer, the farmer may deliver to other than a manufacturer, he may take them to a wholesaler.

The CHAIRMAN: No.

(*English*)

No, his point is this. Subclause (5) begins:

> Notwithstanding subsection (2) and notwithstanding that a notice of intention has been registered pursuant to this section by a person giving security upon property under this section,—

However, subclause (5) (b) refers only to a manufacturer. Now, clause 88 (1) (a) refers to wholesale purchasers, shippers, dealers and manufacturers, and I gather that Mr.Clermont's point is that there may or may not be some conflict between these two portions of clause 88 because subclause (5) begins by talking about such a person, and the paragraphs under subclause (5) refer only to a manufacturer. I think that is what Mr. Clermont is drawing to our attention.

I do not think it is our intention to try to complete our consideration of clause 88 this morning. Perhaps we might—

Mr. ELDERKIN: I am not quite sure I see the contradiction. In fact, it mentions giving security upon property by a person, but then it goes on to specify what person is involved in paragraph (b), and that is a manufacturer.

The CHAIRMAN: Your point is that clause 88, subclause (5) with respect to growers is limited to giving them a certain priority against manufacturers—

Mr. ELDERKIN: Yes, manufacturers.

The CHAIRMAN: —rather than to manufacturers, wholesale purchasers and shippers.

Mr. ELDERKIN: Yes, this is the intent of it.

(*Translation*)

Mr. CLERMONT: Mr. Elderkin, why does paragraph 5 provide the same protection for products sent to a wholesaler, delivered to a wholesaler?

(*English*)

Mr. ELDERKIN: Well, Mr. Clermont, I cannot answer that question. As far as I can remember—and the Chairman may help us on this as he sat in with Mr. Whalen at times—this was really intended orginally to take in products of the soil which were delivered to a manufacturer for processing.

An hon. MEMBER: To a processor.

Mr. ELDERKIN: Yes, to a processor, and this was all that was suggested at the the time.

(*Translation*)

Mr. CLERMONT: We had a brief from the Canadian Federation of Agriculture on the topic, and they expressed a reservation: why are products of the soil alone protected in regard to delivery, because the farmer delivers other than products of the soil. He has other products and perishable goods, poultry, for instance— I have already mentioned, Mr. Lambert, that I am not a lawyer, so I cannot go into the point as fully as I should like. There are loans on notice and this seems to me getting around article 88.

(*English*)

The CHAIRMAN: Your point, Mr. Elderkin, is that the intention of the clause really is to cover manufacturers. The complaint which led to the clause being placed in the bill originated with the producers of cash crops which were delivered to manufacturers who were the processors of these crops.

Mr. ELDERKIN: Yes. My information, from discussions with the sponsor of this particular amendment, is that primarily we are talking about the processing of vegetables and fruits here, and this is where there have been some bankruptcies in recent years. This particular clause is an attempt to protect the growers who ship their crops to manufacturers. We have never had any representations and I do not think even the Federation of Agriculture brought up any representation as far as shippers are concerned. I do not recall that they did, and all I can say is that I think it is drawn in a way to cover particular cases that Mr. Whalen was looking for at the time.

The CHAIRMAN: I think, in fairness to Mr. Whalen, he might have proposed a little more broad coverage with respect to amounts and so on.

Mr. ELDERKIN: Yes, I think he would, have quite possibly, but—

(*Translation*)

Mr. CLERMONT: You mentioned,—if I refer to the brief submitted by the Canadian Federation of Agriculture, I see:

> The first problem is that of perishable goods delivered; livestock do not come into this.

(*English*)

Mr. ELDERKIN: Yes, that is true, Mr. Clermont, but that is another matter. What you brought up earlier was whether this should apply not only to manufacturers, but to shippers, and so on. Now, the other point brought up by the Federation was the question of whether it should not cover all farm products, including poultry and anything else that a farmer sold. In this case, you would have to go far beyond this because, for instance, on a poultry farm—I do not know whether you would say they sell to a manufacturer or not; they sell to a factory which kills and dresses, I suppose. But I think the Federation's only point here, Mr. Clermont, is that they thought they would like to have it broadened to cover all products of a farmer. I think I am right in that respect.

The CHAIRMAN: I will invite further discussion on clause 88 at this time. Mr. Lambert, I understand you wish to have further direct contact with Mr. Ryan in respect to the legal question you raised, and this aspect—

Mr. LAMBERT: No, I am quite satisfied with the opinion, although there again there may be contrary views.

Mr. ELDERKIN: Yes, this was actually discussed with the counsel for the Superintendent in Bankruptcy, Mr. Lambert, and I think the legal opinion is actually as much his as it is Mr. Ryan's.

Mr. LAMBERT: Well, I want to be sure that it is clearly understood the priority that was given to the producer is something over and above the secured creditor—which is the bank—and that if the bank has to pay out to this producer creditor it cannot subrogate it to the extent that it has paid it, and ranks among the unsecured creditors, presumably, subject to the Crown preference.

Mr. ELDERKIN: Yes, that is my understanding. It is what I think is referred to in the opinion as a priority within a priority.

The CHAIRMAN: Are there further comments or discussions with respect to Clause 88 at this time? Mr. Clermont?

(*Translation*)

Mr. CLERMONT: Mr. Chairman, in regard to my remarks, the Minister is coming here to-morrow.—

The CHAIRMAN: Particularly, because I think our colleague: Mr. Comtois or Mr. Fulton, wish to continue comments on section 88 and the Minister could not be here this morning, so we are agreed that these articles will be stood over until Wednesday afternoon.

(*English*)

If there is no further discussion on Clause 88 today—

Mr. ELDERKIN: Mr. Chairman, I was just going to ask whether the remainder of clause 88 is now satisfactory?

The CHAIRMAN: The problem is that Mr. Fulton indicated a desire to make some comments on clause 88. Unfortunately, he did not communicate to me the particular aspects which interested him, and I think in fairness to him we will have to have it stand until tomorrow afternoon unless he is able to be with us later today. I am not in a position to say whether he will be able to do so.

Are there any other comments on clause 88 at this time?

Mr. MACDONALD (*Rosedale*): I gather Mr. Ryan will be here tomorrow?

Mr. ELDERKIN: I will try to get him here this afternoon, Mr. Macdonald, if he is free.

Mr. MACDONALD (*Rosedale*): I would be interested in hearing his opinion of where clause 88 stands in relation to a pre-existing floating charge under a floating charge debenture.

The CHAIRMAN: You do not have to say anything about that, Mr. Elderkin. Chartered accountants have become quite accurate—

Mr. MACDONALD: Yes, but perhaps he might say something about it to Mr. Ryan, though.

The CHAIRMAN: Oh yes, that is what I meant; at this meeting now. We will move along then to clause 89.

Mr. ELDERKIN: Mr. Chairman, clauses 89 and 90 are stood because they are relative to clause 88.

The CHAIRMAN: All right, they will in that category.

On Clause 91—*Powers re interest.*

The CHAIRMAN: We come next to clause 91. I believe clause 91 is one of the clauses on which the Minister wishes to comment in his appearance tomorrow afternoon or, at least, a portion of it. We can still deal with this particular amendment.

Mr. ELDERKIN: Well there are several amendments to clause 91. The first one is to subclause (3) and the purpose of this amendment is simply to strike out—

The CHAIRMAN: Now, this amendment is found in the first booklet?

Mr. ELDERKIN: Yes, in the first booklet. The purpose of this is simply to strike out paragraph (a) which is on line 36 and 37 because that date is past; so (a) is spent before it is enacted.

The second one which appears on page 75, lines 22 to 24, brings up the point, I think, that Mr. Fulton raised and which we need to take care of because in some provinces an equity of redemption actually replaces the second mortgage. There is no such thing as a second mortage in British Columbia, for instance and, therefore, we have brought in here an equity of redemption; so, in other words, the amendment covers both mortgages and an equity of redemption as it is worded.

Mr. LAMBERT: This arises out of the fact that in British Columbia, I believe there is a conveyance of property under the mortgage whereas, in provinces like Alberta, it is merely a charge on the property; there is not a conveyance.

Mr. ELDERKIN: That is right, and the one becomes personal property as I understand it. The next amendment—

The CHAIRMAN: This is in the second booklet?

Mr. ELDERKIN: It is in the second booklet, Clause 91 (4). At the top of page 75 we had a provision which referred only to discounts on a loan, but where term loans are made for a fixed period this amendment would provide that the rate carries over for the term of the loan. There is really no other way to operate this very well, unless it is renegotiated. It may work to the advantage of the bank or

the customer, but it follows in the same sense as a discount. It is for a fixed term such as the situation where a consumer credit loan is for a fixed term, and the rate would prevail through the term.

The other one is—

The CHAIRMAN: The difference between the draft bill and this amendment, therefore, is that where there is a term loan the rate continues for the term?

Mr. ELDERKIN: That is correct; whether is goes up or down.

Mr. MONTEITH: Whether the ceiling goes up or down, or whether what goes up or down?

Mr. ELDERKIN: Yes, whether the ceiling goes up or down, the rate for which the contract was made at the time continues. Of course, you could not do anything about this, on discounts, because the discount has already been paid and there is no provision. We had this in before for discounts and now this amendment takes the remainder of what you might call "term" advances.

The next one is clause 91 (9) and (10) and—

The CHAIRMAN: This is in booklet 1?

Mr. ELDERKIN: That is in the old one. This is simply a redrafting of subclause (1) of clause 93 as amended and is a repeat of the present clause 92; subclause 112 (1) provides for a return, and subclause (1) of clause 151 for a penalty. The latter two, of course, will be spent when the maximum loan rate is abolished. This is entirely a redrafting operation, nothing else.

The CHAIRMAN: Gentlemen, do you think it would be practical to try to deal with certain portions of clause 91? The Minister is going to be here tomorrow afternoon with respect to it. Perhaps we will do the whole clause at once. I think that would be more practical. Clause 91 is stood until Wednesday, although I am sure if there are any further questions for Mr. Elderkin at this point we will certainly be able to accept them.

Mr. ELDERKIN: Clauses 92 and 93, of course, are the disclosure clauses.

Mr. MONTEITH: May I just enquire, Mr. Chairman, whether the Minister is coming before us tomorrow afternoon on clause 91?

The CHAIRMAN: On the whole thing.

Mr. MONTEITH: So we are standing clause 91?

The CHAIRMAN: That is right.

Mr. ELDERKIN: The minister is coming before you on all the clauses that are stood up to that time.

On Clause 92—*Charges on discounts.*

On Clause 93—*No charge on government cheques.*

Mr. ELDERKIN: Clauses 92 and 93 are the disclosure clauses. They are in the former booklet. There are no changes. They were—

The CHAIRMAN: This replaces the existing—

Mr. ELDERKIN: This is completely new, Mr. Chairman, and it relates entirely to disclosure. The only thing that is not new in it is that we moved subclause 92(3)—that is the prohibition on service charges—into this clause where it now

would be more properly placed. The rest of it is new, and in that particular provision we have now included that, except by express agreement between the bank and the borrower, there cannot be a compensating balance, if you wish to call it that, as a condition for making a loan or advance. That is new.

I will run down the rest of it: The new subclause (1) was just defined. I think I explained this to some extent before and perhaps it is repetition. In effect it says that any charge in connection with the making of a loan—whether it is a service charge and interest or whatever it is—shall be disclosed to the borrower where possible in a rate per annum and where, as in the question of a demand loan, this is not possible, by at least the total amount of charge in dollars and cents. As in the case of the provincial legislation which has preceded this in Nova Scotia and Ontario, it leaves some discretion to the Minister regarding how these rates will be calculated. I think he mentioned—if he did not I did—that they propose to calculate them on the basis of the normal annual rate and it is intended that the federal Department of Insurance will draw up actuarial tables to be used with the Minister's regulations. I think that just about covers it, Mr. Chairman.

The CHAIRMAN: Mr. Lambert?

Mr. LAMBERT: As in other matters, we have the making of regulations by the Minister which will determine the manner in which the cost of borrowing shall be disclosed to all borrowers and, in fact, the heart and soul of this will be by way of regulation. When are they going to be published, and how?

Mr. ELDERKIN: They have to be published—

Mr. LAMBERT: Where?

Mr. ELDERKIN: Regulations will be by Governor in Council—really by the Minister—but they will have to be published because all the banks will have to be notified. They will be pretty extensive, Mr. Lambert, because they will include all of the tables for calculation of the effective cost. Actually this follows both of the provincial acts which have been passed to date and it leaves the Minister in a position where he has to specify regulations, if you will, with respect to various types of loans. For instance, in the case of demand loans he would have to say that it was not necessary to show a rate of interest because it is not possible to calculate it. The closest you can come to this is to say that if the loan existed for one year the rate of interest would be so much, but this is not very valuable. Anyway, there is a provision here, as there is in the provincial act, that certain types of loans may be exempted, but this also has to be by regulation.

Mr. LAMBERT: I think I will have to talk it over with the Minister. These regulations should come back to this Committee when they are made, the same way as for deposit insurance. That is not a point for you and I do not know that it is a point for the legislation, but I am hopeful the Minister will feel as well disposed this time as he was on the Deposit Insurance bill.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I ask a question, Mr. Elderkin? This amendment provides that these regulations shall be in effect except where there has been an agreement between the borrower and the lending institution. Is that correct?

Mr. ELDERKIN: No; the only part where the agreement between the borrower and the lender comes into effect is whether or not a charge shall be made.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I see, but it still has to be expressed in this way.

Mr. ELDERKIN: Yes, it still has to be expressed.

The CHAIRMAN: Mr. Elderkin, what about the formulae raised when we discussed this previously to the effect that in many cases the corporation or partnership is of no greater size than the sole proprietorship and in that regard they may find it useful to have the protection of subclause (3), just as much as the sole proprietor?

Mr. ELDERKIN: Perhaps this matter can be left over. I think the Minister discussed it rather fully when he was before the Committee previously. Originally the whole object of the exercise, both here and in the provinces, concerned consumer credit. The broadening of this particular amendment to cover all types of loans goes farther than the provincial legislation does at the present time. I think it has been the objective of all the consumers associations and so on, to have legislation dealing with the individual, and that is the reason this was drawn accordingly.

The CHAIRMAN: I do not want to single out anybody, but suppose some great entrepreneur such as E. P. Taylor went to the bank to negotiate a loan for some vast enterprise, the bank would have to fulfil the requirements of subclause (3) with respect to a written agreement, whereas if little Joe Doakes, who had spent $300 or $400 to incorporate a shoemaker shop, went to negotiate a small loan, he would not be under this clause.

Mr. ELDERKIN: If he was incorporated?

The CHAIRMAN: Yes

Mr. ELDERKIN: That is right.

Mr. LAMBERT: Where do you draw the line on the corporations?

The CHAIRMAN: Well, that is an interesting point. I can see the difficulty, and I just wonder whether or not some thought had been or could be given to the Department working out some formula. It may be impractical, but it seems to me that—

Mr. ELDERKIN: This was discussed quite fully both before and after the Minister appeared before you, and it really would be extremely difficult to—

Mr. LAMBERT: I think possibly I have an answer. In the small incorporated business there would likely be a personal guarantee, and I was wondering whether you have the disclosure when you take out the personal guarantee to the corporate loan.

Mr. ELDERKIN: We should ask the legal people, but I do not think the personal guarantee, Mr. Lambert, would fall within the wording of this clause.

Mr. LAMBERT: But this would really take care of the problem that has been raised by the Chairman, and it would necessarily also catch some bigger ones where, on a big line of credit, the bank saw fit to take personal guarantees from directors of a corporation. Well, so you have a few added cases. I can see, with regard to what Mr. Gray has said, where a large law firm, or two lawyers in a

rather small law firm on a small line of credit, are not shown the true cost of a loan. Or they might be auditors or anything, but if the auditors incorporate some form of accounting company they are not shown it, but as individuals they would be given this information. It strikes me that when it comes to a partnership or a small incorporated company, it is the standard practice to take a guarantee from the directors who are really the owners of it. It is ordinary, common, good business practice to do it. I do not see that at this point you could not require the disclosure.

Mr. MONTEITH: My apologies for just coming in and not being up to date in the conversation, but, what have we been discussing—the fact that on certain types of loans the full charges must, but on certain other types they will not be necessarily be disclosed? Well, what is the division?

The CHAIRMAN: It is not so much with respect to the type of loan as the individual.

Mr. MONTEITH: The individual making the loan? All right; the type of individual or the type of corporation making the loan. What is the division?

Mr. ELDERKIN: The division at the present time, Mr. Monteith, is simply that this clause as it is worded now applies only to loans made to individuals.

Mr. MONTEITH: Do you mean in the present act or in the new one?

Mr. ELDERKIN: Oh, no. There is nothing in the present act; it is a completely new clause.

Mr. MONTEITH: And this applies only to individuals, but not to corporations.

Mr. ELDERKIN: Yes; only to loans made to individuals.

The CHAIRMAN: And not to corporations or private partnerships.

Mr. MONTEITH: Not to corporations, partnerships or associations; why not?

Mr. ELDERKIN: Well, as I said a few minutes ago, this whole exercise started out as a consumer credit operation. The provincial legislation refers only to individuals because it refers primarily to consumer loans. As I mentioned a few moments ago, this is what the consumer credit associations have been after for some time.

Mr. MONTEITH: Well, if it is good for one, why not the other?

Mr. ELDERKIN: Quite frankly—and this is only partly true, perhaps, in view of the Chairman's remarks—the corporation is presumed to be a sophisticated borrower. Here we are trying to protect the individual who is an unsophisticated borrower. Ninety per cent of this would apply to consumer credit. It will apply to mortgages to individuals, too, as it is worded—mortgage lending, which, under the Nova Scotia Act, I believe is a completely separate piece of legislation with a tolerance which is not available in this particular legislation.

The CHAIRMAN: Is there further discussion or comment on the amendment?

Mr. LAMBERT: Yes, I think perhaps we might hold up this one for the Minister. There is a question on the point that you raised which is not a point that Mr. Elderkin can resolve.

The CHAIRMAN: It may be technically impossible to deal specifically with the point I raised, yet there may be ways of dealing with it. Perhaps you could

clarify one other thing. Is the amendment in the booklet exactly the same as the text of the amendment which was tabled when the Minister appeared before us to propose it, or have there been changes?

Mr. ELDERKIN: No.

The CHAIRMAN: It is exactly the same as the original?

Mr. ELDERKIN: That is right.

Mr. WAHN: I have another question on this clause, Mr. Chairman, and that is whether any consideration was given to making the determining feature the size of the loan rather than the nature of the borrower.

Mr. ELDERKIN: No.

Mr. WAHN: It seems to be obvious—

Mr. ELDERKIN: Actually it can be done under the provision of clause 45(d), Mr. Wahn. I can give you an example of this. The Nova Scotia regulation is that it does not apply to loans over $25,000, but that is done by regulation, not by legislation. The same thing could be done here by the Minister's regulations.

Mr. VALADE: This will affect the charges more than the interest of loans.

Mr. ELDERKIN: Well, yes. The total cost of the loan is a combination of the two, Mr. Valade.

Mr. VALADE: But it affects the charges more than the interest itself.

Mr. ELDERKIN: Yes, to this extent, if I gather what you mean: All the charges under these circumstances will have to be disclosed.

Mr. LAFLAMME: In terms of interest?

Mr. ELDERKIN: Well, in terms of cost as a percentage.

An hon. MEMBER: On small loans, the cost of borrowing.

Mr. VALADE: Can the charges be added to the interest or just—

Mr. ELDERKIN: Yes, as long as the total is disclosed as a percentage.

Mr. WAHN: In view of subclause (5)(d) that you refer to, Mr. Elderkin, subclause (2) is really unnecessary, is it not?

Mr. ELDERKIN: It could be eliminated, Mr. Wahn. You are quite right. This might be the solution that you are looking for.

The CHAIRMAN: Perhaps we might take this under consideration. This is the Nova Scotia approach.

Mr. ELDERKIN: Well, the Nova Scotia approach is to individuals, but with respect to (5) (d), there is a similar one in the Nova Scotia—

The CHAIRMAN: They set a limit on the size of loans—

Mr. ELDERKIN: Yet, but there again, in the Nova Scotia Act it is only on individuals.

The CHAIRMAN: I see.

Mr. ELDERKIN: Quite frankly, as Mr. Wahn mentioned, subclause (2) can be taken out and left to regulation.

The CHAIRMAN: Perhaps clauses 92 and 93 could be stood and you could have this considered. The next clause before us is clause 96.

On clause 96—*Bank not bound to see to trust in deposits.*

Mr. ELDERKIN: I am not sure who was interested in this particular one. This is a very old section. It depends—

Mr. CLERMONT: This was brought up by Mr. Lambert or his group.

Mr. LAMBERT: Did you clear up the old business of the proposed amendments to the Mechanics' Lien Act in various provinces? It applies, I believe, in British Columbia and Ontario. The Mechanics' Lien Act in those two provinces requires the creation of a trust in favour of workmen and suppliers of materials in moneys payable to a contractor, and where the bank has taken a general assignment of the proceeds under a building contract they have, in many instances, been caught by the trust. I know that at present this particular feature is under examination in the province of Alberta and it is causing some considerable comment as to whether it should or should not. Now, clause 96 (1) almost would be a contradiction of the provision in that Mechanics' Lien legislation.

Mr. ELDERKIN: I think the banks have had some rather unpleasant experiences under that legislation, both in British Columbia and particularly in Ontario, and some of the other provinces, I believe, are looking at it very closely now for the possibility of—

Mr. LAMBERT: Clause 96 (1) says:

> The bank is not bound to see to the execution of any trust, whether express, implied or constructive, to which any deposit made under the authority of this Act is subject.

If the bank receives a cheque, pursuant to the filing of the assignment of the proceeds under a building contract, it has received a deposit and there is imposed on that deposit a certain trust. This section says that they are not bound to see to it.

Mr. ELDERKIN: They are not bound as far as receiving it is concerned, but I think the—

Mr. LAMBERT: It is not only bound to the execution of the trust. In that particular case execution of the trust, under the Mechanics' Lien Act, is the setting aside of moneys which are, in essence, payable to the workmen and the unpaid supplier of materials.

Mr. ELDERKIN: Perhaps the banks could answer this if I am not correct, but I believe they have taken the Mechanics' Lien Act of Ontario and British Columbia to override—if it is an overriding—and they have been caught on this on several occasions and have paid money which actually has been paid to them with respect to repayments of a loan, and which they have to pay out again because of the Mechanics' Lien Act. They do not consider that this particular section overrides the Mechanics' Lien Act. I think I am right in this.

The CHAIRMAN: Is there any further discussion on clause 96?

Mr. LAMBERT: Could we hear from the bankers association counsel in this regard?

The CHAIRMAN: Well, le me put it this way. I think the Committee agreed to conclude hearing from members of the public before we began our clause by

clause discussion. If the Committee agrees to make an exception in this case, I certainly would not object.

Mr. WAHN: Mr. Ryan would be the legal adviser to the drafter of the bill which is the one—

The CHAIRMAN: Perhaps we might handle it this way: those members interested might have some discussions with the Bankers Association counsel when we adjourn, and Mr. Ryan is going to be here this afternoon, I understand.

Mr. ELDERKIN: Yes, I am going to try to get him here this afternoon.

The CHAIRMAN: Clause 96 is stood until this afternoon.

Mr. LEBOE: Mr. Chairman, on this very point, it appears to me that because of public relations the banks are accepting this position without any legal position being established. Am I not right in this?

Mr. ELDERKIN: I cannot answer your question, Mr. Leboe. As the Chairman said, the general counsel for the Bankers Association is here and some people might want to talk to him to find out whether they feel obligated or whether they are doing it out of public relations. I cannot answer your question.

The CHAIRMAN:We move next to clause 124, and an amendment is proposed in booklet 2.

Mr. CLERMONT: I move that Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 5 to 8, inclusive, on page 91 thereof and by substituting therefor the following:

"assets;

(d) the indebtedness evidenced by a bank debenture is subordinate in right of payment to the prior payment in full of the deposit liabilities of the bank and such other liabilities of the bank as are mentioned in that debenture or in any document under which it was issued; and

(e) the amount of any penalties for which the bank is liable shall be a last charge upon the assets of the bank."

Mr. MACDONALD (*Rosedale*): I second the motion.

The CHAIRMAN: Mr. Elderkin, perhaps you could explain this for us.

Mr. ELDERKIN: The purpose of this amendment, Mr. Chairman, is to clarify the priority of debentures in case of insolvency. The point had been raised before that possibly there was some vagueness in the question of the priority and this clarifies it to the extent that they are definitely subordinate in the right of payment to the prior payment in full of deposit liabilities and such other liabilities of the bank as are mentioned in the debenture. I think this is just a clarifying amendment, Mr. Chairman, which has been approved.

The CHAIRMAN: Are there any discussions or questions on the amendment? If not, I will ask if the amendment carries?

Some hon. MEMBERS: Agreed.

Amendment agreed to

Clause 124 as amended agreed to.

On clause 137—*Statements not signed as required.*

The CHAIRMAN: We now move to clause 137.

Mr. ELDERKIN: That clause was stood at somebody's request. It refers to annual statements. I do not know why it is stood. Actually it passed in the Quebec Savings Bank Act and I am not quite sure who asked that this be stood, or why.

The CHAIRMAN: Is this with respect to penalty?

Mr. ELDERKIN: Yes, with respect to penalty.

Mr. MACDONALD (*Rosedale*): I wonder, Mr. Chairman, whether that was one of the penalty provisions you felt was not heavy enough? There was some disposition in one case to increase the penalty.

Mr. ELDERKIN: That might be it, Mr. Macdonald. I do not know; I have not been told. We are increasing some penalties in other ways, as far as that is concerned. If that is the reason I am sure there would be no objection from the Minister to increased penalties.

The CHAIRMAN: I think this is consistent with requests to stand other clauses because some comments were made about the level of penalty.

Mr. CLERMONT: Is this clause 137?

The CHAIRMAN: Yes, clause 137.

Mr. CLERMONT: I think it was requested by your group, Mr. Lambert. That is what I have here.

Mr. ELDERKIN: It was ringed on the original chart.

Mr. CLERMONT: I think Mr. Monteith requested that clause 137 be stood.

Mr. LAMBERT: I think that may be one of Mr. Fulton's, because I think he did clauses 39 and 137.

Mr. ELDERKIN: Well, we can hold it—

Mr. LEBOE: Would it be possible, Mr. Chairman, to find out whether or not this clause 137 has ever been acted upon to any extent?

Mr. ELDERKIN: It has not been acted upon in my experience, Mr. Leboe.

The CHAIRMAN: Well, referring to the chart, it is quite true that 137 was stood. We shall seek some further information.

On clause 138—*Agreements fixing interest.*

Let us move on to clause 138. An amendment is suggested here.

Mr. ELDERKIN: Clause 138 is the amendment on disclosure and the Minister would like to raise the penalty from $5,000 to $10,000.

Mr. LAMBERT: The minister's assessment indicates the cost of living.

Mr. ELDERKIN: Yes, the cost of living.

Mr. LAMBERT: Everything is double.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, while this concerns disclosure, it also concerns agreements between banks. Under the Combines Investigation Act there is no limit on the penalty which can be imposed. I wonder why we should not take off any upper limit here? The argument at the time of increasing

the penalties under the Combines Investigation Act was that the previous judgments really amounted to a licence to steal on the part of the parties combining, and I wonder why we do not put the banks under the same sanction here?

Mr. ELDERKIN: What governs the penalty, then? Is it left to the court to decide?

Mr. MACDONALD (*Rosedale*): It is left to the court to decide under the circumstances.

Mr. ELDERKIN: We have no such type of provision in the Bank Act, Mr. Macdonald. We have either specified penalties or an offence against the Act—one of the two—and at no place do we leave any of the penalties open to discretion.

Mr. LAFLAMME: Mr. Chairman, I suggest that there be some discretion because we might have what might be called technical offences. I think it is up to the courts to decide on the penalties.

Mr. LAMBERT: This is a tough one: "who knowingly—

Mr. ELDERKIN: That is right.

Mr. LAMBERT: —makes an agreement." There might be some difficulty in proving that the director, officer or employee knowingly made the agreement on behalf of the bank.

Mr. MACDONALD (*Rosedale*): I am subject to correction on this, but I think I am right in saying that basically the same requirement exists under the Combines Investigation Act, to establish *mens rea* that the—

Mr. LAMBERT: I do not doubt, Mr. Chairman, that Mr. Macdonald has a point, but I am sure it is open to the Crown to opt as to whether it will proceed under the Combines Investigation Act or under this particular act.

Mr. MACDONALD (*Rosedale*): No, I suggest that the Combines Investigation Act does not apply to banking operations, and unless we provide for this type of combine under the statute there will be no provision of the law that you can refer to.

Mr. LEBOE: Mr. Chairman, I would like to pose this question again. In the knowledge of the Inspector of Banks, how often has this clause been applied?

Mr. ELDERKIN: This is a brand new clause, Mr. Leboe.

Mr. LEBOE: Oh, this is a new clause?

Mr. ELDERKIN: A new clause suggested by the royal commission on banking and finance.

The CHAIRMAN: Mr. Elderkin, is there any question of whether or not the term "charges" includes the compensating balance?

Mr. ELDERKIN: I would think so. Definitely the charge is a cost.

Mr. WAHN: Who will be charged with the responsibility for enforcing this clause and making the necessary investigations?

Mr. ELDERKIN: My successor, thank goodness.

Mr. WAHN: I raise the question because this clause is rather similar to the original moral prohibition which was introduced over 70 years ago when the

Combines Investigation Act was first passed. It was found to be completely ineffective and over the years the Combines Investigation Act was made more and more complex, amendment was piled upon amendment, and a whole division of the Department of Justice was established to investigate and enforce the sections.

The clause I believe, is designed to prevent rate-fixing agreements or combines among the Canadian chartered banks. I am completely in favour of more competition among the Canadian chartered banks with regard to rates. I seriously question whether this is the way to do it. In the course of questioning, we asked Mr. Paton whether in the past any Canadian chartered banks to his knowledge had ever entered into an agreement of this sort, and he said, no, as I recall. I believe him, because any businessman or bank would have to have holes in his head to enter into an agreement to fix rates—this is just not the way it is done or ever would be done.

The CHAIRMAN: How is it done?

Mr. WAHN: Well, the follow-the-leader technique is how it is done.

Mr. MACDONALD (*Rosedale*): There must be quite a few across the country with holes in their heads then, because that is what the Combines Investigation Act has been about, is it not?

Mr. WAHN: I think the Combines Investigation Act now is a much more involved section; you have an enforcement branch. I think this clause is very little more than window dressing. I do not think it will be enforced, I do not think it can be enforced, and I think in a way we are misleading the public in putting a clause like this in the act. We want more competition between the Canadian chartered banks, but when we point to this clause as ensuring that competition, I think we are misleading the public.

The way to get more competition is not by a prohibition of this sort which cannot possibly be enforced. We have to have more chartered banks; perhaps there have to be restrictions on amalgamations—the type of amalgamations that have gone on in the past—which have reduced the number of chartered banks. There may be a number of ways of getting it, but a simple prohibition like this is not one. If I were to ask Mr. Elderkin if he could enforce this prohibition—I would not want to embarrass him by asking him that—I am sure he would have to say he could not possibly do so.

The CHAIRMAN: He could not in any event; he is retired.

Mr. WAHN: Well, presumably his successor could not. I am saying that I think this is a meaningless clause. As Culbertson said once when he opened with a two spade bid and his opponent doubled his opening two spades—this is an idle gesture. I think this clause is just an idle gesture in view of the experience we have had with the Combines Investigation Act. Rather than put an idle section in the act which is just misleading to the public, giving them a false sense of security, I think it would be better to delete the clause.

This Committee should make a strong recommendation that ways should be found to ensure more effective rate competition among the chartered banks. This may be through permitting foreign agencies, which was under discussion; it may be by facilitating the incorporation of chartered banks; there may be a number of ways of doing it. I think this clause is an idle, futile clause. Generally

speaking, when you put in a prohibition of this sort which no one really expects to obey, I think you are really doing a disservice to the administration of law. You breed a disrespect for law; people become cynical about it. It does not do a great deal of harm, I suppose, to have it there, but I do not think any of us really believe that there will be very many prosecutions and convictions under it. I could be wrong.

Mr. ELDERKIN: There are two points I think I might make, Mr. Wahn. In the first place, this clause is a recommendation of the royal commission on banking and finance. This is one of their strong recommendations. Secondly, even if, as you say, there was never a prosecution under it, I think it stands to reason that it is at least being put forward as an indication of parliament's views on these matters.

I am prepared to admit that, as somebody once remarked, you cannot stop two bank general managers talking over a game of golf; neither can you stop two general managers of oil companies talking over a game of golf. I do realize that it has been the practice in many cases to follow the leader in these matters, and I do not think any legislation is going to catch that sort of thing unless somebody is foolish. But I think it is a good section because I believe we would be remiss if the government did not follow this recommendation of the royal commission, and I think it is a definite indication to the banks of parliament's view of this matter.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I disagree with one of Mr. Wahn's point and agree with another. I am not prepared to accept his total write-off of the Combines Investigation Act structure which we had before—at least, what is implicit in his remarks. I think there has been considerable effectiveness under that act, which is a similar statute, and if there has been any question of want of effectiveness it is because not enough money has been spent on investigation and prosecution. I would like to see a criminal penalty very much like the Combines Investigation Act, and I suggest that perhaps we might add an amendment to this clause, not only deleting the ceiling on the penalty, but imposing responsibility for its enforcement on the Director of Investigation and Research under the Combines Investigation Act. Give the job of enforcing this to the person who, under the legislation of the government of Canada, already has the responsibility for controlling combines.

Mr. ELDERKIN: Mr. Macdonald, this matter has been discussed. I am offering an opinion, but I do not think you would get the Minister to agree with you. This is a service, and no services come under the Combines Investigation Act.

Mr. MACDONALD (*Rosedale*): I know that, sir, and I am not altogether sure that the Combines Investigation Act should not be amended to cover services as well.

Mr. ELDERKIN: Well, perhaps that time will come, but in the meantime I do not think you need to be concerned about the investigation end of it. I think the office of the Inspector General of Banks, as far as investigation of banks is concerned, has just as much and probably more powers than the Combines Investigation officers.

Mr. MACDONALD (*Rosedale*): I wonder if you have the same powers with respect to evidence as they are given under the—

Mr. ELDERKIN: They have all the powers in the world under the Inquiries Act.

Mr. MACDONALD (*Rosedale*): Excuse me, I do not think you have the same powers with respect to the proof of documents as they have under the Combines Investigation Act. I would propose to incorporate that regime so as to operate it against the banks under this provision.

Mr. ELDERKIN: All I can say is that the matter has been discussed and the Minister would not agree to it, as far as he is concerned.

Mr. MACDONALD (*Rosedale*): Perhaps, Mr. Chairman, you might reserve the clause.

Mr. LEBOE: Mr. Chairman, I would like an explanation of the word "service" used in connection with banks. Is that right?

Mr. ELDERKIN: Yes, it is considered a service. The Combines Investigation Act applies to commodities; not to services.

Mr. LEBOE: Well, money does not grow on bushes; you would not say that money is a commodity, then?

Mr. ELDERKIN: We are talking about a service, which is what the bank provides when it lends money.

The CHAIRMAN: Mr. Elderkin, your contention is that if the Crown were to adopt this clause, complaints could be made to the Minister of Finance who would refer them to you for investigation. Then, with the assistance of the Department of Justice, any prosecutions that have been justified by the investigation could be undertaken.

Mr. ELDERKIN: That is correct.

Mr. WAHN: Mr. Chairman, before we leave this clause, could I ask Mr. Elderkin whether we have ever had the Post Office Savings Bank in Canada? I am trying to think of some effective way of giving the banks some competition.

Mr. ELDERKIN: There is a Post Office Savings Bank now.

Mr. WAHN: Throughout Canada?

Mr. ELDERKIN: Yes; throughout Canada.

Mr. WAHN: I did not even know that. They cannot be very well advertised.

Mr. ELDERKIN: They publish their financial statement every month, I think, in the *Canada Gazette*.

Mr. WAHN: And I can go and deposit money in the post office in Canada?

Mr. ELDERKIN: That is right.

Mr. WAHN: How much interest do they pay on deposits?

Mr. ELDERKIN: I have forgotten what it is now. It was something in the neighbourhood of 4 per cent, if I remember rightly.

The CHAIRMAN: Did you know you could deposit?

An hon. MEMBER: Oh, yes.

Mr. ELDERKIN: As a matter of fact, it has been dwindling very rapidly over the past few years because it is not a very convenient way of making deposits.

You are supposed to send in your passbook and it has to be sent to Ottawa to be checked.

Mr. WAHN: The local post office cannot take deposits?

Mr. ELDERKIN: It can take deposits, but it cannot pay them out, except in very small amounts. You have to send in your passbook to Ottawa to see whether you still have that amount of money.

Mr. WAHN: The question really in my mind was whether this could not be made a more convenient service so that the higher interest rate being paid by the post office might induce the banks to pay a higher rate.

Mr. ELDERKIN: The post office wants to get rid of it; it is becoming a very unprofitable operation.

The CHAIRMAN: Clause 138 stands, and we move on to clause 145. There is an amendment in booklet No. 2.

Mr. CLERMONT: I move that Bill No. C-222, an Act respecting Banks and Banking, be amended by striking out lines 7 and 8 on page 97 thereof and by substituting therefor the following

"sions of that paragraph is subject to a penalty of one thousand dollars a day for each day in which the violation"

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: This concerns the penalty with respect to a violation of clause 75(2)(g) and it raises it from $500 to $1,000 a day.

The CHAIRMAN: Are there any questions or comments on the proposed amendment? I ask now whether the amendment carries.

Some hon. MEMBERS: Carried.

Amendment agreed to.

Clause 145 as amended agreed to.

On clause 151—*Violation of interest provisions*

The CHAIRMAN: Next we move to clause 151. In booklet 2 there is an amendment to this clause as well.

Mr. ELDERKIN: These are amendments to penalties on violation of interest disclosure and service charges. If you are standing clauses 91, 92 and 93 this will have to stand, too. It is just possible there might be some references that will have to be changed; that is all.

The CHAIRMAN: Yes, clause 151 stands. Gentlemen, it is five minutes to one. What is your desire? Shoudl we adjourn and resume at 3.45 as scheduled? I think we can dispose of some of the other clauses and schedules, and perhaps some of the Quebec Savings Bank Act clauses as well. We shall recess until 3.45.

AFTERNOON SITTING

The CHAIRMAN: Gentlemen, I shall now call our meeting to order. There were several matters stood over until this afternoon. We have Mr. Ryan with us this afternoon. Perhaps, Mr. Lambert, we could move immediately to the point which you have raised with respect to mechanics' liens.

On clause 96—*Bank not bound to see to Trust in deposits.*

Mr. LAMBERT: Yes, Mr. Chairman. Mr. Ryan, clause 96 states that the bank is not bound to see to the execution of any trust, whether express, implied or constructive, to which any deposit made under the authority of this Act is subject. I am concerned about the implications of this clause vis-à-vis the existing provisions of the Mechanics Lien Act of certain provinces and, indeed, some contemplated acts, whereby funds payable to a contractor as a result of construction—payable to him by the owner or the mortgage company—are affixed with a trust in favour of unpaid workmen within statutory limits and for unpaid suppliers of material. Do you know of any possible changes in those acts and how they would affect this particular provision.

Mr. J. W. RYAN (*Director, Legislation Section, Department of Justice*): Mr. Chairman, Clause 96, subclause (1) is a fairly standard provision with regard to the duty arising under equity, Mr. Lambert, wherein a person paying out money, who has notice of the existence of a trust, might be charged with responsibility to ensure the carrying out of the trust beyond the payee. I will give you an example. If, in the circumstances given, the contractor is known to the bank to be a trustee of funds, the bank might, apart from this provision, be under a duty, in equity, to see that the money gets to the beneficiary of the trust. The clause protects the bank against that particular duty. It is a standard provision and you find it also in statutes with respect to shareholders and a company. You will find the same type of provision in section 34 of the Canada Corporations Act. There is also in an earlier clause of the Bill (clause 58), a provision relating to shareholders in the same sense. The provision is a shield, not a sword, for the bank, and it protects it against that particular equity arising where they have notice of a trust in respect of moneys on deposit.

Mr. LAMBERT: Mr. Chairman, I am wondering how the term "equity" applies in an unpaid trade account? I am thinking particularly of a situation where a contractor is being financed at the bank. Say, he is a merchant builder; he enters into a line of credit with the bank, and he gives an assignment of funds, arising either from the owner or from the mortgage companies, to the bank as security for the line of credit that he has obtained. Then, from time to time, payments are made either by the owner or through the mortgage company to the contractor, who deposits the money. The payments are either made through him or directly to the bank, if the bank has filed its notice of assignment. Yet the Mechanics' Lien Act directs the bank to recognize that there will be a trust in favour of unpaid workmen and unpaid suppliers of material. The setting aside of such money, I would suggest to you, is the equivalent of seeing to the execution of any trust, whether express, implied, or constructive, which, by clause 96, the bank is told it can disregard.

Mr. RYAN: The money in the hands of the contractor is impressed by provincial law with a trust. If the money is deposited by the contractor in the bank and he writes a cheque on it—for example, the bank would honour the cheque—and would not be concerned thereafter. The bank is protected by this section from being required to ensure that the payment to the contractor gets to the beneficiary of the trust under that provincial law.

This is a different matter from the beneficiary coming in and, in proper form, asking for the trust money from the bank.

Mr. LAMBERT: I disagree with you, Mr. Ryan, in that there have been a number of cases in this province and in British Columbia, where the bank

appropriated unto the indebtedness to it the funds that were in the account. They had to restitute; they were forced to do so by action at law.

Mr. RYAN: That is right.

Mr. LAMBERT: And they had to restitute in favour of the beneficiary of the specific trust, either a workman or the supplier.

Mr. RYAN: That is right. Would that not be a matter of following the assets, Mr. Lambert? That relates to a different problem. If there is no notice of the trust, there would be no duty in equity on the bank. However, if there is notice, then there would be, in the absence of this clause, this additional duty to ensure that the trustee behaves properly. I believe the purpose of clause 96(1) is to remove the additional duty.

Mr. LAMBERT: But this clause says:

> The bank is not bound to see to the execution of any trust, whether express, implied or constructive, to which any deposit made under the authority of this Act is subject.

Mr. RYAN: That is right. The same type of situation develops vis-à-vis a company and its shareholders—on the payment of dividends and other amounts owing to the shareholder. The section in the Canada Corporations Act is:

> The bank is not bound to see to the execution of any trust, whether express, implied or constructive—

in respect of any share. But there is no such duty in equity, if there is no constructive or actual notice. As I say, the clause does not go beyond the duty of following a payment to make sure that the trust money is properly dispersed by the trustee. This is the protection that is intended to be given by clause 96(1) and not any more.

Mr. LAMBERT: All I can say is that in a number of provinces this is windowdressing, when you have that Mechanics' Lien Act.

Mr. RYAN: I think you may be talking about a different situation: where, for instance, a contractor has borrowed from the bank and is using trust moneys to repay the bank, that is a different situation from the payment out of a deposit, or the payment to a shareholder who appears to be properly entitled to money but who is only a trustee. In that case, the bank does not have to go beyond the trustee to ensure that the money is properly dispersed by the trustee or that he carries out his duties.

Mr. MORE (*Regina City*): The purpose, Mr. Ryan, of subclause (1) is that the bank is not responsible to police the trustees against fraudulent operations.

Mr. RYAN: That is right; that is the purpose of these provisions, and they are standard in the statutes.

The CHAIRMAN: Shall clause 96 carry?

Clause 96 agreed to.

The CHAIRMAN: Now let us move back to clause 39. This clause was stood because Mr. Fulton wished to make some comments.

An hon. MEMBER: Can we leave it for now, Mr. Chairman; Mr. Fulton will be back tomorrow.

The CHAIRMAN: Fine; I just wanted to make sure that this was not something we could deal with today. Now clause 76, I believe, is next.

Mr. CLERMONT: Was clause 89 stood?

The CHAIRMAN: Yes, clauses 88, 89 and 90 were stood.

Mr. ELDERKIN: Mr. Chairman, I asked that clause 76 be stood this morning, because it needs to be re-drafted. Would you be good enough to leave it until tomorrow?

The CHAIRMAN: All right. I have certain notes here which I have marked for Tuesday afternoon and perhaps I am not reading my writing too well. What about clause 137?

Mr. ELDERKIN: I believe was another one that Mr. Fulton asked to be stood. I do not know what that one was stood for.

The CHAIRMAN: Well, it is a very small clause.

An hon. MEMBER: If he is not here tomorrow we can carry it.

The CHAIRMAN: We will stand clause 137 until tomorrow. Again, Mr. Fulton wanted to make some comments with respect to clauses 88, 89, and 90, but there may be some matters that you wish to discuss with Mr. Ryan.

On clause 88—*Loans to certain borrowers and security.*

On clause 89—*Priority of bank's claim.*

On clause 90—*Conditions under which bank may take security.*

The CHAIRMAN: Mr. Macdonald, would you begin.

Mr. MACDONALD *(Rosedale)*: I believe that my question this morning with respect to security priorities under clause 88 probably percolated through to Mr. Ryan. My specific question this morning was the relative priority of clause 88 security and that of a floating charge. Perhaps I could give you several situations and then get your comment on them, Mr. Ryan.

First, if a debenture was duly filed in accordance with the Ontario Corporations Securities Registration Act, prior to the date of filing of notice of intention to give security under clause 88, which then, in your opinion, has the priority?

Mr. RYAN: I would assume, Mr. Chairman, that the first registered security would have priority under those circumstances.

Mr. MACDONALD *(Rosedale)*: Then floating charge debenture would have security and it would continue to have priority security, even over the moving body of assets that were received by the corporation?

Mr. RYAN: I would think so. However is it not a fact of commercial life, that these debentures make provision for obtaining a loan and releasing their priority in that respect for the purpose of floating charges? Otherwise there would be a great deal of difficulty in obtaining bank loans.

Mr. MACDONALD(*(Rosedale)*: It may be often, but it is not invariable. Your view would be that the bank would stand second in respect of clause 88 as it pertains to a floating charge.

Mr. RYAN: That would be my view.

Mr. MACDONALD *(Rosedale)*: And any other more specific securities, such as a chattel mortgage or a conditional sale agreement, if it was already on the title, would take priority over clause 88.

Mr. RYAN: I would assume so.

The CHAIRMAN: Mr. Lambert?

Mr. LAMBERT: Mr. Chairman, on that point I think it likely that Mr. Macdonald would agree that under the chattel mortgage the new owner in title is the mortgagor and then the assignment would be charged against the property in favour of the bank?

Mr. MACDONALD *(Rosedale)*: That is a good point, and equally with the Conditional Sales Act. However, whatever my personal opinion might be, I wanted to get Mr. Ryan to say it.

Clause 86 says that the bank as the holder of a warehouse receipt, is put in the same position as the owner of the goods, wares, and merchandise, and clause 88(2)(c) puts the bank, as beneficiary of a security under clause 88, in the position of having the same rates, rights, and powers as if the bank had acquired a warehouse receipt or bill of lading. This then would make the bank the owner of goods, wares, and merchandise, under the terms of the said statute.

Mr. RYAN: I will have to plead a little time on that one; my law merchant is rusty.

Mr. MACDONALD *(Rosedale)*: Notionally then, at least you would have two owners; you would have the manufacturer and you would have the bank which is declared under the Bank Act to be the owner. The question is, should someone dealing with the manufacturer, in every instance, get a waiver from the bank of its security under clause 88? I will leave that question with you.

Is it your opinion that clause 88 constitutes notice to the world of the bank's security claim? What about a bona fide purchaser for value, or a securing party coming in without actual notice of clause 88?

Mr. RYAN: I think the registration would constitute notice of the security.

Mr. MACDONALD *(Rosedale)*: So that someone takes it at their peril if they fail to make the appropriate clause 88 searches?

Mr. RYAN: That is the situation as I understand it.

Mr. MACDONALD *(Rosedale)*: Equally, in connection with the bank in its status, as I put to you before, as the owner of the goods, presuming that the manufacturer delivers goods—and this is really the same question—to a subsequent purchaser, at what stage does clause 88 cut off in so far as it relates to the goods? What is the cutting off point? If the manufacturer makes a sale which under the Sale of Goods Act would pass title to the bona fide purchaser for value without notice—at that point has clause 88 been cut off, or can the bank, if it likes, chase all the purchasers in the event of a bankruptcy?

Mr. RYAN: I think that the question of the bona fide purchaser for value, would depend on whether or not it has been registered. If it has been registered, I do not see how you can acquire a bona fide purchaser for value without notice.

Mr. MACDONALD *(Rosedale)*: Then this goes back to your previous answer; you think clause 88 constitutes a notice to the world, like in the case of land registry, and no person can subsequently acquire a better title to that.

Mr. RYAN: I would think so.

Mr. MACDONALD (*Rosedale*): Going on to clause 89—

Mr. CLERMONT: Before you go on to clause 89, I would like to ask a question of Mr. Elderkin on clause 88.

The CHAIRMAN: We are not passing 88.

Mr. CLERMONT: All right.

Mr. MACDONALD (*Rosedale*): If Mr. Clermont would like to ask a question, let him go ahead.

(*Translation*)

Mr. CLERMONT: Mr. Elderkin, with regard to agricultural perishable products, do you have a description of them? What are these products?

(*English*)

Mr. ELDERKIN: I did not get the translation?

(*Translation*)

Mr. CLERMONT: What is the description of agricultural perishable products; is there a list of these products, what are they?

(*English*)

Mr. ELDERKIN: Agricultural products are defined in clause 2.

(*Translation*)

Mr. CLERMONT: Mr. Elderkin, "perishable" is what I am interested in, what is a perishable product?

The CHAIRMAN: I think we should ask Mr. Ryan, but I think it is a term for the definition of—

Mr. CLERMONT: You say a description?

(*English*)

The CHAIRMAN: Mr. Clermont wants to know if there is such a thing as a list of perishable agricultural products.

(*Translation*)

Mr. CLERMONT: In reference to article 88, 5 (b), you speak of perishable products of agriculture, is it fruits, what is it? Is it milk products, dairy products, is it eggs, is it milk? Someone says tobacco, is it tobacco?

(*English*)

Mr. RYAN: There is no definition of perishable products in the act.

(*Translation*)

Mr. CLERMONT: Who is going to provide the interpretation when there is a conflict between the borrower and the lender, a conflict of opinions between the borrower and the lender about perishable products, who is going to define the perishable products?

(*English*)

Mr. RYAN: In a case of conflict on a term of that kind, I suggest that the court would be quite able to define what is commonly understood as perishable products of the soil.

(*Translation*)

Mr. CLERMONT: If I base myself on the description in the Bank Act, Parliament has left it to the judge to decide, is that it?

(*English*)

Mr. RYAN: Ultimately it would be decided by a court, but I think the common usage of the community would give a meaning, and not being an agricultural man I am unable to talk about it. The commercial field would probably determine for you faster than I could, what is a perishable product. I feel very certain that a perishable product of the soil can be related to definite produce. I think of potatoes, as an example, and other products that go bad, which is a matter of ascertainable fact.

(*Translation*)

The CHAIRMAN: I suppose that if we are going to give a complete definition of perishable products in the bill, this might be prejudicial to a farmer, because if a product appears in a list of perishable products then conversely the farmer whose product was not in the list might suffer prejudice.

Mr. CLERMONT: If I refer to surplus farm products, this includes all farm products but when you say perishable products you limit the products, do you not, or do you? Mr. Ryan mentioned potatoes, I think the bankers do not consider that the potato is a perishable product.

The CHAIRMAN: Then why is it more risky to ask for an interpretation from someone who has no farming training, no agricultural background?

Mr. LAFLAMME: There is no law that gives a definition. You can define a name or a term, you cannot define an adjective, perishable is an adjective and cannot be defined, it applies to a given product.

Mr. CLERMONT: Would you say all farm products are perishable?

Mr. LAFLAMME: They may be, the potatoes can be kept for quite a long time in storage.

Mr. CLERMONT: If the court is to make the decision in each case, it is going to be very inconvenient for the farm population.

The CHAIRMAN: There would not be too many difficulties, it is difficult to envisage a question arising. For instance, we have tomatoes, we have radishes.

Mr. LAFLAMME: In my riding there are potatoes that are kept for a year or two years, but if you put 100 bags of potatoes in a truck and these are left by the roadside, obviously they become a perishable product.

(*English*)

The CHAIRMAN: Mr. Macdonald?

Mr. MACDONALD (*Rosedale*): Obviously, this was too perishable for me to interrupt, but if it is finished, maybe I can go on to clause 89.

(*Translation*)

An hon. MEMBER: I agree with you.

Mr. CLERMONT: I have to accept it but I am not at all satisfied.

(*English*)

Mr. MACKASEY: Mr. Chairman, I think the words "perishable goods" do have some connotation in the Department of Agriculture. This matter comes up very

frequently. Anything is perishable under certain conditions, as Mr. Laflamme mentions; but "perishable goods" do have some connotation.

The CHAIRMAN: As I said before, we may be harming certain farmers if we attempt to have a list, because what we leave out probably will be deemed by a court as not being perishable. It already has been pointed out that the very product which we exclude, may be considered under a certain set of facts or circumstances to be perishable.

Mr. MACKASEY: How was this treated in the old bill, Mr. Chairman?

The CHAIRMAN: It was not in the old bill; this results from the proposals of Mr. Gene Whelan.

Mr. MACKASEY: You are not a Whelan if you do not get perishable.

The CHAIRMAN: In so far as I can recall, in the original proposals of Mr. Whelan, he did not attempt to suggest a complete definition of perishable products.

Mr. CLERMONT: Maybe Mr. Whelan had in mind, fruits, because in his region there is a lot of fruit.

Mr. CHRÉTIEN: Yes, but there are perishables everywhere; perhaps it is fruit in Essex, and burley tobacco in the riding of Mr. Comtois.

The CHAIRMAN: All I am saying is that the person in the house who has perhaps taken the greatest interest in this problem, did not attempt to suggest either to the predecessor of this Committee, the Banking and Commerce Committee, or to this Committee, that we should attempt a definition of perishable products of agriculture, and there may be some significance in that.

Mr. MACKASEY: Do we need the word "perishable" in there at all?

The CHAIRMAN: Oh, yes.

(*Translation*)

Mr. CLERMONT: Would it not be acceptable, Mr. Elderkin, to say farm products covers all farm products.

(*English*)

Mr. ELDERKIN: You are going far beyond this then, Mr. Clermont. Farm products may be anything including cattle, poultry and so on.

An hon. MEMBER: No, no; that is livestock.

Mr. ELDERKIN: I know, but it is still a farm product.

An hon. MEMBER: I do not know, but I thought they were by-products.

Mr. ELDERKIN: Well then, you go to products of agriculture, which is defined actually. However, this takes in far more than perishable products, and this was not the intention or the suggestion of Mr. Whelan at any time.

The CHAIRMAN: Perhaps we can all think about this while we revert to Mr. Macdonald.

Mr. MACDONALD (*Rosedale*): Perhaps the only comment I might make, Mr. Chairman, is that we should be careful not to say anything which might encourage Mr. Whelan to join us again.

The CHAIRMAN: I am sure others would feel, as I am sure you do, that his attendances here have resulted in a positive contribution to our deliberations.

Mr. MACDONALD (*Rosedale*): Yes, indeed; there is no question about that. I will go on to clause 89, if I might, Mr. Ryan. I am picking it up from the middle of subclause (1):

> —priority over all rights subsequently acquired in, on or in respect of such property—

Could I ask you first, is there, in your mind, any doubt about the right of the federal government to make that declaration so as to give it priority over any declaration of provincial legislatures to the contrary.

Mr. RYAN: There is no doubt in my mind on this score, Mr. Macdonald.

Mr. MACDONALD (*Rosedale*): Then going on:

> —and also over the claim of any unpaid vendor, but such priority does not extend over the claim of any unpaid vendor who had a lien upon the property at the time of the acquisition by the bank. . . unless the same was acquired without knowledge on the part of the bank—

On this question of knowledge on the part of the bank, if in fact a provincial law declared that the filing of an appropriate instrument in respect of an unpaid vendor's lien was to constitute constructive notice to the world, then would not the bank have had it under this provision?

Mr. RYAN: I have to hesitate on that one. The expression is "unless the same was acquired without knowledge on the part of the bank".

Mr. MACDONALD (*Rosedale*): Yes.

Mr. RYAN: I think that may actually be knowledge.

Mr. MACDONALD (*Rosedale*): Yes, actual knowledge. You do not think the provincial law could come in here to decree constructive knowledge?

Mr. RYAN: Certainly not in a particular case. As to whether a law of general application would import constructive knowledge into the term "knowledge" I am not prepared to say.

Mr. MACDONALD (*Rosedale*): We might leave that to the courts. We are leaving with you the question as to whether, because of the bank's status as an owner, a careful purchaser should require a waiver of claims under the Bank Act. Thank you very much.

The CHAIRMAN: Is there any further general discussion at this time on clause 88, which we understand is to be stood for final consideration, if possible, tomorrow. If not, I would point out to the Committee that there are no further clauses that we can deal with this afternoon because with respect to the Bank Act we agreed to stand the other until tomorrow. With respect to the Quebec Savings Bank Act, however, there are two clauses we can deal with because they are exactly the same as two clauses which we have now adopted with respect to the Bank Act. Clause 30, in the Quebec Savings Banks bill, is the same as clause 36 in the Bank Act. Clause 84, in the Quebec Savings Banks bill, is the same as clause 96, which we have just passed. Are you in agreement with what I have just said, Mr. Elderkin?

Mr. ELDERKIN: In respect of the first one, Mr. Chairman, we would have to revert to clause 30.

The CHAIRMAN: Yes.

Mr. ELDERKIN: The amendment affects clauses 28, 29, and 30.

The CHAIRMAN: Actually clause 30 has not been passed; it has been stood.

Mr. ELDERKIN: No, but clauses 28 and 29 have.

The CHAIRMAN: All right. I take it we agree unanimously to rescind the decision previously taken with respect to clauses 28 and 29. The clerk is passing out the text of the amendments having to do with clauses 28, 29, and 30. While these are being distributed, I would point out to the Committee that it would appear from our previous discussion that it is the desire of the Committee to meet to draft certain recommendations in addition to the text of the bill itself for our final report. You may recall our discussion about changing the rules of the House to facilitate decisions on bills to grant bank charters, and some other matters. Of course this type of deliberation can best be done in camera because it will, in effect, involve the drafting of a text, I would ask for your suggestions as to when this might be done. As I have said, with the exception of these few clauses in the Quebec Savings Banks bill, which I have just referred to you, we are not in a position to deal finely with any other clauses of the legislation that remain. This has been stood until tomorrow. Do we want to take some time this afternoon for the purpose of drafting these technical amendments, or do you want to put this off until Thursday?

An hon. MEMBER: I think Thursday if the other members agree.

The CHAIRMAN: Is that agreed?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Now, everybody has copies of the amendments which have just been distributed. Mr. Elderkin, would you like to make any explanatory comments?

On clause 28—*Disposal of shares.*

On clause 29—*Stock books.*

On clause 30—*Allotment of shares not income.*

Mr. CLERMONT: I move that Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended

(a) by renumbering subclauses (1) and (2) of clause 28 on page 10 thereof as clauses 28 and 29, respectively;

(b) by striking out line 14 on page 10 thereof and by substituting therefor the following:

"disposal of shares under section 28 exceeds the price per";

(c) by renumbering clause 29, as amended, on page 10 thereof as clause 30;

(d) by striking out the reference to section 26 or 28 in line 35 on page 10 thereof and by substituting therefor "sections 26, 28 or 29"; and

(e) by striking out clause 30 on page 10 thereof.

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: The amendments to clause 28, 29, and 30 are, as I mentioned in connection with clauses 34, 35, and 36 of the Bank Act, solely for the purpose of eliminating clause 30 which is the one referring to the rights issued at the time of issue of shares which, according to clause 30 of this act, is said not to be included in the income of the shareholder. This was, I think, fully explained this morning, and is identical with that same amendment in the Bank Act.

The CHAIRMAN: Shall the amendments carry?

Amendments to clauses 28 to 30 inclusive agreed to.

On clause 84—*Bank not bound to see to trust in deposits.*

The CHAIRMAN: I gather this clause is the same as clause 96.

Mr. ELDERKIN: It is exactly the same as clause 96, Mr. Chairman.

The CHAIRMAN: Yes, which we have just discussed. Clause 84 was stood because it was the parallel clause to clause 96, which at that time we had not discussed and carried. Under the circumstances then, shall clause 84 carry?

Clause 84 agreed to.

The CHAIRMAN: There is another amendment that we cannot deal with today, the amendment to clause 120, which is the parallel clause to clause 151 in the Bank Act. I draw it to the attention of the Committee because the text is appended to this sheet dealing with clauses 28 to 30.

An hon. MEMBER: Did we pass clause 151?

The CHAIRMAN: No we did not. This was stood because this penalty section has some link with clause 91.

Mr. LAFLAMME: What is the amount of the maximum penalty. It is $1,000 here and in the Bank Act it is $10,000.

The CHAIRMAN: No; it is $1,000 in clause 151.

Mr. LAFLAMME: I thought it referred to clause 138.

Mr. ELDERKIN: No; in the amendment to clause 151 it is $1,000 and $500, and I think it is the same in the amendment for clause 120.

The CHAIRMAN: At any rate, we cannot dispose of this amendment today. Is there anything further that we can deal with this afternoon? If not, I declare this meeting adjourned. The next meeting will be tomorrow afternoon at 3.45. This evening's meeting is cancelled.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

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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. 51

WEDNESDAY, FEBRUARY 22, 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 Honourable Mitchell Sharp, Minister of Finance; Messrs. C. F. Elderkin, Special Adviser, Department of Finance; and J. W. Ryan, Director, Legislation Section, Department of Justice.

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

25762—1

STANDING COMMITTEE
ON
FINANCE, TRADE AND ECONOMIC AFFAIRS
Chairman: Mr. Herb Gray
Vice-Chairman: Mr. Ovide Laflamme
and Messrs.

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

Dorothy F. Ballantine,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, February 22, 1967.
(104)

The Standing Committee on Finance, Trade and Economic Affairs met at 3.55 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Clermont, Comtois, Fulton, Gilbert, Gray, Laflamme, Lambert, Latulippe, Leboe, Lind, Macdonald (*Rosedale*), Mackasey, Monteith, More (*Regina City*), Wahn—(17).

In attendance: The Honourable Mitchell Sharp, Minister of Finance; Messrs. C. F. Elderkin, Special Adviser, Department of Finance; J. W. Ryan, Director, Legislation Section, Department of Justice; and P. M. Ollivier, Q.C., Parliamentary Counsel.

The Committee resumed consideration of Bill C-222, An Act respecting Banks and Banking.

On clause 75

The Minister read two telegrams addressed to him by Stewart B. Clifford, General Manager, The Mercantile Bank of Canada. (*See Evidence*) He was questioned, and Mr. Elderkin assisted him in answering questions.

It was moved by Mr. Mackasey and seconded by Mr. Cameron (*Nanaimo-Cowichan-The Islands*) that clause 75(2)(g) be amended by striking out the figures "1967" on line 16 of page 52, and substituting therefor the figures "1972".

After further discussion and questioning, the proposed amendment was *carried*.

On motion of Mr. Clermont, seconded by Mr. Macdonald (*Rosedale*),
Resolved,—That clause 75 be amended by

(a) striking out line 8 on page 51 and substituting therefor the following: "negotiable instruments, coin, gold and silver"

(b) striking out lines 25 and 26 on page 52 and substituting therefor the following: "Canada or of an equity of redemption therein or of an assignment of or mortgage on the interest of a lessee thereof, the amount"; and

(c) striking out lines 49 to 52 inclusive on page 52 and substituting therefor the following: "real or immovable property in Canada comprising existing buildings that are used, or buildings in the process of construction that are to be used, to the extent of at least one-half of the floor space thereof, as private dwellings either by the owners or by lessees under leases for terms of at least one month, other than loans or advances made or guaranteed under any Act of the Parliament of Canada other than this Act, shall not exceed the lesser of"

25762—1½

The clause, as amended, was *carried.*

On clause 76

The Minister was questioned and the clause was allowed to stand.

On clause 91

The Minister was questioned and the clause was allowed to stand.

At 6.00 p.m. the Committee adjourned until 11.00 a.m., Thursday, February 23, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

WEDNESDAY, February 22, 1967.

The CHAIRMAN: Gentlemen, we are in a position to begin our meeting.

As you know, we had almost completed our consideration of the new Bank Act and the new Quebec Savings Bank Act. Some of the clauses had been stood at the request of certain members who were not able to be here yesterday and who wished to make comments on them. Other clauses were stood because we felt it would be helpful to have further comments from the Minister of Finance, who we have with us now.

Perhaps, Mr. Sharp, I showed call upon you at the outset. You may perhaps indicate to us which clauses you wish to comment on, and perhaps we can deal with them first, or do you have some other approach which you wish to suggest to us?

Hon. MITCHELL SHARP (*Minister of Finance and Receiver General*): I assumed that I had been called back to answer questions, Mr. Chairman, and I would be very happy to do so.

The CHAIRMAN: Yes; well we can do it that way. Actually, the first two clauses which we reserved for comments by yourself are clauses 75 and 76.

On clause 75—*Business and powers of bank.*

Mr. SHARP: Well, Mr. Chairman, I have received from the Mercantile Bank some messages that I would like to repeat to the Committee. I have copies that can be distributed so that they can be followed while I am reading them.

The CHAIRMAN: I will ask the clerk to assist us in this. We can also give some to the press. If you do not mind reading while they are being distributed—

Mr. SHARP: There are two messages. The first one is from Vancouver, dated February 14.

> The Hon. Mitchell Sharp, Minister of Finance, House of Commons, Ottawa, Ont.
>
> As there appear to have been some conflicting reports about the position of our bank regarding the current revision of the Bank Act, we would like to make the record clear. Being a legally constituted Canadian chartered bank since 1953, we of course have been and are now subject to and governed by Canadian law. Any increase in our authorized capital is subject to the control of appropriate Canadian authorities. At the present time it would be inappropriate to offer shares in the bank to the investing public a ssome years are needed to build profitability. We would appreci-

ate a period of time to accomplish this work. If the proposed special ratio of liabilities to authorized capital becomes the law, this time is needed. We will give consideration to making shares available to Canadian residents when it is appropriate to do so.

Signed

The Mercantile Bank of Canada

Stewart B. Clifford, General manager

I have received today another message addressed to me which reads—I will not read the address:

We are pleased to confirm our intent to seek share participation by Canadian residents when it is appropriate to make an attractive offering

Signed again by the Mercantile Bank of Cda through Mr. Stewart B Clifford,
general manager

That message was from Montreal.

Mr. MACKASEY: Could you repeat that last message that Mr. Sharp read?

Mr. SHARP: The last message reads:

We are pleased to confirm our intent to seek share participation by Canadian residents when it is appropriate to make an attractive offering.

Mr. CHAIRMAN: Now, gentlemen, I will give you a moment to read the text.

Do you have any introductory comments to make in the light of these telegrams, Mr. Sharp, or would you prefer to invite questions from the members of the Committee?

Mr. SHARP: Perhaps I might explain the situation as I see it.

Under the amendments that are now before the Committee a bank that is owned to the extent of more than 25 per cent by a single shareholder is limited to liabilities equal to 20 times share capital.

An hon. MEMBER: Paid up 20 times their total liabilities?

Mr. SHARP: I said their liabilities are limited to 20 times their authorized capital. They are required, under the law, to bring their liabilities to that level by December 31, 1967.

We also have before us an amendment that was proposed by me when I appeared before the Committee on the last occasion, that any bank subject to clause 75(2)(g) should not be able to sell shares except to residents of Canada. Under the law as it has been for a long time increases in capital are subject to the approval of the government, either the Treasury Board up until now, or of the governor in council after these amendments become law.

Therefore, the position of the Mercantile Bank, as I interpret it, is that unless some change is made in the date by which they have to bring their liabilities into line with their capital they will be required to reduce the scale of their operations to below its present level, because, as I understand it, their liabilities now exceed 20 times their authorized capital.

They can, however, get some relief—if I may put it that way—if the amendments before us become law by selling shares to Canadians, provided that the governor in council authorizes an increase in their capitalization.

As I understand these telegrams, what the Mercantile Bank is asking is for some time before they are required to bring their liabilities back to 20 times their authorized capital so that they can be in a position to make an attractive offer of shares to Canadians. If they fail to do so, whatever the time limit may be—whether it is an provided in the amendments now before us, or at whatever other time Parliament may decide—they have no alternative except to bring their liabilities back. The only way they can get any relief is to sell shares to Canadians.

Moreover, they are not free from the 20 times rules until they have disposed of 75 per cent of their shares to Canadians.

Now, Mr. Chairman, that is as I understand the position, and I think it is in that light that we should consider whether or not the Committee is disposed to be sympathetic to the request of the Mercantile Bank.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I ask one question at this point, Mr. Chairman?

Mr. Sharp, how do you interpret the second part of the telegram where it says that some years are needed to build profitability. I rather took that to mean they were suggesting that they had to have relief not really from the necessity of reducing their liabilities but from expanding their liabilities in order to build up profitability.

Mr. SHARP: As I understand this request, they need relief from the provision that they have to bring their liabilities back to 20 times their authorized capital by December 1967.

What other relief are they asking for?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not know. But can they hope to achieve this position of profitability without expanding beyond the present level, which is already above the limit?

Mr. SHARP: Well, I do not know that. That is not clear. It is not clear whether they would like to stay at the preent level or move above it.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Or move above it, yes.

Mr. SHARP: However that may be, they have to come to 20 times their capital at whatever time Parliament says they must do so, or be subject to the penalties that are contained in the law.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I was trying to determine what it is they are really asking for? I am not clear on that.

The CHAIRMAN: I recognized you, but I should start making a list. I will recognize a supplementary question from Mr. Wahn, and then I will go on to Mr. Mackasey.

Mr. WAHN: My question has reference to Mr. Cameron's point that the first telegram seems to indicate that they need this time only—and I am quoting from the telegram now—"if the proposed special ratio of liabilities to authorized

capital becomes the law". If we can take that literally interpret that to mean that they need the time they are requesting if their growth is limited as set out in clause 75(2)(g).

That is the only purpose of my intervention, Mr. Chairman. However, could you put me on your list to ask questions later?

The CHAIRMAN: Yes. Mr. Mackasey, will you yield to a supplementary by Mr. Laflamme?

Mr. LAFLAMME: I would like to know what the result would be if they were granted an increase in their authorized capital?

Mr. SHARP: Well, if the amendments now before the Committee were accepted they could only be granted an increase in their capital if they sold the additional shares to Canadians.

For example, their authorized capital is now $10 million. Taking a hypothetical case, if they were to offer five million shares to Canadians and obtained the authorization of the governor in council for an increase in their authorized capital to $15 million, then they would be able to expand their liabilities to 20 times that figure. That is, to $300 million rather than the $200 million to which they are now limited under the amendments as we have them before us.

Mr. MACKASEY: Mr. Chairman, I do not have the transcript of the proceedings when I last had an opportunity to talk to Mr. Sharp specifically about the Mercantile—and I do not say this critically, because they are printed up to as late as January 30—but at that time, Mr. Sharp, I asked you to express an opinion—correct me if I am wrong—about the Mercantile Bank, and on whether, in your opinion, or in Mr. Elderkin's opinion, at the present moment the shares in Mercantile were, in reality, worth very much in view of the potential restriction that would be placed upon them by December 31, 1967? In other words, I think the question I asked you was whether anybody could recommend the purchase of these shares if they were made available to Canadians.

As a result of our discussion I think it was fairly well agreed that at the present moment the Mercantile shares would have to be considered highly speculative. I think, also, that the Mercantile people when they were here expressed the same opinion.

I would take a very dim view of any amendments which you may propose, or any suggestions you may have, which would in any way destroy the principle of the bill. The principle of the bill is that Canadian chartered banks shall eventually be in the control of Canadians. I must congratulate you on your firmness on this point.

I am rather surprised and pleased at the telegram in view of the fact that when Mr. MacFadden and Mr. Rockefeller were here they indicated that they could not visualize a situation where Canadians could own shares in the bank.

I do not have the knowledge that other members have of banking, but as I understand it there are two ways in which a bank can expand. One is by increasing its authorized shares. However, you have suggested an amendement that would make it impossible to increase authorized shares by other than selling them to Canadians. Am I correct in this so far?

Mr. SHARP: I have proposed an amendment which would make it impossible for any increase in capital to be granted except for purposes of selling to Canadian residents.

Mr. MACKASEY: Therefore, your amendement is wholly in the spirit of the bill, that the bank eventually become Canadian.

Mr. SHARP: That would be the purpose of it.

Mr. MACKASEY: Now, the other point that impresses me—and I am pro-Canadian and not anti-American—is that if we were to propose, or if you were to suggest, or accept consideration of, an amendment that would postpone the implementation date from, I think, December 31, 1967, to, say, December 31, 1972, and if in that period of time the Mercantile Bank, as a Canadian chartered bank, were permitted to function as any other chartered bank—that is, increase its liabilities to 30, 40 or 50 times, as any of the other banks—it would seem to me, sir,—and I want your comment on this—that on that effective date in 1972 the shares would then become an investment rather than a speculation and that it would be in the best interests of everybody then to put pressure on the Mercantile Bank to dispose of its shares to Canadians, or be faced with the almost impossible task of reducing its liabilities to a ratio of 20 to 1.

Mr. SHARP: In general, I think that is right. To the extent that the bank does increase its liabilities, if it were granted time before the axe fell, they would be under greater and greater pressure to sell shares to Canadians.

I should say, as I said when I was before the committee previously, that the value of the Mercantile shares are greatly influenced by the prospect of getting out from under clause 75(2)(g), because even if they were granted an increase in capital in order to sell shares to Canadians, this bank would still be subject to a very limited ratio of liabilities to capital until they had sold 75 per cent to Canadians. It is at that point that the bank becomes a much more profitable venture and becomes competitive with other chartered banks who are not subject to the same restriction.

Mr. MACKASEY: In other words, Canadians investing in these shares that are made available would be, in reality, making a rather conservative investment, or a bad investment, really, until such time as 75 per cent of the shares are divested. If this were to take any period of time—two, three or four years—then the Canadian people who had initially invested would get very little, if any, return for their money.

Mr. SHARP: That may be so. I really cannot confirm that statement, or otherwise. Certainly the bank will be in a better position to return profits when it is free of this restriction of 20 times share capital.

Mr. MACKASEY: May I put it another way before I give someone else an opportunity to question you?

Do you see anything in the suggestion that the effective date, as you call it, of the axe falling be postponed a few years—not removed but postponed—say, for five years? Would that in any way, shape or form alter the spirit of the bill, namely, that our financial institutions must remain in the hands of Canadians?

Mr. SHARP: No; I do not think it alters in any way the spirit of the legislation. It does give the Mercantile Bank some more time to put itself in the position to sell shares to Canadians. As you are, I am impressed by the fact that after the very firm statement we had from Mr. Rockefeller and Mr. MacFadden the bank is now prepared to say they confirm their intent to seek share participation by Canadian residents.

Mr. MACKASEY: In other words, the telegram is an indication by the Mercantile, or by the First Citibank or by particular people in that bank, that they recognize the right of Canadians to administer the law governing our financial institutions and they recognize in this telegram that unless they want to conform with them there is no room for them in Canadian banking?

Would you have any objection to such a proposed amendment?

Mr. SHARP: This is a very difficult question, Mr. Chairman. That the Mercantile Bank is now prepared to declare its intent to offer shares is such a step forward in this controversy that I believe that this Committee should not in any way discourage the bank from doing that. I do not believe that an extension of the date is contrary to the spirit of the act, and it is possible that it would advance the cause of converting the Mercantile Bank into a predominantly Canadian-owned institution, which I believe is the best outcome.

There are, of course, some who might say that the Mercantile Bank should be required, within this year, regardless of the saleability of its shares, to offer 75 per cent of its existing shares to Canadians. That is a possible attitude that one could take. Personally, I am inclined to believe that there is likely to be a more constructive outcome if some time is given to the bank to get its affairs in order—and we all know from the testimony given here that the affairs of this bank were not in good order when it was purchased by the Citibank—before they are required to sell shares in order to get some relief from this restriction. But this is a question of judgment.

Mr. MACKASEY: Whose judgment, Mr. Sharp?

Mr. SHARP: The judgment of the Committee, the judgment of the House.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Sharp, as is Mr. Mackasey I am under the disability of not having the transcript of the proceedings on your last appearance on the Mercantile Bank, but I recall—you can correct me if my memory is wrong—that with regard to authorizing an increase in the share capital you said something to the effect that you would recommend this only if they were able to come up with a firm underwriting agreement. This would still hold good, would it?

Mr. SHARP: Certainly, yes; the purpose of the amendment I put forward, to require the sale to residents, was to ensure that these shares were not sold to other non-residents and to put pressure on the bank to Canadianize itself.

As long as I am the Minister of Finance—and I am sure I speak for the government in this—we would not authorize an increase in share capital except upon proof that, in fact, the shares were marketable and, indeed, that there was a firm underwriting.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I was reminded of this when I saw a report in the newspapers, which I am sure you saw, too, where the president of the bond dealers association of Canada expressed the view that it was unlikely that the members of his association would be prepared to underwrite such an issue at this time. Now, whether or not he had reference to the existing situation, I am not sure.

Mr. SHARP: I did not see the remarks, but I could imagine that they might have some misgivings about selling immediately, at an adequate price, the shares of Mercantile without having some knowledge of its plans. That is why I believe that this telegram is at least some advance in the position that was put before us when the Mercantile itself was before us.

Mr. MACKASEY: I have one or two more questions, Mr. Sharp, along the lines of those of Mr. Cameron. I agree with Mr. Cameron. I read that article.

I got the impression that the reason for their not underwriting the shares was because at the present moment the bank is under restrictive clause 75(2)(g) with a rather early date for its application, and that this would, in essence, as we mentioned earlier, make these shares very speculative.

However, I would want to clarify one thing, if I may. Presuming that the date is set at another date that the wisdom of the Committee would decide, do you feel that in that interval, between today and, say, 1972, the Mercantile Bank as a Canadian chartered bank should be free to operate as does any other bank, that is, to increase its liabilities under the proper supervision, as other banks do? In other words, would they be permitted, in the interval between now and, say, 1972, to increase their liabilities by perhaps 30, 40 or 50 to 1?

Mr. SHARP: I know of nothing in the law that would prevent that.

Mr. MACKASEY: Mr. Elderkin, do you think that if they were to increase their liabilities 30, 40 or 50 to 1 before 1972, it would make investment by Canadians in the bank in 1972 that much more attractive?

Mr. C. F. ELDERKIN (*Special Adviser, Department of Finance*): I think I would put it the other way, Mr. Mackasey, that if, by increasing their liabilities, they could put themselves into a profitable position so that they could show a profit record to the public, then certainly the shares would be more attractive as an investment.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I ask this question, also, Mr. Sharp? Suppose you decided to authorize the increase in share capital, which would enable the bank to increase its liabilities to a very great extent, and if, as we approached 1972—I am taking the date Mr. Mackasey suggests—the bank had shown no immediate intention of putting shares on the market, would we not then face a rather difficult situation if you had a very much expanded bank which, under the law as it would be amended, would necessitate their immediately curtailing their operations? Would you not be under a great deal of pressure then to extend it still further on the plea that it was not yet an appropriate time to place the shares on the market?

Mr. SHARP: There are two answers to that, Mr. Chairman. First of all, the government would have no authorization to extend the time. Parliament would have decided. It would be necessary to amend the act.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well, yes; but you might have to tie them down before that.

Mr. SHARP: This might not be very easy, I should think.

The second answer is that there are fairly substantial penalties. This is not just a prohibition. This is a prohibition supported by money penalties. Perhaps those might be looked at to see whether the Committee feels that they are large enough, but I do not think they would be considered insignificant even as they now stand.

Mr. LAMBERT: There is the point too which I think would be even more salutary, that is in the event that they did not so feel, the investing public would certainly sense that there was going to be action taken—and very drastic action—with negative results on their profit position, and down would go their shares. I think enlightened self-interest would be the chief spur at that time.

The CHAIRMAN: Perhaps we could revert to Mr. Mackasey and allow him to conclude his questioning, and then we can move along.

Mr. MACKASEY: Mr. Chairman, Mr. Cameron brought up a very good point. Naturally the pressure would be greater at the time. He mentioned increased authorized shares, but theoretically they would not have to increase their shares to test their liabilities between now and 1972.

Possibly, in granting this amendment, or in including this amendment, the Committee could also consider increasing the penalty and making it a much more realistic penalty in view of the possibility of an extended period of grace in which they could come under the—

Mr. ELDERKIN: There is a penalty in a subclause which is up for amendment, Mr. Mackasey, of $1,000 a day.

Mr. MACKASEY: To a $1,000 a day?

Mr. ELDERKIN: To $1,000 a day; for every day in which a violation takes place.

Mr. MACKASEY: From what figure previously?

Mr. ELDERKIN: $500.

Mr. MACKASEY: This should certainly be a fairly substantial penalty.

Mr. SHARP: A very substantial penalty.

Mr. MACKASEY: Thank you, Mr. Chairman.

The CHAIRMAN: I will now recognize Mr. Wahn, followed by Mr. More. Perhaps others who are interested in participating in this round would please so signify.

Mr. WAHN: Mr. Chairman, I think that most members of the Committee will be very pleased that there is some intention on the part of the officials of Mercantile to make shares available at an appropriate time to Canadians so that Mercantile will be put in the same position as the other Canadian chartered banks.

I, for one, would like to see introduced at least some amendment which would give the Mercantile Bank a reasonable time—whatever that may be—to bring this about. I think that the arrangement would quite obviously have to be

worked out on a much more definite basis than has been indicated so far in the telegrams. However, I have no doubt that this could be be done.

I have one question about the amendment to clause 56(2) which I would like to put to the minister.

When the officials of the Mercantile were before us the bill as it then stood provided, in effect, that Mercantile must remain a small bank—at about its present size—unless it was prepared to sell 75 per cent of its shares to Canadians.

The officials of Mercantile took the position that this legislation was retroactive and discriminatory and punitive. I think that after the hearing most members, and the public generally, were satisfied that the legislation as it then stood was not retroactive, discriminatory or punitive, but, on the contrary, was very fair.

Since that time a new amendment has been brought forth, which is set out in clause 56(2) of the new amending pamphlet that we have received. I think all of us would agree with the provision in this amendment that any new shares issued by Mercantile must go to Canadians until it gets its non-resident holding down to 25 per cent, like the other chartered banks. This seems to be eminently reasonable and I think it is entirely fair.

I have some doubts about the fairness of the other provision in the amendment, which says, in effect, that even if Mercantile remains at its present size it is not permitted to transfer its existing shares held by non-residents to anyone except close associates of the present shareholders or to Canadians. Now, it may not be of any importance in this case to Citibank, because Citibank may have no intention of transferring its shares to other non-residents, but it does seem to me that a new principle is being adopted in this amendment. This principle comes very close to amounting to forced repatriation of securities, and since transfer rights on shares are valuable it comes very close, by limiting transfer rights as radically as it does, to amounting to the expropriation of property by legislative action without compensation.

Mr. Chairman, in this particular case, as I say, it may make no difference to Citibank and, it may make no difference to Mercantile, but are we to accept the principle that it is fair to force repatriation of securities of foreign subsidiaries? If this principle can be made applicable to Mercantile I would ask the Minister whether it could not equally be made applicable to General Motors of Canada, to General Electric, or, indeed, to any subsidiary of a foreign company? Is this principle fair, and, perhaps more important, why is it necessary in this particular case?

As I have indicated, we have already established and justified our position that Mercantile is going to remain at its present size unless its owners are prepared to reduce the non-redident ownership to 25 per cent. That seems to have been accepted. Why is it necessary to go further and, in effect, to restrict the transferability of shares?

Mr. SHARP: I made the suggestion, Mr. Chairman, of limiting the sale of shares hereafter to Canadians because I am interested in this becoming a Canadian bank. I know there is a theoretical point involved here, but I believe it to be quite theoretical.

I have examined the possibilities of drawing the law in another way and I have been unsuccessful in framing a law that does not lead to even greater

complications in the law and in the control that we are trying to exercise upon the ownership of a bank that has this large holding by a single individual.

Moreover, this restriction applies only so long as the original holder has more than 25 per cent. As soon as it gets down to 25 per cent it is free to dispose of its shares to non-residents as it wishes if it will.

Mr. WAHN: Ten per cent, I believe, Mr. Chairman.

Mr. SHARP: I beg your pardon?

Mr. WAHN: Ten per cent under the amendment.

Mr. SHARP: Yes; with a 10 per cent limit to any one holder; but it can dispose of its shares thereafter.

I understand Mr. Wahn's point. It is a very difficult one. I have looked at alternative ways of drafting the law. I do not want to take the Committee through all the complications, but I have been unable to satisfy myself that we can accomplish our purposes in any better way by another amendment, or by an alternative amendment.

I believe that it is a highly theoretical question. It would be my hope that within the next few years it will be more theoretical still; and that in fact this bank will have disposed of 75 per cent of its shares to Canadians.

Mr. WAHN: I have no other questions, Mr. Chairman.

The CHAIRMAN: I now recognize Mr. More, followed by Mr. Laflamme, Mr. Gilbert and Mr. Lambert.

Mr. MORE (*Regina City*): Mr. Sharp, Mr. Wahn's point—

The CHAIRMAN: If I might just interrupt for a second, I think, for convenience—and this has been requested—that we might consider the proposed amendments on clause 56(2) at the same time as we are considering clause 75 because—

Mr. ELDERKIN: Unless you want to refer to it at a later time?

The CHAIRMAN: That is right. You may want to discuss it further at the time we are discussing clause 75.

Mr. MORE (*Regina City*): The amendments are going to require the Mercantile, if it wants to grow, to dispose of all their shares over 25 per cent, and—

Mr. SHARP: I am sorry, Mr. Chairman; I should perhaps correct that. It is possible for Mercantile to grow if it sells shares to Canadians and receives the authorization of the Governor in Council to increase its authorized capital. It is possible for it to grow under those circumstances.

Mr. MORE (*Regina City*): You mean on the basis of selling presently held shares to Canadians, do you?

Mr. SHARP: No, not necessarily.

Mr. MORE (*Regina City*): Would they not have to have an authorization to increase their share capital, or otherwise—?

Mr. SHARP: That is what I said. Providing they get the authorization of the governor in council they could grow by selling shares to Canadians. This would enlarge the base of their authorized capital.

Mr. MORE (*Regina City*): But would they not be getting such authorization only on the basis that there is an undertaking that they will dispose of all shares over 25 per cent to Canadians? You would not give it on any other basis, would you?

Mr. SHARP: I do not think that would be necessarily limiting. I could not commit the government to what it would do, but if the Mercantile Bank were to say to the governor in council that they would like to dispose initially of $5 million worth of capital in addition to the $10 million that are now authorized, giving the firm underwriting for the sale to Canadians, the government might then authorize that, without any commitment about whether they were to sell the remainder, because the Mercantile Bank would still be subject to the twenty times rule and would still be under the greatest possible pressure to sell more shares in order to be free of the restrictions of clause 75(2)(g).

Mr. MORE (*Regina City*): Is that not part of the point that Mr. Wahn makes? Why have the additional limitation on the sale of present shares when ultimately they have to meet the impositions of the act anyhow? Is this, in principle, not suspect, and perhaps unnecessary on the basis of the other requirements that they are going to have to meet?

Mr. SHARP: Perhaps I might ask Mr. Elderkin to speak to this point. We did consider alternative forms of restraint on the sale of shares. Perhaps he can give you, much more expertly than I can, the reasons for our putting it forward.

Mr. MORE (*Regina City*): I just fail to see the reason.

Mr. ELDERKIN: Mr. More, as the Minister said a few minutes ago, this is quite theoretical in the present instance, because in the discussions the representatives of the National City Bank showed no inclination to dispose of any of their present shares whatsoever.

What they asked for, and what this would provide, would be that any new shares that were issued would be sold to Canadians. This does not bar them from selling some of their present shares to Canadians, but in the discussions they asked for no stipulation that any of theirs should be sold to Canadians.

Mr. MORE (*Regina City*): This, I think, brings in the other point. This telegram does not indicate any firm basis of their intent to have Canadian participation. It does not provide the Committee with any definite information.

Mr. Sharp, you have suggested that the Committee should deal with this question. My feeling is that a much more concrete proposal is necessary from the Mercantile before really the Committee can deal with it intelligently in the light of the purposes of the act now before us, with which perhaps there may be general agreement.

Mr. Cameron raised the question: What do they want? I have the same feeling. In the previous conversations there was general agreement that unless the bank could continue to grow its shares would not be attractive to Canadians, and that in effect we were imposing an impossible operation and responsibility on them. My own personal feeling was that this was really not what we intended to do. What we intend to do is to see that they become Canadian, and we should amend our position on evidence of their intent to accept the impositions of the act and to become a good corporate Canadian citizen.

In our previous conversations we explored some means of permitting growth to the Bank and giving them some time to meet the requirements. As I recall it, I made a proposal about an equity basis of 25 per cent this year, and so on the next. I was quite amazed when I picked up the *Citizen* to see an editorial—and I had not seen the *Citizen* before I made that proposal—advocating much the same thing. I had not seen it. I was just thinking off the top of my head at the time.

If we adopt the act and the amendments in this section, are you still left with discretion by Order in Council to approve of an arrangement with the Mercantile Bank?

Mr. SHARP: If the law were authorized in the form of the amendments that are now being considered by the Committee, without any further amendments, the governor in council could increase the authorized capital of the Mercantile, as it can the authorized capital of any other chartered bank. However, the bank would be under the necessity of reducing its liabilities to 20 times its then authorized capital by December 31, 1967. I hold no brief for the Mercantile Bank. I put these telegrams forward because I had received them and I thought that the Committee would like to know the news as expressed to me.

As I read these telegrams, what the Mercantile Bank is saying is that they will be in a better position to offer shares to Canadians if they do not have to bring their liabilities back to twenty times their capital by December 31, 1967. That is what this telegram says. They would like to have some more time so that they can improve the profitability of the bank before they have to offer shares to Canadians. That is all they say.

Mr. MORE (*Regina City*): Actually, I think we were agreed that they would have to have the ability to grow to more than twenty times their present capital to do that, or some other consideration, so in effect they are indicating what we talked about when you were previously before the committee. Then, in other words, as I understand it, the ministerial discretion does not permit you to change the 1967 date. That would require amendment to the act.

Mr. SHARP: That is right.

Mr. MORE (*Regina City*): This is the point that I wanted to clarify.

I will pass for now.

Mr. LAFLAMME: Mr. Chairman, I listened to what Mr. Mackasey said and I would support an amendment for extension of time to a period of five years, provided that in the meanwhile they divest themselves of part of their shares at the rate of, let us say, 10 per cent a year; and that in the meanwhile, if they receive an increase in their authorized capital, they sell those shares to Canadians. I think it would be much more profitable for everyone, and that we would not need a written agreement by the Mercantile Bank that they will sell their shares to Canadians. I would be in favour of their disposing in the meanwhile, of 10 per cent of their shares, every year. I think that would be something that would be workable.

Mr. SHARP: May I just make one comment about that? What you are really telling me is that Mercantile Bank must find a buyer for those shares; that they have no alternative; they can not wait; they must just find a buyer even if they

have to give the shares away. That may, or may not, appeal to the Committee. I do not mind. However, I think you ought to recognize the implications of what is being said.

On that point, Mr. Chairman, I might say that the real pressure in this act comes from the twenty times rule. The other chartered banks have liabilities in relation to their capital of 30, 40, 50 times—perhaps more. The bank cannot be a very profitable operation until it is free of that restriction, and it cannot be free of that restriction until it has disposed of 75 per cent of its ownership; that is, it has allowed shares to be sold that reduces its ownership, or disposes of existing shares, to that point. Until it reaches that point the bank is not in a position to offer as good an investment as the other chartered banks, presumably. That is the pressure in this law.

Mr. FULTON: Have you indicated a firm position about what you will do if the bank applies for an increase in its authorized capital?

Mr. SHARP: No; I have said in reply to Mr. Cameron that under the amendment that I proposed when I was before the Committee previously they can offer their shares only to Canadians hereafter; and secondly, if they came forward with a request for an increase in their authorized capital it would have to be accompanied by a firm underwriting of the sale of the shares to residents.

Mr. LAFLAMME: I think that is pretty clear; but is a statement of your intention really necessary to—

Mr. SHARP: I find it difficult to judge. I have talked with some of my officials about it and they have said that the five-year period does not seem to them to be excessive. It really depends upon one's judgment here. It is certainly desirable from all points of view that the Mercantile Bank begin to dispose of its shares to Canadians as quickly as possible. We should be fair to the institution, to give them an opportunity to sell. It is a question of judgment behavior these two.

Mr. COMTOIS: If you ask them to dispose of 10 per cent of their shares by, let us say, December 31, 1968, I do not think that is very intense pressure.

Mr. MORE (*Regina City*): If they are unsaleable what difference does it make whether it is 10 per cent or 75 per cent?

Mr. LAMBERT: You are salaaming them to death.

Mr. MORE (*Regina City*): May I just ask one supplementary question of the Minister?

The CHAIRMAN: Yes; and then we will revert to Mr. Laflamme; he has the floor.

Mr. MORE (*Regina City*): Mr. Sharp, what do you mean by a "firm underwriting"? I just want an explanation of the term. Do you mean that they should have to have a firm agreement with a group of entrepreneurs?

Mr. SHARP: That is right; that they will take the shares if they cannot be disposed of on the market.

Mr. MORE (*Regina City*): This might be difficult to get. There are indications that this is not procurable at the present time.

The CHAIRMAN: Do you mean a group of entrepreneurs, or a group of securities dealers?

Mr. MORE (*Regina City*): Those are entrepreneurs, are they not?

The CHAIRMAN: Oh, yes; but I want to make it clear that ordinarily that term refers to a group of people who are in the business of buying and selling shares for disposal to the public.

Mr. SHARP: Let me put the position this way: If I were in the position of the Mercantile Bank and I knew what the law said—if it is approved in the form in which it is now before the Committee—I would not come forward with a request for an increase in authorized capital until I was sure that I could dispose of the shares. Just to offer shares in the hope that somebody is going to buy them would not be a very responsible, or very business-like, way of carrying on.

Mr. MORE (*Regina City*): That is the point I was going to raise. The present indications are that the climate is not too favourable for this to be secured by the Mercantile Bank. I was going to ask you if there would be any basis other than a firm underwriting—which you have explained, and which was my understanding, but I wanted to get it clear—such as a deposit trust of shares with the Minister so that there would be no question about their being there and available to the Canadian public at a time to be determined as favourable, and when you could get a firm underwriting? In other words, on the basis of a deposit trust of shares could you grant increased capital for their purposes so that they could get into a position where the Canadian public would be favourable to buying?

The CHAIRMAN: If you do not have any comments on Mr. More's suggestion we will revert to Mr. Laflamme.

Mr. SHARP: I do not think that the Mercantile Bank is going to offer shares tomorrow, or within a year, unless they are in the position of having no alternative but to get rid of then at any price because they are subject to this restriction in the proposed amendment.

I am not quite certain about Mr. More's other suggestion of putting shares in a deposit trust. I do not think that you want to put on the governor in council the responsibility of deciding when Canadians are ready to buy shares.

Mr. MORE (*Regina City*): If you cannot get a firm underwriting, then the requirements—

Mr. SHARP: Then the bank puts itself in the position of having to reduce itself back to the small operation that it is now. That is the penalty.

Mr. MORE (*Regina City*): This is what I am getting at. I think there might be general agreement that we should try to find a position where this can grow and be a factor.

The CHAIRMAN: I think we should allow Mr. Laflamme to finish his questioning.

Mr. LAFLAMME: I just have one other question, Mr. Sharp. When they said that some years were needed to build profitability, did they signify to you, or to your officials, what they would consider to be "some years"?

Mr. SHARP: I have not been in touch with Mr. Clifford, other than through these telegrams. I have talked to one or two directors of the bank, but they did not clarify this point at all. I really cannot answer the question.

I do not know whether Mr. Elderkin has had any discussions with them. He is in the position of having been the Inspector General of Banks. Perhaps they tell him more than they tell me.

An hon. MEMBER: I could lay a bet here!

Mr. ELDERKIN: The answer, Mr. Laflamme, is Yes, they did ask for five years as a period in which they they thought they could bring the bank to a more profitable position.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): In what circumstances, Mr. Elderkin?

Mr. ELDERKIN: That is all. If they were given five years they thought they could bring the bank into a profitable position.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Five years in what situation, though? Five years with the relaxation of the 20 to 1 ratio?

Mr. ELDERKIN: No; no relaxation at all.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Five years in the present circumstances?

Mr. ELDERKIN: Five years in the present circumstances; and if they cannot meet it in the five years they would have to get back to their 20 to 1.

Mr. MACKASEY: Would you define "the present circumstances" for me?

The CHAIRMAN: Order, please. I think we should recognize Mr. Gilbert and allow him to say what he wants and to proceed, uninterrupted, to pose some questions or to permit some supplementaries.

Mr. GILBERT: Some of my questions have been answered. I notice the difference in intent between the telegram on the 14th and the one on the 22nd. The intent, as Mr. Elderkin expressed it, was that they had no intention of selling their shares. Then on the 22nd they say "we confirm our intent". Is this the result of negotiations with your department, or with Mr. Sharp?

Mr. SHARP: I was in touch with directors of the bank, and I asked what the first telegram meant and did they have the intent of selling shares, or did it mean, as the last telegram was rather ambiguous, that they would give consideration to making shares available? I said that it seemed to me to be a very ambiguous sentence.

Mr. GILBERT: That is quite true.

Mr. SHARP: I said, "Can you get Mr. Clifford to clarify what he meant". It was a result of that that I got this telegram saying "we are pleased to confirm our intent". They had thought, apparently, that their previous telegram had expressed an intent.

The CHAIRMAN: The next name on my list is that of Mr. Lambert.

Mr. LAMBERT: I want some clarification of that last answer given by Mr. Elderkin. That is, five years—

Mr. ELDERKIN: A five-year extension from December 31, 1967.

Mr. LAMBERT: Without having to come back to the 20 times?

Mr. ELDERKIN: But having to come back to 20 times at the end of the five years if they do not distribute shares to Canadians.

Mr. LAMBERT: That is fine.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): And in that five year period could they go beyond their present ratio?

Mr. ELDERKIN: Yes.

The CHAIRMAN: There would be no limit? What you are doing, in effect, if you add five years is extending the effective date of clause 75(2)(g) from December 31, 1967 to December 31, 1972.

Mr. ELDERKIN: That is correct.

Mr. MORE (*Regina City*): During which period they could grow in an unlimited fashion.

Mr. ELDERKIN: With the penalty that if they did not distribute shares before the five years was up, sufficient to cover their increased liability, they would have to come back to the 20 to 1 ratio, with the daily penalty, as presently proposed, of $1,000 a day.

Mr. MORE (*Regina City*): If I may put a supplementary question to the Minister, does he consider this to be a reasonable request to meet the situation, so that the Committee may have some basis for consideration.

Mr. SHARP: Yes; I believe it is not an unreasonable request. It is very difficult to have a judgment.

I am so interested in having the Mercantile Bank become a Canadian bank that I hesitate to put any unnecessary road blocks in the way. If the extension of a few years would enable them to market their shares successfully to Canadians, then I say, from a Canadian's point of view, that I think this would be a reasonable thing to do.

The CHAIRMAN: Do you have any further questions, Mr. Lambert?

Mr. LAMBERT: Yes, the ball was taken right on as soon as I got one question in. May I continue? I do have some other questions.

First of all, may I say that when the Minister says that his principal idea is to make the Mercantile a Canadian bank that is where I part company with him. This is not because it is Mercantile, but because I do not think the principle that has been advocated in the legislation is right for us in Canada for the future. I also do not agree with what Mr. Wahn said, and I was not impressed by what pot called what kettle black during the hearings on the Mercantile Bank.

Having accepted that situation, though, and knowing the intent of the government, I am glad to see the Minister's attitude, and that of others, which is to let the Mercantile people get themselves back into reasonable shape, or at least of giving them a chance to get into reasonable shape to dispose of their shares. I think it would be an absolute death sentence for this organization if we insisted on the legislation as it now stands, without a further amendment

providing for at least five years and a chance to operate in a very competitive market. I am going to limit what I say to that. As I said, I do not agree with the principle of the legislation.

In fact I think that this has been applied to one bank, but in that way you are knocking out any chance of any other foreign bank, be it British, French, or otherwise, coming into the country until we get, perhaps, something in the way of agencies—something which is very indefinite at the present time.

The CHAIRMAN: Gentlemen, may I make a suggestion before we continue? In view of the discussion up to now perhaps the Committee may feel that we should firm up our consideration by seeing if we are ready to have an amendment put before us. We may not be ready, and it may not be the intention of the Committee, and I am not trying to shut off the discussion, but I thought perhaps it might focus our consideration if someone were to move an amendment, and then our discussion could continue. I am just making the suggestion. I am not trying to impose it on the Committee in any way.

Mr. MORE (*Regina City*): Are you suggesting an amendment to meet the request of Mercantile?

The CHAIRMAN: Yes; that is what I was referring to. I am not suggesting to the Committee any wording one way or another. I am just suggesting that from the point of view of advancing our business it might be appropriate to have an amendment before us.

An hon. MEMBER: Would it change much what is in here?

The CHAIRMAN: It may mean a change and one or two additional words to make it consistent. Then our discussion could continue.

Mr. LAMBERT: You are asking us to do something to exercise our judgment, and then you throw forward an amendment and ask for our opinions on it. I do not think it is right.

The CHAIRMAN: No, I am not trying to throw forward an amendment. I am merely suggesting that some members of the Committee may feel that they would like to propose an amendment at this point. If not, we will just continue with our discussion.

Mr. MACKASEY: In view of the fact that I brought this question up, I must confess that my idea in suggesting the amendment came from listening to Mr. Cameron, whom I respect very greatly, and who was an expert on finance the other evening when Mr. Rockefeller was here. I thought that Mr. Cameron made a very objective suggestion in that Committee meeting, and I have been trying to get his exact words. I know he would be glad to repeat them. I have not been able to find them.

The point I am trying to make is that Mr. Cameron at that time suggested to Mr. Rockefeller that we are not anti-American but that we had the right to draw up our own Canadian rules for the next 10 years. Mr. Cameron, suggested to Mr. Rockefeller that a period of up to 10 years should be given for the Mercantile to conform to the rules and regulations, so long as we did nothing to depart from the principle that this is the pro-Canadian legislation that we want it to be.

I am more than happy to move the amendment to clause 75(2)(g) that the applicable date of 75(2)(g) be extended until—my arithmetic is bad and, I am not sure whether it is the beginning of 1968, Mr. Elderkin, or—

Mr. ELDERKIN: December 31, 1972.

Mr. MACKASEY: To the end of 1972?

Mr. ELDERKIN: December 31, 1972.

Mr. MACKASEY: I would be more than happy to move such an amendment, Mr. Chairman, if you, being the lawyer, would like to draw it out for me.

An hon. MEMBER: He has already drawn it.

The CHAIRMAN: No, I have not, really; we have here some members of the bar who are much senior to me, on whom members of the Committee may want to rely.

Mr. MACKASEY: It is the way of our senior bar members to make things much more complicated than do the juniors, and much more complicated than do the laymen. Perhaps I had better draft it myself.

The CHAIRMAN: Mr. Mackasey, you are, in effect, moving that clause 75(2)(g) be amended by striking out the figures "1967" in line 16 on page 52 and substituting therefor "1972". You are moving this amendment, Mr. Mackasey?

Mr. MACKASEY: I am, Mr. Chairman.

Mr. FULTON: What could be briefer than that?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I will second that. I might as well be hanged for a sheep as a lamb.

Mr. MACKASEY: Well, we are both left-wingers, as you well know.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): We will settle this matter yet.

The CHAIRMAN: You are not withdrawing the hem of your garment!

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Later on, when it comes back to the House, I am going to propose an amendment that I think would leave in the Minister's hands a weapon that I think he may yet have some use for. This is somewhat in line with Mr. More's suggestion. I do not know at all that we are going to solve this problem this way, but I think it is a great pity that the Minister should have divested himself of the power, which he does in clause 53(3)(a), of the right of Her Majesty in right of Canada to purchase shares of a bank. I think this is a weapon you should still keep in your hands.

Mr. SHARP: Then I would have to have a view about the value of the shares.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): We would expect you to make a good bargain.

Mr. MACKASEY: I would say to Mr. Cameron that if his suggestion is that if the Mercantile Bank does not conform by 1972 we nationalize them, I would be pleased to second the motion.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): There is complete co-operation between us!

The CHAIRMAN: Since we have already adopted clause 53 in its present form, at least so far as the Committee is concerned, we have to hold this out as a possible forthcoming attraction for a debate in the house.

We now have an amendment before us on which I will ask if there is any further discussion.

Mr. FULTON: I would like to ask the Minister so that I can be sure of the context in which we are considering this, to refresh my memory, please, on whether the revisions before us in the total new bank act allow for the establishment of what are commonly called agencies of other banks in Canada.

Mr. SHARP: When I appeared before the Committee, Mr. Chairman, I recommended that we should not make a decision about agencies now, and that I thought we should within a few months. It could be done separately as an amendment to the present act.

The CHAIRMAN: Is there any further discussion?

Mr. LEBOE: Mr. Chairman, this matter of residents clauses has been a bugbear to legislation all through the years. I am thinking back to what Mr. Stevens said in connection with the Bank of Western Canada, that one alternative was to move to Winnipeg to make it a western bank. Now, under the resident clause, it does not mean here that a man must be a Canadian citizen, as I understand it. Is that right?

Mr. SHARP: That is right.

Mr. LEBOE: In other words, a person having a goodly number of shares, even though he is an American, could move to Canada, take up residence in Canada, be ordinarily resident in Canada and then they would become shares of a resident in Canada. Is that right? This is a wonderful country and—

An hon. MEMBER: Is there not a loss suffered if he moves to Canada?

Mr. LEBOE: Perhaps his son, or his daughter, or someone else—

The CHAIRMAN: He might settle in the Caribou country.

Mr. LEBOE: We have a very attractive country and I do not see any reason why a lot of people would not want to come here.

Mr. SHARP: Well, perhaps when Alberta gets rid of their estate tax he will.

Mr. LEBOE: Well, British Columbia is okay. There is lots of room in British Columbia for good residents.

I notice that there is nothing here about the individual having to be a Canadian citizen at all, or having any citizenship rights in that way.

The CHAIRMAN: Do you have any comment with respect to Mr. Leboe's question about residents?

Mr. ELDERKIN: Yes, we looked into this very seriously, as a matter of fact, when the act was being drawn. We do require that three quarters of the directors must be Canadian citizens, but in the case of shareholders we referred to residence only. It would be almost an impossibility to check out every shareholder to find out whether he had Canadian citizenship or not. We must abide by his residence under those circumstances. Administratively, it would be just impossible to operate on a citizenship basis.

Mr. LEBOE: Yes. Well, I considered this.

Mr. ELDERKIN: If we do have a few American citizens living in Canada, at the most they could never have more than 10 per cent holding in a bank that is the greatest figure they could have. Therefore, I do not think this is a serious problem, Mr. Leboe.

Mr. LEBOE: No. I was just wondering about the fact that although, in the normal situation, as far as shares are concerned, it would never happen, confronted with a problem, it seemed to me that there would be a chance for some manipulation in that regard?

Mr. MORE (*Regina City*): No individual can have more than 10 per cent.

Mr. ELDERKIN: No.

Mr. MORE (*Regina City*): In fact, no individual.

Mr. ELDERKIN: Yes.

The CHAIRMAN: Yes. Mr. More is pointing out that no individual, whether he is a citizen or a non-citizen and even if he is resident in Canada, can hold more than 10 per cent of the shares in a bank.

Mr. LEBOE: I realize that, but it only takes ten people to own 100 of them if they all own 10 per cent. It only takes ten people to make 100 per cent. I do not think it is a serious problem, only under the discussion we have had concerning getting to that particular point where we were going to come in within the 25 per cent limit. I do say that a smart operator looking at the proposition could under the resident clause—I am not saying it would happen—could certainly manipulate the proposition if the shares are controlled in any large blocks by individuals in the United States.

The CHAIRMAN: Well, are there not limitations also with respect to associates of preferred shareholders?

Mr. ELDERKIN: If they are associates they are considered as one shareholder.

Mr. LEBOE: That would be pretty hard to define, too.

Mr. ELDERKIN: No, the "associate" is quite clearly defined in the bill. The bank requires a sworn declaration, and he is required to give its sworn declaration that he is not an associate. There is a very heavy penalty on the person who makes a sworn declaration that is not true.

Mr. LEBOE: Well, I would not want to argue the point, but it just seemed to me that an individual in this business could be a long ways away, as far as another individual is concerned; as far as the relationship to the obvious eye of anybody, and yet can be awfully close at times in their operations. I would think it would be easy to do if it was designed to manipulate. It seems to me that the brains going to work could make it pretty miserable for us.

Mr. ELDERKIN: Well, I think he could evade it anyways, Mr. Leboe, by simply setting up a Canadian corporation with dummy shareholders.

Mr. LEBOE: Yes.

Mr. ELDERKIN: If you are looking for a way to evade the act, there are usually ways that you can do it, but I think this is very hypothetical.

Mr. LEBOE: Well, I think it is actually, but in the sum total of the discussion, these resident clauses are tough at any time. I realize that these are tough at any time and I thought I should bring it to the attention of the Committee that this possibility does exist. I really think it does exist, although it is hypothetical.

Mr. LAMBERT: Mr. Chairman, the Minister of Finance allows or permits the Inspector General of Banks to say that to administer it is difficult, but yet on the other hand you insist on the Minister of National Revenue finding out about Canadian citizenship under the recent amendments to the Income Tax Act for certain depreciation provisions.

Mr. SHARP: It is unfortunate the Minister of National Revenue is not here.

The CHAIRMAN: I presume this implies that he and the government officials are able to be vigilent in this sort of thing.

Is the Committee ready for the question on the amendment?
Clause 75(2)(g) as amended agreed to.

Mr. FULTON: Mr. Chairman, on subclause (3)—

The CHAIRMAN: Yes.

Mr. FULTON: —as I recall the previous discussion it was indicated that consideration would be given to an amendment to take care of the situation in British Columbia with regard to second mortgages. Has that been introduced?

Mr. ELDERKIN: I think it was on clause 88, not 75. I have an amendment on clause 88—

Mr. FULTON: Wait a minute. Pardon me; 75(3) contemplates banks advancing money on the security of second mortgages—

Mr. ELDERKIN: We have an amendment which has not yet been passed but it will be. There are several amendments to clause 75 which have not yet been passed.

The CHAIRMAN: Yes.

Do you wish me to call the amendments? This is in the first booklet. I will take it as a matter of course that the amendments are formally moved by Mr. Chrétien and seconded by Mr. Macdonald.

Mr. CHRÉTIEN: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out line 8 on page 51 thereof and by substituting therefor the following:

"negotiable instruments, coin, gold and silver"

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 25 and 26 on page 52 thereof and by substituting therefor the following:

"Canada or of an equity of redemption therein or of an assignment of or mortgage on the interest of a lessee thereof, the amount".

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 49 to 52, inclusive, on page 52 thereof and substituting therefor the following:

"real or immovable property in Canada comprising existing buildings that are used, or buildings in the process of construction that are to be used, to the extent of at least one-half of the floor space thereof, as private dwellings either by the owners or by lessees under leases for terms of at least one month, other than loans or advances made or guaranteed under any Act of the Parliament of Canada other than this Act, shall not exceed the lesser of"

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: The amendment to clause 75(1)(b) is strictly editorial. It is simply a change in the sequence of the words to clarify the term "negotiable instruments, coin, gold and silver".

Clause 75(1)(b) as amended agreed to.

Mr. ELDERKIN: The amendment to subclause 75(3), which Mr. Fulton just spoke about and in which we introduce an equity of redemption, or an assignment of a mortgage, on the interest of the lessee thereof. This is to take care of the point that you raised, Mr. Fulton. This is in lines 25 and 26 of page 52. It will then read:

Where the bank lends money or makes an advance upon the security of real or immovable property in Canada, or of equity or redemption therein,—

Clause 75(3) as amended agreed to.

Mr. ELDERKIN: Subclause 75(4), Mr. Chairman, is a matter of definition. In 75(4) we refer to:

—property . . . used for residential purposes,—

This is too vague a term, and the amendment proposed here is to clarify the terminology.

Clause 75(4) as amended agreed to.

Mr. ELDERKIN: That is all, Mr. Chairman, on clause 75.

Mr. LAMBERT: With respect to clause 75(4), in other words, the building for residential purposes must have one half of its floor space devoted to residential purposes. Does this include basement?

Mr. ELDERKIN: The total floor space of the building, yes.

Mr. LAMBERT: Including basement?

Mr. ELDERKIN: Including basement, yes. This is a term we have used in the Quebec Savings Bank Act for a great many years and it has worked out very satisfactorily.

The CHAIRMAN: Shall the amendment carry? We have already carried the amendment to 75(2)(g).

Clause 75 as amended agreed to.

On clause 76—*Ownership of Corporate stock*

The CHAIRMAN: I draw the attention of the Committee to the fact that we have had booklet No. 3 of these proposed amendments presented to us by the government for our consideration.

Perhaps, Mr. Elderkin, you could outline the intent of this amendment with respect to clause 76 which I gather deals with ownership by banks of corporate stock, and so on.

Mr. ELDERKIN: In the original clause 76 there was a restriction on ownership of more than 10 per cent in the voting stock of any Canadian company. The proposal which is before you at the present time in this amendment would permit the bank to own not more than 10 per cent of a Canadian trust or loan company, but in other Canadian corporations it might have either the 10 per cent in some cases, or, in other cases, a total investment of not more than $5 million which would represent not more than 50 per cent of the voting stock of the corporation. In other words, the $5 million investment is the case where a $5 million investment could be made by the banks, but by that investment they would not own more than 50 per cent of the voting stock of the corporation.

Mr. LAMBERT: Surely it is the maximum of 50 per cent or $5 million.

Mr. ELDERKIN: Well, the two go together, Mr. Lambert. The $5 million qualifies the 50 per cent. They could own 10 per cent of the stock of another corporation, which would cost them far more than $5 million. That is the second case. There are two cases involved here—One in which they can own 10 per cent of the voting stock of a Canadian corporation and there is no stipulation on the total amount of the cost to them; and—

The CHAIRMAN: Yes.

Mr. ELDERKIN: —in the other one they can own up to 50 per cent of the stock of a Canadian corporation providing that the cost does not exceed $5 million.

Mr. FULTON: It is cost, not value.

Mr. ELDERKIN: It is what it cost to them.

Mr. LAMBERT: Do you feel, Mr. Elderkin or Mr. Sharp, that this provides a sufficient umbrella for, say, protection against a takeover? It has happened in the past that a bank has been asked to protect a Canadian company from takeover.

Mr. ELDERKIN: Could I answer that, Mr. Lambert?

Mr. LAMBERT: That is, from foreign takeover?

Mr. ELDERKIN: There is a provision in the act which permits them to go all the way on this under such circumstances, but they must dispose of those shares over and above the limit within two years.

Mr. LAMBERT: Yes, I know. This may not be sufficient time. The point that concerns me is that there has been experience in the past where they did provide the umbrella to eliminate the takeover attempt, but it took them more than two years to liquidate the holdings in an orderly fashion.

Mr. ELDERKIN: Well, this is a matter of judgment, whether or not the two year period is the correct period. This is now embodied in subclause (4) which says:

> The bank may acquire shares in excess of the maximum number prescribed by this section, but shall sell or dispose of such excess shares within a period of two years from the day on which they were acquired.

Now, it is a matter of opinion whether the two years is sufficient time. In the two cases that we have examined where a bank did step in to prevent a takeover—

Mr. FULTON: Excuse me; in the proposed amendment it is confined to the case where a bank has realized its security, and it appears to put the position as five years.

Mr. ELDERKIN: That is right. That is another case altogether, where it has realized its security.

Mr. FULTON: Yes. What is the section in which the matter of—

Mr. ELDERKIN: In subclause (4) which becomes (5)—on page 54, Mr. Fulton.

Mr. FULTON: I see. That (4) still stands.

Mr. ELDERKIN: Yes; unless it is the wish, or the recommendation, of the Committee that the period be different. There has been no change in that.

Mr. LEBOE: I should think that two years is a pretty confining time. Time can fly pretty fast. To get organized to get into the field to really look at the situation takes time and it seems to me that two years is rather short.

Mr. FULTON: Mr. Chairman, can we not give the Canadian bank five years?

Mr. ELDERKIN: I could follow this up, incidentally, with the following subclause, to the effect that " —Minister may extend the time for the sale or disposal of any shares under the section for a further period or periods not exceeding two years in the aggregate". In effect, if the first two years are not sufficient the Minister could give them another two years, which would be a total of four.

Mr. LEBOE: Well, that may be enough—

Mr. ELDERKIN: In the two cases that came to our attention, actually, the two years would have been enough, but that does not necessarily mean that this will always be the experience. This is, in effect, four years.

Mr. FULTON: I think this may have been answered before, but so that I am sure, is the $5 million maximum in subclause (1) enough to cover the holdings in the existing companies that have been named?

Mr. ELDERKIN: That is right—the holdings of the existing companies that we are talking about, namely, RoyNat, Kinross, et cetera.

The CHAIRMAN: Would this amendment permit the bank to own 50 per cent of a company which itself owns 100 per cent of a trust company?

Mr. ELDERKIN: Fifty per cent of the company that owns 100 per cent of a trust company?

The CHAIRMAN: I should not throw that at you on such short notice, but according to the proposed amendment it would prevent a bank from holding more than a very limited interest in a trust company, and at the same time we are permitting banks to hold certain larger interests in other firms.

Mr. ELDERKIN: Well, you are limited on a non-Canadian company; but if you are talking about a Canadian company that owned shares in a trust or loan corporation, I would think that the amendment would permit them to own 50 per cent if it was not a trust or loan company which was the holding company.

I do not know whether this can be cured by putting in the word "direct"—

An hon. MEMBER: This is the ownership of a company by a bank.

Mr. ELDERKIN: That is right.

The CHAIRMAN: Which, in turn, owns the trust company.

Mr. RYAN: And that puts you in the Trust Companies Act, in some cases, with ownership; and I do not think there is any provision that would prevent that.

The CHAIRMAN: Perhaps I could make a suggestion. It would appear to me, looking at my watch, that we will not complete our consideration tonight, especially since I think it is the intention of the Committee to make certain textual comments in its report as well, which I was going to suggest that we do tomorrow morning. Perhaps we can proceed, and if the matter that I have raised appears to be one of some concern to the government with respect to policy it might be considered tomorrow morning.

Mr. SHARP: I assure you, Mr. Chairman, that it was not our intent to permit the banks to avoid the restrictions of the act by being able to hold the trust companies indirectly.

Mr. ELDERKIN: Yes. I think it may be better to stand this. I think I would like to discuss it with Mr. Ryan.

Clause 76 stands.

Mr. FULTON: Mr. Elderkin, which is the clause dealing with interlocking directorates?

Mr. ELDERKIN: That is back in the directors' section, Mr. Fulton.

Mr. FULTON: Clause 18.

Mr. ELDERKIN: It is clause 18, but I do not know whether it is one that was amended or not. Yes, it is clause 18(6).

Mr. FULTON: Have we dealt with this?

Mr. ELDERKIN: Yes, it has been passed.

The CHAIRMAN: Well, we have stood that. Now, gentlemen, next we have clauses 88, 89 and 90 which I think are—

Mr. ELDERKIN: Clause 77 has been passed?

The CHAIRMAN: Yes. I was going to suggest, since we may want to get into a more detailed discussion on some of the aspects of clause 88, that we might stand it and the related ones for the moment and move on to clause 91.

Clauses 91, 92 and 93 deal with interest and charges. I am merely suggesting this to the Committee. We have the Minister with us and I am not sure what his schedule is tomorrow morning. Perhaps we could hear his comments on this particular group of clauses which are, I think, of considerable interest to the Committee and to the public at large.

Clause 88 stands.

On clause 91—*Powers re interest.*

Mr. SHARP: Well, the first of these, Mr. Chairman, is the question of the ceiling on the interest charges by the banks, and the question of when the ceiling is removed.

In the bill as placed before the House the government proposed that the ceiling should first be relaxed and then removed when interest rates fell to what were then considered more normal levels.

The Bankers' Association made representations about this, pointing out that there could be some awkward notch problems arising out of the fact that the interest ceiling might be raised, and then it might start coming down before it was removed. I have given some consideration to this but I am bound to say that I can think of no happy solution.

There are two general ways in which one might proceed. The first is to provide for relaxation of the ceiling. As I understand the calculations now, it is likely that when this bill becomes law the interest ceiling, according to the amendments, will be fixed at about 7¼ per cent for the first six months in 1967. We do not know, of course, what the course of interest rates is going to be, but at the present time the average for these short-term government securities is around 4.85, I believe; and the average during the base period from which we are calculating the ceiling for this six months was close to 5½ per cent. Therefore, we could face the situation that the interest ceiling comes into effect at 7¼ per cent, then declines to a lower level—it might be 6¾ or it might even be 6½; and it could be lower, of course—and the ceiling might stay there, or it might go up again. One cannot tell what the interest rate is going to be. It might stay there and then eventually interest rates decline to an average of less than 4½ per cent, at which point the ceiling comes off.

If the purpose is to provide a transitional period to enable adjusments to be made to the situation that will arise when the ceiling comes off the formula is not working quite the right way. You could cure that by providing that the interest ceiling would never come down below its highest point. I must say that this does not attract me very much.

There could be other mechanical methods. You could give a longer period which I think could produce just as much distortion as the six month intervals we are now talking about. You could raise the trigger point; this is another possibility. It might be that if we were now proposing the bill, instead of proposing it when we did back in the middle of 1966, we might have provided a different trigger point. I could imagine that if we did that there would be no period of transition at all. We would have a ceiling of 7¼ per cent until the middle of the year, and then the ceiling would come right off. If our purpose is to provide some sort of a transition while the adjustment can be made raising the trigger point to 5 per cent would not provide very much of a transition; although it would be quite a logical thing to do, because if interest rates are coming down like that the prime rate is going to be well under 7¼ per cent, and the transition could take place.

Mr. Chairman, as I see it, we do not have any easy way out of this dilemma. I am not prepared to make any firm recommendations. I can see difficulties in adjusting it, whatever method we adopt, though I do understand the difficulties

that will arise if, in fact, the ceiling goes to 7¼, comes down a bit, and then goes along like that for quite some time, and if interest rates were to firm up again, the ceiling might not come off for a very long time. As I understand the feeling of the Committee, I think they have probably come around to much the same view as the government did, that the banks can serve the needs of the population as a whole, particularly the smaller people who are usually denied the facilities of the bank because of the effects of the ceiling on interest rates, and that it is desirable to move steadily toward the removal of the ceiling itself. So I have not been able to come up with any easy way out. The situation, if we leave the bill as it is with the amendments that we have proposed, works reasonably well. I do not think it is a very serious defect. There are bound to have been difficulties in moving from such a rigid ceiling into a period of freedom. In any event, there are going to be some difficulties involved and that is why we decided against removing the ceiling completely at the beginning; we thought it was better to provide for a transition. If I had to make a guess now I would say that the ceiling will come off. I do not believe that interest rates are going to stay up at these levels forever. When you look at the record of interest rates, in a very few short weeks we have seen them come down very, very quickly.

The CHAIRMAN: Mr. More, I think you are next.

(*Translation*)

Mr. CLERMONT: A point of order, Mr. Chairman; before the Minister spoke, you said that you had me on your list.

The CHAIRMAN: Yes.

Mr. CLERMONT: Will the Minister be here to-morrow or not?

The CHAIRMAN: Will you be with us to-morrow, Mr. Minister?

Mr. CLERMONT: Yes, then I could make my comments to-morrow about 88(5). There is an amendment but the amendment does not go far enough in my opinion. It includes dairy products and I would prefer that it covered only agricultural products.

The CHAIRMAN: We already stood up section 88, perhaps you could discuss that with the Minister when we adjourn, Mr. Clermont.

Mr. CLERMONT: Section 88 can be postponed, since the Minister will be here to-morrow, but 88 comes before 91; however, if the Minister is to be here to-morrow, I would like to have his comments on 88(5).

The CHAIRMAN: That is all right. The Minister and the Inspector General have expressed the same opinion about this clause and it might be better to discuss it with them.

(*English*)

The CHAIRMAN: Mr. More.

Mr. MORE (*Regina City*): Mr. Chairman, I was interested in the Minister's comments. I realize there is a bit of a dilemma. It certainly seems to me that the change that has taken place has been very substantial, something like ½ per cent even in the period in which we have been discussing the bill. Am I right in saying that if this bill is passed, with its present provisions, that when the act

comes into effect—suppose it came into effect in May—the ceiling rate would be 7¼ per cent?

Mr. SHARP: That is right.

Mr. MORE (*Regina City*): But on the basis of the present rate, if it held during the months of March, April and May, then on July the first would it not trigger a ceiling rate of about 6¾ per cent?

Mr. SHARP: On the basis of—

Mr. MORE (*Regina City*): It is about 5.05 per cent now, as I understand it.

Mr. SHARP: Yes, but the existing rate on three-year bonds is about 4.85 per cent but the average is somewhat over 5 per cent. It would come in at about 6¾ per cent for the second half of the year.

Mr. MORE (*Regina City*): The real dilemma, as I see it, is that we are empowering the banks to do certain things which we feel are valuable to our situation and to the public; but if there is indicated a rather substantial change in only two months after the bill might be proclaimed, it is rather an unstable period for the banks to make any adjustments and that, in effect, there might be very little improvement, expansion or competition from the banks because of this situation.

Mr. Minister, you suggested 5 per cent, which was an instant figure. If section 9 was amended on the basis of six months rather than three, and 5 per cent rather than 4½ per cent, would this not give a more stabilized period? Would this not enhance the ability of the banks to move in and attract funds to expand? And would this not, in effect, meet some of the objections that the present provisions provide? What would be the objection?

Mr. SHARP: Well, there is one very simple amendment that one could make because of the time that we think the Bank Act amendments are going to become effective, which is very shortly. We could provide that the period for the whole of this year is fixed in relation to what it would have been for the first six months. This at least would provide that period during which time the ceiling would not change—that is one very simple thing—and then thereafter have it at the six months' intervals. That would be one very simple way of providing at least a period of certainty during which time the banks could be getting out of the rather rigid position that they are in now as a result of the operation of the 6 per cent. However, I am not quite sure then what happens. I cannot predict the interest rates tonight.

Mr. LAMBERT: Well, would there not be a terrible shock if at the end of the year interest rates were to decline, if you were to fix them for the balance of 1967 on the basis that you suggest—there would be this steady continuous decline and then on January 1, 1968 there would be maybe a drop of three-quarters or 1 per cent, or perhaps more—

Mr. SHARP: Yes, but—

Mr. LAMBERT: —in the permitted ceiling.

Mr. SHARP: But if interest rates come down much further than they are now, the trigger will work at 4½ per cent and we will move from a ceiling of 7¼ per cent to no ceiling, which is what we would like to see happen.

An hon. MEMBER: You guarantee it.

Mr. SHARP: No, no; I cannot guarantee it.

Mr. LAMBERT: I would much rather see, Mr. Minister, that 5 per cent. I would put it to you that it is a much more realistic and attainable figure than 4½ per cent.

Mr. MORE (*Regina City*): I think your suggestion in respect of the balance of the year is very much in line with what I had in mind when I said six months rather than three months. It seems to me that having the uncertainty of a two months' period and then a change is not very reasonable. Some method is indicated, and I will take your suggestion for the balance of the year. You talk about shock but I cannot see that because this is the ceiling and competitive forces would still work in the meantime, and competition would have reduced the operations below the ceiling if such was the case. So the shock is removed; the trigger at 5 per cent would be reasonable, and the stretch-out of the period seems to me would be a substantive method of giving a firmer basis to banks entering fields that we desire them to enter.

Mr. FULTON: Do I understand that one of your worries was that the transition period, to use your words, is maybe too short?

Mr. SHARP: Well, I am a little bit concerned that the ceiling which comes in at 7¼ might come down to 6¾.

Mr. FULTON: Yes, but it is always a ceiling.

Mr. SHARP: It is just a ceiling, and as I said in the conclusion of my remarks, I do not believe that this is a very serious matter; even if we left the law as it is, I do not think it is very serious. However, the banks have raised this question and they do have a point.

Mr. MORE (*Regina City*): Well, in the light of what has happened, it is a point.

Mr. SHARP: Yes, it is a point but it is not going—

Mr. MORE (*Regina City*): —to improve the act—

Mr. SHARP: No, because as you have said, Mr. More, as interest rates come down all rates become competitive.

Mr. MORE (*Regina City*): Sure, they do.

Mr. SHARP: The ceiling does not govern the prime rates, for example—

Mr. FULTON: Exactly, because surely their point is only valid if interest rates stay up. If the interest rates are down—

Mr. SHARP: Yes.

Mr. FULTON: —and the ceiling is 2½ per cent over the prime rate, they are not going to charge 7¼ per cent just because it is the ceiling.

Mr. SHARP: All it hampers is the ability of the banks to provide a service to the riskier borrowers at rates above the ceiling—not prime rates, the rates above the ceiling—and it is for this reason that we suggested amendments to the act, because we believe that the banks can serve the many borrowers they are not now serving if they had some freedom to charge more than the ceiling. Those

people would then not be in the hands of the loan sharks, not in the hands of the moneylenders generally; they could come to the banks and be able to get accommodation at somewhat higher than prime rates but lower than they could borrow at from other parts of the market.

Mr. MORE (*Regina City*): And I think a feature that we all desire is that they should be able to move quickly. Is there any real objection to my suggestion or to your suggestion? Would it not be an improvement, really? Is there any reason, even though you say it might be slight, that we should not make this improvement when recommending the bill to parliament? Is there any great objection? Put your trigger at 5 per cent and put the period at six months rather than three,—or for the balance of the year, as you suggested, might even be a reasonable improvement on the present clause, which in the light of what is happening seems not to be as sound as it would have been three months ago, for instance?

Mr. FULTON: Surely, if you put it for the balance of the year, it means that they cannot go above that for the rest of this year in respect of the kind of borrowers that the Minister was describing.

Mr. SHARP: That is right.

Mr. MORE (*Regina City*): But there is no objection in the light of what is happening.

Mr. FULTON: But they would not have the flexibility to meet the needs of that class of borrower that we were referring to, who would otherwise still be in the hands of those who charge excessive rates.

Mr. CLERMONT: Mr. More, would you permit a supplementary?

Mr. MORE (*Regina City*): Yes, I will.

Mr. CLERMONT: You mention three or six months. Would up to a year be acceptable to you.

Mr. MORE (*Regina City*): Well, I do not know if I would go that far. I certainly do not see any great objection to the Minister's suggestion for the balance of this year. The present position is that you are going to have a ceiling on what the bank will base its operations come into effect on the proclamation of this bill, which may be May, and with what appears to be the trend now, that will change again on the first of July. Is that not right, Mr. Minister?

Mr. SHARP: Yes.

Mr. MORE (*Regina City*): It was to avoid this situation that I am making the suggestion for consideration.

Mr. SHARP: If interest rates continue to decline, the only handicap you face in the banks is subjecting them to a ceiling for the rest of 1967. That provides for the transition. If, on the other hand, interest rates strengthen again, at least you have avoided an unnecessary adjustment in the ceiling because of a temporary period of lower interest rates.

Mr. FULTON: No, but if you fixed it for the balance of the year and the trend in interest rates should reverse and go up again, you are squeezing the banks again because the differential would be less than 1¾ per cent.

Mr. SHARP: Well, the probabilities are that the interest rates would not be higher in the three months on which you make the calculations this year than they were in the three months of 1966 because that was a period of very high interest rates. While I am not making any predictions here, the likelihood of interest rates returning to the very high levels of 1966 do not seem to be very great. That is why I have suggested one way to alleviate this notch problem, but it might be well just to provide that the ceiling as determined for the coming into effect of the act would extend for the rest of 1967. Now, although that is one possible way of avoiding an unnecessary job it does not prevent that happening again in the future until such times as the trigger begins to operate.

Mr. MORE (*Regina City*): Well, Mr. Chairman, could I put it more directly to the Minister. I think perhaps that the banks could work, but I am afraid that it would preclude them from moving as we want them to move. Could I put it thus to the Minister: if I move, for the consideration by the Committee, an amendment changing "three months" to "six" months and changing the trigger from 4½ to 5 per cent, would it be unacceptable to the Minister? I do not know whether that is fair or not?

Mr. SHARP: Yes.

The CHAIRMAN: May I make a suggestion. It is now ten to six; perhaps we should continue our general discussion. The Minister might consider this because we are obviously going to have to continue with it tomorrow morning.

Mr. FULTON: Could I put this forward for your consideration? We are dealing with the transition period. Would you not agree that a situation in a transition period should be as flexible as possible, leaving the maximum flexibility to adjust to the movement of interest rates, whichever way they go? Would that not rather argue against fixing it to the balance of this year? You have a dilemma here.

Mr. SHARP: It is a genuine dilemma and, as I say, I do not think that it is too serious even if the interest ceiling was to come down a little bit from the level it is going to be in the first part of the year. We are in the period of transition. I believe the Committee shares my view that we should try to move toward freedom, where the banks can serve the public better, but some problems are inevitable in this period toward freedom—and I do not know which is the best way of handling it.

Mr. LAFLAMME: The main principle of this law is to implement competition. Would it not be very much less complicated to completely remove the ceiling? You raised the ceiling a few months ago and the interest rate is getting down. If the ceiling has no bearing on the interest rate itself, why not completely remove it immediately so that competition among all the financial institutions will be much more readily implemented. I understand that there might be some difficulty. I do not understand too well the word "transition" and what bearing or effect it may have on the money market itself, but I would support strongly any motion to remove the ceiling completely.

The CHAIRMAN: Unless the Minister has some comment by way of reply to Mr. Laflamme, I recognize Mr. Clermont.

Mr. SHARP: May I just make one comment on what Mr. Laflamme has said.

When we brought these amendments forward, we brought them forward in a period of rising interest rates. One of the reasons for having a transitional period was to cushion the effect of moving to freedom. We appear now to be in the period in which interest rates are beginning to decline so the consideration is rather changed. This is why we are in this dilemma. However, we cannot forecast what interest rates may do, and we might, for all we know, be in a period when interest rates have started up again, and there would be apprehension on the part of the public that the banks would be moving to freedom at a time when interest rates were rising. I think I said to Mr. Cameron in the House one day, when he made the same suggestion, that it is not so much what I fear as it is the apprehensions of the public about what may happen. This is why we have a difficult problem to deal with.

(*Translation*)

The CHAIRMAN: Mr. Clermont.

Mr. CLERMONT: My questions are directed to Mr. Elderkin. Sub-clause (2) of Clause 91 states as follows: "A rate of interest or discount". In sub-clause 4, I read: "during which the loan or advance was made notwithstanding the discount rate, etc."

Why is there only mention of the rate of discount in this sub-clause whereas elsewhere the rate of interest and the rate of discount are mentioned?

(*English*)

Mr. ELDERKIN: Mr. Clermont, I think that you have just recently received the revised amendments for clause 91 and that point is taken care of.

Mr. CLERMONT: For each paragraph, Mr. Elderkin, because—

Mr. ELDERKIN: Yes, each paragraph. In respect of this particular case, which is subclause (4), if you look at the revised amendments, you will see a new subclause (4).

Mr. CLERMONT: And (9) too, because you have the same expression.

Mr. ELDERKIN: The same thing exactly in (9). You are quite right, Mr. Clermont.

The CHAIRMAN: Perhaps we could just pause for a moment. Mr. Elderkin, could you tell us whether or not the page you have just had distributed brings together all the proposed amendments to clause 91 which were distributed in the booklets we previously had handed out to us.

Mr. ELDERKIN: That is correct, Mr. Chairman. The Idea here was to bring them all into one part. I beg your pardon.

Mr. MONTEITH: Number (4) is all-encompassing.

Mr. ELDERKIN: Yes, that is right. It takes in all the previous amendments that were presented and the amendments which are now being presented, which brings term loans in the same as discounts.

Mr. CLERMONT: Discount and interest?

Mr. ELDERKIN: That is right.

Mr. CLERMONT: Because it was not so on the previous amendment.

Mr. ELDERKIN: That is correct, and it was overlooked. We would have to have this corrected, particularly in the case of any contract loans.

Mr. CLERMONT: That is very important because otherwise they may leave the interest rate the same but increase the discount.

Mr. ELDERKIN: Well, it works both ways.

Mr. CLERMONT: Yes.

Mr. ELDERKIN: If the rate changes one way, it is going to be in favour of the bank, and if it goes the other way, it will be in favour of the contractor.

The CHAIRMAN: Is there any further general discussion on clause 91, may I suggest, particularly, with respect to putting forward suggestions which we may want the Minister to consider between now and our meeting tomorrow morning.

(*Translation*)

The CHAIRMAN: Mr. Latulippe.

Mr. LATULIPPE: May I say a few words, I will not be long.

With regard to Clause 91—

The CHAIRMAN: Mr. Latulippe, the Committee was in agreement to stand Clause 91. I am sorry—

Mr. LATULIPPE: Concerning interest rates. I think it would be practical to maintain a basic rate of 6 per cent. If interest rates are to go down, we should maintain a basic rate. If, as the Minister has said, there are loan sharks, why not establish an interest ceiling as far as these loan sharks are concerned. The Minister mentioned small loans. Banks would be allowed to lend money at a somewhat higher rate to people who could not produce required security. In such cases, why should the government not guarantee these loans? The same rate of interest could be set for everybody and if the bank is reluctant to lend to insolvent people, these loans could be guaranteed by the government. The government guarantees a great many other things. This seems logical to me.

(*English*)

The CHAIRMAN: Mr. Sharp, do you have any comments?

Mr. SHARP: Only that I hope the Minister of Finance would not have to decide which loans to guarantee and which not to guarantee. If we are going to guarantee all of them, then I am sure the banks will just bask in the sunlight of our favour and make enormous profits at the expense of the public.

The CHAIRMAN: If we have no further general discussion at this time—

(*Translation*)

Mr. LATULIPPE: You have tax on income and on profits. When there are profits, taxes must be paid.

The CHAIRMAN: That is another matter.

(*English*)

Gentlemen, I suggest that we adjourn our meeting and resume tomorrow morning at eleven o'clock, at which time we will continue with these clauses in an endeavour to complete them. I might say that until we complete our clause by clause discussion, pursuant to an earlier decision of the Committee, the hearings will be open, and then they will be in camera with respect to drafting any textual portions of our report.

We will adjourn until 11.00 o'clock tomorrow morning.

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. 52

THURSDAY, FEBRUARY 23, 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 Honourable Mitchell Sharp, Minister of Finance; Messrs. C. F. Elderkin, Special Adviser, Department of Finance; and J. W. Ryan, Director of Legislation Section, Department of Justice.

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

25829—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

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

Dorothy F. Ballantine,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, February 23, 1967.
(105)

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*), Clermont, Fulton, Gilbert, Gray, Lambert, Leboe, Lind, Macdonald (*Rosedale*), Mackasey, Monteith, More (*Regina City*), Tremblay—13.

Also present: Mr. Whelan.

In attendance: The Honourable Mitchell Sharp, Minister of Finance; Messrs. C. F. Elderkin, Special Adviser, Department of Finance; J. W. Ryan, Director of Legislation Section, Department of Justice; and P. M. Ollivier, Parliamentary Counsel.

The Committee resumed consideration of *Bill C-222, An Act respecting Banks and Banking.*

Clause 39 was carried.

The Committee reverted to consideration of clause 88 and after questioning of the Minister, the clause continued to stand.

On clause 91

Mr. More (*Regina City*), seconded by Mr. Lambert, moved that clause 91 be amended by

(a) deleting the words "three months" on line 12 of page 76 and substituting therefor the words "six months"; and

(b) deleting the words "four and one-half per cent" on line 13 of page 76 and substituting therefor the words "five per cent".

After further discussion and questioning the proposed amendment and the clause were allowed to stand.

On clauses 92 and 93

On motion of Mr. Clermont, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clauses 92 and 93 be amended

(a) by inserting immediately after line 22 on page 76 thereof the following:
"92. (1) In subsections (2) to (4),

(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;

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(b) "credit" means an arrangement for obtaining loans or advances; and

(c) "prescribed" means prescribed by regulations made under this section.

(2) 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, as calculated and expressed in accordance with subsection (3), 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.

(3) 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.

(4) The Minister may make 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 (2); and

(e) respecting such other matters or things as may be necessary to carry out the purpose of this section.

(5) 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 the making of a loan or advance be subject to a condition that the borrower maintain a minimum credit balance with the bank.

(6) Subsections (1) to (4) 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.";

(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 lines 6 to 9, inclusive, on page 77 thereof.

The clauses were carried, as amended.

The Committee reverted to consideration of clause 138 and, after questioning of the Minister, the clause was allowed to stand.

At 1.00 p.m. the Committee adjourned until 3.45 p.m. this day.

AFTERNOON SITTING
(106)

The Committee resumed at 4.10 p.m., the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Comtois, Flemming, Gray, Lambert, Leboe, Lind, Monteith, More (*Regina City*), Tremblay—(11).

In attendance: The same as at the morning sitting, with the exception of Dr. Ollivier.

On clause 91

The Minister tabled a new proposed amendment to clause 91, and after discussion and questioning, Mr. More (*Regina City*), by unanimous consent, withdrew his amendment proposed at the morning sitting.

On motion of Mr. More (*Regina City*), seconded by Mr. Flemming,

Resolved,—That clause 91 be amended

(a) by striking out lines 36 to 39, inclusive, on page 74 thereof and by substituting therefor the following:

"(a) for the period commencing on the coming into force of this Act and ending on the 31st day of December, 1967, seven and one-quarter per cent; and

(b) for any part of an interest period commencing on or after the first day of January, 1968, one";

(b) by striking out subclause (4) of clause 91 on page 75 thereof and by substituting therefor the following:

"(4) Where a loan or advance referred to in subsection (2) is made for a fixed term by the bank in one interest period and is repayable in whole or in part in a later interest period, the maximum rate of interest or rate of discount that the bank may charge on the loan or advance is that prescribed by subsection (3) for the interest period in which the loan or advance is made notwithstanding the maximum rate of interest or rate of discount prescribed for later interest periods.";

(c) by striking out lines 22 to 24, inclusive, on page 75 thereof and by substituting therefor the following:

"Canada or of an equity of redemption therein or of an assignment of or mortgage on the interest of a lessee thereof,";

(d) by striking out lines 12 to 18, inclusive, on page 76 thereof and by substituting therefor the following:

"period of three months ending after the 31st day of December, 1966, is less than five per cent, subsections (2) to (8) of this section, subsection (1) of section 93, section 112 and subsection (1) of section 151 expire

(a) on the 31st day of December, 1967, if the last month of such period ends before the 31st day of December, 1967, or

(b) on the fifteenth day of the month next following the last month of such period, if such period ends on or after the 31st day of December, 1967,

but without affecting any loan or advance made for a fixed term in respect of which a rate of interest or rate of discount has been charged before that day."; and

(e) by striking out line 20 on page 76 thereof and by substituting therefor the following:

"(8) of this section and subsection (1) of section 93 expire shall be given by proclamation of"

After further discussion, clause 91, as amended, was allowed to stand.

On clause 88

On motion of Mr. Clermont, seconded by Mr. Comtois,

Resolved,—That clause 88 be amended

(a) by striking out lines 35 to 40 on page 69 thereof and substituting therefor the following:

"(5) Notwithstanding subsection (2) and notwithstanding that a notice of intention by a person giving security upon property under this section has been registered pursuant to this section, where, under the *Bankruptcy Act,* a receiving order is made against, or an assignment is made by, such person,"; and

(b) by striking out paragraph (b) of subclause (5) of clause 88 thereof and substituting therefor the following:

"(b) claims of

(i) a grower of perishable products of agriculture that are direct products of the soil for money owing by a manufacturer to the grower for such products that were grown by him on land owned or leased by him and that were delivered to the manufacturer during the period of six months next preceding the making of such order or assignment, or

(ii) a producer of dairy products for money owing by a manufacturer to the producer for such products that were produced on land owned or leased by him and that were delivered to the manufacturer during the period of six months next preceding the making of such order or assignment,

to the extent of seven thousand five hundred dollars of the amount of the claims of the grower or producer therefor, or the total of his claims therefor if such amount is seven thousand five hundred dollars or less;"

The clause, as amended, was carried.

Clauses 89 and 90 were carried.

The Committee again reverted to consideration of clause 76 and after further discussion and questioning the clause was again allowed to stand.

Clause 137 was carried.

At 5.05 p.m. Mr. Clermont took the Chair, at the request of the Chairman, and at 5.12 p.m. the Chairman resumed the Chair.

Schedules C to L, inclusive, were carried.

On clause 138

The Committee reverted to consideration of Clause 138, and on motion of Mr. Clermont, seconded by Mr. Comtois,

Resolved,—That clause 138 be amended by striking out line 8 on page 95 and by substituting therefor the following:

"is liable to a penalty of ten thousand dollars"

The clause was carried, as amended.

The Committee then resumed consideration of *Bill C-223, An Act respecting Savings Banks in the Province of Quebec.*

Clause 32 was carried.

On clauses 80 and 81

On motion of Mr. Clermont, seconded by Mr. Comtois,

Resolved,—That clauses 80 and 81 be amended

(a) by inserting immediately after line 9 on page 41 thereof the following:

"80. (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;

(b) "credit" means an arrangement for obtaining loans or advances; and

(c) "prescribed" means prescribed by regulations made under this section.

(2) 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, as calculated and expressed in accordance with subsection (3), 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.

(3) 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.

(4) The Minister may make 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 (2); and

(e) respecting such other matters or things as may be necessary to carry out the purpose of this section.

(5) 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 the making of a loan or advance be subject to a condition that the borrower maintain a minimum credit balance with the bank.

(6) Subsections (1) to (4) shall come into force on the day that subsections (1) to (4) of section 92 of the *Bank Act* come into force."

(b) by renumbering subclause (1) of clause 80 on page 41 thereof as subclause (1) of clause 81;

(c) by striking out lines 25 and 26 on page 41 thereof and by renumbering subclause (1) of clause 81 as subclause (2) of clause 81;

(d) by striking out line 37 on page 41 thereof and by substituting therefor the following:

"(3) Nothing in subsection (2) shall be con-"; and

(e) by striking out lines 42 to 45, inclusive, on page 41 thereof and by substituting therefor the following:

"(4) Subsection (1) expires on the day that subsection (1) of section 93 of the *Bank Act* expires."

The clauses, as amended, were carried.

By unanimous consent, the Committee reverted to consideration of *Bill C-222, An Act respecting Banks and Banking.*

On clause 151

On motion of Mr. Comtois, seconded by Mr. Lind,

Resolved,—That clause 151 be amended by striking out clause 151 on page 98 thereof and by substituting therefor the following:

"151. (1) Every bank that violates the provisions of section 91 is guilty of an offence and liable on summary conviction or on conviction upon indictment to a fine not exceeding one thousand dollars, and every

person who, being an officer or employee of the bank, violates the provisions of section 91 is guilty of an offence and liable on summary conviction to a fine not exceeding five hundred dollars.

(2) Every bank that violates the provisions of subsection (3) or subsection (6) of section 92 is liable to a penalty of one thousand dollars in respect of each such violation."

The clause, as amended, was carried.

By unanimous consent, the Committee reverted to consideration of *Bill C-223, An Act respecting Savings Banks in the Province of Quebec.*

On clause 120

On motion of Mr. Comtois, seconded by Mr. Lind,

Resolved,—That clause 120 be amended by striking out the clause and substituting the following therefor:

"120. (1) Every bank that violates the provisions of section 79 is guilty of an offence and liable on summary conviction or on conviction upon indictment to a fine not exceeding one thousand dollars, and every person who, being an officer or employee of the bank, violates the provisions of section 79 is guilty of an offence and liable on summary conviction to a fine not exceeding five hundred dollars.

(2) Every bank that violates the provisions of subsection (3) or subsection (6) of section 80 is liable to a penalty of one thousand dollars in respect of each such violation.

(3) Subsection (1) expires when subsection (5) of section 91 of the *Bank Act* expires."

The clause was carried, as amended.

The Title and the Bill, as amended, were carried.

Ordered,—That the Chairman report the Bill, as amended, to the House.

At 5.40 p.m., the Committee adjourned until 8.00 p.m. this day.

EVENING SITTING
(107)

The Committee resumed at 8.35 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Comtois, Gilbert, Gray, Lambert, Leboe, Monteith, More (*Regina City*), Tremblay—(10).

In attendance: The same as at the afternoon sitting.

The Committee resumed consideration of *Bill C-222, An Act respecting Banks and Banking.*

On clause 76

On motion of Mr. Clermont, seconded by Mr. Comtois,

Resolved,—That clause 76 be amended

(a) by striking out lines 41 to 49, inclusive, on page 53 thereof and by substituting therefor the following:

"76. (1) Except as provided in this section, the bank shall not own shares of the capital stock of

(a) a Canadian corporation, other than a trust or loan corporation,

(i) in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than fifty per cent of the total votes that could, under the voting rights attached to all the shares of the corporation issued and outstanding, be voted by the holders thereof, in any case where the total amount paid or agreed to be paid by the bank for such of the shares of the corporation as have voting rights attached thereto, is five million dollars or less, or

(ii) in any other case, in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the corporation issued and outstanding, be voted by the holders thereof;

or

(b) a trust or loan corporation in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the trust or loan corporation issued and outstanding, be voted by the holders thereof;

and any such shares in excess of the maximum number prescribed by this subsection owned by the";

(b) by striking out lines 3 to 16, inclusive, on page 54 thereof and by substituting therefor the following:

"(2) Except as provided in this section, the bank shall not own shares of the capital stock of a foreign corporation in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the foreign corporation issued and outstanding, be voted by the holders thereof, if the foreign corporation owns shares of the capital stock of

(a) a Canadian corporation, other than a trust or loan corporation,

(i) in any number that would, under the voting rights attached to the shares owned by the foreign corporation and the bank, if any, permit the foreign corporation, or the foreign corporation and the bank, to vote more than fifty per cent of the total votes that could, under the voting rights attached to all the shares of the Canadian corporation issued and outstanding, be voted by the

holders thereof, in any case where the total amount paid or agreed to be paid by the foreign corporation and the bank for such of the shares of the Canadian corporation as have voting rights attached thereto, is five million dollars or less, or

(ii) in any other case, in any number that would, under the voting rights attached to the shares owned by the foreign corporation and the bank, if any, permit the foreign corporation, or the foreign corporation and the bank, to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the Canadian corporation issued and outstanding, be voted by the holders thereof;

or

(b) a trust or loan corporation in any number that would, under the voting rights attached to the shares owned by the foreign corporation and the bank, if any, permit the foreign corporation, or the foreign corporation and the bank, to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the trust or loan corporation issued and outstanding, be voted by the holders thereof;

and any such shares in excess of the maximum number prescribed by this subsection owned by the bank at the coming into force of this Act, shall be sold or disposed of before the first day of July, 1971.";

(c) by adding after subclause (3) of clause 76 on page 54 thereof the following new subclauses;

"(4) The bank may own shares in excess of the maximum number prescribed by this section, if the shares are acquired through a realization of security for any loan or advance made by the bank or any debt or liability to the bank, but any such shares acquired after the coming into force of this Act shall be sold or disposed of by the bank within a period of five years from the day on which they were acquired.

(5) Notwithstanding any other provision of this section except subsection (4), where in the opinion of the Minister the ownership by the bank of shares in a corporation in any number permitted under subparagraph (i) of paragraph (a) of subsection (1) or subparagraph (i) of paragraph (a) of subsection (2) enables the bank to exercise, directly or indirectly, effective control of a trust or loan corporation, the Minister may by order require the bank to divest itself of those shares in that corporation within such time as the Minister considers reasonable and the bank shall sell or dispose of such shares within the time prescribed therefor by the Minister."

(d) by striking out subclause (6) of clause 76 on page 54 thereof and by renumbering the present subclauses (4) to (8) on pages 54 and 55 thereof as subclauses (6) to (9) respectively; and

(e) by striking out line 32 on page 55 thereof and by substituting therefor the following: "province;

(c) "foreign corporation" means a corporation incorporated outside Canada; and

(d) "trust or loan corporation" means a Canadian corporation that carries on the business of a trust company within the meaning of the *Trust Companies Act* or the business of a loan company within the meaning of the *Loan Companies Act* and that accepts deposits from the public."

The clause, as amended, was carried.

On Clause 91

The Committee reverted to consideration of Clause 91, as amended.

Mr. Monteith moved, seconded by Mr. More (*Regina City*), that consideration of clause 91 be deferred until after Monday noon next.

After discussion, and the question having been put, the motion was negatived on the following division: Yeas, 3; Nays 5.

And the question having been put on the clause, as amended, clause 91, as amended was carried, on division.

Clause 1 was carried.

The Title and the Bill, as amended, were carried.

Ordered,—That the Chairman report the Bill, as amended, to the House.

On motion of Mr. Clermont, seconded by Mr. Comtois,

Resolved,—That Bills C-222 and C-223, as amended by the Committee, be reprinted.

On motion of Mr. Clermont, seconded by Mr. Comtois,

Resolved,—That the Committee cause to be printed in blue book form 2,000 copies in English and 1,000 copies in French of its Minutes of Proceedings and Evidence in respect of the Decennial Revision of the Bank Act.

The Chairman thanked the members of the Committee for their co-operation, and also the research assistants, Mr. Baribeau and Miss Prentiss, for their assistance to the Committee.

The Committee unanimously passed votes of thanks to the Committee Clerk, to Mr. Elderkin, Mr. Ryan and other departmental officials who have assisted the Committee, to the interpreters and to the other employees of the House who have assited the Committee in its work.

The Committee also unanimously passed a vote of thanks to the Chairman for the fair and impartial manner in which he has conducted the deliberations of the Committee.

The Minister congratulated the Committee for the thorough manner in which it has considered the legislation and stated his opinion that the Bills have been improved by the work of the Committee.

The Committee then proceeded to sit *in camera* to consider recommendations for inclusion in the Report to the House.

After discussion and agreement in principle on the points to be included, the proposed recommendations were referred to the Sub-Committee on Agenda and Procedure for drafting.

At 9.30 p.m. the Committee adjourned until 11.00 a.m., Thursday, March 2, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(*Recorded by Electronic Apparatus*)

THURSDAY, February 23, 1967.

The CHAIRMAN: Gentlemen, I would suggest we begin our meeting even though the Minister has not yet arrived. There are several things we can attend to. First of all, one of the clauses stood is clause 39. I understand that Mr. Fulton had some points to raise with regard to it. Mr. Elderkin told me that he has discussed the matter with Mr. Fulton and has satisfied him that the matter that he was interested in is taken care of in another part of the act. Does clause 39 carry?

Clause 39 agreed to.

I would suggest that we begin our discussion on clause 88.

Mr. MONTEITH: Mr. Fulton left a memo in my office. Unfortunately he cannot be here this morning. He wondered if by any chance discussion on this could be delayed. He might be here this afternoon.

The CHAIRMAN: I am in the hands of the Committee in this regard.

Mr. MONTEITH: I do not know what he has in mind, frankly, but—

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I will not be able to be here this afternoon and Mr. Ryan had specifically taken note of some questions which I believe he is in a position to answer for me now with respect to clause 88. I wonder if we could deal with this and perhaps return to it this afternoon.

The CHAIRMAN: Mr. Macdonald, I recognize you. We will continue at this stage with our discussion of clauses 88, 89 and 90 as a group because I think they are related.

Mr. Ryan, would you care to comment on this?

Mr. MACDONALD (*Rosedale*): Mr. Chairman, the question was the apparent contradiction between the status of a bank holding clause 88 security as an owner and the status of a manufacturer who, but for clause 88 security under the general law, would be regarded as an owner. I wanted to know—what legal hazards a third party dealing with the manufacturer is faced with in acquiring goods without the waiver of the bank, whether or not, he has knowledge of section 88.

Mr. J. W. RYAN (*Director, Legislation Section, Department of Justice*): Mr. Chairman, I have gone through clause 88. I have not had an opportunity of looking at the jurisprudence, but based on the provisions of section 88 it would seem that where manufacturer had acquired a loan from the bank and notice of intention had been filed on his behalf in accordance with the requirements of Section 88, the security the bank acquires is similar in rights and powers to that

which they would have acquired under a warehouse receipt or a bill of lading. The effect of that is set out in Section 86:

> 86.(2) (a) all the right and title to the warehouse receipt or bill of lading and to the goods, wares and merchandise covered thereby of the previous holder or owner thereof,—

—vests in the bank. So that a purchaser from a manufacturer in these circumstances is acquiring property for which the title of the manufacturer is, to say the least, encumbered. However there is an anomaly in the situation, inasmuch as the purpose of the loan by the bank is to permit the manufacturer to carry on his business, which is manufacturing and selling goods. So, if there is not an actual consent by the bank to the transaction by the manufacturer, there is possibly an implied consent. In addition, I understand it is the custom of trade that the bank takes additional security by way of an assignment of book debts, so that there is both the proceeds of the sale as well as the other security available to the bank.

In the normal course, again reading the intent of the section, I would think that the bona fide purchaser for value from a manufacturer is usually safe. If he has any doubts, of course, and knows of the notice of intent, he could probably ask the authority of the manufacturer to sell the secured goods, in which case he would probably see the consent and have notice of it. In the other case, he might be able to assume in the course of business and the situtation of the loan that there is an implied consent by the bank to the sale and he would, in all probability, be quite safe. However, if the transaction was in fraud of the bank, then I do not think the consent would run and the bank would probably be able to follow its security. In the normal situation they would probably be more inclined to go to the proceeds or the book debts of the sale rather than to the article.

That is about as much as I can say on the question on the basis of clause 88.

Mr. MACDONALD (*Rosedale*): The right to pursue the articles in a fraudulent situation would be a right independent of any right that the bank might have under the fraudulent conveyances provision of the Bankruptcy Act, would it?

Mr. RYAN: I think it would stem out of the title they have in the secured articles.

Mr. MACDONALD (*Rosedale*): This question has occurred to me. If you were an abundantly cautious purchaser acquiring a large inventory from a manufacturer, are there any steps you would take to protect yourself in this regard? Is there any customary practice here to get over this problem of the apparent dam against free commercial transactions?

Mr. RYAN: Perhaps Mr. Elderkin might help me on that one. Is there any transaction which a purchaser from a manufacturer goes through?

Mr. C. F. ELDERKIN (*Special Adviser, Department of Finance*): In most cases where security is taken under clause 88 on a moving inventory the bank gives consent to the manufacturer for the sale of inventory in the normal course of trade.

Mr. MACDONALD (*Rosedale*): He gives that in writing, does he?

Mr. ELDERKIN: I believe so, yes.

Mr. MACDONALD (*Rosedale*): And is it the customary practice for substantial purchasers to investigate or to check that authority with the bank?

Mr. ELDERKIN: I am not at all sure. I could not tell you what the customer's practice was, but it is available to him. Normally a manufacturer operating under clause 88 must have that type of consent. He could not operate otherwise.

Mr. LEBOE: Mr. Chairman, is it not a fact that they often make assignments to the bank so that the payments are made directly to the bank?

Mr. ELDERKIN: Mr. Leboe, that happens in some cases but by no means in all cases. As a matter of fact—

Mr. LEBOE: This is quite a general practice in some industries. I know in the lumber business it is a very general practice to assign your receipts directly to the bank.

Mr. ELDERKIN: What happens quite often, Mr. Leboe, is that they take a general assignment of book debts, but if the bank wishes to be sure of the matter, then they will take a specified assignment, and in that case the debtors are notified to pay directly to the bank. But often in the meantime, if the credit of the borrower is considered to be good, while they have a general assignment they do not register it.

Mr. MACDONALD(*Rosedale*): This is a general question to Mr. Elderkin and perhaps he may not be in a position to answer it, but would you agree that perhaps this rather unique authority that takes security on goods and process is the primary advantage that a Canadian chartered bank has over any other lender in the field?

Mr. ELDERKIN: I think it is also a very primary advantage to the processor, too.

Mr. MACDONALD(*Rosedale*): I am thinking of the chartered bank. We have been talking about bank competition with relation to other similar institutions, but is it not section 88 which really gives them the edge in commercial transactions?

Mr. ELDERKIN: Well, Mr. Macdonald, I think that actually under the Bank Act revisions that are before you he could take security outside section 88. One advantage he has under section 88 is that he will register the notice of intention with the Bank of Canada and thereby make his security valid. If it was done outside section 88 presumably he would have to register with some kind of a registry in the province.

Mr. MACDONALD (*Rosedale*): This is not a question, it is more a comment, but it seems to me that none of the provincial securities I know of give the advantage this section does over goods and process.

Mr. ELDERKIN: I think you are quite right. This was an intentional power that was given.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, that answers the line of questioning I had. Thank you.

(*Translation*)

Mr. CLERMONT: In regard to 88 (5), I notice that in the amendments proposed on the 22nd of February, paragraph (b), sub-paragraph (ii) was

extended to include dairy products. I would like to hear from Mr. Elderkin or from the Minister why, instead of the words "perishable products", why we do not accept the definition on page 4, paragraph (X) of Bill C-222, French version, which reads as follows:

"products of agriculture" includes

(i) grain, hay, roots, vegetables, fruits, other corps and all other direct products of the soil, and

(ii) honey, maple products, live stock (whether alive or dead), dairy products, eggs and all other indirect products of the soil;

instead of, as suggested in the amendment paragraph 5, sub-paragraph (b).

(*English*)

The CHAIRMAN: Perhaps Mr. Elderkin could comment first. The Minister has just arrived and is getting settled.

Mr. ELDERKIN: Mr. Clermont, The original intent of this particular clause was actually to protect what you might call the captive shipper. The people who are producing perishable products of agriculture, such as fruits and vegetables, are normally under contract to sell to one buyer. This is the custom in the business because the processor must program his production to be able to take the goods fresh from the field and process them within 24 hours or less. As this grower is what I in effect call a captive shipper, the idea is to give him some protection because of that and because of the fact that he is selling practically all of his year's work, if you will, to one buyer and has no opportunity under his contract to sell to anyone else.

The addition of the dairy products was a slight deviation from this, although that again is a contractual operation. The question you are asking is why de we not put all products of agriculture under this. I think there are a number of very good reasons.

This could actually work to the detriment of the grower rather than to his benefit. Clause 88, where it relates to these particular loans and other loans which are made under it, is, of course, unique in banking fields both here and abroad, but it was done for the purpose of permitting a growing industry to get credit where capital, in effect, was not available. If we put provisions in this bill which would make it more difficult for these processors to borrow—as I think I said at an earlier stage—you take the risk of putting many of them out of business altogether.

(*Translation*)

Mr. CLERMONT: Mr. Elderkin, in view of the fact that Bill C-222 enables the banks to lend on security, can the banks not use this additional guarantee over and above section 88? I realize as you do that there is a danger in covering too many products in 88, but on the other hand, you mention that a farmer or a fruit grower may lose six months or a year's work. The same thing is true a livestock breeder who may lose six months or a year's work might not be wise to include too many products and it might eliminate certain manufacturers. On the other hand, if the law is ready to provide an additional guarantee which does not presently exist in section 88, paragraph 5, to producers of perishable products,

why not extend this coverage to others, livestock breeders, for instance? In your amendment, you included dairy products. Mr. Ryan was saying yesterday, may, the Court in last resort, have to decide what constitutes a perishable product. But this would mean that the producer, if the bank does not recognize a given product as a perishable product, will have to go to Court. So, besides the possibility of making a loss, he will also have the Court costs involved in getting a definition of a perishable product.

(*English*)

Mr. ELDERKIN: Well, if this was the case he would not have to go to the courts, the trustee would have to go to the courts. I think I would like to go a bit farther on this particular point, Mr. Clermont.

I quite realize your interest in trying to protect the producer of farm products. I would imagine that if we ever went the whole way and brought in all the products of agriculture under some type of a priority that it would be very difficult to resist the requests of all the other primary producers, such as those of the sea, lakes and rivers and those of the land and mines, and so on. I do not think there is a great deal of difference in that particular matter and this is why I would like to go back to my original statement that the idea was to protect the captive shipper. He is the only one we were really trying to protect.

I would like to add that if we make this so difficult or so relatively unimportant from the point of view of the banks as to the value of their security, they are apt to go to another type of security altogether, and that is a general charge on all the assets, in which case there is no protection for the grower whatsoever. Unless the Bankruptcy Act were amended there would be no protection for him.

(*Translation*)

Mr. CLERMONT: There can be recommendations in another field of action, amending the Bankruptcy Act, for instance, this is not the problem before us now.

(*English*)

Mr. ELDERKIN: No, but if they get an amendment to the Bankruptcy Act of that kind it is quite possible that it can follow through.

I am just offering an opinion and it is a matter for the Committee's judgment, but I think in trying to extend this to cover a greater number of products of agriculture that in the end you may do more harm than good to the grower as far as that is concerned.

The CHAIRMAN: Mr. Cameron is next, followed by Mr. Lambert.

Mr. CLERMONT: Mr. Chairman, I had not finished. We have granted privileges to people who are not here and we have stood the section, but I am not entirely satisfied with clause 88 (5).

(*Translation*)

The law only defines advances made to the manufacturers who produce perishable products or dairy products, if this Bill is adopted as now suggested by

the amendment tabled on the 22nd, only the products delivered to the manufacturers, will be covered but the law permits, under section 88 (1) (a) that

(1) The bank may lend money and make advances

(a) to any wholesale purchaser or shippers of or dealer in, products of agriculture. . .

(b) to any person engaged in business as a manufacturer. . .

Why in 88 as amended, paragraph 5, a producer of dairy products for money owing by a manufacturer to the producer.

(*English*)

Mr. ELDERKIN: Mr. Clermont, my original statement was that we are dealing here with a contract between a captive grower and the manufacturer. There is no shipper involved in the question of perishable fruits and products. They are delivered directly to a manufacturer. In the case of dairy products, they are delivered directly to a creamery, which is a manufacturer.

Mr. CLERMONT: I will agree with you, sir, that the producer—

Mr. ELDERKIN: There is no question of a shipper or a wholesaler being involved in it. That is the reason it is not mentioned.

Mr. CLERMONT: I will agree, sir, concerning dairy products, that they are usually sold to a processor or manufacturer. However, cattle may be sold to a wholesaler.

Mr. ELDERKIN: Yes, but we are not dealing with cattle here.

Mr. CLERMONT: No, I know. We are not dealing with that because it is not included in the amendment that has been suggested to this Committee, but I am trying to get it included and I do not seem to be getting very far. Excuse me, Mr. Monteith?

Mr. MONTEITH: I just said you are putting up a good fight.

Mr. CLERMONT: Mr. Whelan brought up a certain bill in 1963, and we had briefs presented by many organizations, but the one that I am familiar with is the Canadian Federation of Agriculture and they mentioned cases where the people that sold cattle lost money.

Mr. ELDERKIN: Well, I quite agree that there are cases where people who sold cattle have lost money. I think you will find this right through the whole system.

Mr. CLERMONT: I know that anyone can lose money.

Mr. ELDERKIN: I can only say that the reasons I have advanced are the reasons that the government feels are in support of the sections as amended, and it really goes back to my original statement—which I will reiterate—that it is for the protection of the grower who is really a captive of his purchaser.

Mr. CLERMONT: I have a final question on this subject. I have no wish to delay the proceedings too much because I am not gaining any ground. This question is addressed either to the Minister or Mr. Elderkin. Could the amount not be increased?

Mr. ELDERKIN: Yes, Mr. Clermont. I think you will remember that I discussed this matter quite fully at an earlier stage in the proceedings when I was

talking about the various sections. You can increase this, but the more you increase it the more danger there is of cutting off the credit to the processor altogether.

Mr. CLERMONT: I know. It is all right to worry that a processor or a manufacturer will not be able to get an advance under clause 88, but I think we also have to worry about the producer as well. He may lose his shirt because he sold his product to a firm that went bankrupt.

Mr. ELDERKIN: We have one of the large firms of liquidators study cases that happened in recent years, and the $5,000 limit would have covered over 90 per cent of the creditors of the firms. Of course, the $5,000 also applies to the remaining creditors. In other words, as the amendment stands they are secured for the first $5,000. It is a matter of balance—as I think I used the word before—just what figure you pick, because if you go too high it means that the processor cannot get the money and therefore the grower cannot find a place for his product. If you do that you either force the processor out of business or you force him into the hands of very much higher lending operations from other sources which, if they were going to lend him money, would normally take—as I mentioned before—a charge on all of the assets of the processor.

Mr. CLERMONT: But, Mr. Elderkin, if I remember correctly, one comment made by the bankers was that if the ceiling is lifted or they can charge a higher rate of interest they may add some other risk to their line of credit.

Mr. ELDERKIN: Well, that is their risk, though.

Mr. CLERMONT: Yes, I think any loan, unless it is guaranteed by government bonds, and so on, may have some kind of risk attached. My last remark, Mr. Chairman, has to do with the fact that clause 88 is stood, and this will be brought to the notice of the Minister, but in the meantime could we perhaps think about increasing that $5,000 to $7,000?

Mr. SHARP: Mr. Chairman, I have discussed this provision with Mr. Elderkin and on the basis of his experience with the act and the discussions that he has had with liquidators and others who have had some experience, he has persuaded me that this would be the wise thing to do. I cannot pose as an expert in this matter. I have listened to my officials and the case they have put to me has convinced me that this is in the best interests of all concerned.

Mr. CLERMONT: So, if I bring in an amendment to raise it to $7,500 my chances of putting it through would be very thin? That is the kind of question that Mr. More asked last night about a certain rate of interest. Thank you, sir.

The CHAIRMAN: Well, I trust we can, continue our discussion on this portion of clause 88. I believe, Mr. Cameron, followed Mr. Lambert, have some questions to bring forward.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I would like to reinforce some of Mr. Clermont's arguments with the statements that were made by the people who are affected by this legislation and who appeared before this Committee. The Canadian Federation of Agriculture do not appear to share your anxieties, Mr. Elderkin, that the proposals that they make and that Mr. Clermont has in effect presented here would endanger the operations under this act. I

would like to quote from this particular part with regard to the extensions of coverage to other commodities. They have this to say:

> 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 his misconception.

Now, I would imagine that the Canadian Federation of Agriculture had examined the possibilities of this very carefully before they made this suggestion. I would think their sources of information would at least be as adequate as yours, Mr. Elderkin, in that regard, and they appear to have no misgivings at all about the desirability of extending the coverage to other types of commodities. Then they have something to say—which I do not think Mr. Clermont mentioned —with regard to the time limit of three months.

Mr. CLERMONT: Mr. Cameron, if you will allow me, I did not have much success in the other three! I have to be frank, too. I did have a certain degree of success because they have included dairy products.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You have done that, yes, so I will pick up the torch where you left it.

They point out that in many cases the payment can be delayed for a considerable period of time under a contractual agreement which would exceed the three months. They have this to say:

> 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.

But if it exceeded three months, they are eliminated. I wonder what Mr. Elderkin would think about expanding that period to a longer period than three months, possibly six months. Mr. Clermont has mentioned the limitation of $5,000, and I would like to reinforce this again by a statement from the brief of the Federation of Agriculture, which I think is something we must bear in mind:

> —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.

I think this is very true. When this section was first put in the act it may have been that $5,000 was a reasonable level of total production for the year but it is not now; it has to be much more than that or a man cannot stay in business when you are only going to compensate him for $5,000. I noted that Mr. Elderkin, when he mentioned the research he had done in this, said that he found that $5,000 would cover 90 per cent of the cases; that is, of the cases under which the provisions of section 88 had been invoked. I wonder, Mr. Elderkin, if you have any idea of what percentage of the total cases of loans granted under section 88, on which no action was required because the recipient remained solvent, would be covered by $5,000? This would seem to me to be the important thing.

Mr. ELDERKIN: Well, may I take your three points in reverse. On the question of the fact that $5,000 was something that might have been appropriate when this was first proposed, I would point out that this was first proposed only two years ago.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, and it was hardly adequate then. This Government is always inadequate, Mr. Elderkin.

Mr. ELDERKIN: I doubt whether there has been that much change. Secondly, you spoke of an entire year's crop. Well, this does not necessarily apply at all. In other words, he may be delivering two or three types of vegetables or he may be delivering only one type of vegetable, or one type of fruit, but—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But the manufacturer does not just deal with one type.

Mr. ELDERKIN: He does as far as the individual grower is concerned.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You have spoken of people being captive—

Mr. ELDERKIN: Well, I have mentioned him as a captive. The third point that I think I would like to make here is that it is probably time that some of these contracts were reviewed and revised. I know I worked as a travelling auditor in the canning business for a matter of a few years and I know that what is said is correct, but often these contracts call for delivery in the spring and payment in the fall. Well, this is entirely a matter—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It is a long wait sometimes.

Mr. ELDERKIN: Yes, but I asked the question why the grower will sign such a contract.

The CHAIRMAN: Mr. Elderkin, you have already given the explanation, he is a captive.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): He is a captive, yes.

Mr. ELDERKIN: Well, this is the whole point, if he wants to grow for that processor he is a captive.

Mr. MACKASEY: Is that processor not also a captive in the sense that without the products of the immediate farms around him he cannot exist?

Mr. ELDERKIN: Well, that is true, that is the reason he put his plant there. Now, we had this discussion when Mr. Whelan was on, and I brought up the same point I did today, that if you make this too restrictive by increasing the amount of the priority or by extending the term, or things like that, you may succeed in cutting off the bank credit to this particular grower or this particular processor altogether. I think Mr. Whelan's remark at that time was that there were a few that he did not mind having the credit cut off.

Mr. MORE (*Regina City*): I think he said there were a couple of cases where it would be a good thing.

Mr. MACKASEY: I think in some cases they should be cut off.

Mr. ELDERKIN: Well, this is a matter which the Committee has to take into consideration.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But on the other hand, Mr. Elderkin, the position you are taking really boils down to the fact that you consider the producer must take the risks in order to finance the operations of the processor. You are asking the producer to take the risks.

Mr. ELDERKIN: If he is prepared to take the risks.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): As you have told us, he has no option; he is a captive.

Mr. ELDERKIN: He may not have any option but he has an option up until the time he signs the contract.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No, not in reality because if you earn a living on this particular piece of land which is suitable for a certain product, and there is a processor in the neighbourhood to whom he is a captive, he has no option unless he is going out of business and taking some other type of work.

Mr. ELDERKIN: What is he going to do if the processor goes out of business?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well, as I say, the people who seem to be more closely involved in this than any others, who are the producers, do not seem to share your anxieties in this.

Mr. ELDERKIN: It is not an anxiety on my part. The anxiety on my part, if you want to use the term, is a question of whether the processor can obtain credit or not.

Mr. LIND: What process of law has the primary producer at his disposal to get his money if the bank has the manufacturer under section 88, and possibly at the same time, under the new Bank Act, has a first mortgage on the property?

Mr. ELDERKIN: He has the same process as any other creditor.

Mr. LIND: Can he file a mechanics lien for delivering this produce? I did not think he could.

Mr. ELDERKIN: I do not think produce comes under a mechanics lien, Mr. Lind.

Mr. LIND: What protection has he got?

The CHAIRMAN: I presume, Mr. Elderkin, that if the Committee accepts this amendment he would have a special priority over the bank in the event—

Mr. ELDERKIN: In the case of insolvency, yes. He has what Mr. Ryan has referred to as a priority within a priority.

Mr. CLERMONT: This is in the case of dairy products?

Mr. ELDERKIN: That is right. I am only giving you the pros and cons of this. There are two sides to the argument. The Federation of Agriculture have expressed an opinion and I am just expressing another one, that is all.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Elderkin, the third point—and I think Mr. Clermont brought this up as well—which the Federation of Agriculture deals with is the confining of this to manufacturers, and they had

this to say: 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 to dealers in products of agriculture. We would very strongly recommend that the provisions of clause 88(5) be extended to include all such classes of persons. We do not see why this should not be so. Now, you have stated, Mr. Elderkin, that there are no wholesalers or jobbers or shippers who come into the picture, but I wonder if that is strictly accurate.

Mr. ELDERKIN: Mr. Cameron, this remark that you have just read is relevant to their other suggestion that all the products of agriculture should come under. If all the products of agriculture came under then you would have to bring in shippers.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This is not quite right, Mr. Elderkin. This is a final reservation with regard to the act as it now stands under the amending bill. The final reservation we have about this section is that the protection to producers is limited to claims for money owing by a manufacturer. I do not think this is tied in with the other parts of their recommendation. I think you will find, in certain areas where fruit and vegetables are produced, that jobbers and wholesalers do come into the picture. They are not all manufactured, they do not all go to the canning company, and the producer who sells to a jobber or a wholesaler has no protection.

Mr. MORE (*Regina City*): They are bound to make bargains.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not really see that he has to be a captive. Mr. Elderkin just threw it in that many of them were captives.

Mr. ELDERKIN: I would not think the introduction into clause 88(5) of a wholesaler or a shipper changes the situation very much at all, if such a situation occurs. I took the Federation of Agriculture brief—notwithstanding the fact of their final recommendation—in the context of their whole submission, and definitely if you bring in all the products of agriculture you would, of course, have to bring in wholesalers and shippers. To the best of my knowledge this has never been a matter in so far as perishable products are concerned, that has ever come to my attention, the fact that anything but a manufacturer was involved. I think the situation that may arise here is the one that Mr. More just mentioned, where buyers go around and perhaps buy fruits and vegetables, but in a situation where it is a transient, I should imagine that in most cases this would be a cash operation.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I did not have transients in mind. I had in mind the situations which I know of in my own area. Among my constituents I have a number of producers of vegetables who sell directly to a number of retail stores, and a retail store that is being financed by the banks might very well come within this purview.

Mr. ELDERKIN: At the present time retail stores are not financed by the banks.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): They might be.

Mr. ELDERKIN: They might be in the future. That is right.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Financed under section 88, but these other types would not be.

Mr. ELDERKIN: They would not be under section 88.

The CHAIRMAN: If I could just intrude for a moment. We started off with a discussion of clause 88 because at that time the Minister had not yet arrived at the meeting, and I understand that the Minister may have to be in the house this afternoon because of the flow of house business requiring his personal participation. Now, we wanted the Minister with us . . .

Mr. FULTON: What do you have there?

Mr. SHARP: Well, I am not certain, but George McIlraith has been frightening me!

Mr. FULTON: Is it your income tax bill on the earlier budget resolutions?

Mr. SHARP: The earlier budget resolutions or the small business loans or the pension plan.

Mr. MONTEITH: I do not think that was listed last night.

Mr. SHARP: Was it not? I did not see the report last night.

Mr. MACKASEY: The degree of co-operation with the Opposition has been so great that we are liable to get all our bills this afternoon!

The CHAIRMAN: In any event, all I am trying to suggest is this. We originally were going to . . .

Mr. SHARP: May I add, Mr. Chairman, that if I am not required in the house I will be happy to come here.

The CHAIRMAN: Yes, but what I was going to suggest is this. Originally we were going to start off this morning by continuing our discussion of clause 91, and so on, and the other clauses on which we particularly wanted comments from the Minister. As I understood it, clauses 88, 89 and 90 were not really amongst that group. I was going to suggest that perhaps we might revert to clause 91, especially since some further thoughts have been brought forward by some of the members.

Mr. FULTON: Mr. Chairman, before you do that, may I ask the Minister for his opinion on one question with regard to clause 88.

I am not sure whether the Minister was present, but in a discussion with Mr. Elderkin I raised the point of registration in registries of chattel mortgages, as well as in the agency or office of the Bank of Canada, as giving, in my view, an appropriate and, indeed, requisite notice to all of the existence of the banks' security. In as much as in British Columbia and in some other provinces—I am not sure how many—there are now central registries of chattel mortgages, it would minimize the problem of what office you register in, and so on. I was going to ask the Minister whether he has a view on or a reaction to the suggestion that at least in those provinces where there are central registries the requirements should be to register the Section 88 security there as well as with the office of the Bank of Canada?

Mr. SHARP: Mr. Chairman, I had an opportunity of talking to Mr. Elderkin about the point. I was not here during the discussions. I think it is impractical and unwise for various reasons. I believe there are now facilities that enable notice to be given or, in other words, at least the borrower has to reveal that his chattels are under some sort of lien when he is applying for a loan.

Mr. FULTON: Yes, but he may have a section 88 security and then go to some unsuspecting person and get a chattel mortgage on cattle, for instance.

Mr. ELDERKIN: Could I interject, Mr. Fulton?

Mr. FULTON: Certainly.

Mr. ELDERKIN: The notice of intent, if you will read Schedule K in the Bank Act, does not specify anything about security at all except that the borrower gives notice that he intends to borrow under the provisions of Section 88. Now, this does not necessarily refer to a chattel mortgage, it may be a commercial loan of any kind. There are no particulars whatsoever as to what the security is going to be, and if it was a requirement that all notices of intention under Section 88 be filed in a central registry, you would have notices of intention which had no relationship, if you will, to items which normally fall under chattel mortgage.

Mr. FULTON: That might be so but, on the other hand, you would have notice that—

Mr. ELDERKIN: You would only have notice that he was borrowing under clause 88, and he may have been borrowing under any one of the clauses. He might not be borrowing on anything in the nature of a chattel mortgage whatsoever.

Mr. FULTON: No, no, but section 88 security gives the bank a prior right as against previous creditors of whom it has notice. It gives them a prior right with respect to the property, subject to Section 88 security. If the same borrower then goes to another individual and borrows money from him on the security of a chattel mortgage, that mortgagee is subsequent to the bank with respect to the security of the property. What I am after is a system under which notice of the existence of Section 88 security with respect to those chattels may be given to other prospective lenders because now, as you know, if you are contemplating lending money on a chattel mortgage for cattle or other chattels, you search the central registry to see if there is any prior security.

Mr. ELDERKIN: Well, I will just repeat, Mr. Fulton, that you would be getting, perhaps, hundreds of notices of intention that had no relationship to chattel mortgages whatsoever.

Mr. FULTON: I do not think I have made my point clear.

Mr. ELDERKIN: I see your point all right, but what you are saying is that this particular person has given notice of intention to borrow under Section 88. It may be something in which the central registry has no interest whatsoever or—

Mr. FULTON: I mean because it may be growing crops or—

Mr. ELDERKIN: Oh yes, he may be borrowing to buy binder twine, he may be borrowing to buy feed grain, all kinds of things like that. It is the rare case and the only case that British Columbia has raised—

Mr. FULTON: What security is he giving?

Mr. ELDERKIN: On the seed grain, it is on the crops grown from the seed grain and in the case of agricultural equipment, on the equipment. All of these Section 88 provisions—

Mr. FULTON: Well, the equipment is certainly capable of being covered by a chattel mortgage.

Mr. ELDERKIN: All the provisions in there that relate to farmers are for the purpose of lending money for an expenditure. They do not cover the question of lending money on something already acquired.

Mr. FULTON: I am sorry, Mr. Elderkin, I do not think I agree with you there. If I have 100 cows or cattle not covered by any other security, I can go to the bank and borrow money under Section 88 and I give as security my cattle.

Mr. ELDERKIN: It is the one subsection or clause in the farmers' section, if I might call it that, where this can be done. In all the others, it is for the purchase of something.

Mr. FULTON: All right. Now, you take equipment or farm machinery, that is a ready and available object of chattel mortgages.

Mr. ELDERKIN: Yes, but as far as the bank loan is concerned it is going to be for the purchase of that equipment.

Mr. FULTON: Yes, but with purchase the security attaches to the chattel.

Mr. ELDERKIN: Yes.

Mr. FULTON: Or, in the case of the cattle, the security attaches to the cattle. All I am asking is why is it unreasonable to require when that kind of security is taken that the bank should, in addition to registering it at the Bank of Canada office, register it at the central registry of chattel mortgages? Then notice is given to all the world that there is a prior security on these chattels.

The CHAIRMAN: Would this require a change in provincial legislation so that the central provincial registry could accept the document? Can the registry accept this document at this time? Assuming your suggestion were to be accepted by this Committee and by the government, could the provincial registries, either central or localized, accept such documents without changing the provincial law? I just raise this question—

Mr. FULTON: I think you have a point there. I would say, provided the proper form of registration required in the provincial law were used, that it would be accepted. My thought was that in those provinces where there are central registries and where the law is in such form as to make it possible, then there should be registration there in addition.

The CHAIRMAN: I think Mr. Macdonald has been trying to ask a supplementary question.

Mr. MACDONALD (*Rosedale*): I am not sure of the system in British Columbia but the draftsmen of the Ontario personal property law proposed to have this type of central registry, and particularly if you went into the local county court office where you would now search for bills of sale, chattel mortgages and conditional sales, all filings in all the provincial offices would automatically be relayed to a central point and you would have the advantage, when dealing in credit terms with any particular borrower of knowing all outstanding obligations

that he might have against himself or his property. To the extent that is does come into effect in this province, I would be very much in favour of Mr. Fulton's suggestion that it be possible also to have any additional federal liens registered in the same place so you can get a dossier at once of the credit standing of the particular person with whom you are dealing.

The CHAIRMAN: Would you in effect have a central registry now in each province with respect to section 88 because of the allowance to the Bank of Canada?

Mr. ELDERKIN: As far as I know there are only two provinces which have central registeries and from what I understand a third one is in the course of preparation.

The CHAIRMAN: I am referring to the fact that at the present time these have to be registered with the Bank of Canada?

Mr. ELDERKIN: There is a central registry with the Bank of Canada in each province.

Mr. MACDONALD (*Rosedale*): For example, in Ontario you have to check at Toronto and the advantage, in the Ontario system, of having it plugged into the provincial system would be that you could check it locally instead of having to retain a Toronto agent to make the search for you.

Mr. ELDERKIN: But you can check in Toronto, Mr. Macdonald, by means of a simple telegram at no cost except the telegram.

Mr. MACDONALD (*Rosedale*): Except that when you have your solicitor check the registery for other security documents he would be able to get all the information at once.

Mr. ELDERKIN: Well, surely it is not going to take him much time to send a telegram.

Mr. MACDONALD (*Rosedale*): Well, why not centralize all the credit information?

Mr. ELDERKIN: Let me go on for just a minute on this. The fact of filing this would not be sufficient. You would have to go through all the routine which the banks now go through with the Bank of Canada. You can file a notice of intent to borrow but six months from now it may have expired. If the borrower does not come in and ask for a release on this it probably stays there. The bank does not pull it out except on the request of the borrower or after a five year term. After a five year term they must file a notice of all those which they wish to extend. Now, this would mean they would have to go all through the same operations with the central registry that they have to go through with the Bank of Canada. I think you have the problem here, in fact, of dealing with separate provincial central registries, or whatever you wish to call them under the circumstances. Just how such a thing would be drafted into the Bank Act, if it has to be done, is something which I would leave to my friend on my right. Then you have the further problem, possibly, that if the bank failed to do this would it invalidate its security?

Mr. FULTON: It would have to be appropriately drawn, as against a prior lender in good faith?

Mr. ELDERKIN: No, but suppose there has not been a prior lender.

Mr. FULTON: Well, even a subsequent lender.

Mr. ELDERKIN: In other words, you can have two places where the security may be invalidated?

Mr. FULTON: Yes.

Mr. ELDERKIN: Instead of one.

Mr. FULTON: But that could be cured by the simple device of registration. It is not really very onerous to file notice in a central registry.

Mr. ELDERKIN: I am not speaking entirely of the filing of a notice. Supposing they do not file it? Then, presumably you would also have to provide in the Bank Act, subject to legal opinion, that if they did not file it it did not invalidate the security. At the present time if they do not file with the Bank of Canada the security is invalidated. You have to have a further provision in case they did not file within the particular province.

May I give you another example of one of the difficulties?

Mr. FULTON: One of the important points, surely, is that the types of commodities which may come under section 88 are being extended. I think this is good. I think it is logical and reasonable for us to say that you can now take many more types of security under section 88 but you will be required to register them—not everywhere, but in one central registry—because there are going to be things which have not hitherto been thought to be the kind of thing which section 88 security attaches to. I think it is only reasonable that notice should be given.

Mr. LAMBERT: I am having a little difficulty. I see what Mr. Fulton is trying to do but I just wonder whether the point you raise is not really an insuperable barrier at this time because various provincial statutes establish the priorities. For instance, failure to register within a certain time in the province of Alberta requires a court order validating your late registry, subject to any accrued rights of third parties. I do not know that the provincial legislation at the present time would allow you to merely file a notice of intent. What they might require you to do when you do give the security is file one of the other schedules in which you describe the property and where it is situated and the exact nature of the charge, the amount of it, and everything. I do not know that the provincial legislation would allow you at the present time to file a notice for an indeterminate amount and on goods that are not specifically described.

Mr. ELDERKIN: Well, your notice of intent, of course, does not specifically describe any goods.

Mr. LAMBERT: This is the difficulty about the notice of intent.

Mr. LAMBERT: But there may be a point as to the requirement of filing not a notice of intent but, shall we say, one of the other schedules wherein there is precisely described the commodities that are covered.

Mr. ELDERKIN: Yes.

Mr. ELDERKIN: Yes, but these are not filed.

Mr. LAMBERT: I grant you these are not filed.

Mr. ELDERKIN: The documents between the borrower and the bank.

Mr. LAMBERT: This is so.

Mr. FULTON: My point is this, that by filing the notice of intent the bank is protected with respect to its security against any subsequent lender. If he does not file a notice of intent, then the bank is postponed subsequent lender without notice in good faith. In other words, they do not have the security. Now, why not extend this to the filing of the notice in the central registry of chattel mortgages and give it the same effect, that if no notice is filed and a subsequent chattel mortgage is given on these chattels, then again the bank's security is postponed simply because it did not give notice.

Mr. ELDERKIN: Notwithstanding the fact that it had filed notice of intent with the Bank of Canada?

Mr. FULTON: Yes.

The CHAIRMAN: May I make a suggestion? It is obvious from the discussion up until now that there are various aspects of this point which are quite complex. Inasmuch as it may be that the committee—I am not saying it is going to do this—will recommend that matters of this type be given to this committee or its successor for study at more frequent intervals than 10 years—I am not talking about a general revision, but matters that come up, and so on—that this might be something we could usefully look at in further detail if and when the development of central registries in the provinces accelerates.

Mr. MACDONALD (*Rosedale*): Perhaps we could suggest this as an agenda item to the Minister for his next discussion with his provincial counterparts.

Mr. SHARP: I am sure they will raise it.

On Clause 91—*Powers re interest*

The CHAIRMAN: Perhaps we might revert to clause 91. When we adjourned yesterday evening Mr. More had made a suggestion, on an informal basis, as to some modifications in the existing terms of clause 91. I believe the Minister indicated there might be some consideration given to this suggestion. I do not know if he is in a position to make any comments.

Mr. SHARP: Well, Mr. Chairman, I have been doing some thinking about this. As I said earlier, I do not think there would be any very serious problems if we did not amend the bill at all, but if the committee is disposed to do so, I would like to make two or three observations.

First of all, I do not think the ceiling should be lifted immediately. I believe it would be wise if there were a transition from the present 6 per cent ceiling to complete freedom.

Secondly, I think it may help in making the transition if the ceiling that is to be fixed on the basis of the first calculation should continue to the end of 1967 rather than for a very short period or, indeed, some variation of that to have it extend for six months from the time that it comes on. Then, perhaps, if we do that we could then consider whether the trigger point itself might not be raised.

Mr. MONTEITH: You mean the present formula?

Mr. SHARP: Yes, the present formula as a possible method of ensuring that we move towards freedom rather than being in this rather indeterminate position for quite some time.

If we were to raise the trigger point to 5 per cent without making the other adjustments, then I think we could be faced with virtually going to freedom almost immediately. I believe that some transition period is desirable. Those are the observations I would like to make, Mr. Chairman.

The CHAIRMAN: Mr. More, perhaps I should call on you.

Mr. MORE (*Regina City*): Mr. Chairman, on the basis of what the Minister says I would like to move that clause 91(9) be amended to change the period of three months to six months and the trigger point to 5 per cent instead of 4½ per cent.

The CHAIRMAN: Have you a seconder?

Mr. MORE (*Regina City*): I do not know.

Mr. LAMBERT: I will second the motion.

The CHAIRMAN: Perhaps you could reduce this to writing while we have our discussion?

Mr. MORE (*Regina City*): Well, you have the clause. It is just two points in the clause, six months and 5 per cent. It is lines 13 and 14 of clause 91(9).

The CHAIRMAN: Oh yes, this is at page 76 of the draft bill.

Mr. MORE (*Regina City*): Yes, in line 13 you change the three months to six months and in line 14 you change the 4½ per cent to 5 per cent.

Moved by Mr. More (*Regina City*), seconded by Mr. Lambert:

> That Bill C-22, an Act respecting Banks and Banking, be amended (a) by striking out lines 12 and 13, on page 76 thereof and by substituting therefor the following:
>
> "period of six months ending on or after the 31st day of December, 1966, is less than five per cent,"

(*Translation*)

Mr. CLERMONT: Mr. Elderkin, in changing from three to six months, with present experience in interest rate, is it likely the ceiling will be removed before the end of 1967?

(*English*)

Mr. ELDERKIN: Well, if somebody could forecast for me what the trend of interest rates is I could give it to you.

(*Translation*)

Mr. CLERMONT: My question is hypothetical, I admit, but it is not the first time you have been asked hypothetical questions since we have been revising the Bank Act.

(*English*)

Mr. ELDERKIN: Well, Mr. Clermont, there has been in the recent past quite a substantial drop in interest rates. I believe they have leveled off in the last couple of weeks and therefore I do not know what the trentd is today. A month ago the trend was definitely down, and at one time I think on short terms it was about 4.85.

(*Translation*)

Mr. CLERMONT: Last evening I was reading an article that said, in this connection, that the trentd was changing in respect to interest? In December, the trend was to a lower rate, is the trend towards a lower rate or a higher rate now?

(*English*)

Mr. ELDERKIN: I think the trend—and I have not got the latest figures to back me up—has been rather level, if you will, for some little time now. There is a possibility that it will go up again if there is a large volume of securities placed on the market or an attempt is made to place them on the market. This might push the trend up again for a short while. If the trend which was in effect up until about a couple of weeks ago were to continue for an average period, then it is quite possible that the 5 per cent would trigger it sometime this summer. Now, what the Minister has mentioned here is the question—if the 5 per cent is put in—whether it should be provided that the rate which was established last November should continue until the end of December of this year. Now, that rate is 7 1/4. This has been established on the three months average short term. I think the point you raised, Mr. More, on the possibility of basing this on a six months average has some weaknesses in it in that you get a much slower reaction out of this than you do on the three months. We picked the three months on the basis that this would operate faster when you are working on averages. If you have to wait for six months to establish an average I think you will get a slower reaction to the market and I do not, quite frankly, see where you are getting any benefit out of it. If you want a reasonably quick reaction or a sensitive reaction that way, the six months average does not give it to you, particularly if you take the first part of your suggestion and move to carry the present established rate through to the end of the current year.

Mr. MONTEITH: I was just going to ask, Mr. Chairman, how do you tie that in with the Minister's suggestion that it might be wise to carry the first established rate through to the end of 1967?

Mr. ELDERKIN: Well, that is what I say, if you carry the established rate through to the end of 1967, but I believe the point in Mr. More's amendment is that thereafter it would be a six months average instead of a three months average that established the rate. I think this has some weakness in it in that it does not operate as quickly as the three months average is liable to operate. It cannot operate as quickly as the three months average is liable to operate, that is all there is to it. The shorter the period the quicker you get an effect.

Mr. LAMBERT: May I ask this question for clarification. In other words, do you feel that in order to allow for the period of transition, that the formula as

described in subclause (9) should apply to the end of 1967, but that thereafter the three months formula, based on 5 per cent, would then perhaps be a little more flexible and would bring on the lifting of the ceiling?

Mr. ELDERKIN: Well, you get that much faster reaction that is all.

The CHAIRMAN: As I understood the Minister, and this is a complex subject, his view was that the modification in the trigger point should not be made unless there is some certainty that there will be restraint on the maximum rate for a period of at least until the end of the year. Did I get the right impression?

Mr. ELDERKIN: That is right. He proposed or, at least, he suggested for consideration that the established rate which was established at the end of November last, and which is in effect 7¼ per cent, should be carried through to December 31 of the current year. In other words, the trigger would not work in that period no matter what happened but thereafter, if I understand his suggestion correctly, the trigger would work if the Committee saw fit to put it at 5 per cent.

Mr. MORE (*Regina City*): In other words, the trigger could work on January 15, 1968?

Mr. ELDERKIN: No. Well, we use it on a straight three months average. It could work on January 1, 1968 on that basis.

Mr. MORE (*Regina City*): It would work on January 1 and become effective on the—

Mr. ELDERKIN: Once the trigger works it becomes effective immediately.

Mr. MORE (*Regina City*): Now subclauses (2) and (8) of clause 92 would expire on the 15th of the month following?

Mr. ELDERKIN: Yes. There is a notice period in there, I am sorry.

Mr. MORE (*Regina City*): Yes. This is what I was referring to.

Mr. ELDERKIN: That is right. There has to be a notice period. I repeat that working to a six months average after this year is over makes it less flexible than it is on the three months average. However, if what you have in mind here is that the present maximum rate, no matter what happens, would be carried through to December 31, 1967, and thereafter the present formula would come into effect, namely, if the trigger is not going to work in the early part of 1967, then commencing in 1968 your rate would be established by a three months average ending November 30 of this year, it would only be effective in January, but if by that time you were down to the trigger rate, then it would come off on January 15.

Mr. MORE (*Regina City*): Can you propose wording to that effect so that I could—

Mr. ELDERKIN: If this is what you have in mind, Mr. More, and if you will just give it to us in intention, we will work on it at noon.

Mr. MORE (*Regina City*): Well, my intention was that there be a period of stability. I did not like this idea of two months, and a bit of stability in the initial period is what I was looking for.

Mr. ELDERKIN: Well then, do I have it right for Mr. Ryan's drafting that the rate now established shall be continued to December 31, 1967?

Mr. MORE (*Regina City*): Yes.

Mr. ELDERKIN: That from then on the rate for the first six months in 1968 will be the rate established by the formula for the three months ending November 30, 1967, unless the trigger works—

Mr. MORE (*Regina City*): Unless the trigger works.

Mr. ELDERKIN: —and at any time in there a trigger works on 15 days notice.

Mr. MORE (*Regina City*): I think I would suggest that your initial reply has covered the points that I had in mind when I raised the matter. I perhaps misunderstood the Minister. I thought when he said to the end of the year that he would not be against the six months either.

Mr. ELDERKIN: No. I think I had in mind just the same point you had, Mr. More. I really think we ought to provide for a period of transition before the ceiling comes off.

Mr. MORE (*Regina City*): This is the point that I had in mind and—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): How long a period?

Mr. ELDERKIN: Well, I thought to the end of the year would be a reasonable time, but this is a matter of judgment. As I said earlier, if the Committee did nothing and just left the bill as it is, I do not think that it is going to shake anything, but if we want to try to improve this a bit, try to make it somewhat more in conformity with what I believe to be the views of the Committee, namely, to have a period of transition and then move to freedom, then this would be a more certain way of doing it. However, even if we left the trigger point at 4½ per cent it would work, although it might not work very well. You might have that jog there in the beginning of 1968.

Mr. MORE (*Regina City*): In our earlier discussions we had indications from some economists that they thought the trigger point might not work during the life of this bill. I think I would like to see a clause drawn on the basis of what you have expressed for consideration.

Mr. ELDERKIN: With the trigger rate at 5 instead of 4½ per cent?

Mr. MORE (*Regina City*): Yes.

Mr. ELDERKIN: We will arrange the necessary drafting before this afternoon's session.

The CHAIRMAN: Yes. I have already asked Mr. Ryan to relate your suggestions, Mr. More, to the draft amendments we already had tabled yesterday to make sure that they are entirely consistent throughout, and I am sure that the Committee is concerned about the impact of this formula on borrowers who may now for the first time be able to get loans through banks.

Mr. MORE (*Regina City*): You might say that it is quite a major adjustment that is going to be made in the whole community.

The CHAIRMAN: Now, clause 91 and the amendment stands so that drafting can take place.

Mr. MACKASEY: Are you now moving off from clause 91?

The CHAIRMAN: Well, I would suggest to the Committee that it would be more useful to continue our discussion once we have Mr. More's suggestions put in proper wording, and also consistent with the other amendments which were tabled yesterday.

Mr. MACKASEY: I would like to bring another matter up, and if you think I am wrong you can just cut me off. I would like a minute or two to relate what I am concerned about in Clause 91. It is the inefficiency or the lack of effectiveness of the small Businesses Loans Act. Four or five years ago when I was in business—I am no longer—I found it virtually impossible to interest the banks in this particular act, and I have come to the conclusion that the banks found it more profitable to loan money over a shorter period of time than that provided for in the Small Busineses Loans Act, and I was wondering why we did not encourage the banks under that act to participate more fully in that act by permitting the banks a higher rate of interest because of the length of the period of the loan to small businessmen. Now, presuming this was done, would it require an addition to subclause (6) of clause 91, because the interest I am thinking of that the bank could charge would be higher than is prescribed under this act.

Mr. ELDERKIN: Well, Mr. Mackasey, the Small Businesses Loans Act, as I recollect, is up for amendment now, which would be the proper place to put this, but the interest rate in the Small Businesses Loans Act is determined by the Governor in Council and it would not make any difference; we would need no amendment in this act whatsoever because the Small Businesses Loans Act always has a "notwithstanding" in it.

The CHAIRMAN: That being the case, I think perhaps we can leave a detailed discussion of the Small Businesses Loans Act to that legislation itself.

Mr. MACKASEY: Yes, now that Mr. Elderkin has assured me that whatever amendments are introduced, as far as the rate of interest is concerned, will in no way be jeopardized by this particular act.

Mr. ELDERKIN: No, Mr. Mackasey, they would not be jeopardized by this at all.

On Clause 92—*Definitions. "Cost of borrowing."*

Mr. CLERMONT: I move 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. "92. (1) In subsections (2) to (4),

"Cost of borrowing." (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.

Disclosure of cost of borrowing.

(2) 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, as calculated and expressed in accordance with subsection (3), 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.

Calculation of cost of borrowing.

(3) The cost of borowing 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.

Regulations.

(4) The Minister may make 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 (2); and

(e) respecting such other matters or things as may be necessary to carry out the purpose of this section.

Account charges and minimum balance.

(5) 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 the making of a loan or advance be subject to a condition that the borrower maintain a minimum credit balance with the bank.

Coming into force.

(6) Subsections (1) to (4) 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.";

(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 lines 6 to 9, inclusive, on page 77 thereof.

Mr. MACDONALD (*Rosedale*): I second the motion.

The CHAIRMAN: Let us move on then to clauses 92 and 93. You will note that on February 22 Mr. Elderkin tabled a further revision of the previous revision of clauses 92 and 93 relating to disclosure of cost of borrowing, and perhaps Mr. Elderkin could explain the further revision and perhaps he could also tell me if I am correct in saying that this revision incorporates the suggestion from this Committee with respect to the forms of business and individuals covered under it?

Mr. ELDERKIN: Yes. Mr. Chairman, as the first amendment was advanced on this it applied only to individuals, but there were several points raised in Committee and particularly that it should govern what is incorporated as the small businessman. So, in the redraft of the amendment that is before you now it applies to all borrowers, no matter who they are, but I draw your attention to one reason why this is quite easy to do, and that is because in the provisions of the amendment the Minister can make regulations specifying any class of loans or advances that are not to be subject to the provisions of subclause (2). Therefore the Minister by regulation can set as an example, in the case of corporation loans a minimum figure where this would be applicable, which would probably cover the question about bringing the small businessman's loans under this legislation but leaving the big corporation outside. This has been done in other jurisdictions. This is really the only change that is in here.

Mr. Lambert also raised the point on the question of regulations. Regulations, of course, have to be issued to the bank, and he asked whether the regulations would be made public. They will have to be made public, quite frankly, because they will include all of the combined charges which the banks might charge.

Mr. LAMBERT: What I was particularly concerned about is in order to satisfy this Committee what is being done under the regulations, that the regulations should be referred back to this Committee in due course after they are in effect so that we can examine the impact. After all, we are giving the Minister power and it is the same thing that I had in mind under the insurance deposit discussion, that whatever regulations made there would be referred back to this Committee for examination when they are proclaimed, and if the Minister undertakes to do that, well, I will be very happy.

Mr. SHARP: I have no objections, Mr. Chairman.

Mr. LAMBERT: Alright, fine.

The CHAIRMAN: Mr. Clermont and then Mr. Fulton.

Mr. ELDERKIN: Paragraph (4) of which clause, Mr. Clermont; clause 91?

(*Translation*)

Mr. CLERMONT: We are studying 91, are we not?

The CHAIRMAN: No, we are studying 92 and 93.

Mr. CLERMONT: Thank you, Mr. Chairman.

(*English*)

Mr. ELDERKIN: If I interpreted correctly what you said before, you are referring to what is at present clause 92 where:

> The bank may, in discounting a bill of exchange, promissory note or other negotiable instrument...

Mr. CLERMONT: No, Mr. Elderkin, I called to your attention yesterday, and before this meeting, that in clause 91, subclauses (4) and (9) in the present bill, we use the word "discount" instead of "interest".

Mr. ELDERKIN: Mr. Clermont, the amendment is in clause 91, both to subclause (4) and subclause (9), to bring in loans which are for a contractual period.

Mr. CLERMONT: Thank you.

The CHAIRMAN: Mr. Fulton?

Mr. FULTON: I am just worried about the possible necessity of a consequential amendment to the amendments tabled, Mr. Elderkin.

The CHAIRMAN: That would be nothing new.

Mr. ELDERKIN: We have been doing that for some time.

Mr. FULTON: Looking at the amendment to clauses 92 and 93, you have, in effect, inserted a new clause 92, and you do not want that to expire at all, do you? This is to be a standing provision regarding disclosure.

Mr. ELDERKIN: That is right; but this is taken care of in the over-all amendments.

Mr. FULTON: Yes, but you have also—I am not sure I am clear on this, it is terribly complicated—moved clause 92 down to be subclause (2) of clause 93.

Mr. ELDERKIN: That is right.

Mr. FULTON: And you have re-numbered the present subclause (1) of clause 93.

Mr. ELDERKIN: That is right, but clause 92 does not expire.

Mr. FULTON: If you have your provisions for disclosure under the new clause 92, will you, in fact, want the old clause 92 to expire, or will you not want it to continue in force?

Mr. ELDERKIN: No, the old clause 92 will expire.

Mr. FULTON: Do you want it that way?

Mr. ELDERKIN: Well, it might as well expire because it is only a question of a charge on the expenses of collection in addition to discount, and it is really inoperative if there is no maximum rate of interest or discount.

Mr. FULTON: Just let me get the import of that for a moment. What you are saying is that there will no longer be a maximum rate of interest or discount when the trigger works.

Mr. ELDERKIN: Yes, when the trigger works.

Mr. FULTON: And there will now be full disclosure of all such charges, whatever they may be.

Mr. ELDERKIN: That is right.

Mr. FULTON: Therefore, it is all right to let clause 93(1) expire?

Mr. ELDERKIN: That is correct.

Mr. FULTON: Thank you.

The CHAIRMAN: Is there further discussion on the amendment?

Mr. MONTEITH: I have a question.

The CHAIRMAN: Yes, I now recognize you, Mr. Monteith.

Mr. MONTEITH: Mr. Chairman and through you, the Minister or Mr. Elderkin, going back to the 1954 evidence there was conflicting interest as to the legality of consumers' loans discount. We are apparently, at least for a while, going to have a ceiling. As Mr. Fulton said, he found it a little difficult to follow, and not being a lawyer, I find it just that much more difficult. In round terms, is any question of legality of discounted loans going over that limit now taken care of?

Mr. ELDERKIN: Not in discounted loans; if you look at subclause (5) of the amendments to clauses 92 and 93, you will see the provision which, in the first part, at present appears in section 93(3) of the act, which says:

> 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 matter of service charges, as you are aware. This was submitted to the Department of Justice some years ago and their opinion was that if there is an express agreement between the bank and the customer, this charge is legal. Actually, you may recall that this particular opinion was quoted in the House some years ago by the then Minister of Justice. However, there must be an express agreement to make it legal.

Mr. MONTEITH: If there is this express agreement, what form does it take?

Mr. ELDERKIN: An express agreement with respect to a service charge. Now this is what is used on the consumer loans at the present time, of course. That is, they sign an express agreement for the service charge in addition to the interest.

Mr. MONTEITH: Covering life insurance or anything it may be?

Mr. ELDERKIN: Anything that is involved in the cost of a loan, all of which, under our disclosure recommendations here, would have to be stated on a percentage basis except in the case of demand loans.

Mr. MONTEITH: Even though that percentage basis is over 7¼?

Mr. ELDERKIN: Oh, yes; the percentage relates to the combined interest and charges.

Mr. MONTEITH: Do I gather from this that the agreement is the compulsion of a customer to keep a balance on deposit as a percentage of a loan?

Mr. ELDERKIN: This is new. If you will read the remainder of (5), we have now added in clauses 92 (3) and 92 (5):

> ...nor, except by express agreement between the bank and the borrower, shall the making of a loan or advance be subject to a condition that the borrower maintain a minimum credit balance with the bank.

Mr. MONTEITH: This has that effect.

Mr. ELDERKIN: Yes, that is right. That part of it is new and arises out of discussions in the Committee on so-called compensating balances.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This would leave us in the position of providing quite a loophole; the express agreement may be signed almost under duress.

Mr. MACKASEY: I agree.

Mr. ELDERKIN: The voice of experience, Mr. Mackasey?

Mr. MACKASEY: Yes, and I am quite proud to say so.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not know how you would get around it.

Mr. ELDERKIN: No, I do not know how you would get around it otherwise. The matter of duress would be only in the case where, presumably, the borrower did not have access to any other source of money.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Can I refer this back to the discussion we had yesterday when Mr. Lambert advanced an idea of how to make a distinction between the different types of borrowers? It tied in with what Mr. Paton told me in answer to a question the last time he was on the stand. When I asked him whether it was possible for the banks to calculate and express total charges in terms of an interest rate, Mr. Paton said yes, it was possible to do so and, as I recall it, that he thought they would be able to do so. Then he put in a caveat at that point and said "except for large corporate borrowers, who are sophisticated borrowers and are accustomed to negotiating", who should be left free in that field. I am wondering if Mr. Lambert's point—

Mr. ELDERKIN: Actually they are not left free now. But let me put it this way: you have the situation, I think as you heard from one of the witnesses when the bankers were here that large corporations would almost invariably prefer to carry a minimum credit balance to paying service charges. If they are going to have service charges, they are going to have to do a lot of bookkeeping to look after it. They are much happier although, if they have an express agreement that they wish to carry a minimum credit balance rather than pay service charges; this is quite sensible.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Quite sensible, yes; but on the other hand an institution that does not want to do it may find the only basis on which they are going to get the loan is to sign the agreement. Now is there not some way that we can—

Mr. ELDERKIN: I am afraid not, Mr. Cameron. The banks are not required to make loans unless they want to.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I know they are not, but they could be required to express it in terms of interest rates.

Mr. ELDERKIN: Oh well, they are.

Mr. MACKASEY: In the case of a compensating balance, how will they show that in disclosure?

Mr. ELDERKIN: Very easily, if it is related to the loan. In other words, if it is 10 per cent of the loan, and the interest rate is 7 per cent on the loan, that is 7.7 per cent.

Mr. MACKASEY: Will they be obliged under disclosure?

Mr. ELDERKIN: Unless that type of loan is exempted by the Minister's regulations, which it normally will be for large corporations, I presume.

Mr. LIND: Mr. Chairman, what percentage of total bank loans will be exempted under this?

Mr. ELDERKIN: This discussion has not got to the point of having the Minister fix the percentage as yet. I would not know what they were. Are you talking about sizes?

Mr. LIND: No, I am not talking about sizes; I am talking about the over-all amount of the loans. If they loan $1 billion, will 90 per cent of it be exempted?

Mr. ELDERKIN: I do not think it would work that way at all, Mr. Lind. If you are working on a figure, as I believe some other jurisdiction does, if the amount of the loan or credit is over a certain figure the whole loan is exempt.

Mr. MORE (*Regina City*): Say that again?

Mr. ELDERKIN: If the amount of the credit under which the loan is made is over a certain figure—whatever equation point you want to pick—then the bank is exempted from stating.

Mr. FULTON: You say in some jurisdictions that is the practice?

Mr. ELDERKIN: Yes, so I understand.

Mr. GILBERT: What jurisdictions, Mr. Elderkin?

Mr. ELDERKIN: I am speaking from hearsay, but I understand it is $25,000.

The CHAIRMAN: It is my understanding from a lot of the evidence we have that the practice of banks in recent years of asking for a compensating balance in addition to interest as a condition of giving a loan is a reflection of the increased cost of money, if I may put it that way. It may well be, with the relaxation of the present rigidity on the interest rate ceilings, that this practice will diminish to a great degree. If it does not, perhaps this Committee will then be authorized to examine the situation as exists at that time, and find out why a practice, which was explained as being a reflection of an unnatural situation with respect to money and interest rates, continues in a new period of normalcy. Do I make myself clear?

Mr. ELDERKIN: Mr. Chairman, with regard to the question of compensating balances with respect to loans, this has been a very common practice in the United States for many, many years. It is now a fact that they are gradually getting away from compensating balances; they have found that a compensating balance is not all profit to the bank by any means, for the simple reason that they have to maintain a cash reserve on the compensating balance. So we catch them a little bit there.

An hon. MEMBER: They will find a way around it.

Mr. ELDERKIN: No, we are quite sure they will not find a way around it, because this is a deposit under the definition. But there is a tendency to get away

from compensating balances where they can use a free interest rate. I notice now—I read a report a short while ago in the federal reserve bulletin—that the American banks are getting away from compensating balances and are using a straight interest rate, or service charge.

Mr. CLERMONT: I think we were told, too, that a compensating balance is not only for a loan. The bank may request a compensating balance for a number of cheque issues too, without any additional charges.

Mr. ELDERKIN: That is right, as long as it is not related to the loan. This is another matter entirely; it does not come under the disclosure provisions at all.

Mr. MACKASEY: Mr. Clermont, brought up an excellent point there. If this privilege of compensating balances is the justification for compensating loans in the future, then they will not have to divulge it under the section of the act that says they must divulge the interest rates.

Mr. ELDERKIN: If it is not in relationship to the loan, no, because this is only on the cost of loans.

Mr. MACKASEY: In other words, they could interpret it as being in relation to the situation Mr. Clermont brought up. Would that not circumvent the purpose of the clause you brought in earlier?

Mr. ELDERKIN: You can do it in one of two ways. If you block them out from taking credit balances to cover the cost of operating an account, they will simply turn around and use service charges on it, as far as that is concerned. So, to use an expression, "you can't win".

Mr. MACKASEY: It all comes back to the wisdom of the Porter commission, that we should not have any ceiling on interest at all and let everyone compete. I think if we faced our responsibility and did not worry about politics this is what we should have done in the first place. It seems obvious to me, with all the loopholes they can invent, that they are going to get whatever interest they want out of the Canadian people. We should not have a ceiling at all and let them compete with everybody else.

The CHAIRMAN: Assuming they are competing.

Mr. LEBOE: Mr. Chairman, I think I got that clear. In your opinion, we cannot win.

The CHAIRMAN: Not in my opinion. I always thought that parliament was supreme and that is why I suggested to the Committee that it might be useful at some later period, if this section were not having the beneficial effects sought—and I am hopeful myself—to examine the matter to see what the practices are at that time.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Do not give them too long or they will think up some other excuse.

Mr. LEBOE: I have just one point. In effect, they have these compensating balances that they have been asking for. Did I understand you to say that they have to take them into consideration as a deposit on which there is a reserve requirement by the Bank of Canada?

Mr. ELDERKIN: That is right. Normally that would be a 12 per cent one, too.

The CHAIRMAN: Is there any further discussion on these amendments?

Mr. CLERMONT: Mr. Chairman, with respect to the proposed amendments to clause 92, (b) states:

> (b) by renumbering clause 92 on page 76 therefore as subclause (1) of clause 93 and by renumbering subclause (1) of clause 93—

I heard a remark made by Mr. Fulton that it was sometimes hard to understand these amendments. If it is hard for a lawyer to figure out you can understand how it is for us. Mr. Chairman, does it mean that the provision on clause 92 in the proposed bill No. C-222, whereby the bank can charge, one-eighth and one-quarter of one per cent will disappear after the ceiling is off?

Mr. ELDERKIN: No. All of this is a matter of redrafting to make room for the disclosure provision. We are just moving the present clause 92 and subclause (1) and (2) of clause 93 into one section.

Mr. CLERMONT: I agree, but I am referring to clause 91, revised. Subclause (1) of clause 92 will disappear when the ceiling is off.

Mr. ELDERKIN: But in the amendment it is clause 93.

Mr. CLERMONT: As it is now in Bill No. C-222 it is clause 92(1).

Mr. ELDERKIN: That is correct.

Mr. CLERMONT: But it will be renumbered as clause 93(1), and when the ceiling is off clause 93(1) will be gone too.

Mr. ELDERKIN: That is correct.

Mr. CLERMONT: That means the banks will be allowed to charge the rate they wish? As it is now it is one-eighth or one quarter.

Mr. ELDERKIN: No, Mr. Clermont. The rate of discount is set by the—

Mr. CLERMONT: I am not speaking about discount I am speaking about cash—

Mr. ELDERKIN: Yes, I understand what you mean. This is what I thought you were referring to a few minutes ago when I discussed with you the fact that this will no longer be operative, because if the ceiling comes off they can charge any rate they like on the discount. There is no particular object in having service charges which they can put in anyway under the other clause.

Mr. CLERMONT: Thank you.

The CHAIRMAN: I have a question with respect to clause 93(2) on page 77. I guess that will be clause 93(3) at the present time if the amendment is carried.

Mr. ELDERKIN: When you say clause 93(3) do you mean the government clause?

The CHAIRMAN: Yes, that is correct. This is the clause which, in the existing act, authorizes the government to maintain a certain amount of money on deposit with the chartered banks without payment of interest in return for certain services provided by the—

Mr. ELDERKIN: The government will insist that they do not do this in return for certain services notwithstanding some other people's opinions.

The CHAIRMAN: That is what I wanted to ask you. I just want to clarify this. Some months ago, while this Committee was sitting, the Public Accounts Committee tabled a report in the House questioning the practice of the government in maintaining certain amounts of money on deposit in the chartered banks without receiving interest, and immediately I brought this to the attention of this Committee and asked for explanations from Mr. Elderkin. As I recall, the explanations at that time were based on the fact that this was specifically authorized by law under this section and that services were performed by the banks with respect to government cheques, and so on, which more than made up for the lack of interest.

Mr. ELDERKIN: There are a couple of points here, Mr. Chairman. The government does not, at any time, guarantee to keep $100 million on deposit and never has. As a matter of fact, it has run down as low as $7 million, and not too long ago. There is no guarantee to keep $100 million. It is only that if the amount on deposit exceeds $100 million, then the interest is payable by the banks on a rate which is one-quarter of one per cent less than the treasury bill rate on a weekly basis.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That is on the excess of $100 million?

Mr. ELDERKIN: In excess—over. But let me point out to you another thing. Because of the peculiar way the government keeps its books—

An hon. MEMBER: Hear, hear.

Mr. ELDERKIN: The balances to which reference has been made are the balances shown on the books of the government with no consideration given to outstanding cheques. Now, this is where the difference is. It is entirely possible, even if there is $100 million there, that there is float out against it at the time. It is nothing more than the usual arrangement, really that any corporation is required to a great extent to do to cover the outstanding float. This is the general principle of it.

The CHAIRMAN: As a matter of fact, before the tabling of the most recent Auditor General's Report this point was considered and discussed in this Committee and explanations given. I gather, from what you say now, that you will continue to consider this and feel that the matter is covered for the reasons you have given and also under the provisions of the law.

Mr. ELDERKIN: I just wanted to emphasize that the government takes the view that this is not recompense for services rendered.

The CHAIRMAN: If there is no further discussion shall the amendments proposed by Mr. Clermont and seconded by Mr. Macdonald carry?

An hon. MEMBER: What clauses?

The CHAIRMAN: They are clauses 92 and 93. I think the simplest way to take them is en bloc. Shall the amendments carry?

Amendments to clauses 92 and 93 agreed to.

Clauses 92 and 93, as amended, agreed to.

The CHAIRMAN: Mr. Macdonald has asked if he might have the indulgence of the Committee for a few minutes before we adjourn to make some brief comments on clause 138, because he has to attend another function this afternoon when we will be reaching this clause.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, on Tuesday when we discussed the matter, and particularly the amendment to raise the penalty under this clause, both Mr. Wahn and I made some observations. I am not holding myself out as representing his views, but I have two comments on the clause. I realize it is late in the game to be proposing anything in the nature of a very fundamental amendment but I would like to submit for the Minister's consideration two changes.

First, with respect to the maximum limit which is to be $10,000 pursuant to the amendment, the sum of $10,000 is a lot of money to me and to everybody else here around this table, but in comparison with the advantage to the banks for running a successful combine for two or three years, a $10,000 penalty is really like a licence fee to shoot moose out of season. I can see no particular reason why the maximum limit should not be taken off and, as under the Combines Investigation Act, there should be the potential for a very much larger penalty. I think the maximum should be taken off.

The second change, which is a suggestion I made to Mr. Elderkin, is that for the purpose of being assured of carrying out a successful prosecution where a situation has been identified, the provisions of the Combines Investigation Act might be incorporated by reference under this clause. Mr. Elderkin observed at the time that there was a risk of duplication because the Inspector General of Banks was carrying out many of the functions that the Director of Investigation and Research under that statute carries out. I agree that there would be some difficulty in making a bald incorporation in this clause, and I suggest to the Minister that perhaps consideration could be given to adding to this clause such provisions of the Combines Investigation Act as might ensure some reasonable success in prosecution.

I would like to remind the Minister of the wreck-strewn history of the Combines Investigation Act or, rather, those provisions of the law which are now incorporated in it. I would like to make the suggestion that if the following powers are not already held by the inspector general they should be included. They are: those under Section 9 of the Combines Investigation Act requiring written returns; Section 10 authorizing entry into premises and Section 11 for the inspection of documents. In addition—I do not think you have this one—It seems to me that by far the most important provision, if you were only to include one of these, is the provision of Section 41 of the Combines Investigation Act with respect to evidence against the corporations and the banks. You might consider Section 41(a)—the jurisdictional provision—and also, if you do not already have it, see whether Section 31(a) which confers the special remedy of requiring subsequent returns might also be incorporated here.

Mr. ELDERKIN: Would you mind turning to clause 65(4) of the bill?

Mr. MACDONALD (*Rosedale*): No, that clearly does not meet the situation. I believe I am correct in saying that the provisions of Section 41 of the Combines Investigation Act are unique in the federal law and were enacted specifically for the purpose of assisting a prosecution in proving an offence under that statute.

This, of course, has reference only to acquiring evidence, but whether or not certain documents will be evidence, once acquired, is dealt with by Section 41, and I think it might seriously be considered here. Thank you, Mr. Chairman.

The CHAIRMAN: I will bring the Committee up to date. Remaining to be dealt with—and the Clerk will correct me if I am wrong—are clause 76, clauses 88, 89 and 90—which are basically a group—clauses 137, 138 and 151. Also, we have to deal with clause 91 and, of course, clause 1 has been stood in a formal way, and a series of schedules which are linked with clause 88. We will resume this afternoon at 3.45 to continue our progress.

Mr. MONTEITH: Mr. Chairman, may I bring up a little matter of procedure? Clause 91, to me, is probably the nub of the Bank Act. I think everything else has been adjusted very nearly to the satisfaction of the Committee. Would it be possible to get the evidence of the Minister yesterday and today, having to do with clause 91, and have it photographed? We still have some work to do and if we do clean up everything else this afternoon, I would be glad to see the Committee go into camera tonight as a prelude to final disposition of the bill. But I wondered whether that evidence could be avaliable for consideration over the weekend, even if we have to come down to one clause, namely, clause 91, left to deal with at the first of the week?

The CHAIRMAN: Certainly, the Clerk will attempt to get the evidence transcribed but I would point out to the Committee—and in this I am in the hands of the Committee—that the Clerk informed me earlier today it will take approximately one week from whenever we finish our consideration of this legislation before it can be reported to the House. There are all sorts of matters involving preparing the report which are apparently quite technical. I ask the members to bear this in mind. It is not something we can finish tonight and report tomorrow. Apparently this legislation is so complex that it will take a week to put it in shape to report it to the House.

This means that even though the government and the other parties may not wish to hold to the suggested March 10th prorogation date, we still do not have a very lenthy period before Easter, which is about the 25th of March, with the present legislation expiring, for better or for worse, on April 1st. I am wondering whether perhaps we should not attempt and again, I am in the hands of the Committee to complete our consideration this week because of the time schedule we are labouring under.

Mr. MONTEITH: Mr. Chairman, I have to reiterate what I said earlier, that this is the nub of the whole thing and I would like very much to study the Minister's evidence, regarding clause 91 only, when he was here yesterday afternoon, and what was said this morning.

(*Translation*)

Mr. CLERMONT: I think Mr. Monteith and the other members were here when the Minister made his observations yesterday and today and I think we should therefore be able to discuss clause 91 this afternoon or this evening, and if possible, complete consideration of this today so that we could finish with the bill. If we put if off from day to day, we will never get finished with it. It seems to me the Committee has been obliging enough to accommodate members who

could not come, by standing clauses, but I think that the others, who have been attending regularly should get some consideration.

(*English*)

The CHAIRMAN: Well, we have had an exchange of views on this. We will resume this afternoon and see how we are getting along.

We will recess until 3.45 this afternoon.

AFTERNOON SITTING

The CHAIRMAN: Gentlemen, I think we can call our meeting to order. Now, over the luncheon period, Mr. Ryan of the Department of Justice, I see was hard at work. He prepared an amendment, or a text from an amendment, which reflected what Mr. More was saying in the other discussion. Perhaps we could ask Mr. Ryan and Mr. Elderkin to review this with us. The document is headed "22 February 1967, Clause 91 (Revised)". We will see whether it is in accord with our discussions of this morning.

On Clause 91—*Powers re interest.*

Mr. ELDERKIN: As you notice, the particular sections are numbered (a), (b), (c) and (d). The first amendment (a) is the present clause 91 (3) with a change in the operating period. In other words, for the period commencing with the coming into force in this act and ending on the 31st day December, 1967; that is, for the balance of this year, the maximum rate will be 7¼ per cent. It is spelled out in here 7¼ per cent to make it easier drafting, but 7¼ per cent would be in effect at the present time, but this makes it a much simpler drafting operation. And then for any part of any interest period commencing on and after the first of January 1968, it goes on as it is in the present case, namely one and three-quarters per cent over the short term rate.

And (b) is the same as an amendment which has already been before you, namely, the purpose of the amendment is to bring in all fixed term loans and discounts instead of, as before, only discounts were mentioned.

(c) is also a repetition of an amendment which was before you, and is the same as it appears in some other clauses, where it refers to an equity of redemption, which as you realise in some provinces is similar to a second mortgage, in effect.

Mr. MORE (*Regina City*): That answers Mr. Fulton and Mr. Lambert?

Mr. ELDERKIN: That is right. Now, when you come to (d) it is what one might call the trigger clause. This drafting was, I believe, along the lines that was suggested this morning. The trigger would work, in other words, if at any time between now and the end of the current year the rate dropped to less than 5 per cent, instead of 4½ per cent as it is in there. The sections would expire, but only after the 31st day of December, 1967. In other words, the rate follows through. Then after that—on the 15th day of the month next following the last month of such period—this is a repetition of what is in there at the present time. The effect of this is, in other words, that if the 5 per cent trigger was adopted, and it occurred any time during the current calendar year, then the rate of 7¼

would stay on until December 31st, but would come off automatically on the 15th of January. That, I think, is briefly what the amendment reads, along with amendments which were put before you for other purposes.

The CHAIRMAN: Are there any questions or discussion with respect to the foregoing?

Mr. ELDERKIN: I am sorry; I beg your pardon. I think I made a mistake which Mr. Ryan has pointed out. If the trigger worked before the 31st day of December 1967, it would come off as of the 31st day of December 1967. If it occurs on the 31st day of December 1967, it comes off on the 15th of January.

Mr. MORE (*Regina City*): Does the 7¼ operate until the 31st—

Mr. ELDERKIN: The 7¼ operates under all circumstances until the 31st day of December, 1967.

Mr. MONTEITH: In general terms, this would appear to have the effect of removing the ceiling entirely somewhat earlier than might otherwise have happened.

Mr. ELDERKIN: Yes; the difference between 4½ and 5 per cent, if that is adopted.

Mr. SHARP: Well, this is not quite right, Mr. Chairman. I think what—

Mr. MONTEITH: After the 31st of December, 1967.

Mr. SHARP: Yes; it is possible that if we did not change the bill at all that the ceiling would come off before the 31st of December, 1967. That is a possibility, but once you have got to December 31, the likelihood of it coming off from then on is increased by having raised the trigger point to 5 per cent.

Mr. MORE (*Regina City*): But, we have a period of stability until the end of the year.

The CHAIRMAN: Is there any further discussion?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The critical three month period of the calculation is, in effect, the first three months of 1967. Why is the critical period not the last three months of 1967? Suppose, as you say, the trigger sets off in the first three months of 1967, then in the intervening months, it comes up again, it is still off, is it?

Mr. ELDERKIN: It is off; that is right.

Mr. SHARP: That is how it would operate other than—

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

Mr. SHARP: Now, this is the question the Committee has to decide, whether they prefer to have that period of stability for a year, or whether they prefer just to let the present proposals operate. And, as I said earlier, Mr. Chairman, this is a question of judgment. When we originally made these proposals, interest rates were not rising and there was a great deal of apprehension about the possibilities that the rate might come off in the middle of a very rapidly rising interest rate period. Interest rates now show signs of declining, and have come down considerably, and we are now considering the problem in a rather different setting. If we allow the present law to operate, there could be some

unnecessary changes in the ceiling. At least, they are unnecessary in the sense that they do not serve any particular purpose. And, as I say, I think this is a question of judgment, I do not look upon this as representing any change in the general spirit of the act, and if the Committee felt its judgment was this way, I would not oppose it or if they decided that they wanted to retain the present provisions, I would understand that, too.

The CHAIRMAN: Are there any further questions or comments? First I will have to ask Mr. More whether he will be willing to have this wording substituted for his motion of this morning.

Mr. MORE (*Regina City*): Yes, I would. I think it serves the purpose I had in mind.

The CHAIRMAN: Yes. I presume you are speaking for Mr. Lambert, and Mr. Flemming will be willing to have his name stand as seconder in his place since he, I gather, is at the Defence Committee. The amendments covered by the document that I have referred to at the opening of the meeting is before us now, and if there is no further discussion, I would ask if the amendments in question carry.

Mr. MORE (*Regina City*): I move that Bill C-222, An Act respecting Banks and Banking, be amended

(a) by striking out lines 36 to 39, inclusive, on page 74 thereof and by substituting therefor the following:

"(a) for the period commencing on the coming into force of this Act and ending on the 31st day of December, 1967, seven and one-quarter per cent; and

(b) for any part of an interest period commencing on or after the first day of January, 1968, one";

(b) by striking out subclause (4) of clause 91 on page 75 thereof and by substituting therefor the following:

Interest and discount charges.

"(4) Where a loan or advance referred to in subsection (2) is made for a fixed term by the bank in one interest period and is repayable in whole or in part in a later interest period, the maximum rate of interest or rate of discount that the bank may charge on the loan or advance is that prescribed by subsection (3) for the interest period in which the loan or advance is made notwithstanding the maximum rate of interest or rate of discount prescribed for later interest periods.";

(c) by striking out lines 22 to 24, inclusive, on page 75 thereof and by substituting therefor the following:

"Canada or of an equity of redemption therein or of an assignment of or mortgage on the interest of a lessee thereof,";

(d) by striking out lines 12 to 18, inclusive, on page 76 thereof and by substituting therefor the following:

"period of three months ending after the 31st day of December, 1966, is less than five per cent, subsections (2) to (8) of this section, subsection (1) of section 93, section 112 and subsection (1) of section 151 expire

(a) on the 31st day of December, 1967, if the last month of such period ends before the 31st day of December, 1967, or

(b) on the fifteenth day of the month next following the last month of such period, if such period ends on or after the 31st day of December, 1967,

but without affecting any loan or advance made for a fixed term in respect of which a rate of interest or rate of discount has been charged before that day,"; and

(e) by striking out line 20 on page 76 thereof and by substituting therefor the following:

"(8) of this section and subsection (1) of section 93 expire shall be given by proclamation of"

Mr. FLEMMING: I second the motion.

Amendment agreed to.

The CHAIRMAN: Is Clause 91, as amended, agreed to?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No, I vote against this amendment.

The CHAIRMAN: Is it on division, or do you want yourself recorded.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Oh, I will be recorded.

The CHAIRMAN: All right. Next, we revert back to Clauses 88, 89 and 90.

I did say Clause 91 as amended carried?

Mr. MORE (*Regina City*): No, you have not said that.

The CHAIRMAN: Oh, I did not. I am sorry, my apologies.

Mr. MORE (*Regina City*): I think Mr. Cameron interrupted on this amendment.

The CHAIRMAN: Oh, yes. I see. All right. Thank you for drawing this to my attention. Now, I ask if Clause 91 as amended carries?

Mr. MONTEITH: I made a request before lunch. If the Committee does not see fit to accede to that request, I will have to vote against it. I would like to point out that we still have some work to do on this, and that there is a possibility we will not finish today even without this clause. I would like to suggest that the matter rest for the time being and we go on and clean up some of the other clauses.

The CHAIRMAN: Well, it is up to the Committee. I will just report to the Committee, I checked with the Clerk about the possibility of having the transcript of yesterdays'—

Mr. MONTEITH: Well, now look. Let us not be nonsensical. This Committee has been going on for days and days, weeks and months, and we have had 80 odd meetings on this particular bill. I certainly cannot see any harm in letting this rest over the week end, as I have requested. I mentioned that I would like to peruse the Minister's evidence, and Miss Ballantine has informed me that it is possible she may have one copy available by tomorrow afternoon. I would like to give the whole thing some further thought. I think you are going to rush

things a bit, Mr. Chairman, if you push it through at this stage. I know there is a presumed deadline of the 10th of March, but I am not trying to wreck that dealdline or anything of the sort. But I do ask this week end to consider this clause; as amended.

The CHAIRMAN: Well, it is up to the Committee whether we want you to proceed with this now or let it stand until Monday.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Monteith has had plenty of time to consider it the way the rest of us have. I do not understand. I must say, I take some exception to your suggestion that the Chairman is being nonsensical. I think he was just putting a very plain question to the Committee. I would remind Mr. Monteith that we have stood many sections at the request of himself and his colleagues who have not found it convenient to be here. We have had to hold them over, and those of us who have faithfully attended each Committee have had to wait. Frankly, I am not prepared to wait any more.

Mr. MONTEITH: Well, I have expressed my opinion, Mr. Chairman.

Mr. LEBOE: Well, I was wondering if I could ask Mr. Monteith this question. Would it not be possible to make any move that you wanted to make in case something came up—and it is a hypothetical question—when the bill comes before the house.

Mr. MONTEITH: That is always possible, certainly. I just stated my position, that is all. Actually, my ideas are in the hands of the Committee.

Mr. LEBOE: I was thinking this might be a compromise.

The CHAIRMAN: Well, there will be the Committee of the whole stage in the house, and I am sure that the Minister would be willing to consider any views that would develop at that time, after further study and consideration of what we report to it. But, I think the procedure is this, unless the Committee, following the practice in the House, unanimously agrees to have a clause stand, then I am advised to call for a vote if there is no further discussion.

Mr. SHARP: May I ask Mr. Monteith, if he has any questions he would like to put to me. I can understand—

Mr. MONTEITH: No, I simply mentioned that I would like to review your evidence of yesterday, as it reflects on Clause 91, and it is a very important subject, and quite an intricate one. That is my position.

Mr. CLERMONT: I will support the remarks of Mr. Cameron. It is up to the Committee, so if we have to vote, we will vote on that question. If the majority is to stand the clause until next week, all right, if not—

Mr. SHARP: Well, if I may say so, Mr. Chairman, my only concern about Mr. Monteith's position is that Mr. Monteith said he has to vote against the clause unless he gets a chance to look at the evidence. It would be a pity to have—

Mr. CLERMONT: Would that mean, Mr. Minister that we will vote for it on Monday?

Mr. SHARP: No, no.

The CHAIRMAN: Well, perhaps you can assess this, Mr. Sharp. Can you give us some information about house business, and so on? You are closer to the house leader in these matters than those of us who sit below the salt are.

Mr. SHARP: Yes; well I agree with what you said this morning, Mr. Chairman, that time is running out. But I would not want to say that this matter should not be stood for a few hours if Mr. Monteith values my views so highly that he would like to have a look at them again. I can understand this; I can sympathise with his point of view.

The CHAIRMAN: I, like Mr. Flemming, have a compromise suggestion. It is obvious we will be meeting this evening anyway. Let us agree to stand the clause until this evening's sitting and we will see where we stand then.

Mr. CLERMONT: Mr. Chairman, Mr. Monteith will not have those papers tonight; they have been promised to him for tomorrow afternoon, so what is the use of waiting.

The CHAIRMAN: Well, there is this aspect. I am not saying the Committee will want to stand if further, but if we stand it until tonight, over the supper hour, if we adjourn earlier, perhaps Mr. Sharp will be able to get over the same points even without the transcript. I do not know.

Mr. SHARP: I always tell the truth so I do not have to remember what I say.

The CHAIRMAN: Perhaps we can have an interim compromise, and stand this clause until this evening. It is obvious we will be meeting this evening, and perhaps there will be a reassessment of positions, and then if at that time there has been no change in position, we will follow the rules. Why do we not try that?

Mr. CLERMONT: There is one thing you have to keep in mind, too. Suppose we finish the bill this afternoon and we sit tonight in camera for other matters. You have to keep in mind that if we sit in camera we do not need as many personnel as we do for public sittings.

The CHAIRMAN: Do you mean as far as the quorum is concerned?

Mr. CLERMONT: I mean, if we are through with the bill this afternoon, some of the personnel will not be required tonight. If we keep that outstanding for tonight—we either settle it this afternoon or postpone it until next week. I do not see the advantage sitting tonight.

The CHAIRMAN: What personnel are you referring to?

Mr. CLERMONT: Well the lady in the corner will not be obliged to come tonight if we sit in camera.

The CHAIRMAN: Oh, I think we will still need the interpreter. I think we will still need the simultaneous translation.

Mr. CLERMONT: That was what I was told if there was no sitting tonight—maybe the information was not too accurate.

The CHAIRMAN: I think we will still need somebody to operate the electronic equipment.

Mr. CLERMONT: Personally, I do not see any advantage in postponing it to tonight. It is either that we settle it this afternoon or postpone it to next week.

The CHAIRMAN: Well, perhaps you would be willing to see what happens this evening. Events may prove you 100 per cent correct and then you will be a prophet with honour.

Mr. CLERMONT: Well, I express my opinion; I am not responsible for the others.

Mr. FLEMMING: I would like to inquire concerning the urgency of our attention to and our finalization of these matters as soon as we can secure the consent of all the members. I presume that the urgency has to do with the expiration date of the legislation itself, and which the Minister is concerned about, of course.

Mr. SHARP: Well, I was concerned, Mr. Chairman, about what you said this morning that you were advised it would take a week for the report to be prepared.

The CHAIRMAN: The clerk has again confirmed that. If there is any way to speed that up, I am sure we will want to assist her.

Mr. FLEMMING: Mr. Chairman, I did not raise the question to object to your comment.

The CHAIRMAN: No, I realize that.

Mr. FLEMMING: I am all for it, and probably Mr. Monteith might think about it and secure some information. In any event, it is sure not going to be harmed by a few hours.

The CHAIRMAN: Yes.

Mr. FLEMMING: Until tonight.

The CHAIRMAN: Well, perhaps we could, in light of what you said, Mr. Flemming, revert to—

Mr. MORE (*Regina City*): We carried the amendment but not the amended clause?

The CHAIRMAN: That is right. That is where we stand at the moment. Perhaps we can revert to our consideration of clauses 88, 89 and 90. Now, there has been a further draft of clause 88(5) and this clause was the subject of most of our discussion this morning. I will ask the clerk to distribute these. Mr. Sharp, I believe you wish to make some comments on this further draft of clause 88(5).

On Clause 88—*Loans to certain borrowers* and *security.*

Moved by Mr. Clermont and seconded by Mr. Comtois, that clause 88(5) of Bill C-222, an act respecting banks and banking, be amended:

(a) by striking out lines 35 to 40 on page 69 thereof and substituting therefor the following:

"(5) Notwithstanding subsection (2) and notwithstanding that a notice of intention by a person giving security upon property under this section has been registered pursuant to this section, where, under the *Bankruptcy Act,* a receiving order is made against, or an assignment is made by, such person,"; and

(b) by striking out paragraph (b) of subclause (5) of clause 88 thereof and substituting therefor the following:

"(b) claims of

(i) a grower of perishable products of agriculture that are direct products of the soil for money owing by a manufacturer to

to grower for such products that were grown by him on land owned or leased by him and that were delivered to the manufacturer during the period of six months next preceding the making of such order or assignment, or

(ii) a producer of dairy products for money owing by a manufacturer to the producer for such products that were produced on land owned or leased by him and that were delivered to the manufacturer during the period of six months next preceding the making of such order or assignment,

to the extent of seven thousand five hundred dollars of the amount of the claims of the grower or producer therefor, or the total of his claims therefor if such amount is seven thousand five hundred dollars or less;"

Mr. SHARP: Mr. Chairman, following the discussion today I had some words with Mr. Elderkin about the possibilities of making amendments in response to suggestions made by members of the Committee, particularly Mr. Clermont and Mr. Cameron. I confirmed my own view that I think it would be unwise to include all agricultural products rather than just dairy products—there is an extension of the list that is already there—but I do believe that it would help to meet what seems to be legitimate concern if we extended the period in clause 88(5)(b)(i) and (ii) from three months to six months and if the maximum amount is increased from $5,000 to $7,500. I thought I might put these forward for consideration, and Mr. Elderkin has drafted them in the form of draft amendments.

The CHAIRMAN: Now, this reflects the points raised in the Committee yesterday, particularly by Mr. Clermont and Mr. Comtois, I gather.

Mr. CLERMONT: And Mr. Cameron as well.

The CHAIRMAN: Yes, Mr. Cameron as well and other members. Perhaps we should see if there is any further discussion or comment. The change, I gather, as Mr. Sharp has said, is that the period within which delivery is to be made to take advantage of the special sections has been increased from three to six months and the maximum amount of claim has been increased by some 50 per cent actually from $5,000 to $7,500.

Mr. FLEMMING: That is a pretty good percentage. If you could get that all the way through you would be all right.

The CHAIRMAN: Recalling previous testimony, it would appear that this concept is rather a novel approach to clause 88. I say that in a positive sense. Now, are there any further questions or comments about the latest draft of the amendment to 88(5).

Mr. CLERMONT: Mr. Chairman, there is no doubt that I may be inclined to agree with Mr. Monteith that 88 should stand until Monday and maybe we will get more.

Mr. SHARP: Mr. Chairman, my concern was that if we stood the other one we might get less.

Mr. CLERMONT: Personally, I would agree that over the original bill C-222, the last amendment is fair improvement.

The CHAIRMAN: It shows the value of Committee consideration and it also reflects sustained effort by our colleague, Eugene Whelan, beginning I think in 1963. In any event, if there is no further discussion or comment, I would ask if the amendment to clause 88(5) before us now carries?

Some hon. MEMBERS: Carried.

Amendment agreed to.

The CHAIRMAN: Are there any other amendments to clause 88? I would ask if clause 88 as amended carries?

Some hon. MEMBERS: Carried.

Clause 88, as amended, agreed to.

The CHAIRMAN: I would ask if clause 89 carries?

Some hon. MEMBERS: Carried.

Clause 89 agreed to.

The CHAIRMAN: I would ask if clause 90 carries?

Some hon. MEMBERS: Carried.

Clause 90 agreed to.

The CHAIRMAN: Now, I think we should revert to clause 76. You will recall we had a redrafted amendment to it and a question was raised for consideration. I do not know the best way to approach this. We have to dispose of the clause somehow, some time. We will let the officials think about the answer while we are looking for the most recent version of the amendment.

Mr. MONTEITH: That was in the list as No. 3, was it not?

The CHAIRMAN: As No. 3, yes. The one for February 22, clause 76 revised.

On clause 76—*Ownership of corporate stock.*

Moved by Mr. Clermont, seconded by Mr. Comtois:

That Bill C-222, An Act respecting Banks and Banking, be amended

(a) by striking out lines 41 to 49, inclusive, on page 53 thereof and by substituting therefor the following:

of corporate Ownership stock.

"76. (1) Except as provided in this section, the bank shall not own shares of the capital stock of

(a) a Canadian corporation, other than a trust or loan corporation,

(i) in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than fifty per cent of the total votes that could, under the voting rights attached to all shares of the corporation issued and outstanding, be voted by the holders thereof, in any case where the total amount paid or agreed to be paid by the bank for such of the

shares of the corporation as have voting rights attached thereto, is five million dollars or less, or

(ii) in any other case, in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the corporation issued and outstanding, be voted by the holders thereof;

or

(b) a trust or loan corporation in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the trust or loan corporation issued and outstanding, be voted by the holders thereof;

and any such shares in excess of the maximum number prescribed by this subsection owned by the";

(b) by striking out lines 3 to 16, inclusive, on page 54 thereof and by substituting therefor the following:

Shares of foreign corporation.

"(2) Except as provided in this section, the bank shall not own shares of the capital stock of a foreign corporation in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the foreign corporation issued and outstanding, be voted by the holders thereof, if the foreign corporation owns shares of the capital stock of

(a) a Canadian corporation, other than a trust or loan corporation,

(i) in any number that would, under the voting rights attached to the shares owned by the foreign corporation and the bank, if any, permit the foreign corporation, or the foreign corporation and the bank, to vote more than fifty per cent of the total votes that could, under the voting rights attached to all the shares of the Canadian corporation issued and outstanding, be voted by the holders thereof, in any case where the total amount paid or agreed to be paid by the foreign corporation and the bank for such of the shares of the Canadian corporation as have voting rights attached thereto, is five million dollars or less, or

(ii) in any other case, in any number that would under the voting rights attached to the shares

owned by the foreign corporation and the bank, if any, permit the foreign corporation, or the foreign corporation and the bank, to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the Canadian corporation issued and outstanding, be voted by the holders thereof;

or

(b) a trust or loan corporation in any number that would, under the voting rights attached to the shares owned by the foreign corporation and the bank, if any, permit the foreign corporation, or the foreign corporation and the bank, to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the trust or loan corporation issued and outstanding, be voted by the holders thereof;

and any such shares in excess of the maximum number prescribed by this subsection owned by the bank at the coming into force of this Act, shall be sold or disposed of before the first day of July, 1971.";

(c) by adding after subclause (3) of clause 76 on page 54 thereof the following new subclause (4);

Exception.

"(4). The bank may own shares in excess of the maximum number prescribed by this section, if the shares are acquired through a realization of security for any loan or advance made by the bank or any debt or liability to the bank, but any such shares acquired after the coming into force of this Act shall be sold or disposed of by the bank within a period of five years from the day on which they were acquired.";

(d) by striking out subclause (6) of clause 76 on page 54 thereof and by renumbering the present subclauses (4) and (5) on page 54 thereof as subclauses (5) and (6), respectively; and

(e) by striking out line 32 on page 55 thereof and by substituting therefor the following:

"province;

"Foreign corporation."

(c) "foreign corporation" means a corporation incorporated outside Canada; and

"Trust or loan corporation."

(d) "trust or loan corporation" means a Canadian corporation that carries on the business of a trust company within the meaning of the *Trust Companies Act* or the business of a loan company within the meaning of the *Loan Companies Act* and that accepts deposits from the public."

Mr. ELDERKIN: Mr. Chairman, we ran into some difficulties on this one as it stands, as noted by the Committee. There is no difficulty, of course, as far as the

provision which permits the holding of voting stock in another corporation, whether it is a trust or loan company or any other Canadian corporation. We added a new provision in which the bank might invest in another corporation, other than a trust or loan corporation, to the extent of $5 million if that investment did not exceed 50 per cent of the voting shares. Now, the problem that arises here is, when you get into this, what happens in this particular corporation in which the bank has invested unless you make some provision to the contrary, the bank could hold shares in a trust or loan company and it might, to take an outside view on it, hold 100 per cent of the shares in a trust or loan corporation. Indirectly, if this provision goes without amendment the bank would, under this particular paragraph, very effectively own 50 per cent of a trust and loan corporation. Now, you can say that the bank cannot invest in 50 per cent of a company that owns stock of a trust and loan corporation, but then, as Mr. Ryan stated, you could follow this down for company after company after company and you would never get to the end, or when you do get to the end they may have a trust or loan corporation.

An hon. MEMBER: Why does the bank not do that?

Mr. ELDERKIN: I think this is the difficulty. There is no doubt about the intent, probably of the clause the difficulty arises in just the fact that through a series of holding companies, if the bank wanted to go to the trouble to do it, under this provision you could end up with a 50 per cent interest in a trust and loan corporation.

About the only way that perhaps you can shut the door on this entirely is to cut it off in effect right at the start and say they cannot hold sufficient shares in another corporation—in a holding corporation. It is a very difficult thing to overcome, and it is a very difficult thing to overcome by drafting of legislation at all as long as you have this provision in here which we have sort of accepted, that the bank may own 50 per cent of a subsidiary corporation or another corporation providing it does not exceed $5 million of investment. Mr. Ryan and I have given a great deal of thought to it as to how anything could be drafted, but as I pointed out, and he has pointed out to me the thing could go down through so many stages that you could not track it down, or at least you could not control it. I do not think it is good drafting to express an intent in the act; I think it would be a very unfortunate thing if every investment the bank made under this provision would have to be referred for approval by the Governor in Council or the minister. This is the sort of discretion that you do not like to put in, or at least, I shall put it another way, that the Governor in Council does not like to have.

Mr. SHARP: Thank you.

Mr. ELDERKIN: This is really our problem. I am not suggesting that a bank would take advantage of this particular provision, but I do want to point out to the Committee that the possibility is there. All we could do under the circumstances, unless some change is made, would be to in effect express opinion that this is not the type of thing we want done.

Mr. FLEMMING: These opinions do not always carry any weight.

Mr. LEBOE: Well, Mr. Chairman I imagine that the brain trust has really gone over this with a fine tooth comb and anything we might offer may be of no

value, but I was wondering if something could be put in there which would just indicate that the end result would not be the control; the end result of any purchase of shares in any company would not result in the control of a trust and loan company. I imagine you have gone over this—

Mr. RYAN: Mr. Chairman, the difficulty in this clause, at the very outset, is that we are not talking here in terms of control, we are talking here in terms of the ownership of shares, so that directly or indirectly owning shares will not help us in this situation. We have to look at the control, the indirect control down the line of ownership. In order to do that we have to provide, in one instance the type of provisions you have in clauses 52 and 56 where you are considering controlled subsidiary companies. Of course, I must speak now as a draftsman. The draftsman is in a dilemma in this case, in the absence of clear policy instructions, because if a direction is given, for instance, to prepare a draft that would prevent that control, it may be necessary to recast the whole of 76 to do that or to come up with another provision. In the terms of clause 76 I would not be able to do it successfully so that you could not find some holding company down the line, one step beyond those which you have provided for here through ownership, that could defeat the whole purpose of the section. If there were clear instructins on policy, then I would be in a better position to see what I could do. In this instance only, I cannot do anything very much with this section.

There are a number of alternatives. The control could be a general control over the purchase of shares by a bank. This could be a commission, Inspector General, Governor in Council or minister. This would be a discretionary control. Another way of doing it would be to cut off ownership in a holding company. We would have to define holding company then, perhaps in terms of the Canada Corporations Act. This would perhaps create trouble in other areas because we do not know the extent of holdings in holding companies. If there were, as was suggested, instructions to prevent any indirect control of a trust company, then I would like to take it away and look at it to see what I could come up with from that point of view. However, there is a difference between owning shares and controlling companies ultimately through the ownership of shares.

Mr. ELDERKIN: The point which the Minister just raised too was to the effect that it could, if not changed, actually some place down the line acquire shares of another bank.

The CHAIRMAN: Well, what shall we do about this?

Mr. MORE (*Regina City*): Well, the intent of the clause is not always the law that is applied if there is any question about it. It is often a game to defeat the intent, if the loophole is there.

Mr. LEBOE: Mr. Elderkin, is there any other section that we have actually passed where the effect could be brought in? Is there any other section of the act where the desired effect could be brought in where it would control—

Mr. ELDERKIN: No, there is not, Mr. Leboe.

(*Translation*)

The CHAIRMAN: Mr. Clermont?

Mr. CLERMONT: Would there be any way, Mr. Chairman, to adopt Clause 76 with some amendments and if, in the meantime, improvements are brought in one way or the other, they could be submitted to the House?

The CHAIRMAN: An amendment?

Mr. CLERMONT: Could that be possible? Because if we base ourselves on other bills which came into the House after consideration in Committee, there were amendments brought in the House, for instance, the Transportation Bill.

The CHAIRMAN: After the Committee had considered it.

(*English*)

Mr. SHARP: Mr. Chairman, I was looking through the Porter Commission to see how they dealt with this matter in their recommendations. Probably they did not face up to this difficulty either, because as I recall it their recommendation was that they might have $10 million rather than $5 million which must have increased the dangers of this happening. I just wanted to see whether by any chance they recognized the possibilities of avoiding the intent.

Mr. LEBOE: We could refer to the Minister of National Revenue. I think he has all sorts of little gadgets for arm's length decisions. Has he not?

It is in the income tax.

The CHAIRMAN: It is the custom to complain about them, too.

Mr. LEBOE: Yes.

Mr. MORE (*Regina City*): Can you put in a clause in this section that says the intent of this bill is to prevent so and so, and if it is found that the intent has not been carried out, the Minister or the Governor in Council may require them to divest themselves of these shares. Can you do it that way? I am not a lawyer; I do not know. It is rather a negative approach perhaps, but it might be the simplest to say that if you discover that the intent of the section has been overridden through investment in a holding company, the Minister or Governor in Council may require the divesting of the shares.

Mr. LEBOE: Maybe the threat which exists of holding up the Bank Act might be a deterrent.

Mr. RYAN: I will have to look over here and see what these fellows look like.

The CHAIRMAN: We will just allow these consultations of the Minister's officials to continue.

Perhaps I can make a suggestion. We could stand this clause until this evening's sitting.

Mr. MORE (*Regina City*): Not until tomorrow or Monday.

The CHAIRMAN: Perhaps we can move on to clause 137. I believe this clause was stood at the request of your group, Mr. Monteith. It may have been just with respect to the size of the penalty; I do not know.

On Clause 137—*Statements not signed as required.*

Mr. MONTEITH: I think that was it, yes. It is just a query whether it is sufficient or not.

Mr. ELDERKIN: Well, on the annual statement—this is a matter of opinion for the Committee, as far as that is concerned—it is a fairly small penalty that is provided. It is something that has never occurred in the past that we have had any difficulty with one way or another, but it is up to the Committee whether it should be increased or not.

Mr. MONTEITH: Well, I am not going to raise an issue. I was just making the query as to whether or not it should be—

Mr. ELDERKIN: We have never had the least bit of trouble with it.

The CHAIRMAN: If there is nothing further on clause 137 I will ask whether it carries?

Some hon. MEMBERS: Carried.

Clause agreed to.

The CHAIRMAN: Shall we move on to clause 138?

On Clause 138—*Agreements fixing interest.*

Mr. MORE (*Regina City*): The same thing applies there. Was it not a matter of the penalty?

Mr. ELDERKIN: No, there were other points raised there, Mr. More. This was the one on which—

The CHAIRMAN: Mr. Macdonald asked—

Mr. ELDERKIN: Oh, yes, yes. That is right. Mr. Macdonald raised a few questions with respect to a few sections of the Combines Investigation Act.

Mr. MORE (*Regina City*): That is right.

The CHAIRMAN: So we can have some discussion on this, perhaps you may have some comments, Mr. Elderkin, on the powers you have now as contrasted with those referred to by Mr. Macdonald this morning in the Combines Investigation Act.

Mr. ELDERKIN: He mentioned one which was covered, and I have not had a chance to look at it to see whether it is or not. Under the powers that the Inspector General of Banks has he may take possession of any books, documents, records, et cetera, of a bank; he has the power to take evidence under oath from any person connected with a bank. I am not quite clear—well, I just do not know which section in the Combines Investigation Act Mr. Macdonald felt might be a further necessity. The other point that Mr. Macdonald raised was the matter of whether there should be a penalty here or whether it should be made a criminal offence, for violation.

The CHAIRMAN: Well, it is a criminal offence. It is a question of whether there should be a maximum or minimum penalty.

Mr. ELDERKIN: Yes, I think that was it. As far as taking evidence is concerned, clause 65(4) reads:

> The Inspector has all the powers conferred upon a commissioner appointed under Part II of the Inquiries Act for the purpose of obtaining evidence under oath,—

So I think as far as obtaining evidence is concerned, the Inspector General of Banks has as much power as is required. If that is the case, I am not sure, other than the question of the penalty, what else is necessary to make the section as tight as you can make it.

Mr. More (*Regina City*): He quoted clauses 31 (a) and 41 (a). Those are the sections he referred to.

Mr. ELDERKIN: Yes. I really have not had a chance to look at the Combines Investigation Act to see what they are, and I do not know—

An hon. MEMBER: His original suggestion was that they should have an inspection by the combines branch.

The CHAIRMAN: I think he dropped that later. I think he was suggesting a few corrections in the Combines Investigation Act incorporated by reference into this act so the powers would be available to the Inspector General if they appeared to be of assistance in any investigation or prosecution under this clause.

Mr. ELDERKIN: I do not know and I cannot comment on that. I do not know what more powers are needed. In any case, the Attorney General can take action against any violation of the act.

The CHAIRMAN: I think what Mr. Macdonald had in mind is that there are certain things in the Combines Investigation Act—and perhaps Mr. Ryan may be able to inform us—providing that if the documents have certain evidentiary value the onus with respect to what they stand for is somewhat different from the ordinary criminal prosecution. I know it is unfair to you perhaps, Mr. Ryan, to ask you to cover so many fields of law as we skip about in our consideration, but without having the details with us, do you recall—

Mr. RYAN: Mr. Chairman, one of the statutes that I am most shy about is the Combines Investigation Act. I have very little knowledge of it.

Mr. CLERMONT: That was the question I wanted to put through, Mr. Chairman. I wanted to know Mr. Ryan's comments on the suggestion made by Mr. Macdonald this morning as Mr. Ryan was here.

Mr. RYAN: I had no opportunity, Mr. Chairman, to consider these suggestions; there was another matter that we were dealing with over the lunch period.

The CHAIRMAN: Has any consideration been given to Mr. Macdonald's point about penalty.

Mr. ELDERKIN: That was a matter for the committee. Mr. Ryan could perhaps suggest a change in the wording, if necessary, if you want to drop the penalty out of it. Every other offence under the act has a stated penalty.

The CHAIRMAN: What would be involved in having a minimum penalty, but no maximum, Mr. Ryan, as a drafting proposition. I just raise this point for discussion.

Mr. RYAN: I would like to draw your attention, Mr. Chairman, to clause 160 of the bill. You could, if you wished, use the language for offences, on summary conviction, or on indictment, and then you could use a maximum or minimum. But expressed as a penalty, clause 160 would apply and the action is at the suit of the Attorney General of Canada.

Mr. MORE (*Regina City*): In dealing with banks, can I ask what circumstances would permit the waiver of the penalty?

Mr. ELDERKIN: Permit which, Mr. More?

Mr. MORE (*Regina City*): The waiving of the penalty?

Mr. ELDERKIN: Sometimes we have possibilities where in the past, I can think of once where a bank actually took a mortgage without realizing that legally a mistake was made in the operation. They could actually be penalized for this, but it was waived. You get several cases, Mr. More, where there is a penalty for making a late return to the Minister and we have had perhaps a dozen cases in a dozen years where, because there were not sufficient signing officers around at the date when the return was ready, it would not be submitted. So they submitted late returns, but asked for a waiver of the penalty in this matter. There has never been a serious case, shall we put it that way; it has been all a question of technical errors or cases where they could not help incurring the penalty. It was not something they did deliberately.

The ACTING CHAIRMAN (*Mr. Clermont*): Are there any other comments on it? The Chairman has gone to get the Combines Investigation Act.

Mr. MORE (*Regina City*): Mr. Ryan is not going to escape. If I understood Mr. Macdonald's representation, it was not a 50 per cent increase, but possibly a 500 per cent increase—

Mr. ELDERKIN: I think Mr. Macdonald said that it should be left to the courts, as to what the penalty should be, rather than state it in the act. I think that was his main point; that it should be left to the courts.

The ACTING CHAIRMAN (*Mr. Clermont*): Is the Committee willing to do to clause 151 for the time being?

Mr. LIND: Mr. Chairman, in any case clause 160(2) gives the Minister the power to waive any of the penalty of clause 138, does it not.

The ACTING CHAIRMAN (*Mr. Clermont*): You mean 160 subclause (2).

Mr. LIND: Yes; the waiver privilege; the Minister can waive it.

Mr. MORE (*Regina City*): Could he waive the penalty imposed by the court?

Mr. ELDERKIN: No; it is the penalty under the act.

Mr. MORE (*Regina City*): That is just the difference. Mr. Macdonald's proposal is that the courts decide the penalty, and the act provides the penalty here at the discretion of the Governor in Council, I take it. Do we want to maintain that or remove it. Is that not the question that we face? The Minister can discipline them under the act, but if you do it the other way, it would require the courts to impose the discipline.

Mr. SHARP: Mr. Chairman, as Mr. Elderkin points out there can be cases where simple mistakes are made, where it would certainly be in order for the Minister to waive. I have never had to exercise that authority.

Mr. MORE (*Regina City*): You would not waive the penalty; you would waive prosecution if the other procedure was adopted then. You would not prosecute. That would be the circumstance there?

Mr. SHARP: That is right.

The ACTING CHAIRMAN (*Mr. Clermont*): Gentlemen, is the committee willing to revert to clause 76(6).

Mr. ELDERKIN: You suggested, Mr. Chairman, that we might look at clause 151 and clause 151 refers to clause 91, which is passed, so it was held open for that reason. Oh, no, I am sorry.

The ACTING CHAIRMAN (*Mr. Clermont*): The amendment was carried, but not the clause.

Mr. MORE (*Regina City*): The clause is not carried.

The ACTING CHAIRMAN (*Mr. Clermont*): Is there any schedule Mr. Elderkin that will tie up with either Clause 91, Clause 38 or clause 151?

Mr. ELDERKIN: That is right, clause 151 is tied up with both clauses 91 and 92.

Mr. MORE (*Regina City*): The schedules are on clause 88, are they not.

The ACTING CHAIRMAN (*Mr. Clermont*): Are any of the schedules tied up with Clause 88?

Mr. ELDERKIN: Yes, all the ones that are stood are tied up with Clause 88.

The ACTING CHAIRMAN (*Mr. Clermont*): We passed Clause 88.

Mr. ELDERKIN: No, we have not passed Clause 88 yet. Oh, yes, I beg your pardon.

The ACTING CHAIRMAN (*Mr. Clermont*): Do you like our company?

Mr. ELDERKIN: For a while, Mr. Chairman, for a while. Yes, we could pass the schedules, Mr. Chairman.

The ACTING CHAIRMAN (*Mr. Clermont*): I do not mind going over them once or twice, but no more. The following schedules were stood: Schedules C, D, E, F, G, I, H, J, K, L; all these schedules, Mr. Elderkin, were tied up with clause 88.

Mr. MORE (*Regina City*): Do we require any new schedules as a result of the amendment?

Mr. ELDERKIN: No.

Mr. LIND: Schedule A was also stood, was it not?

The ACTING CHAIRMAN (*Mr. Clermont*): Schedule A carried.

Mr. ELDERKIN: Thank you, Mr. Chairman.

The CHAIRMAN: Thank you Mr. Clermont. They are all tied in with clause 88?

Mr. ELDERKIN: That is right.

The CHAIRMAN: I shall call each one.

Mr. ELDERKIN: One is tied in with clause 82, but 82 is passed as well.

Schedules C to L, inclusive, agreed to.

The CHAIRMAN: I am not sure to what extent discussion continued on clause 138 during my absence from the room, but I now obtained from my own office

the Combines Investigations Act and we are looking at section 31(1)(a). Mr. Ryan, would you like to look over my shoulder, if you do not mind; you are used to reading these things more quickly than myself. Section 31 itself would appear to commit the court to make an order prohibiting continuance of the conduct, which is complained of. Does that appear to be right, Mr. Ryan.

Mr. MORE (*Regina City*): Section 41 and section 41(1)(a) he mentioned, as I had in my notes.

The CHAIRMAN: I think it is actually Section 41, subsection (2), evidence against the participant. I do not know if we should read this or not. It would be the simplest thing to do; I will just read this out. It must be what he was referring to.

> In a prosecution under section 32 or 34 of this Act or under section 498 or section 498A of the Criminal Code,

And the act, of course, is the Combines Investigation Act.

> (a) anything done, said or agreed upon by an agent of a participant shall prima facie be deemed to have been done, said or agreed upon, as the case may be, with the authority of that participant;
>
> (b) a document written or received by an agent of a participant shall prima facie be deemed to have been written or received, as the case may be, with the authority of that participant; and
>
> (c) a document proved to have been in the possession of a participant or on premises used or occupied by a participant or in the possession of an agent of a participant shall be admitted in evidence without further proof thereof and shall be prima facie evidence
>
> (i) that the participant had knowledge of the document and its contents,
>
> (ii) that anything recorded in or by the document as having been done, said or agreed upon by any participant or by an agent of a participant was done, said or agreed upon as recorded and, where anything is recorded in or by the document as having been done, said or agreed upon by an agent of a participant, that it was done, said or agreed upon with the authority of that participant,
>
> (iii) that the document, where it appears to have been written by any participant or by an agent of a participant, was so written and, where it appears to have been written by an agent of a participant, that it was written with the authority of that participant.

In section 41(1) there are definitions of agent or a participant, documents, and participant. Somebody in the Department of Justice must have really gone to work on this clause.

The CHAIRMAN: I think this is what Mr. Macdonald was drawing to our attention this morning.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I see why Mr. Ryan fights shy of the Combines Investigation Act. I would run a mile from it.

The CHAIRMAN: I guess the question for us to consider is whether under the circumstances surrounding the administration of the Bank Act, these sections

would add anything to the legislative purpose of clause 138. This really sums up the issue posed for us by Mr. Macdonald this morning.

Mr. SHARP: Mr. Chairman, as far as I am concerned, I want the banks to compete and the prohibitions that are put in against agreements not to compete, I hope will be effective. I am not an expert on the Combines Investigation Act either, and I have no objection to strengthening these provisions in the Bank Act if, in fact, that is necessary. When we drafted the act we felt that the Inspector General of Banks was in a very strong position to discipline the banks and that he did not anticipate any difficulties in this respect; but if the Committee feels that they want to strengthen his hand, the government would have no objection to it. I do not know whether in fact these particular procedures are necessary. We would be importing into the act some provisions drawn up for rather different circumstances, although for the same general purpose, namely to prohibit conspiracies in restraint of trade, to discipline those who might agree to fix charges against the public interest. I am all for it.

The CHAIRMAN: Now, that we have had the contents of these two sections brought before us and we have heard the Minister's initial comment, perhaps I should ask the members of the Committee if they have any comments or discussion to bring forward in the light of what has just been said.

Mr. FLEMMING: May I ask Mr. Elderkin what his views are concerning the insertion of such a section?

Mr. ELDERKIN: I offer an opinion only from my past experience that it appears to be unnecessary. I think, if I interpreted what was read in the correct way, these were actually provisions which were desirable in taking a court action against a person or against a corporation. That is what I understood the act to mean. I can only add that I frankly do not think we need them, based on my experience. That is all.

Mr. FLEMMING: That is exactly what I wanted to hear. In that amendment, it seems to me that we might very well disregard an insertion of this type because of what you have said and what the Minister has said also.

The CHAIRMAN: Well, if there are no further suggestions—

Mr. MORE (*Regina City*): Could you give me an explanation of what kind of deal you mean under 138(2)(b)?

Mr. ELDERKIN: Oh, yes, quite easily. Large corporations, Mr. More, normally like to bank with three or four banks and it is quite customary for them to sit down with one or more banks at a time to make their arrangements, particularly about term loans and that sort of thing.

Mr. MORE (*Regina City*): This is with the customer, negotiate—

Mr. ELDERKIN: With the customer's consent. This is entirely with the customer's consent. This is quite common in large term loans and we have to protect it in those cases, otherwise it would be a violation for the two of them to sit down together.

The CHAIRMAN: Before we do that, there has been an amendment tabled by Mr. Elderkin doubling the penalty from $5,000 to $10,000 and I would ask Mr. Clermont and Mr. Comtois to move this amendment so that it would be before us.

Mr. CLERMONT: Mr. Chairman, I move:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out line 8 on page 95 thereof and by substituting therefor the following: "is liable to a penalty of ten thousand dollars."

Mr. COMTOIS: I second that motion.

The CHAIRMAN: Is there any discussion on this amendment? If not, I would ask if the amendment that I have just referred to is carried.

Amendment agreed to.

The CHAIRMAN: Does clause 138 as amended carry?

Clause 138 as amended agreed to.

The CHAIRMAN: We now move on to clause 151.

Mr. MORE (*Regina City*): It was stood until tonight.

The CHAIRMAN: Yes, and we have not disposed of that as yet. We have disposed of the Shedules. Can we dispose of some of the remaining clauses in the Quebec Savings Bank Act?

Mr. ELDERKIN: Yes, Mr. Chairman, I think so.

On Clause 32—*Calls on Shares.*

Clause 32 is the clause referring to calls which was stood. It is similar to clause 39 in the Bank Act which was stood at Mr. Fulton's request but he has withdrawn the request. We passed clause 39 this morning.

The CHAIRMAN: In the light of this explanation, shall clause 32 of the Quebec Savings Bank Act carry.

Clause 32 agreed to.

Mr. ELDERKIN: Clauses 80 and 81 are similar to clause 92 and 93 in the Bank Act relating to disclosure and these were passed.

The CHAIRMAN: Shall clauses 80 and 81 carry?

Clauses 80 and 81 agreed to.

The CHAIRMAN: Clause 120.

On Clause 120—*Violation of interest provisions.*

Mr. ELDERKIN: Clause 120 is similar to clause 151 and relates back to the interest section. I presume it stands if clause 151 stands.

The CHAIRMAN: Yes, I guess it would have to. Clause 120 stands. Well, gentlemen, we have remaining clauses 76 and 91 and in view of the fact that both of these raise matters, shall I say, for further reflection perhaps we could agree to adjourn until this evening when we had decided to meet in any event. Are we in agreement?

Mr. MONTEITH: Mr. Chairman, on clause 76, is it assumed that Mr. Ryan is going to look into this over the dinner hour.

The CHAIRMAN: It is to be hoped he will have the stamina and strength. We do not want to impose on him but it was my understanding, and I know I will be corrected if I am wrong, that the basic legislative intent or policy intent was to

prevent certain types of concentration and the Minister may wish to consult with his officials on this clause. I know the effort that has gone into this clause and into the further draft.

Mr. ELDERKIN: Mr. Chairman, I might suggest to the Committee that we could pass Clause 120 in the Quebec Savings Bank Act and Clause 151 of the Bank Act for these are only penalties, and I do not think there is any thought in either one of them of changing the penalty relative to the interest clause. If the Committee saw fit to do so and passed clause 120 in the Quebec Savings Bank Act, the bill would be complete.

The CHAIRMAN: Yes, that is true.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, it has just been called to my attention that there is a subclause in clause 80 of the Quebec Savings Bank Act that subclause (3) does not apply in respect of a credit granted to a loan or an advance made to a corporation, partnership or association. This was I think taken out of the Bank Act and was to have been removed from this, too.

The CHAIRMAN: The sections are supposed to be the same.

Mr. ELDERKIN: It is an amendment; it is in the amendment. It is my fault, Mr. Chairman. We should have moved the amendment first.

The CHAIRMAN: Yes, I had assumed when I referred to Clause 80 it would be Clause 80 as amended exactly in the same way that Clauses 92 and 93 were amended. Perhaps I should not have telescoped my proposal.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No; procedurally whether we should—

The CHAIRMAN: I had in effect used a little verbal shorthand.

Mr. ELDERKIN: Well, Mr. Chairman, if the Committee sees fit to pass the penalty section for clauses 120 and 151, as I say, I do not think there is any suggestion that the penalties should be changed, we could finish with the Quebec Savings Bank Act now, by passing Clause 120.

The CHAIRMAN: Yes. We are looking at Clauses 151 and 120 in the two acts.

Mr. ELDERKIN: Clause 151 is simply a penalty for violation of the various provisions of the Interest Act.

Mr. SHARP: Mr. Chairman, as to clause 76 in reflecting on the problem, would it be possible for the Minister or the Governor in Council, the banks, but I think the Minister is sufficient, to divest themselves of any investments they make that would have the effect in the opinion of the Minister of enabling them to hold more than the maximum voting control in a trust or loan company?

Mr. MORE (*Regina City*): This is what I had in mind in asking, if the intent of the legislation was violated, could the Minister require the divesting?

Mr. SHARP: It seems to me this is a possible way out. In fact, if the Committee thinks this is a useful channel to explore, we might—

The CHAIRMAN: I think this is what Mr. More was raising earlier and I see Mr. Comtois feels this is constructive and perhaps this would be a useful thing to

pursue over the dinner hour. Let us look at Clause 151. Is there anything further to be said about Clause 151 in the Bank Act.

Mr. ELDERKIN: Well, I want to point out that there will be editorial changes in the references to Clause 92 because you will remember what happened when we dropped subclause (2) out of Clause 92. This would require editorial changes only in the references.

The CHAIRMAN: What about clause 120 in the Quebec Savings Bank Act? Will editorial changes be required in that?

Mr. ELDERKIN: Exactly the same editorial changes will be required in that. It will be the same thing. The same editorial changes will be required in that. I can name the editorial changes. It is in subclause (2); subclause (3) should read subclause (2) and subclause (6) should read subclause (5); and likewise in clause 120 the same takes effect; subclause (3) would read subclause (2) and subclause (6) would read subclause (5). This comes about because we dropped subclause (2).

The CHAIRMAN: Is the Committee willing to adopt clause 151 subject to what the Inspector General just told us. Just one second; we are dealing with too many different things here at once. I should draw to the attention of the Committee that it has been proposed and this is what was troubling me a bit, that the penalty be increased from $500 to $1,000. This was in the booklet of proposed amendments dated February 21.

Mr. ELDERKIN: That is in the amendment.

The CHAIRMAN: Yes, that is right.

Mr. ELDERKIN: It is in the amendment as you are now—

The CHAIRMAN: Yes, I just wanted to refer to this specifically because as I say this is more than an editorial amendment.

Mr. ELDERKIN: No, that is in the amendment as submitted, to $500?

The CHAIRMAN: The amendment changes the penalty from $500 to $1,000.

Mr. LIND: When was this amendment introduced, February 21st. Not exceeding $1,000 and the officer employed to $500.

Mr. ELDERKIN: That is in subclause (2). The $1,000 is mentioned there.

Mr. MORE (*Regina City*): That is right.

The CHAIRMAN: Well, I just wanted to refer to it specifically because technically it is more than an editorial amendment.

Mr. MORE (*Regina City*): Have we adopted the amendment?

The CHAIRMAN: Well, it is a whole new clause actually but perhaps to make sure we follow the proprieties, Mr. Comtois has moved and Mr. Lind has seconded the amendment. Shall the amendment carry?

Amendment agreed to.

Clause 151 as amended, agreed to. The clause will carry as amended because it is really a substitution and the same thing will apply to clause 120. Are we agreed on that?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Well, I am saying it is the same. Mr. Lambert.

Mr. LAMBERT: When you have finished that and before you adjourn I want to make a comment on the suggestion made by the Minister regarding—

The CHAIRMAN: Yes, well, I think we may be able to finish at this moment the Quebec Savings Bank Act. So I will ask if clause 120 as amended is carried?

Clause 120, as amended agreed to.

The CHAIRMAN: Now, I am dealing only with the Quebec Savings Bank Act. Shall clause 1 of the Quebec Savings Bank Act carry?

Clause 1 agreed to.

Title agreed to.

Bill, as amended, agreed to.

The CHAIRMAN: Shall I report the bill as amended?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Well, another milestone passed. Mr. Lambert, you wanted to say something about the Minister's statement?

Mr. LAMBERT: I am just wondering about the exercise of ministerial discretion which is proposed. Because there may be some difference of opinion about this, if the act merely provides that there shall be ministerial discretion, then there is no possibility of appeal.

Mr. SHARP: I would think that is right.

Mr. LAMBERT: That is something that I am not too sure the Minister in essence really wants.

Mr. SHARP: Shall I put it this way, Mr. Chairman. I do not think that the banks would deliberately try to circumvent the intent of the act on the control of other financial institutions, or at least their investment in other financial institutions, but just in case they might be tempted, this clause would enable the Minister to stop them. I do not think that this is a discretion that he would have to exercise. It is more a warning that limitations in the act cannot be avoided by taking advantage of the $5 million figure to make an investment in a holding company and in that way acquire control of a trust company or increase the investment in a bank above the 10 per cent limitation. It is not the kind of discretion that I think most of us as parliamentarians object to. It is the kind of discretion that is in effect a warning that the intent of the act is not to be avoided by an indirect transaction.

Mr. LAMBERT: Because there might be a distinct and honest difference of opinion between the Minister and the bank concerned.

Mr. SHARP: I cannot conceive of such circumstances.

Mr. LAMBERT: I want to have that considered because the question of the facts, the decision—the act says "if in the opinion of the Minister" then, regardless of whether the opinion is right or wrong the bank has no recourse whatsoever. They could not go to court even if there were provisions for appeal because no court would substitute its opinion for that of the Minister.

Mr. SHARP: In my suggested drafting, which was just off the top of my head, I included "in the opinion of the Minister" because it is a question not of holding of shares but of control down the line, and I found it very difficult, and I think Mr. Ryan did, too, to draft a clause which would relate to the control to be exercised in terms of the shareholdings at the beginning.

Mr. LAMBERT: Well, I know that sometimes for drafting purposes it is easier but there is a matter of principle involved that I find rather difficult to accept in so many things, in so many statutes, "in the opinion of the Minister". It makes it—

Mr. CLERMONT: Would you allow a question, Mr. Lambert?

Mr. LAMBERT: Yes.

Mr. CLERMONT: To whom should the appeal be directed?

Mr. LAMBERT: Well, if it is based on the non-discretionary, if it is a question of fact, then it is an appeal to the court if there is a provision for appeal but if it is expressed, "if in the opinion of the Minister", then there is no appeal at all whether it is written in the act or not.

Mr. SHARP: I do not think, Mr. Chairman, it cures that defect to refer to the Governor in Council.

Mr. LAMBERT: Well, no I do not think so.

Mr. SHARP: So that the reason for referring to the Minister rather than the Inspector General was at least to give a responsible member of the government an opportunity of looking at it.

Mr. LAMBERT: Maybe I am being a little over-cautious here. I have an inherent dislike for ministerial discretion that has now popped its ugly head up in the Income Tax Act.

Mr. SHARP: I am always embarrassed when I have to exercise it.

Mr. LAMBERT: I know.

Mr. SHARP: I have no quarrel with Mr. Lambert on that point. We have been searching around, not all afternoon, but at least for part of the afternoon, for a means out of the dilemma into which we have put ourselves because we want to be fair to the banks and not to require them to divest themselves of such things as Kinross and RoyNat and UNSAS, not to prevent other banks from entering into the same sort of transactions in the future. Mr. Ryan and Mr. Elderkin have spent some time trying to draft a suitable clause and they found that they could not put into statutory terms exactly the intent. Being unable to do this, I suggested—I apparently followed up a suggestion by Mr. More—that this could be cured by making it quite clear in the act that you could not do by indirection what you are prevented from doing by direction, that is by giving the Minister the authority to require the bank to divest itself of an investment which had the effect of circumventing the prohbition contained elsewhere in the act.

Mr. LAMBERT: Because there is ministerial discretion under clause 160 about the waiver of pecuniary penalties, but this is not a pecuniary penalty.

Mr. ELDERKIN: There is discretion also in the same clause, at least in this clause, on extension of time in which shares may be held. The Minister may exercise his discretion there.

Mr. LAMBERT: Well, I have waved the flag. I have put it like this and I just want you to consider that.

The CHAIRMAN: Well, perhaps we could recess now until 8.00 p.m. The two clauses I have mentioned may be the subject of further reflection, in the light of our earlier discussions, and they will be before us when we resume at 8.00 p.m.

The meeting is adjourned.

EVENING SITTING

The CHAIRMAN: Gentlemen, we are in a position to start our meeting. Unfortunately Mr. Ryan is downstairs getting an amendment typed which I believe he wishes to propose with respect to clause 76.

Mr. Ryan, would you care to read out the fruit of your labours over the supper hour. I know the Committee is grateful to you for this extra effort. This is a proposed amendment to clause 76.

On Clause 76—*Ownership of Corporate Stock.*

Mr. RYAN: Mr. Chairman, the amendment is in the form of a substitution for page 3. It is a proposed rewording, a revision. It is under date of February 23—

The CHAIRMAN: I should explain here that because of the hour, the secretarial service is not as complete as it might be; it is unfortunate that we do not have the full range of copies, but we will make up this deficiency as soon as possible. Mr. Ryan, could you—

Mr. RYAN: Clause 76 revised, page 3, substitution—paragraph (c) of the amendment by adding after subclause (3) of clause 76 on page 54 thereof the following new subclauses:

Exception.

"(4). The bank may own shares in excess of the maximum number prescribed by this section, if the shares are acquired through a realization of security for any loan or advance made by the bank or any debt or liability to the bank, but any such shares acquired after the coming into force of this Act shall be sold or disposed of by the bank within a period of five years from the day on which they were acquired.

This subclause (4) is identical with the subclause that now appears on page three of the previous amendment.

Power to require divesting of shares.

(5). Notwithstanding any other provision of this section except subsection (4), where in the opinion of the Minister the ownership by the bank of shares in a corporation in any number permitted under subparagraph (i) of paragraph (a) of subsection (1) or sub-paragraph (i) of paragraph (a) of subsection (2) enables the bank to exercise, directly or indirectly, effective control of a trust or loan corporation, the Minister may by order require the bank to divest itself of those shares in that corporation within such time as the Minister considers reasonable and the bank shall sell or dispose of such shares within the time prescribed therefor by the Minister."

Paragraph (d) of the amendment: by striking out subclause (6) of clause 76 on page 54 thereof and by renumbering the present subclauses (4) to (8) on pages 54 and 55 thereof as subclauses (6) to (9) respectively; and, paragraph (e) of the amendment:—by the way, (e) is the same as it appears on page 3 of the revised clause 76; it is just a matter of putting everthing together on the one page—by striking out line 32 on page 55 thereof and by substituting therefor the following:

"province;

(c) "foreign corporation" means a corporation incorporated outside Canada; and

"Foreign corporation." "Trust or loan corporation."

(d) "trust or loan corporation" means a Canadian corporation that carries on the business of a trust company within the meaning of the *Trust Companies Act* or the business of a loan company within the meaning of the *Loan Companies Act* and that accepts deposits from the public."

The CHAIRMAN: Now, the aim of this amendment is to meet the point that was raised both yesterday and earlier today, that if 76 is redrafted it might permit, through interposition of holding companies, ownership by a bank above the prescribed percentage of trust companies or other banks. This is an attempt to meet this while keeping the same basic concept of 76, to take into account the desirability, argued by some, of banks to be able to own RoyNat and companies of that type. This reflects a suggestion by yourself, Mr. More.

Mr. MORE (*Regina City*): Yes, it is in line with what I suggest.

The CHAIRMAN: That is what I say, reflects; I am not trying to say this is your wording as such.

Mr. MORE (*Regina City*): My suggestion was just something out of my head, as a means to resolve the problem.

The CHAIRMAN: Yes.

Mr. LAMBERT: I want to get the import because I was away at the time of the discussion in connection with this matter. Does it mean that, with some long range effect, the bank owning up to 10 per cent of the shares in a trust or loan company effectively controls, or does it mean, owns in excess of 10 per cent?

Mr. RYAN: In excess of 10 per cent.

Mr. LAMBERT: Well, subclause (5) relates directly to a trust or loan company? In other words, what you are saying in (5) is that if the bank through some long-range and complicated ownership formula in ordinary corporations is able to exercise directly or indirectly effective control of a trust or loan corporation, then, the Minister may direct that the bank shall divest itself of the shares which give it that control.

Mr. RYAN: That is right.

Mr. LAMBERT: All of them?

Mr. RYAN: All of them. This is a discouragement for trying to get around the provisions of (1) and (2) .They can come back later with a 10 per cent increase which is permitted under paragraphs (b) in both these subclauses—

Mr. LAMBERT: But would it not still be permissible for them to own a limited number of shares through this which does not give them the control? What you are doing here is saying, if this ownership formula results in effective control of a trust company you have to get rid of everything in that ownership formula.

Mr. RYAN: The bank's ownership of shares.

Mr. LAMBERT: Yes, I agree with you; but is this not rather drastic? Would you not limit it only to that portion of the ownership formula which results in the effective control.

Mr. RYAN: That might be more onerous, Mr. Chairman, on the Minister than on the bank. This makes it more onerous on the bank if they are going to get themselves into this particular position.

Mr. SHARP: It is intended to be a discouragement, Mr. Chairman.

Mr. LEBOE: I do not think it will ever be applied.

Mr. More (*Regina City*): Oh, I do not know. Bankers are just as smart as a lot of other people. The Minister has quite the problem with loopholes.

Mr. SHARP: That is the most complimentary thing that has been said about a banker in a long time.

An hon. MEMBER: Do you think they are clever—

Mr. MORE (*Regina City*): Is this a compliment?

Mr. LEBOE: I think they are clever enough to know that parliament still exists.

Mr. LAMBERT: This is where, Mr. Chairman, I feel that the ministerial discretion becomes rather important because they have no appeal as to anything. Well, it is capital punishment without any choice, without any right of appeal.

Mr. SHARP: I find it difficult to believe this would be done inadvertently, Mr. Chairman.

Mr. LAMBERT: Well, all I can say is that the powers are certainly wide-sweeping, by George.

Mr. LEBOE: I say let us try it, and get on with the business.

The CHAIRMAN: Before we can dispose of this officially, we will have to wait a few minutes. I think the reason should be obvious. Perhaps for the moment we can stand 76 and see if we have any further discussion on item 1. Well, gentlemen, perhaps to have this amendment formally before us, I would ask Mr. Clermont to move it, seconded by Mr. Comtois, so that we can have the amendment to Clause 76 not only as it was tabled in the booklet of February 22 but as it was further modified by the text presented to us by Mr. Ryan this evening. Is that clear?

Mr. CLERMONT: I so move.

Mr. COMTOIS: I second the motion.

The CHAIRMAN: Do we have further discussion on the amendment? Shall the amendment carry?

Some hon. MEMBERS: Carried.

Amendment agreed to.

The CHAIRMAN: Shall clause 76 as amended carry?

Some hon. MEMBERS: Carried.

Clause 76, as amended, agreed to.

The CHAIRMAN: We have left clauses 91 and 1. Clause 1 had been stood until this evening. I would ask the Committee if they are prepared to pass clause 91 at this time?

On clause 91—*Powers re interest.*

Mr. MONTEITH: Mr. Chairman, I would like to move:

> That consideration of clause 91 be deferred until any time after Monday noon next.

The CHAIRMAN: This is a motion to save this clause 91 until some time after Monday noon. I guess I shall have to ask if there are seconders.

Mr. MORE (*Regina City*): I second the motion.

The CHAIRMAN: Seconded by Mr. More. I think if I wanted to follow the rule strictly, a motion of this type would not be debatable, although if somebody wants to make some comments on the schedules and so on, I certainly will not be adverse to it.

An hon. MEMBER: What schedules?

The CHAIRMAN: If there is no comment,—I cannot ask for discussion because, as I say, motions of this type I do not think are debatable—I shall put the motion.

Motion negatived.

The CHAIRMAN: I declare the motion lost. I am going to ask if clause 91 carries, and if there is further discussion on the merits, I shall be happy to receive it.

Shall clause 91 as amended carry?

Some hon. MEMBERS: On division.

The CHAIRMAN: Carried on division.

Clause 91, as amended, agreed to, on division.

The CHAIRMAN: Now we come to clause 1. Shall clause 1 carry?

Some hon. MEMBERS: Carried.

The CHAIRMAN: Carried.

Clause 1 agreed to.

The CHAIRMAN Shall the title carry?

Some hon. MEMBERS: Carried.

The CHAIRMAN: Carried.

Title agreed to.

The CHAIRMAN: Shall the bill as amended carry?

Some hon. MEMBERS: Carried.

The CHAIRMAN: Carried.

Mr. MORE (*Regina City*): Shall the amended bill carry.

The CHAIRMAN: Well, either way, there has been some restructuring.

Shall I report the bill as amended?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Carried. Now, I would ask for a formal motion that Bill No. C-222 and Bill No. C-223 as amended by this Committee be reprinted.

Mr. CLERMONT: I so move.

Mr. COMTOIS: I second the motion.

Motion agreed to.

The CHAIRMAN: I shall ask Messrs. Clermont and Comtois again to lend us their names to support a motion with respect to the Committee causing to be printed a certain number of copies in French and in English of the Minutes of the Proceedings and Evidence in respect to the decennial revision of the Bank Act in blue book form. Before I have the motion formally presented, I gather—and I will ask Mr. Elderkin to give me further information—it is the custom that the proceedings be reprinted as a document in a blue cover and I am sure there is no party significance here. It is the custom—

Mr. ELDERKIN: No, it was in 1954—it was pointed in blue.

The CHAIRMAN: That is right. Because of the interest in the subject matter of our deliberations, this makes it more generally available to the public. What were the quantities in previous years? The clerk informs me that the same number of copies of the blue book as our proceedings will be printed. There will be 1,500 in English and 750 in French. This motion is formally placed before us by Mr. Clermont and Mr. Comtois.

Mr. MONTEITH: I just want to raise a question on the number of copies that are reprinted. Ten years later they seem to become very scarce. I wondered whether it would not be feasible, when they are at it, to print another 250 in English and another number in French.

The CHAIRMAN: The clerk informs me that the number in question is for the use of parliament.

Mr. MONTEITH: Well, it is parliament I am concerned with.

The CHAIRMAN: I just want to finish the explanation that was given to me, that apparently the Queen's Printer prints an equal number for sale to the public.

Mr. MONTEITH: I am not concerned about the public; I am concerned about what is available for us.

The CHAIRMAN: All right. I think your suggestion is very sound. What additional number do you think we should add?

Mr. MONTEITH: I think 250 in English and a corresponding increase in French.

Mr. CLERMONT: What is the total in English and French.

Mr. MONTEITH: Another 500 and 250, pardon me.

The CHAIRMAN: All right. Will you modify your motion to 2,000 in English and 1,000 in French of the blue book. Thank you, Mr. Monteith, for this constructive suggestion in view of what appears to be greater interest in these proceedings than in other years. If there is no further discussion, I would ask if this motion carries.

Some hon. MEMBERS: Carried.

Motion agreed to.

The CHAIRMAN: Now, before meeting in camera to discuss any factual comments we may have, I think I, as Chairman, will be speaking on behalf of the entire Committee if we, in effect, adopt a vote of thanks to our clerk, Miss Ballantine, and to the staff who have served us so loyally over the months.

Mr. MORE (*Regina City*): Are we going to send her to Bermuda?

The CHAIRMAN: Well, if we all go, too; if that is in order.

Mr. MORE (*Regina City*): A free trip on the next plane that any Minister takes down there.

Mr. SHARP: That is really not very much compensation.

The CHAIRMAN: I am sure that a similar vote of thanks would be extended to our research staff who I think were quite useful in helping to make the work of the Committee certainly more informed and effective than it otherwise would have been. I, as Chairman, would like to express a word of thanks to the Committee for their co-operation. It has been a long and arduous period and I think that certainly we have helped demonstrate to parliament and the public at large the type of work that can be done by a Committee in dealing with matters of this type and, aside from anything we have added to the study of this important aspect of our economic system, we may have helped to advance the cause of effective parliamentary reform too in one way or another. I would like to thank all those who participated in the work of the Committee for their co-operation, but I want to add a special word, without singling anyone out, for the group who have made this Committee assignment their primary responsibility and I refer, in saying this, to members of all parties who have made this, as I say, their primary assignment and who have done so much to make my task as Chairman less onerous than it would otherwise have been.

Mr. LEBOE: If you would vacate that chair in spirit for just a moment I would like to move a vote of thanks to yourself, Mr. Chairman.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I would like to have recorded, Mr. Chairman, and I am sure I am speaking on behalf of all members of the Committee, our great appreciation for the manner in which you conducted these meetings. I think you have done a remarkable job, and I think you should get considerable credit for the success of these hearings.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, excuse me Mr. Minister, I want to join with Mr. Cameron to congratulate you for the way you conducted these deliberations in this Committee, in both languages. I also want to thank the clerk and I do not

know if I am in order to also thank the former Inspector General of banks, Mr. Elderkin, Mr. Ryan, Mr. Rasminsky, of the Bank of Canada and the other officials who have appeared before this Committee and helped to carry out the study of Bills C-222, C-190 and C-223.

(*English*)

The CHAIRMAN: I think in making this comment you reflect the view of the entire Committee because Mr. Elderkin in this sense was not only a consultant to the Minister of Finance, but also to the Committee in this arduous field, and I know we wish him well in his retirement. Of course, we must include Mr. Ryan, and other departmental officials, who have worked with us.

Mr. SHARP: Mr. Chairman, may I say a word. As the Minister who sponsored this legislation, I would like to congratulate the Committee for the thorough way in which they have examined it. Perhaps the greatest compliment I can pay to the Committee is to say that I think the bill has been improved as a result of your deliberations. I agree with you, Mr. Chairman, that the work of this Committee is an illustration of the way in which parliamentary Committees can work, and I hope it will encourage all members of the house to devote themselves as diligently as you have to Committee work.

Mr. LAMBERT: Mr. Chairman, may I say this. I had hoped to add a postscript to what the Minister has said that might encourage ministers to submit more legislation to the Committees, too. Beyond that, I would like to say I would not like to have this Committee break up without waving a cheery goodbye to the almost members of the Committee, the representatives of the Canadian Bankers' Association.

(*Translation*)

Mr. CLERMONT: I would not want to forget to say that on behalf of the French-speaking members, I would like to thank the interpreters who have enabled our remarks to be understood by our English speaking colleagues, and I would like to join with you to thank our two research workers, analysts or economists, who have helped the Committee to do a better job of work, if I may use this expression.

Mr. COMTOIS: I would like to express a wish before the end of this sitting, that all people who took part in this Committee be here again ten years from now to take part in the next revision of the Bank Act.

The CHAIRMAN: Is this a wish or a reproach?

(*English*)

Well, gentlemen,—

Mr. MONTEITH: Mr. Cameron and I, I think, are the only two present who participated in the last revision of the Bank Act.

The CHAIRMAN: I do not want to dampen this note of good cheer, but the Committee itself has a little bit more work to do for the next half hour or so, and we will be consulting about future proceedings, Mr. Cameron. I will ask those not on the Committee to excuse themselves; we are going to have an *in camera* session to finalize our report. I do not think it should take long.

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. 53

TUESDAY, FEBRUARY 28, 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.

INCLUDING TWENTY-FIRST AND TWENTY-SECOND REPORTS TO THE HOUSE

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

25831—1

STANDING COMMITTEE
ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray
Vice-Chairman: Mr. Ovide Laflamme
and Messrs.

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

Dorothy F. Ballantine,
Clerk of the Committee.

REPORTS TO THE HOUSE

MARCH 1st, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

TWENTY-FIRST REPORT

Pursuant to its Orders of Reference your Committee has considered the following Bills:

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.

Your Committee has agreed to report Bill C-190, An Act to amend the Bank of Canada Act, without amendment.

Your Committee has agreed to report Bill C-222, An Act respecting Banks and Banking, with amendments.

Your Committee has agreed to report Bill C-223, An Act respecting Savings Banks in the Province of Quebec, with amendments.

Your Committee has ordered a reprint of Bills C-222 and C-223 embodying the amendments adopted by the Committee.

A further report, setting forth the above-mentioned amendments to Bills C-222 and C-223, and other comments, is being prepared and will be presented as soon as possible.

A copy of the Minutes of Proceedings and Evidence relating to these Bills will be tabled.

Respectfully submitted,

HERB GRAY,
Chairman.

25831—1½

MARCH 9, 1967

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

TWENTY-SECOND REPORT

In its Twenty-first Report to the House, presented March 1, 1967, your Committee reported Bill C-190 without amendment. At the same time Bills C-222 and C-223 were reported with amendments.

Because of the time element, it was not then possible to set forth the amendments in detail; they were, however, included in the reprints of Bills C-222 and C-223, as ordered by the Committee.

Your Committee held 79 meetings from October 25, 1966 to February 28, 1967, and heard the following witnesses (listed in order of appearance before the Committee):

Mr. C. F. Elderkin, Inspector General of Banks (later Special Adviser, Department of Finance)

Dr. P. M. Ollivier, Parliamentary Counsel

Mr. J. W. Ryan, Department of Justice

Mr. Louis Rasminsky, Governor of the Bank of Canada

The Canadian Bankers' Association:

- Mr. S. T. Paton, President, CBA
- Mr. Léo Lavoie, Vice-President, CBA
- Mr. J. H. Coleman, Vice-President, CBA
- Mr. W. T. G. Hackett, Chairman, CBA Bank Act Revision Committee
- Mr. R. M. MacIntosh, Joint General Manager, Bank of Nova Scotia
- Mr. G. R. Sharwood, Deputy Chief General Manager, Canadian Imperial Bank of Commerce
- Mr. W. J. Dixon, Deputy General Manager, Bank of Nova Scotia
- Mr. E. Cate, Q.C., Solicitor for CBA
- Mr. F. L. Rogers, Chairman, CBA Economists Committee
- Mr. B. W. Powers, General Manager (Administration), Bank of Montreal
- Mr. René Leclerc, General Manager, La Banque Canadienne Nationale
- Mr. Gilles Mercure, Assistant General Manager, La Banque Provinciale du Canada
- Mr. J. F. Duffy, Superintendent, Canadian Imperial Bank of Commerce

Mr. J. Douglas Gibson, former Executive Vice-President, Bank of Nova Scotia and former member of the Royal Commission on Banking and Finance

Mr. G. Arnold Hart, President, Bank of Montreal

Mr. W. Earle McLaughlin, Chairman and President, The Royal Bank of Canada

Mr. J. W. Powell, President, RoyNat Limited

Mr. Louis Hébert, President, La Banque Canadienne Nationale

Mr. H. H. Binhammer, Associate Professor of Political and Economic Science, Royal Military College

Mr. David W. Slater, Professor of Economics, Queen's University

Mr. E. P. Neufeld, Professor of Economics, University of Toronto

Mr. Jacob S. Ziegel, Professor of Law, McGill University

Mr. R. Caterina, Associate Professor, Accounting and Finance, Carleton University

Mr. E. P. C. Burke, General Manager, The Canadian Credit Men's Association

Mr. W. E. Scott, Assistant Inspector General of Banks (later Inspector General of Banks)

Mr. Joseph Pope, Mr. R. G. D. Lafferty, Mr. Terry Howes, Mr. Frank O'Hearn, Mr. Melvin Rowatt, Mr. Harry H. Hallatt

The Canadian Federation of Agriculture:
Mr. David Kirk, Executive Secretary

CUNA International Inc.: Messrs. Robert J. Ingram, A. R. Glen, W. Moxon, A. W. Wagar and L. R. Tendler

The Mercantile Bank of Canada:
Mr. Robert P. MacFadden, President
Mr. James S. Rockefeller, Chairman
Mr. Stewart B. Clifford, Executive Vice-President and General Manager
Mr. André Bachand, Director
Mr. Kenneth B. Palmer, Q.C., Director
Mr. Henry Harfield, Counsel to First City National Bank

A Group of Twelve Trust Companies:
Mr. Sinclair M. Stevens, President, York Trust and Savings Corporation
Mr. H. Soule, Q.C., President, Hamilton Trust and Savings Corporation
Mr. Léo Sauvé, General Manager, Lincoln Trust and Savings Company
Mr. Jarvis Freedman, President, Rideau Trust Company
Mr. John Burnett, Secretary, Lincoln Trust and Savings Company
Mr. Stewart Ripley, Executive Vice-President, Metropolitan Trust Company
Mr. K. L. Cunningham, Managing Director, District Trust Company

Mr. James E. Coyne, President, Bank of Western Canada

Mr. Sinclair M. Stevens, President, British International Finance (Canada) Limited

The Honourable Mitchell Sharp, Minister of Finance

Assisting the Committee as economists were Mr. Denis Baribeau, B.Comm., M.A., and Miss M. R. Prentis, B.Sc.(Econ.).

Noting the desirability of increasing competition in the banking industry through the establishment of more chartered banks, your Committee recommends that the rules of the House be amended to make it possible for the House to come to a prompt decision on applications for bank charters after reasonable debate, provided that before a final decision is made, the applications be referred to the Standing Committee on Finance, Trade and Economic Affairs for detailed study.

Your Committee recognizes the value of regular, complete decennial revisions of the Bank Act, the Bank of Canada Act and the Quebec Savings Banks Act, but believes that these should not prevent this Committee carrying out special studies on subjects related to these Acts and amendments being made to them from time to time if such should become necessary in the interval.

Your Committee has commenced some studies with regard to the desirability or otherwise of the establishment in Canada of agencies of foreign banks. However, it has not been able to complete these studies in the time available and requests authority to pursue these studies further.

Your Committee recommends that the Canadian Bankers' Association Act be amended to permit those financial institutions who presently have access to the clearing system only through the intermediary of a chartered bank to participate directly in the system on an equitable basis.

Your Committee recommends that the supporting services for this and other Standing Committees be expanded to meet the volume of work presently being carried out by them, such expansion to include

(*a*) more prompt translation of briefs and proposed amendments,

(*b*) faster printing of Committee proceedings,

(*c*) authority to hire expert staff in advance of the formal referral to the Committee of major legislation or special areas of study.

Your Committee now reports the amendments to the above-mentioned Bills as follows:

Amendments to Bill C-222, An Act respecting Banks and Banking:

Clause 4

Strike out clause 4 and substitute therefor the following:

"4. This Act applies to each bank named in Schedule A and does not apply to any other bank."

Clause 6

Strike out clause 6 and substitute therefor the following:

"6. Subject to this Act,

(*a*) if Parliament sits on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the first day of July, 1977, and no longer, and

(b) if Parliament does not sit on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the sixtieth sitting day of Parliament next thereafter, and no longer."

Clause 11

In subclause (3) strike out lines 43 and 44 on page 7 and substitute therefor the following:

"scription, give his post office address, and this shall appear in the stock books in connec-"

Clause 12

(a) In subclause (1) strike out line 22 on page 8 and substitute therefor the following:

"poration as the place where the head office of the bank is to be situated, at such time and at"

(b) In subclause (3) strike out the word "and" in line 37 on page 8, and

(c) In subclause (3) strike out line 40 on page 8 and substitute therefor the following:

"meeting of the shareholders, and

(d) appoint two persons having the qualifications specified in subsec-section (1) of section 63, but not being members of the same firm, to be the auditors of the bank until the first annual general meeting of the shareholders,"

Clause 18

In subclause (6) strike out line 18 on page 14 and substitute therefor the following:

"(a) he is a director of a bank to which the *Quebec Savings Banks Act* applies or of a company incorporated"

Clause 26

Strike out lines 10 and 11 on page 17 and substitute therefor the following:

"meeting of directors, and a summary thereof for a period of twelve months ending not earlier than sixty days before the notice showing the total"

Clause 29

Strike out lines 13 and 14 on page 18 and substitute therefor the following:

"current loans to any person that are included in the latest return made by the bank to the Minister under section 103 and the aggregate amount of which exceeds one-tenth of one per cent of the"

Clause 33

(*a*) Strike out line 45 on page 20 and substitute therefor the following:

"section 53 or subsection (2) of section 56 be accepted by the bank; and"; and

(*b*) Strike out line 51 on page 20 and substitute therefor the following:

"fix a date, not earlier than the thirtieth day after the day on"

Clause 35

Strike out lines 40 and 41 on page 21 and substitute therefor the following:

"give his post office address and this shall appear in the stock books in connection with"

Clauses 34 to 36

(*a*) Renumber subclauses (1) and (2) of clause 34 on page 21 as clauses 34 and 35, respectively:

(*b*) Strike out line 15 on page 21 and substitute therefor the following:

"disposal of shares under section 34 exceeds the price per";

(*c*) Renumber clause 35, as amended, on page 21, as clause 36;

(*d*) Strike out the reference to section 33 or 34 in line 36 on page 21 and substitute therefor "sections 33 to 35,"; and

(*e*) Strike out clause 36 on page 21.

Clause 51

In subclause (1) strike out line 15 on page 27 and substitute therefor the following:

"mission in accordance with the claim; but nothing in this subsection shall be construed to prevent the bank from refusing to record or give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

Clause 52

(*a*) Strike out line 32 on page 27 and substitute therefor the following:

"right, but does not include an official or corporation per-";

(*b*) Strike out the word "or" in line 51 on page 28, strike out paragraph (*f*) on page 29 and substitute therefor the following:

"(*f*) both shareholders are agents of Her Majesty in right of Canada or officials or corporations performing on behalf of Her Majesty in such right a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (*a*) of subsection (1);

(*g*) both shareholders are agents of Her Majesty in right of the same province or officials or corporations performing on behalf of Her

Majesty in right of that province a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (*a*) of subsection (1); or

(*h*) both shareholders are associated within the meaning of paragraphs (*a*) to (*g*) with the same shareholder,"; and

(*c*) Strike out line 41 on page 29 and substitute therefor the following:

"virtue of paragraph (*h*) of subsection (2) by".

Clause 53

Strike out line 21 on page 30 and substitute therefor the following:

"of a share of the capital stock of the bank to any person, including without restricting the generality of the foregoing, an official or corporation mentioned in clause (B) of subparagraph (i) of paragraph (*a*) of subsection (1) of section 52,"

Clause 54

In subclause (3) strike out line 21 on page 33 and substitute therefor the following:

"(*c*) an official or corporation administering, managing or investing"

Clause 56

(*a*) In subclause (2) strike out lines 15 to 24, inclusive, on page 36 and substitute therefor the following:

"(2) Where more than twenty-five per cent of the issued and outstanding shares of the capital stock of the bank were held on the 22nd day of September, 1964, in the name or right of or for the use or benefit of any one non-resident, the bank, so long as the total number of shares of the capital stock of the bank held by non-residents exceeds twenty-five per cent of the total number of issued and outstanding shares of the capital stock of the bank,

(*a*) shall refuse to allow a transfer of a share of the capital stock of the bank to a non-resident to be made or recorded in a register of transfers of the bank unless the transfer is from a non-resident to any associates of the non-resident; and

(*b*) shall not accept a subscription for a share of the capital stock of the bank by a non-resident;

but if at any time after the 22nd day of September, 1964, there is no one person in whose name or right or for whose use or benefit more than ten per cent of the issued and outstanding shares of the capital stock of the bank are held, this subsection ceases thereafter to have any force or effect."

(*b*) In subclause (7) strike out line 21 on page 38 and substitute therefor the following:

"(*b*) an official or corporation administering, managing or investing"

Clause 60

In subclause (2) strike out paragraph (c) and substitute therefor the following:

"(c) a statement of accumulated appropriations for losses of the bank for the financial year, showing the information in the form specified in Schedule P and such additional information and particulars as in the opinion of the directors are necessary to present fairly the amount of appropriations available to meet losses other than those for which specific provisions have been made."

Clause 63

(a) Strike out subclause (12) and substitute therefor the following:

"(12) The auditors shall make a report to the shareholders on the statement of assets and liabilities, the statement of revenue, expenses and undivided profits and the statement of accumulated appropriations for losses of the bank to be submitted by the directors under section 60."

(b) In subclause (13) strike out lines 45 and 46 on page 43 and substitute therefor the following:

"end of the financial year, its revenue, expenses and undivided profits for the year and its accumulated appropriations for losses for the year, and shall include such"

(c) In subclause (17) at the end of line 22 on page 44 add the following:

"but this subsection does not apply in the case of a corporation controlled by the bank that carries on its operations in a country other than Canada if the law of that country makes provision with respect to auditors."

Clause 64

Strike out subclauses (6) to (9) and substitute therefor the following:

"(6) The Inspector shall be paid a salary fixed by the Governor in Council on the recommendation of the Minister and shall be an officer of the Department of Finance, but the provisions of the *Public Service Employment Act* do not apply to him.

(7) The Inspector and any person temporarily performing the duties of the Inspector shall not borrow money from a bank unless he has first informed the Minister in writing of his intention to do so.

(8) Such other officers and employees as are necessary for the proper conduct of the duties of the Inspector shall be appointed in the manner authorized by law."

Clause 72

(a) Strike out lines 11 and 12 on page 48 and substitute therefor the following:

"the average during any month than an";

(*b*) Renumber subclauses (3) to (6), inclusive, on pages 48 and 49 as subclauses (4) to (7) inclusive; and

(*c*) Immediately after line 31 on page 48 add the following:

"(3) Notwithstanding subsection (1), the cash reserve to be maintained by the bank pursuant to subsection (1) in any month following the twelfth month after the coming into force of this Act shall, if so required by the Bank of Canada, be not less on the average during each of the two separate periods comprised of the first fifteen days of that month and the remaining days of that month than the amount specified in subsection (1); and in the event of such a requirement, the Bank of Canada shall make its requirement apply generally to all banks, give written notice of its action specifying the months to which the requirement applies, publish such notice forthwith in the *Canada Gazette* and mail a copy of the notice to all banks not less than thirty days before the first day of the first of the months so specified, and may, at any time by advice notified in the same manner, reduce in number the months to which the requirement applies." and

(*d*) Strike out lines 7 and 8 on page 49 and substitute therefor the following:

"any month mentioned in subsection (1) or (4) or any period mentioned in subsection (3)"

Clause 75

(*a*) In subclause (1) strike out line 8 on page 51 and substitute therefor the following:

"negotiable instruments, coin, gold and silver";

(*b*) In subclause (2) strike out the figure "1967" in line 16 on page 52 and substitute therefor the figure "1972";

(*c*) In subclause (3) strike out lines 25 and 26 on page 52 and substitute therefor the following:

"Canada or of an equity of redemption therein or of an assignment of or mortgage on the interest of a lessee thereof, the amount".

(*d*) In subclause (4) strike out lines 49 to 52, inclusive, on page 52 and substitute therefor the following:

"real or immovable property in Canada comprising existing buildings that are used, or buildings in the process of construction that are to be used, to the extent of at least one-half of the floor space thereof, as private dwellings either by the owners or by lessees under leases for terms of at least one month, other than loans or advances made or guaranteed under any Act of the Parliament of Canada other than this Act, shall not exceed the lesser of"

Clause 76

(*a*) Strike out lines 41 to 49, inclusive, on page 53 and substitute therefor the following:

"76. (1) Except as provided in this section, the bank shall not own shares of the capital stock of

(a) a Canadian corporation, other than a trust or loan corporation,

(i) in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than fifty per cent of the total votes that could, under the voting rights attached to all the shares of the corporation issued and outstanding, be voted by the holders thereof, in any case where the total amount paid or agreed to be paid by the bank for such of the shares of the corporation as have voting rights attached thereto, is five million dollars or less, or

(ii) in any other case, in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the corporation issued and outstanding, be voted by the holders thereof;

or

(b) a trust or loan corporation in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the trust or loan corporation issued and outstanding, be voted by the holders thereof;

and any such shares in excess of the maximum number prescribed by this subsection owned by the";

(b) Strike out lines 3 to 16, inclusive, on page 54 and substitute therefor the following:

"(2) Except as provided in this section, the bank shall not own shares of the capital stock of a foreign corporation in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the foreign corporation issued and outstanding, be voted by the holders thereof, if the foreign corporation owns shares of the capital stock of

(a) a Canadian corporation, other than a trust or loan corporation,

(i) in any number that would, under the voting rights attached to the shares owned by the foreign corporation and the bank, if any, permit the foreign corporation, or the foreign corporation and the bank, to vote more than fifty per cent of the total votes that could, under the voting rights attached to all the shares of the Canadian corporation issued and outstanding, be voted by the holders thereof, in any case where the total amount paid or agreed to be paid by the foreign corporation and the bank for such of the shares of the Canadian corporation as have voting rights attached thereto, is five million dollars or less, or

(ii) in any other case, in any number that would, under the voting rights attached to the shares owned by the foreign corporation and the bank, if any, permit the foreign corporation, or the foreign corporation and the bank, to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the Canadian corporation issued and outstanding, be voted by the holders thereof;

or

(b) a trust or loan corporation in any number that would, under the voting rights attached to the shares owned by the foreign corporation and the bank, if any, permit the foreign corporation, or the foreign corporation and the bank, to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the trust or loan corporation issued and outstanding, be voted by the holders thereof;

and any such shares in excess of the maximum number prescribed by this subsection owned by the bank at the coming into force of this Act, shall be sold or disposed of before the first day of July, 1971.";

(c) After subclause (3) on page 54 add the following new subclauses:

"(4). The bank may own shares in excess of the maximum number prescribed by this section, if the shares are acquired through a realization of security for any loan or advance made by the bank or any debt or liability to the bank, but any such shares acquired after the coming into force of this Act shall be sold or disposed of by the bank within a period of five years from the day on which they were acquired.

(5). Notwithstanding any other provision of this section except subsection (4), where in the opinion of the Minister the ownership by the bank of shares in a corporation in any number permitted under subparagraph (i) of paragraph (*a*) of subsection (1) or subparagraph (1) of paragraph (*a*) of subsection (2) enables the bank to exercise, directly or indirectly, effective control of a trust or loan corporation, the Minister may by order require the bank to divest itself of those shares in that corporation within such time as the Minister considers reasonable and the bank shall sell or dispose of such shares within the time prescribed therefor by the Minister."

(*d*) Strike out subclause (6) on page 54 and renumber the present subclauses (4) to (8) on page 54 as subclauses (6) to (9) respectively; and

(*e*) Strike out line 32 on page 55 and substitute therefor the following:

"province;

(c) "foreign corporation" means a corporation incorporated outside Canada; and

(d) "trust or loan corporation" means a Canadian corporation that carries on the business of a trust company within the meaning of the *Trust Companies Act*, or the business of a loan company within the meaning of the *Loan Companies Act* and that accepts deposits from the public."

Clause 77

(*a*) In subclause (2) strike out the words and figures "in any financial year of the bank commencing after the 31st day of October, 1966," in lines 38 and 39 at page 55.

(*b*) Strike out subclauses (5) and (6) at page 56 an dsubstitute the following therefor:

"(5) The bank shall not issue bank debentures dated more than sixty days before the date of the issue of the debentures; but this subsection does not apply to a debenture issued in exchange for or in replacement of one that has the same stated maturity and that is not then being redeemed or paid.

(6) The bank shall not issue bank debentures if, as a result of the issue, the aggregate principal amount of its bank debentures outstanding that have a stated maturity after the end of the financial year of the bank in which the issue is made, would exceed the lesser of

(a) an amount equal to one-half of the total of the paid-up capital stock and rest account of the bank at the time of the issue; or

(*b*) the amount obtained by multiplying the total of the paid-up capital stock and rest account of the bank at the time of the issue by the number of financial years of the bank completed after the 31st day of October, 1965, and dividing the product obtained by ten."

Clause 88

(*a*) Strike out lines 35 to 40 on page 69 and substitute the following:

"(5) Notwithstanding subsection (2) and notwithstanding that a notice of intention by a person giving security upon property under this section has been registered pursuant to this section, where, under the *Bankruptcy Act*, a receiving order is made against, or an assignment is made by, such person,"; and

(*b*) Strike out paragraph (*b*) of subclause (5) and substitute therefor the following:

"(*b*) claims of

(i) a grower of perishable products of agriculture that are direct products of the soil for money owing by a manufacturer to the grower for such products that were grown by him on land owned or leased by him and that were delivered to the manufacturer during the period of six months next preceding the making of such order or assignment, or

(ii) a producer of dairy products for money owing by a manufacturer to the producer for such products that were produced on land owned or leased by him and that were delivered to the manufacturer during the period of six months next preceding the making of such order or assignment,

to the extent of seven thousand five hundred dollars of the amount of the claims of the grower or producer therefor or the total amount of his claims therefor if such amount is seven thousand five hundred dollars or less",

Clause 91

(*a*) Strike out lines 36 to 39, inclusive, on page 74 and substitute therefor the following:

"(*a*) for the period commencing on the coming into force of this Act and ending on the 31st day of December, 1967, seven and one-quarter per cent; and

(*b*) for any part of an interest period commencing on or after the first day of January, 1968, one";

(*b*) Strike out subclause (4) on page 75 and substitute therefor the following:

"(4) Where a loan or advance referred to in subsection (2) is made for a fixed term by the bank in one interest period and is repayable in whole or in part in a later interest period, the maximum rate of interest or rate of discount that the bank may charge on the loan or advance is that prescribed by subsection (3) for the interest period in which the loan or advance is made notwithstanding the maximum rate of interest or rate of discount prescribed for later interest periods.";

(*c*) Strike out lines 22 to 24, inclusive, on page 75 and substitute therefor the following:

"Canada or of an equity of redemption therein or of an assignment of or mortgage on the interest of a lessee thereof;";

(*d*) Strike out lines 12 to 18, inclusive, on page 76 and substitute therefor the following:

"period of three months ending after the 31st day of December, 1966, is less than five per cent, subsections (2) to (8) of this section, subsection (1) of section 93, section 112 and subsection (1) of section 151 expire

(*a*) on the 31st day of December, 1967, if the last month of such period ends before the 31st day of December, 1967, or

(*b*) on the fifteenth day of the month next following the last month of such period, if such period ends on or after the 31st day of December, 1967,

but without affecting any loan or advance made for a fixed term in respect of which a rate of interest or rate of discount has been charged before that day."; and

(*e*) Strike out line 20 on page 76 and substitute therefor the following:

"(8) of this section and subsection (1) of section 93 expire shall be given by proclamation of"

Clauses 92 and 93

(*a*) Immediately after line 22 on page 76 insert the following:

"92. (1) In subsections (2) to (4),

(*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;

(*b*) "credit" means an arrangement for obtaining loans or advances; and

(*c*) "prescribed" means prescribed by regulations made under this section.

(2) 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 as calculated and expressed in accordance with subsection (3), 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.

(3) 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.

(4) The Minister may make 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 (2); and

(*e*) respecting such other matters or things as may be necessary to carry out the purpose of this section.

(5) 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 the making of a loan or advance be subject to a condition that the borrower maintain a minimum credit balance with the bank.

(6) Subsections (1) to (4) 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.";

(*b*) Renumber clause 92 on page 76 as subclause (1) of clause 93 and renumber subclause (1) of clause 93 on page 76 as subclause (2);

(*c*) Strike out line 1 on page 77 and substitute therefor the following:

"(3) Nothing in subsection (2) shall be con-"; and

(*d*) Strike out lines 6 to 9, inclusive, on page 77.

Clause 97

Strike out line 24 on page 80 and substitute therefor the following:

"the transmission in accordance with the claim; but nothing in this section shall be construed to prevent the bank from refusing to give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

Clause 101

Strike out lines 43 to 45, inclusive, on page 82 and substitute therefor the following:

"resolution carried by not less than two-thirds of the votes cast by the shareholders present in person or represented by proxy at the meeting, the"

Clause 122

In subclause (2) strike out lines 11 to 22, inclusive, on page 90 and substitute therefor the following:

"months.

(3) In the event of proceedings being taken under any Act for the winding-up of the bank in consequence of the insolvency of the bank, any calls on shareholders made thereafter shall be made in accordance with such Act.

(4) Failure on the part of a shareholder to pay any call referred to in this section when due constitutes a forfeiture by the shareholder of all claim in or to any part of the assets of the bank; but the call and any further call thereafter is recoverable from him as if no forfeiture had taken place."

Clause 124

Strike out lines 5 to 8, inclusive, on page 91 and substitute therefor the following:

"assets;

(*d*) the indebtedness evidenced by a bank debenture is subordinate in right of payment to the prior payment in full of the deposit liabilities of the bank and such other liabilities of the bank as are mentioned in that debenture or in any document under which it was issued; and

(*e*) the amount of any penalties for which the bank is liable shall be a last charge upon the assets of the bank."

Clause 138

Strike out line 8 on page 95 and substitute therefor the following:

"is liable to a penalty of ten thousand dollars."

Clause 145

Strike out lines 7 and 8 on page 97 and substitute therefor the following:

"sions of that paragraph is subject to a penalty of one thousand dollars a day for each day in which the violation"

Clause 150

Strike out line 35 on page 98 and substitute therefor the following:

"otherwise authorized by an Act of the Parliament of Canada."

Clause 151

Strike out clause 151 on page 98 and substitute therefor the following:

"151. (1) Every bank that violates the provisions of section 91 is guilty of an offence and liable on summary conviction or on conviction upon indictment to a fine not exceeding one thousand dollars, and every person who, being an officer or employee of the bank, violates the provisions of section 91 is guilty of an offence and liable on summary conviction to a fine not exceeding five hundred dollars.

(2) Every bank that violates the provisions of subsection (2) or subsection (5) of section 92 is liable to a penalty of one thousand dollars in respect of each violation."

Clause 157

Strike out line 13 on page 101 and substitute therefor the following:

"against this Act; but this subsection does not apply where such use is required by law and is confined to a statement contained in a prospectus that a corporation is the holder of shares of the capital stock or evidences of indebtedness of a bank."

Clause 158

(*a*) Strike out line 15 on page 101 and substitute therefor the following:

"section 53 or subsection (2) of section 56 is guilty of an offence and liable on summary"; and

(*b*) Strike out line 19 on page 101 and substitute therefor the following:

"violation of any provision of section 53 or subsection (2) of section 56 is guilty of an"

Clause 162

Strike out clause 162 on page 102 and substitute therefor the following:

"162. (1) Except as otherwise expressly provided in this Act, this Act shall come into force on a day to be fixed by proclamation of the Governor in Council.

(2) Section 6 and this section shall come into force, and section 6 of the *Bank Act* Chapter 48 of the Statutes of Canada, 1953-54, is repealed, on the day that this Act is assented to."

(3) Section 54 and subsection (6) of section 56 shall come into force three months after this Act comes into force."

Schedule A

Under the appropriate headings, insert the following at the end of Schedule A:

"Bank of Western Canada	Banque de l'Ouest Canadien	$ 25,000,000	$10 Winnipeg
Bank of British Columbia	Banque de Colombie Britannique	$100,000,000	$10 Vancouver"

Schedules M, N, O, P and Q

Strike out and substitute therefor the following:

SCHEDULE M

(Section 103)

Return of Assets and Liabilities
of the ——————————Bank
as at ——————————19——
(In thousands of dollars)

ASSETS

1. Gold coin and bullion ..... $
2. Other coin in Canada .....
3. Other coin outside Canada .....
4. Notes of and deposits with Bank of Canada .....
5. Government and bank notes other than Canadian .....
6. Deposits with banks, in Canadian currency .....
7. Deposits with banks, in currencies other than Canadian .....
8. Cheques and other items in transit, net .....
9. Treasury bills of Canada, at amortized value .....
10. Other securities issued or guaranteed by Canada maturing within three years, at amortized value .....
11. Securities issued or guaranteed by Canada not maturing within three years, at amortized value .....
12. Securities issued or guaranteed by a province, at amortized value
13. Securities issued or guaranteed by a municipal or school corporation in Canada, not exceeding market value .....
14. Securities of other Canadian issuers, not exceeding market value
15. Securities of issuers other than Canadian, not exceeding market value .....

16. Mortgages and hypothecs insured under the National Housing Act, 1954 .....
17. Day, call and short loans to investment dealers and brokers, in Canadian currency, secured .....
18. Day, call and short loans to investment dealers and brokers, in currencies other than Canadian, secured .....
19. Loans to a province, in Canadian currency .....
20. Loans to a municipal or school corporation in Canada, in Canadian currency, less provision for losses .....
21. Other loans in Canadian currency, less provision for losses ....
22. Other loans in currencies other than Canadian, less provision for losses .....
23. Bank premises at cost, less amounts written off .....
24. Securities of and loans to a corporation controlled by the bank
25. Customers' liability under acceptance, guarantees and letters of credit, as per contra .....
26. Other assets .....

Total assets .....$

LIABILITIES

1. Deposits by Canada, in Canadian currency .....$
2. Deposits by a province, in Canadian currency .....
3. Deposits by banks, in Canadian currency .....
4. Deposits by banks, in currencies other than Canadian .....
5. Personal savings deposits payable after notice, in Canada, in Canadian currency .....
6. Other deposits payable after notice, in Canadian currency ....
7. Other deposits payable on demand, in Canadian currency ....
8. Other deposits, in currencies other than Canadian .....
9. Advances from Bank of Canada, secured .....
10. Acceptances, guarantees and letters of credit .....
11. Other liabilities .....
12. Debentures issued and outstanding .....
13. Capital paid up .....
14. Rest account .....
15. Undivided profits at latest financial year end .....

Total liabilities .....$

SUPPLEMENTARY INFORMATION

Aggregate amount of loans to directors and firms of which they are members and loans for which they are guarantors .....$

Amount in currencies other than Canadian included in

Asset 8	Asset 10	Asset 11	Asset 12	Asset 13	Asset 14
$	$	$	$	$	$ .....

Branch returns antedating the late day of the month used in the preparation of this return:

Branch ..... Date of return

Controlled banking corporations whose assets and liabilities are included in this return .....

SCHEDULE N

(Section 60(2)(*a*))

Statement of Assets and Liabilities
of the .....Bank
as at October 31, 19.....

ASSETS

1.	Cash and due from banks	$
2.	Cheques and other items in transit, net	
3.	Securities issued or guaranteed by Canada, at amortized value	
4.	Securities issued or guaranteed by a province, at amortized value	
5.	Other securities, not exceeding market value	
6.	Day, call and short loans to investment dealers and brokers, secured	
7.	Other loans, including mortgages, less provision for losses	
8.	Bank premises at cost, less amounts written off	
9.	Securities of and loans to a corporation controlled by the bank	
10.	Customers' liability under acceptances, guarantees and letters of credit, as per contra	
11.	Other assets	
		$

LIABILITIES

1.	Deposits by Canada	$
2.	Deposits by a province	
3.	Deposits by banks	
4.	Personal savings deposits payable after notice, in Canada, in Canadian currency	

5. Other deposits .....
6. Advances from Bank of Canada, secured .....
7. Acceptances, guarantees and letters of credit .....
8. Other liabilities .....
9. Accumulated appropriations for losses .....
10. Debentures issued and outstanding .....
11. Capital paid up .....
12. Rest account .....
13. Undivided profits .....

$

NOTE: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.

SCHEDULE O

(Section 60(2)(b))

Statement of Revenue, Expenses and Undivided Profits
of the ..... Bank
for the financial year ended October 31, 19.....

Revenue

1. Income from loans .....$
2. Income from securities .....
3. Other operating revenue .....
4. Total revenue .....

Expenses

5. Interest on deposits and bank debentures .....
6. Salaries, pension contributions and other staff benefits ....
7. Property expenses, including depreciation .....
8. Other operating expenses, including provision for losses on loans based on five-year average loss experience .....
9. Total expenses .....
10. Balance of revenue .....
11. Appropriation for losses .....
12. Balance of profits before income taxes .....
13. Provision for income taxes relating thereto .....
14. Balance of profits for the year .....
15. Dividends .....

16. Amount carried forward .....
17. Undivided profits at beginning of year .....
18. Transfer from accumulated appropriations for losses .....

19. Transferred to Rest account .....
20. Undivided profits at end of year .....$

NOTE: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.

SCHEDULE P

(Section 60(2)(c))

Statement of Accumulated Appropriations for Losses
of the ..... Bank
for the financial year ended October 31, 19.....

1. Accumulated appropriations at beginning of year
   General ..... Tax-paid ..... Total .....$
2. Appropriation from current year's operations .....
3. Loss experience on loans less provision included in other operating expenses .....
4. Profits and losses on securities, including provisions to reduce securities other than those of Canada and a province to values not exceeding market .....
5. Other profits, losses and non-recurring items, net .....
6. Provision for income taxes .....
7. Transferred to undivided profits .....

8. Accumulated appropriations at end of year
   General ..... Tax-paid ..... Total .....$

NOTE: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.

SCHEDULE Q

(Section 106)

Return of Revenue, Expenses and Other Information
of the ..... Bank
for the financial year ended October 31, 19.....
(In thousands of dollars)

Revenue

1. Income from loans .....$
2. Income from securities .....
3. Other operating revenue .....

4. Total revenue .....

Expenses

5. Interest on deposits and bank debentures .....
6. Salaries, pension contributions and other staff benefits .....
7. Property expenses, including depreciation .....
8. Other operating expenses, including provision for losses on loans based on five-year average loss experience .....

9. Total expenses .....

Supplementary Information

10. Provision for income taxes .....
11. Dividends to shareholders .....
12. Loss experience on loans, securities and other investments less provision included in other operating expenses .....

13. Leaving for shareholders' equity and accumulated appropriations for losses .....
14. Capital contributions from shareholders .....

15. Net additions to shareholders' equity and accumulated appropriations for losses .....
16. Allocated to:
    Undivided profits .....
    Rest account .....
    Capital paid up .....
    General appropriations .....
    Tax-paid appropriations .....

Amendments to Bill C-223, An Act respecting Savings Banks in the Province of Quebec

Clause 6

Strike out clause 6 on page 3 and substitute the following therefor:

"6. Subject to this Act,

(*a*) if Parliament sits on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the 1st day of July, 1977, and no longer; and

(*b*) if Parliament does not sit on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the sixtieth sitting day of Parliament next thereafter, and no longer."

Clause 10

In subclause (1) strike out paragraph (*g*) on page 4 and substitute therefor the following:

"(*g*) the remuneration of the chairman of the board, the president, vice-presidents and other directors;"

Clause 16

Strike out line 7 on page 6 and substitute therefor the following:

"(2) The directors may elect by ballot from their number a chairman of the board of directors.

(3) A person elected to an office under this"

Clause 19

Strike out subclauses (1) and (2) on page 6 and substitute therefor the following:

"19. (1) The chairman of the board, if any, or in his absence, the president, or in their absence, a vice-president, shall preside at all meetings of the directors.

(2) Where at any meeting of the directors, the chairman of the board, if any, the president and all vice-presidents are absent, one of the directors present, chosen to act *pro tempore*, shall preside."

Clause 20

Strike out line 33 on page 6 and substitute therefor the following:

"fixed by a shareholders' by-law, to be paid to the chairman of the board, the president,"

Clause 24

In subclause (1) strike out line 24 on page 8 and substitute therefor the following:

"City and District Savings Bank is three million"

Clause 27

Strike out line 46 on page 9 and substitute therefor the following:

"a date, not earlier than the thirtieth day after the day on"

Clauses 28 to 30

(*a*) Renumber subclauses (1) and (2) of clause 28 on page 10 as clauses 28 and 29, respectively;

(*b*) Strike out line 14 on page 10 and substitute therefor the following:

"disposal of shares under section 28 exceeds the price per";

(*c*) Renumber clause 29, as amended, on page 10 as clause 30;

(*d*) Strike out the reference to section 26 or 28 in line 35 on page 10 and substitute therefor "sections 26, 28 or 29"; and

(*e*) Strike out clause 30 on page 10.

Clause 29

Strike out lines 39 and 40 on page 10 and substitute therefor the following:

"give his post office address and this shall appear in the stock books in connection with"

Clause 44

Strike out line 35 on page 15 and substitute therefor the following:

"mission in accordance with the claim; but nothing in this subsection shall be construed to prevent the bank from refusing to record or give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

Clause 45

(*a*) Strike out lines 11 and 12 at page 16 and substitute therefor the following:

"right, but does not include an official or corporation performing a function or duty in"

(*b*) Strike out lines 37 to 40, inclusive, at page 17 and substitute therefor the following:

"bank;

(*f*) both shareholders are agents of Her Majesty in right of Canada or officials or corporations performing on behalf of Her Majesty in such right a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (*a*) of subsection (1);

(*g*) both shareholders are agents of Her Majesty in right of the same province or officials or corporations performing on behalf of Her Majesty in right of that province a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (*a*) of subsection (1); or

(*h*) both shareholders are associated within the meaning of paragraphs (*a*) to (*g*) with the same shareholder."

(*c*) Strike out line 33 on page 18 and substitute therefor the following:

"virtue of paragraph (*h*) of subsection (2) by"

Clause 46

In subclause (2) strike out line 21 on page 19 and substitute therefor the following:

"of a share of the capital stock of the bank to any person, including, without restricting the generality of the foregoing, an official or corporation mentioned in clause (B) of subparagraph (i) of paragraph (*a*) of subsection (1) of section 45,"

Clause 47

In subclause (3) strike out line 17 on page 22 and substitute therefor the following:

"(c) an official or corporation administering, managing or investing"

Clause 49

(*a*) Strike out subclause (2) on page 25;

(*b*) Renumber subclauses (3) to (8) on pages 25 to 27, inclusive, as subclauses (2) to (7) respectively;

(*c*) Strike out line 27 on page 27 and substitute therefor the following:

"(*b*) an official or corporation administering, managing or investing"; and

(*d*) Strike out the figure (6) on line 34 on page 27 and substitute therefor the figure "(5)".

Clause 53

(*a*) Renumber subclauses (1), (2), and (3) as subclauses (2), (3) and (4), respectively;

(*b*) Insert the following as subclause (1):

"53. (1) The financial year of the bank shall end on the expiration of the 31st day of October in each year."

(*c*) Strike out the word "and" in line 48 on page 28;

(*d*) Strike out line 8 on page 29 and substitute therefor the following:

"earned in the financial year; and

(*c*) a statement of accumulated appropriations for losses of the bank for the financial year, showing the information in the form specified in Schedule C and such additional information and particulars as in the opinion of the directors are necessary to present fairly the amount of appropriations available to meet losses other than those for which specific provisions have been made."

(*e*) Strike out line 17 on page 29 and substitute therefor the following:

"Schedules A, B and C."

Clause 55

(*a*) Strike out subclause (11) of clause (55) and substitute therefor the following:

"(11) The auditors shall make a report to the shareholders on the statement of assets and liabilities, the statement of revenue, expenses and undivided profits and the statement of accumulated appropriations for losses of the bank to be submitted by the directors to the shareholders under section 53."

(*b*) Strike out lines 46 and 47 on page 30 and substitute therefor the following:

"of the financial year, its revenue, expenses and undivided profits for the year and its accumulated appropriations for the year, and shall include such remarks as they"

Clauses 80 and 81

(*a*) Immediately after line 9 on page 41 insert the following:

"80. (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;

(*b*) "credit" means an arrangement for obtaining loans or advances; and

(*c*) "prescribed" means prescribed by regulations made under this section.

(2) 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, as calculated and expressed in accordance with subsection (3), 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.

(3) 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 perannum and, under the circumstances prescribed, as an amount in dollars and cents.

(4) The Minister may make 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 (2); and

(*e*) respecting such other matters or things as may be necessary to carry out the purpose of this section.

(5) 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 the making of a loan or advance be subject to a condition that the borrower maintain a minimum credit balance with the bank.

(6) Subsections (1) to (4) shall come into force on the day that subsections (1) to (4) of section 92 of the *Bank Act* come into force."

(*b*) Renumber subclause (1) of clause 80 on page 41 as subclause (1) of clause 81;

(*c*) Strike out lines 25 and 26 on page 41 and renumber subclause (1) of clause 81 as subclause (2) of clause (81);

(*d*) Strike out line 37 on page 41 and substitute therefor the following:

"(3) Nothing in subsection (2) shall be con-"; and

(e) Strike out lines 42 to 45, inclusive, on page 41 and substitute therefor the following:

"(4) Subsection (1) expires on the day that subsection (1) of section 93 of the *Bank Act* expires."

Clause 86

Strike out line 35 on page 45 and substitute therefor the following:

"the transmission in accordance with the claim; but nothing in this section shall be construed to prevent the bank from refusing to give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

Clause 100

Strike out line 36 on page 49 and substitute therefor the following:

"declaration in the form set out in Schedule D, signed"

Clause 103

Strike out lines 3 to 14 on page 51 and substitute therefor the following:

"months.

(3) In the event of proceedings being taken under any Act for the winding-up of the bank in consequence of the insolvency of the bank, any calls on shareholders made thereafter shall be in accordance with such Act.

(4) Failure on the part of a shareholder to pay any call referred to in this section when due constitutes a forfeiture by the shareholder of all claim in or to any part of the assets of the bank, but the call and any further call thereafter is recoverable from him as if no forfeiture had taken place."

Clause 120

Strike out clause 120 and substitute therefor the following:

"120. (1) Every bank that violates the provisions of section 79 is guilty of an offence and liable on summary conviction or on conviction upon indictment to a fine not exceeding one thousand dollars, and every person who, being an officer or employee of the bank, violates the provisions of section 79 is guilty of an offence and liable on summary conviction to a fine not exceeding five hundred dollars.

(2) Every bank that violates the provisions of subsection (2) or subsection (5) of section 80 is liable to a penalty of one thousand dollars in respect of each such violation.

(3) Subsection (1) expires when subsection (5) of section 91 of the *Bank Act* expires."

Clause 131

Strike out clause 131 on page 58 and substitute therefor the following:

"131. (1) Except as otherwise expressly provided in this Act, this Act shall come into force on a day to be fixed by proclamation of the Governor in Council.

(2) Section 6 and this section shall come into force and section 6 of the *Quebec Savings Banks Act*, Chapter 41 of the Statutes of 1953-54, is repealed on the day that this Act is assented to.

(3) Section 47 and subsection (5) of section 49 shall come into force three months after this Act comes into force."

Schedule A

(*a*) Strike out items 6, 10, 11, 12 and 14 on page 59 and substitute therefor the following:

"6. Securities issued or guaranteed by a province, at amortized value .....

10. Other mortgages and hypothecs, less provision for losses .

11. Loans otherwise secured, less provision for losses .....

12. Loans without security, less provision for losses .....

14. Bank premises at cost, less amounts written off." .....

and

(*b*) Strike out item 2 on page 60 and substitute therefor the following:

"2. Deposits by a province, in Canadian currency..."

Schedule B

Strike out Schedule B and substitute therefor the following:

"SCHEDULE B

(Section 53(2)(b))

Statement of Revenue, Expenses and Undivided Profits of the ..... Bank for the financial year ended October 31, 19.....

Revenue

Income from loans .....$

Income from securities .....

Other operating revenue .....

Total revenue .....

Expenses

Interest on deposits .....
Salaries, pension contributions and other staff benefits .....
Property expenses, including depreciation .....
Other operating expenses, including provision for losses on loans based on five-year average loss experience .....

Total expenses .....

Balance of revenue .....
Appropriation for losses .....

Balance of profits before income taxes .....
Provision for income taxes relating thereto .....

Balance of profits for the year .....
Dividends .....

Amount carried forward .....
Undivided profits at beginning of year .....
Transfer from accumulated appropriations for losses .....

Transferred to Rest account .....
Undivided profits at end of year .....$

NOTE: *Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.*"

Schedule C

(*a*) Insert immediately before Schedule C on page 62 the following:

"SCHEDULE C

(Section 53(2)(c))

Statement of Accumulated Appropriations for Losses
of the ..... Bank
for the financial year ended October 31, 19.....

1. Accumulated appropriations at beginning of year
General ..... Tax-paid ..... Total .....$
2. Appropriation from current year's operations .....
3. Loss experience on loans less provision included in other operating expenses .....
4. Profits and losses on securities, including provisions to reduce securities other than those of Canada and a province to values not exceeding market .....
5. Other profits, losses and non-recurring items, net .....

6. Provision for income taxes .....
7. Transferred to undivided profits .....
8. Accumulated appropriations at end of year
   General ..... Tax-paid ..... Total .....$

NOTE: *Titles should be deleted where there are no amounts to be reported thereunder. Omit cents."*

(*b*) Strike out the word "SCHEDULE C" on page 62 and substitute therefor the following:

"SCHEDULE D

Declaration Required by section 100."

A copy of the Minutes of Proceedings and Evidence relating to Bills C-190, C-222 and C-223 (Issues No. 17 to No. 29, inclusive; No. 31 to No. 36, inclusive; No. 38 to No. 45, inclusive; No. 47 to No. 53, inclusive) is appended.

Respectfully submitted,

HERB GRAY,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, February 28, 1967.
(108)

The Standing Committee on Finance, Trade and Economic Affairs met *in camera* at 8.10 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Addison, Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Clermont, Comtois, Flemming, Gray, Irvine, Lind, Mackasey, Monteith, More (*Regina City*), Tremblay, Wahn—(14).

The Committee considered a draft of the Twenty-first Report to the House and made a minor amendment.

On motion of Mr. Wahn, seconded by Mr. Clermont, the Report was approved, as amended. (See page 3589).

The Committee then considered a draft of the Twenty-second Report to the House and drew up a number of comments and recommendations. The draft report was approved. (See pages 3590-3618).

Ordered: That the Chairman present the Reports to the House.

At 9.30 p.m. the Committee adjourned to the call of the Chair.

Dorothy F. Ballantine,
Clerk of the Committee.

NOTE:

In accordance with the resolution passed at the meeting of December 8, 1966, briefs received from the undermentioned, who have not appeared before the Committee, are printed herein as appendices:

S. A. Bensh, Nanaimo, B.C.	Appendix VV
The Canadian Chamber of Commerce	Appendix WW
County Savings and Loan Corporation	Appendix XX
Lloyd H. Denning, A.P.A.	Appendix YY
James M. Dever, Montreal	Appendix ZZ
H. Latulippe, M.P.	Appendix AAA
Alex Mills, C.L.U.	Appendix BBB
Prof. Milton Moore, Dalhousie University	Appendix CCC

25831—3

APPENDIX VV

Submitted by: S. A. Bensh, Nanaimo, B.C.

It is generally acknowledged that the Finance Minister and the Bank Governor are the chief monetary guardians. Presuming they are, the country could be faced with a most dreadful calamity. Wrong decisions made by these two men can cause millions of people to suffer and pay the penalty for their mistake, if these two men intrusted with such colossal power do not know, or do not care what a calamity they can inflict by their misconception. Concerning economy, a slowing down concept is a falacy. It is either a move ahead or an actual slowing down, which is a setback, a depression causing harm with practically no remedy.

Unbelievable, still Governments are making such decisions and causing crippling defects. The crumbling economy of the western world indicates it. Countries like Italy, West Germany, U.K., U.S.A., and the country usually mentioned as the show place of sound economy, Sweden, are no better off either, and now even the International Monetary Bank admits there is a financial crisis approaching, not only in the western world but in every country. The demand for money seems unlimited, beggar and corporation big-shot alike demand more and more of the vanishing money with its diminishing buying power, lacking in stability. The demand is justified because the financing method of the approaching automation is completely wrong. The automation system completely transforms production methods, while monetary policy and financing methods remain unchanged and become more reactionary with every day.

It should be realized that the reactionary method freezing wages and prices completely will not prevent inflation, on the contrary it will not only enhance inflation but will add to it poverty as well.

Canada, the richest and most advanced country concerning automation, with her developed natural resources produces agriculture, products, and food in abundance and exports large quantities of it. Therefore the advice by anyone to anyone to tighten their belt in any respect is the most cruel and shameful conjecture.

The automation system, which has completely transformed the output of products, has proven that freight charges are no more unavoidable necessary expenses, but instead they constitute a complete loss, because when added to the production costs they curtail the necessary buying power, which buying power cannot be recovered with more intensive production nor by more efficient methods with the same amount of manpower. Therefore, freight rates upset sound economy. Consequently more taxes than necessary have to be collected to make up for the shortage created thereby.

Freight charges and automation are adverse to each other by their nature. Unit by unit freight charges in many instances are greater than the output cost of the material shipped. Long haul, short haul develops a clash within shipment causing disadvantage between market places. The damage caused is irrepairable, yet scarcely recognized. Nevertheless, this in itself adds to the decay of our economy.

In Canada, with its vast territory so sparsely populated the long haul by transportation has presented a terrific clash which faces the automated time applied by industry with respect to cost.

In one area there is a shortage causing austerity and starvation. In another area food and material is rotting with no trade possible, the balance of power of freight charges is instrumental in forbidding normal trade in such cases. The freight cost payment is the balance of power which makes the balance of payment so extremely difficult between countries.

All in all freight rates have the unlimited capacity to make the price of products not only unreasonable but unbearably inflated.

The colossal mistake—freight rate charges are out of all proportion, when even the lowest rate would be harmful. Yet the 10 per cent and even higher raise is accepted by the Government even though it is definitely inflationary and destructive. But the justified 5 per cent raise by Stelco is opposed. How inconsistent and harmful an attitude!

Inflation caused by freight rates is duplicated by the financing method and money supply. An attempt is usually made to curb inflation by raising interest rates which are already out of proportion. Raised interest rates do not curb inflation, but rather enlarge it, it undermines and lowers the buying potentiality of the money which is already inflated. For example, a private home construction costs $15,000.00 financed with 7 per cent interest, which, with its endless payments almost equals the cost of construction. Auto financing exceeds 10 per cent, but doubles the rate of destructive capacity considering the rapid drop in its price within a couple of years. Installment buying is processed with 20 per cent carrying charges. It clarifies and demonstrates clearly how inflation is caused by double action with inflated prices and with inflated money.

Construction, automobile financing and installment buying, the main items of our economy are exposed to a savage exploitation to an alarming degree. High interest rates are the sign of insolvency poverty and not the sign of wealth and prosperity. It developes by improper governing ability. The question arises, how a government can carry on with such a black spot in their governing ability.

Consequently, the main factor of the economy, supply and demand is ill-functioning; the vehement demand for more and more money and higher wages, and the colossal amount of foreign capital invasion proves it without doubt.

The monetary and fiscal policy of the Federal Government is imposing a terrific burden on the provinces financing ability with the inflated prices and inflated money. Cost sharing is impossible without loss to the provinces as long as the Federal Government, with its sole authority remedies the economic process. Under such circumstances it is unfair to turn down the provinces justified claim. It is a misconception to postpone medicare, to postpone the raise of old age assistance, not only because they are necessary, but the most important fact is curbing the inflation which is possible only with public funds to eliminate the discriminative damage done with high interest and freight costs by the private sector of the economy.

Freight cost in its present private status of the economy is a heavy destructive burden, but transferred to the public sector it will become the most beneficial factor creating wealth and prosperity.

The course of the currency flow carrying the inflated money, measures up, computes and registers automatically and independently the actual loss in every pocket regardless of how small or how large the activity of the individual pocket may be. Do not follow witch doctors advice and practices foolishly made by finance minister and bank governor.

The right decision now could make the difference between growth or blight, between independence and freedom or reaction and tyranny by bringing back the system of the poor with austerity instead of wealth and prosperity for everyone, which is the real guideline of the present overwheming machine output.

To rectify the grave trouble, the refinancing method of the Central Bank and by the Federal Government is the simplest way; and it is considered the only way to eliminate the destructive capacity of the high interest rate and restore the necessary equilibrium between supply and demand. It is unavoidable, and should be remedied urgently before it is too late.

Freight cost and high interest rate acts as a balance of power, therefore upsets the necessary equilibrium between supply and demand.

It should be realized with raised interest rates you do not curb inflation, contrary if you bring down and curb high interest rates then inflation will cease.

Facing automation a permanent conflict exists between the government fiscal policy and that of the monetary system. The government utilizes currency in accordance with the automation trend as an exchange medium, collects taxes and distributes it at par with no return to the taxpayer. In contrast the Central Bank, Bank Loan Co. utilize the currency wrongfully as a very expensive commodity with added high interest rate repayable, when the market is flooded with man and material. In consequence the individual taxpayer is squeezed between excessive taxation and very expensive money supply, so destroying the paying ability of the taxpayer and simultaneously reducing the taxcollecting capacity of the government.

The overwhelming export trade wasting away the resources of future generations is useless as long as the federal government postpones unreasonable the necessary reforms, and is flooding the country with printed money. The quantity of Banknotes in circulation proves the Central Bank is flooding the country with printed funny money.

The error is unexcelled in dramatic magnitude. The flood of funny money is proven to be necessary facing automation, but the Central Bank is supplying the wrong channels, therefore it creates poverty and unemployment instead of wealth and prosperity.

R.R. No. 3,
Nanaimo, B.C.,
October 18, 1966

To The Standing Committee on Finance, Trade,
and Economic Affairs,
House of Commons,
Ottawa.

Hon. Gentlemen:

Based on my analysis which I outlined, I respectfully request you, the Honourable Gentlemen of the Standing Committee, to consider the following vital factors concerning revision of the Bank Act, in view of facing automation which has completely transformed our production method. In consequence bring the financing method of the government and that of the monetary system in accordance with the present automation need.

The vital factors to be revised are as follows:

1. To consider and realize the existing split and the impact it makes on our economy with two conflicting sides in permanent clash. The public sector and the private sector of the economy concerning their financing method utilizing currency. Previous to automation the private sector of the economy has been the dominating factor, presently with the actual transformation the public sector has become the dominating one.

2. In consequence of that issuing of the money supply must be revised to establish an equilibrium between the sectors. The public sector and the actual industry should receive priority against the outgrowth of the financial institutions in the private sector.

3. Revision of the amortization method, the inflationary high interest rate should not be maintained but corrected by adequate financing method by the Central Bank.

4. To achieve lower mortgage interest rate the floating and recalling of Government Bonds must be revised. With proper adjustment the interest rate will drop automatically. The changing of channels are necessary to gain release of money need, not high interest rate.

5. Consider the revision of the quantity of Banknotes in circulation. Issuing as at present printed money or re-establishing sound money by changing channels. Changing the flow from the overflooded damaging one to the ones which are running dry.

6. To consider the possibility of changing the price of gold for the transition period to stimulate the dollar foreign exchange rate if necessary.

7. To consider the refinancing method on a gradual scale.

8. To consider and realize taxation facing automation is no more a govern-
business only, but it became the most vital distributing factor of buying power and raising the velocity of money in circulation to counteract inflation and create wealth and prosperity by absorbing the overwhelming machine output with diminishing human participation.

9. To consider under such circumstances the vital difference, taxing the tax subject on a uniform scale or exempting some not on a sliding scale but on a reversed method to eliminate subsidy.

10. To consider the vital importance transferring the actual balance of power, the paying for freight cost from private sector to the public sector of the economy.

11. To consider and realize, freight transportation and road building, Medicare and Old Age Pension, education and religion are a subsequent row to distribute buying power with collected taxes.

12. To consider the tariff rates levied on imported goods as necessary revenue sources, to protect the taxpayers paying ability, indicating the futility of common market. The vital question remains to uphold this balancing potential of the existing balance of payment or abandon one part of the own production system to slide into austerity and create poverty. Is the common market functioning well between the provinces with different natural resources and reciprocally possible? Inflation is as much rampant in the common market countries as improper the internal financing method develops with the two destructive forces at large.

12a. To consider and insist, that a sound proportion should exist between goods and services, by the distributed buying power with tax-dollars. Favouring domestic product is important as money spent on goods distributes buying power from hand to hand many times. In consequence it raises the velocity of the money which counteracts inflation automatically. Or could be supplied as a stimulator to attain reciprocal foreign trade so important both ways.

13. To revise the cost sharing method between the federal and provincial revenue sources eliminating the present discriminatory method burdening the provinces.

14. To consider establishing a department to investigate, to calculate, to measure up on a scientific scale the actual facts to discharge a proper deal in financing method and to govern the Central Bank in accordance with the present need. To eliminate discriminatory false assumptions. The present economic council is unfit for such undertaking as it does not possess the necessary information which would be needed from the Central Bank as well from the finance department of the Government

I attempted to follow the counter balancing method instead of the futile controlling effort.

I hope you will find the points outlined in my brief appropriate for investigation.

Finally Gentlemen, the opportunity is yours to consider or dismiss my appeal.

Obediently yours,

APPENDIX WW

THE CANADIAN CHAMBER OF COMMERCE
300 St. Sacrement St., Montreal, Que.

October 31, 1966.

Mr. Herb Gray,
Chairman,
Finance, Trade and Economic Affairs Committee,
House of Commons,
Ottawa, Canada.

Dear Mr. Gray:

At the recent Annual Meeting of The Canadian Chamber of Commerce the following policy was adopted:

> "Monetary policy should be directed towards maintaining credit conditions adequate to encourage reasonable business expansion without permitting inflationary trends to dissipate the hard-won gains already achieved and in prospect. More careful consideration should be given to the Report of the Royal Commission on Banking and Finance. Many of the Commission's recommendations designed to increase freedom, flexibility, and competition in the financial system would also increase the effectiveness of monetary policy in times of inflation. The Chamber's view is that the 6 per cent bank rate ceiling should be removed as recommended by the Royal Commission on Banking and Finance."

It would be appreciated if you would arrange to have this policy brought to the attention of the Finance, Trade and Economic Affairs Committee in connection with their review of Bill C-222.

Yours sincerely,
Henry Valle.

APPENDIX XX

October 17th, 1966

BRIEF TO THE COMMONS COMMITTEE ON BANKING

Regarding Revisions of the Bank Act

To: The Members of the Commons Committee on Banking
By: County Savings and Loan Corporation.

Introduction

County Savings and Loan Corporation is registered under the Loan and Trust Corporation's Act of Ontario and is more specifically a Savings and Loan Corporation. It received its charter in November of 1964 and has established two branches in Metropolitan Toronto. It, like most corporations registered under the Trust and Loan Acts of the various Provinces, invests a large proportion of its funds in Mortgages on Real Estate. (Its other assets, for the most part, include Government and Government guaranteed securities.)

General

The purpose of this Brief is to outline, in general, this corporation's understanding of the present functions of the various Canadian Financial Institutions and to comment on what it believes might be done to help improve these functions for the benefit of those institutions on the one hand, and the Canadian borrowing and lending public, on the other.

Canadian Financial Institutions

The Canadian Financial Institutions are basically the Chartered Banks, the Quebec Savings Banks, the Trust and Loan Corporations, the Caisses Populaires and Credit Unions, the Sales Finance & Consumer Loan Companies, the Insurance and Investment Companies and Pension Plans. Of these only the first three can borrow directly from and lend directly to the public at large and as such are in a unique position. In recent years the Chartered Banks and the Trust and Loan Corporations have each attempted directly and/or indirectly to participate in what till then had been their respective private domains. This for the most part, has been successful. The Chartered Banks also have, in recent years, aggressively entered the Consumer lending field and have taken away a large percentage of this business from the Consumer Loan Companies. (Only recently a high government official mentioned that the Chartered Banks are the main providers of Consumer Loans.) This has been beneficial both to the Chartered Banks and the borrowing public, the latter being able to borrow at lower rates. It has, however given the Chartered Banks a marked advantage over the Trust and Loan Corporations, for as the Chartered Banks have increased their assets in this more lucrative field, they have (and will more so as these assets become a larger proportion of their total asets), been able to pay higher rates for the money they borrow, attracting funds away from other borrowers. This problem became serious in the United States, where the "Chartered Banks" have been able to compete more effectively in the creation of debt, being very active in the

Consumer lending field where returns were high, whilst the Savings and Loan Associations, whose lending powers do not permit Consumer lending, have been losing ground rapidly being unable to compete with the rates paid by the Banks. The United States Government recently passed Legislation controlling to a certain extent, the maximum rate Banks can pay for certain forms of debt. Federal and Provincial Legislation in Canada however, differs from their respective counterparts in the United States; our suggested approach to this inequity here in Canada (where the situation might also become serious) will be outlined below.

The Trust and Loan Corporations

The Trust and Loan Corporations have long been the main source of funds for mortgages especially in the residential Real Estate field, the demand for which, including non-residential mortgages, has been growing at an ever increasing rate since the end of the second World War. In the past, most of their funds were acquired through the sale of long-term debt. However, in recent years, the Trust and Loan Corporations have been competing more aggressively with the Chartered Banks for the demand deposit form of debt. It is clear therefore that if the problem mentioned in the preceding paragraph were allowed to develop, the ability of the Trust and Loan Corporations to provide these mortgage funds would be greatly reduced, as has been demonstrated recently in the United States, even though the Banks in the United States are permitted to lend by way of mortgages.

Some of the main recommendations of the report of the Royal Commission on Banking and Finance

1. Removal of restrictions on Interest rates charged by the Chartered Banks.

2. Gradual permission given the Chartered Banks to enter the mortgage field.

3. Freeing the N.H.A. lending rate, allowing it to find its own level.

4. Raising the permitted lending limits of value of Real Estate up to which institutional mortgage lenders can lend.

5. Raising of the amounts covered by the Small Loan's Act.

6. The Bank Act to be extended to cover a wider group of institutions which are now engaged in the business of banking.

7. To permit the Savings Banks and Trust Loans Corporations to enter the Commercial and Personal Consumer loan field.

8. All banking institutions to be required to maintain uniform cash reserves ratios against their short term liabilities.

9. All institutions doing simlar business should be equitably treated within the system of monetary control.

10. Prohibitions on agreements between banking institutions with respect to lending *and* borrowing rates.

11. Certain restrictions as to the percentage of ownership that banking institutions may have in any one company.

12. Disapproval of the practice of bank officers or employees, serving as directors of commercial concerns.

13. That the anomaly in present law, which prohibits share ownership of one Canadian Chartered Bank by another, but is silent on foreign bank ownership, be removed and the provision be made for the establishment of foreign bank agencies.

14. Deposit Insurance.

Our recommendations

We have attempted above to outline some of the functions of the two main groups of banking institutions with which we are concerned, the Chartered Banks and the Trust and Loan Corporations. We have also outlined some of the main recommendations of the Royal Commission on Banking and Finance, as they pertain to those two banking groups. We would now like to express our views on these recommendations and as far as possible, show good and valid reasons for those views.

Firstly, we are pleased to see that the proposed revisions to the Bank Act include many of the Porter Report recommendations, however, we would have liked to see the adoption of all the recommendations. We realize that this is very difficult to achieve all at once, due to the variety of factors involved, and therefore sincerely hope that this will be done in future revisions.

Discussing the above mentioned recommendations, one at a time, we will make specific comments on each one, keeping in mind not only how advantageous any might be to the Trust and Loan Corporations, but also the benefit each might provide for the Canadian borrowing and lending public.

1. *Removal of restrictions on interest rates*

We feel that this will serve to permit the Chartered Banks to lend to a wider range of borrowers and enable them to charge in accordance with the borrower's credit standing. We feel strongly, however, that the other groups of banking institutions (namely the Trust and Loan Corporations) also be permitted to extend Commercial and Personal Consumer loans, otherwise, the Chartered Banks being able to lend part of their funds at much higher rates than the Trust and Loan Corporations (who are restricted to the mortgage field for their higher returns), will be able to pay a higher rate for their debt and make the situation between the two groups inequitable. Furthermore, if the Chartered Banks are permitted to compete in the mortgage lending field, they will have taken away even that edge from the Trust and Loan Corporations, leaving them in a rather prejudicial position.

Some Trust and Loan Corporations may claim that they do not want this privilege. This may be because they do not *want* to compete with the Chartered Banks for the Consumer Loan business, or do not have to. The Porter Report does emphasize that many Corporations governed by similar regulations have followed their own fields of specialization. We suggest therefore, that those Trust and Loan Corporations, that do not wish to delve into the Consumer Loan field, are free not to do so. This was true when Trust and Loan Corporations started aggressively to compete for the demand-type of debt. Some of the Trust and Loan Corporations only entered that field very recently, before which they felt they did not have to, although they *were* permitted to do so.

The permission of entering the Consumer loan field, if given the Trust and Loan Corporations, will also have the effect of reducing and keeping down the rates at which personal consumer loans are made, which in our estimation *is in the best interests of the Canadian Borrowing Public.*

2. *Gradual permission to the chartered banks to enter the mortgage field.*

We approve of this, as again, it tends to keep interest rates down and provides more funds for a segment of the economy which often seems to be in short supply for those funds. It also serves the Construction Industry, one of our leading Canadian Industries. We do emphasize, however, that this should be accompanied by permission to the Trust and Loan Corporations to participate in the Consumer Lending field for reasons expressed previously, otherwise the situation would be unfair.

3. *Free the N.H.A. lending rate, allowing it to find its own level.*

We give this our full approval, adding that this would help to create a secondary market in N.H.A. mortgages and increase the money available for this type of investment, with the obvious benefits to the Canadian home owner.

4. *Raising the permitted lending limits of value of Real Estate up to which institutional mortgage lenders can lend.*

This federally and in most Provinces (if not all) has already been implemented.

5. *Raising of the amounts covered by the small loans act.*

We approve, in that it tends to lower the rates that the Canadian borrowing public will have to pay for debt.

6. *The Bank Act to be extended to cover a wider group of institutions which are now engaged in the business of banking.*

We would like to see this implemented, so that a uniform control over all banking institutions can be achieved.

7. *To permit the savings Banks and Trust and Loan Corporations to enter the commercial and personal consumer loan field.*

As we have previously indicated, we feel strongly that the Trust and Loan Corporations be permitted to render this service which the Chartered Banks are becoming more active in each consecutive year and taking up a larger percentage of the market in that field, principally because they are able to lend at a far lower rate than the Consumer Loan Finance Companies. Again, it seems clear to us that permitting the Trust and Loan Corporations to enter this field is in the interest of the *public in general;* conversely by not doing so, it would, in due course, greatly undermine the Trust and Loan Corporations' ability to compete effectively and fairly for both the demand-type and the longer-term type, of debt.

8. *All Banking institutions to be required to maintain uniform cash reserves ratios against their short term liabilities.*

Although we approve of this recommendation, we do realize the problems involved in implementing it in the present proposed Bank Act revision.

9. *All institutions doing similar business are equitably treated within the system of monetary control.*

Full approval for obvious reasons.

10. *Prohibitions on agreements between banking institutions with respect to lending and borrowing rates.*

Full approval in the public interest.

11. *Certain restrictions as to the percentage of ownership that banking institutions may have in any one company.*

No comment.

12. *Disapproval of the Practice of Bank Officers or Employees Serving as Directors of Commercial Concerns.*

No Comment.

13. *That the Anomaly in Present Law, which Prohibits Share Ownership of one Canadian Chartered Bank by Another, but is silent on Foreign Bank Ownership be Removed and the Provision be made for the Establishment of Foreign Bank Agencies.*

No Comment.

14. *Deposit Insurance.*

Although this is not in fact a Recommendation of the Commission, we feel that such Insurance would be to the benefit of the lending public, as events subsequent to the Commission's Report have shown. Deposit Insurance has been in effect in the United States for many years and has in our opinion, proved beyond a doubt, a benefit to the depositing public. We feel that it is essential, if we are to have an effective, strong and consistent financial banking field. Any one failure can have serious repercussions on the whole economy, again, as was the case recently.

Since the advent of some problems a financial institution had recently, the lending public has lost some confidence in the non-chartered banks. This is having and could further have, serious repercussions on these institutions. On the one hand the non-chartered or near banks can be as conservative as possible, but still be at a definite disavantage in their attempts to acquire debt, and on the other hand the lenders should have some form of protection against unforseen circumstances, be it with chartered banks or non-chartered banks. It seems to us that with Deposit Insurance the Government will have protected the public to the fullest possible extent. This Deposit Insurance should be extended to all

Institutions accepting deposits from the public, together with uniform monetary controls and cash reserves. Deposit Insurance should go as far as can be expected in giving the public the utmost possible protection and yet affording the greatest amount of equality of freedom of movement to all segments of the banking field.

Summary.

To end our brief, we would like to quote a short paragraph out of the Report of the Royal Commission on Banking and Finance, that best summarizes our attitudes:

> "We have, in summary, favoured a more open and competitive banking system—carefully and equitably regulated under uniform legislation but not bound by restrictions which impede the response of the institutions to new situations, enforce a particular pattern of narrow specialization or shelter some enterprises from competitive pressures. We believe that this framework will encourage creativity and efficiency and offer the public the widest possible range of choice of financial services, while reducing the danger of unregulated institutions springing up to serve real needs which others are prevented from meeting. Some institutions may attempt to offer a full range of services and others may choose to specialize in a variety of ways, but the legislation will allow all of them—and such new institutions as are qualified—to adapt to new opportunities and situations created by changing public preferences and needs".

APPENDIX YY

129 Queen St.,
Dunnville, Ontario,
November 10, 1966.

The Chairman,
Banking Committee,
Parliament Buildings,
Ottawa, Ontario.

Dear Sir:

Some banks have recently introduced an extraordinary scheme to evade the maximum 6% rate of interest on bank loans.

This device demands a borrowing customer leave 10% of the loan on deposit with the bank. This is held in a special account. I have in mind a bank customer who required a loan of $6,000.00 for his business. It was necessary he borrow $6,600,00, on which he will pay 6% interest, however he only receives the use of $6,000.00 He will be paying 6.6%.

This appears to me a most glaring evasion of law and I would like to know how it could be permitted.

I will appreciate your comments, at your convenience.

Yours very truly,

Lloyd H. Denning, A.P.A.
Public Accountant.

APPENDIX ZZ

Montreal, Que.
September 8, 1966.

Herbert E. Gray, Esq.,
Chairman,
Standing Committee of the House of
Commons on Finance, Trade and Economic Affairs,
Parliament Buildings,
Ottawa, Ontario.

Dear Sir:

I attach hereto a memorandum setting out, for the consideration of your Committee, my thoughts regarding two proposed amendments to the Bank Act. I also include a comment on the granting of a charter to the Western Bank of Canada. I feel that the public should be fully informed as to the reason for this change in government policy, whereby an increase in the number of banks is encouraged, when the trend in recent years has been towards mergers of existing banks.

I have submitted my memorandum to several business associates and I find a general unanimity among them that the points raised therein are deserving of serious thought on the part of your Committee.

Yours very truly,

(Signed) James M. Dever

1. The publishing of details of appropriations for losses on investments and loans required under Section 60 (b) and (c) of the Bank Act is an innovation which is likely to do more harm than good. Apart from such information being of interest to investment analysts in advising their clients to either by or sell bank shares, (a move which they have been urging for some time), it is difficult to determine what good purpose will be served thereby. On the contrary, it is likely that the disclosure of details in respect of the banks' reserves will disturb many people who have always had the utmost confidence in the stability and solvency of our banks. They feel that, like God, the banks move in a mysterious way their wonders to perform and they are quite satisfied with their conduct of affairs as long as their cheques are paid. This comfortable state of mind, whose influence is felt in every sphere of business activity, is bound to be shaken because the published provision for losses may be interpreted as being the amount of losses actually sustained. Furthermore, the proposal to form a Corporation for the purpose of insuring bank deposits might be considered as an indication that the government itself was becoming dubious of the solvency of the banks. For these reasons, it is submitted that the requirements of the above-mentioned sections, insofar as they relate to disclosures regarding reserves, should not be enforced.

2. Section 75(3) empowers a bank to lend money on the security of real or immovable property. This seems like a drastic departure from the traditional role of banks in the lending field. If such loans were confined to the amount of debentures outstanding, there would not be much room for criticism, but to use depositors' money for such purposes weakens the banks' ability to meet the demands of the depositors. Surely the difficulties experienced by banks in the U.S. during the early thirties, attributable to a large extent to mortgage lending, have not been forgotten. Bank loans should be restricted to those of a current nature, leaving all long term loans to other agencies who are not subject to the sudden demands which may be made upon banks.

3. When the Bank of Western Canada was recently granted a charter, it was remarked in the House that Canada needed more banks. This statement seems a trifle strange when one recalls the merger of a few years ago of the Dominion Bank with the Bank of Toronto and Barclays, Imperial Bank with the Canadian Bank of Commerce. When one considers that of 63 banks which were chartered in Canada over the years 12 have failed and the remaining 51 have merged with and now form part of the existing 7 banks, it would indicate that under the Canadian system of branch banking it is only the larger banks which can survive. It would be interesting to speculate on the life expectancy of this new bank or any others which may come into existence whose activities are likely to be confined to isolated areas.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

REPRINT OF APPENDIX AAA

to Minutes of Proceedings and Evidence No. 53

(Mr. Henri Latulippe, M.P.)

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

25833—1

Extract from the Minutes of Proceedings, Thursday, March 16, 1967.

The Chairman explained to the Committee that, because of an error, the pages of the brief submitted by Mr. Latulippe had been reproduced in the wrong order when it was printed as Appendix AAA to Issue No. 53 of the Minutes of Proceedings and Evidence. The Committee agreed that, in fairness to Mr. Latulippe, this situation should be corrected.

Therefore, on motion of Mr. Monteith, seconded by Mr. Irvine,

Resolved,—That the Committee cause to be printed the same number as originally printed of Issue No. 53, that is to say, 1500 copies in English and 700 copies in French, of Appendix AAA to Issue No. 53 of the Minutes of Proceedings and Evidence.

Attest

Dorothy F. Ballantine,
Clerk of the Committee.

25833—1½

APPENDIX AAA

HOUSE OF COMMONS
CANADA

H. Latulippe
M.P.

Ottawa, Canada, October 25, 1966.

Brief submitted to the Committee on Finance, Trade and Economic Affairs, during *examination of BILL C-222, on the Bank Act*

TO WHOM IT MAY CONCERN:

On several occasions, in my speeches in the House of Commons, I have specifically mentioned that we cannot allow or cause any further increases in the wages of labour or increases in the rates of interest on capital until we have made suitable provision for the vital minimum purchasing power of those persons in Canada who have no income either from working, or from capital.

Every time we increase the wages of labour, every time we increase the income from capital, we are increasing the cost of living in general and eroding the economic position of people having no income and, thus too, of the citizens who are responsible for them.

In order to grasp the importance of this warning, we must realize that today, in 1966, out of a population of 20,000,000 citizens, 7,400,000 have income from working or from capital and that 12,600,000 have no income from capital or working from and are dependant on private citizens or on society in general.

Thus, each time that the cost of living increases as a result of any increase in the wages of labour or of interest on capital, we are eroding the situation of the 12,600,000 dependant Canadian citizens who have no income either from working or from capital.

For example, as regards children under 16, who receive allowances of $6 and $8 per month, amounts set in 1944 and unchanged since that time, these amounts no longer have any significance or any relation with the cost of living in 1966.

The following items will emphasize this point:

Items	1944-45	1966
1. Gross National Product	$11,400,000,000	$56,000,000,000
2. Investments. Capital	1,280,000,000	18,000,000,000
3. Assets of the 8 Banks	6,000,000,000	26,500,000,000
4. Capital—Shares: 800 Companies: ..	7,000,000,000	102,000,000,000
5. Circulation of Cheques	60,000,000,000	520,000,000,000
6. Salaries—Expenses: M.P.'s	4,000	18,000
7. Old Age Pensions	per month 20	75
8. Allowances: Children 0 to 10 years	per month 6	6

When all the items of the national economy have been multiplied by 4, by 8, by 10 and more, the allowances for children under 10, under 16, have remained stationary at $6 and at $8, at the 1944 rate, when the entire population is living in 1966...

These are observations. These are actual facts.
Not opinions... not beliefs.

This clarification is a warning. Why should we continue to encourage increases in the wages of workers or increases in the interest and dividends of capitalists and bankers if we still persist in doing so always at the expense of the little man among our courageous people, those mothers and fathers who, despite an untenable economic situation, still consent to bring up the entire future generation of potential productive adults guaranteeing Canada's survival and prosperity?

Today, the Government is placed sharply and strikingly before two basic cases, where its authority is called upon to make a decisive choice, a choice it should have made long ago, but which it cannot postpone any longer, for any valid reason or pretext.

The Government of Canada is the highest authority in all the country of Canada—over all institutions, all public bodies, all pressure groups, all intermediary bodies, all 8 chartered banks, all 800 larger companies, especially those which make more than $1 million in net profits every year.

One Bank of Canada, 8 chartered banks, 800 large companies, whether they are on the Stock Exchange or not, most of them being headed by one or more of the directors of the 8 chartered banks. This is High Finance, this is High Economic Management in Canada. This is the field of activity for the great leaders of Canada.

One Bank of Canada; 8 chartered banks, 800 companies. This is the great centre of all economic management in Canada.

Either these people are responsible, or they are not. Either these people govern and plan all economic activity in Canada, or they do not govern and plan, but one think is certain, all these people are placed under the direction of the Minister of Finance of Canada, under the direction of the Governor-General in Council, that is, of the Governor-General with the entire Cabinet of the 26 ministers of Canada.

This is the supreme authority of Canada. This is where we must come together, if we hope to strike somewhere to demand administrative reforms or claim urgent and vital readjustments.

The supreme authority cannot be anonymous or irresponsible.

Now, this government, this supreme authority, this Governor-General in Council is soon to allow two major increases in the income of labour and the income of capital. It is soon to remove the ceiling of 6 per cent on interest rates on loans from the 8 chartered banks, on the capital side, and increase the wages of postal workers, on the labour side.

Although the Governor in Council, with his 26 ministers (His Government) may hope to hide behind Joint Committees of Senators, Ministers and Members of Parliament, behind Royal Commissions, behind Economic Councils of Canada, to observe the established, and supposedly democratic, customs, the fact remains that the supreme authority of Canada must make a choice immediately between continuing to run a country with the old obsolete methods or plunging

courageously into the new order which the people await and demand with all their strength, with patience, perseverance and confidence.

Before any increase in interest rates, before any increase in salaries, the primary need in Canada is the readjustment of purchasing power in relation to the vital personal minimum of every dependant fellow citizen who has no income either from his labour or from his capital.

LET US NO LONGER ABUSE AN OVERLY PATIENT PEOPLE LET THE SUPREME AUTHORITY RESUME "ITS AUTHORITY"

Before any increase in the income of capital, before any increase in the wages of labour, our Government, through all its institutions, whether responsible or semi-responsible, should readjust family allowances, first, and all other personal allowances of the 12,600,000 dependant Canadian citizens, who have no income from capital or from labour, but who obviously have their own vital personal right to life and to security.

INCREASE IN THE BANK INTEREST RATE 6 PER CENT CEILING

After the creation of the Bank of Canada, in 1934, the chartered banks lost the right to print their own Bank notes and were obliged to withdraw from circulation those already in existence, at the rate of 10 per cent per year, the balance in the tenth year. This was done and accomplished as required by this law. But the banks kept their right to create credit money on loans or on the purchase of bonds, albeit by accepting some legalized restriction such as maintaining reserves of at least 5 per cent of their deposits by the Public and respecting an interest rate no higher than 7 per cent.

When the Bank and Finance Acts were revised in 1944, the interest ceiling was reduced to 6 per cent, and, moreover, Banks were not to pay dividends of more than 8 per cent on their bank shares. They were permitted to continue making inner reserves, undeclared, secret and untaxed, in their annual reports to the shareholders, the public and the Government. When the Bank and Finance Acts were reviewed in 1954, the interest ceiling remained at 6 per cent but the 8 per cent ceiling on bank shares was removed. Today, the banks pay dividends of between approximately 20 per cent and 30 per cent. Royal Bank; 4 times 75 cents per term, $3.00 a year on a $10 share. Bank of Montreal: 4 times 55 cents: $2.20 plus 17½ cents special dividend: total $2.37½, for a $10 share. Which means: 23.75 per cent.

When the Government applies ceilings on interest or on bank dividends in this way, it must be for solid reasons, for serious motives and not because of a school child's whim. Why then remove ceilings which were established for solid and serious reasons and motives?

As for the bank reserves of 5 per cent, which rose to 8 per cent and which they want to reduce to 7 per cent, the same observation applies. As we might expect, all the effects of these changes, which seem to have no importance for the public and laymen in national economy and financial science, work for good or bad repercussions, usually bad, if we hope to protect the rights of the citizens,

first of all, before those of the rich, the learned and the powerful who govern and administer the great institutions of Canada.

Why did they remove the 8 per cent ceiling on dividends for bank shares, why are they now removing the 6 per cent rate as the maximum rate for bank loans? Why?

Striking Example: Bank of Canada: Rate 2 per cent

When the Bank of Canada was founded, in 1934, it set its interest rate at 2 per cent for Treasury Bills and loans to chartered banks. This rate of 2 per cent remained stable from 1934 until 1956, even though it passed through times of depression, war and the great post-war boom.

And then in 1956, the Government completed its fiscal year's operations with a very large surplus, after a series of smaller annual surpluses. But wasn't it pleasant to see the Federal Government end up with surpluses? Then they spoke of inflation, and of unemployment, and they undertook a series of measures intended to correct the deficit policy they felt was more suited to the Nation's progress.

The Bank of Canada for its part began speculating on the interest rate after the fine stability it had observed and practised since it was founded, more than 20 years before.

The Bank of Canada's rate then rose from 1½ per cent to 6.41 per cent in the same year. Federal Government Bonds, through the well-known conversion of $6,400,000,000 of War Bonds, were renewed at rates of 4 to 5 per cent instead of the 2½ to 3 per cent they paid during the war. Today, we see governments, provinces and municipalities and large companies, school boards, public buildings, religious and parish corporations issuing debentures at rates which sometimes exceed 7 per cent and even 8 per cent. Why is money so scarce? Why are there these prohibitive interest rates on money, on funds which usually enjoy the right of spontaneous generation?

Where will this dizzy spiralling of interest rates end? Is someone finally going to try and stop it, or is it preferable to allow the revenue of capital to rise in this way forever, when the people go without the essentials, go without the income of labour, go without decent incomes for all citizens who are too young, too ill or too old to earn their living?

No, Gentlemen! We must cease this dangerous game, even if it is advantageous for the small part of the population which owns, which knows and which directs. For the wealth, knowledge and power that you possess are not for yourselves alone, but for all the people who offer you their arms, their time, their talents, to receive yours in exchange, at a suitable time and place, and in a suitable proportion.

This is life in society. The one for the other, and not all the others for a few who have wealth, talent, knowledge and power.

Every increase in the rates of interest on capital, every increase in the wages of labour do nothing but cause increases in the cost of living, even for all those 12,600,000 citizens who have neither a job nor capital. This is the painful side of a national economic situation in which we see the gap growing wider every day

between the rich, the poor and between those who enjoy surpluses and those who struggle with deficits, between those who accumulate capital and those who sink deeper into perpetual debts, even Governments.

And with debts, the interest rate is the primary factor. In order to understand this completely, see the following tables, which are very simple, very concrete, very easy, but essential to a comprehension of the problem before us:

Let us suppose that we have to build the Jacques-Cartier Bridge, in Montreal, at a cost of $20,000,000.

We can borrow $20,000,000 from bank finance at 5 per cent for 40 years, by a debenture which is to be repaid in a single installment at the end of this period.

We can borrow $20,000,000 from the Bank of Canada, without interest, to be repaid in 5 per cent installments over a period of 20 years, as the Bridge is a public non-profit and non-income producing commodity, built with Canadian men and materials.

	Bank of Canada Paying 5% per year	Bank and Finance Interest 5% per year
Creation of Debt of	$20,000,000	$20,000,000
Annual repayment 5%	1,000,000 cap.	
Annual interest 5%		1,000,000 int.
After 10 years	10,000,000 cap.	10,000,000 int.
After 20 years	20,000,000 cap.	20,000,000 int.
After 40 years		40,000,000 int.
After 40 years, the entire capital is due		20,000,000 cap.
In the two cases TOTAL COST ..	20,000,000	60,000,000

After 40 years, the debenture for $20,000,000 is due, but since the Government cannot yet pay it, even after having paid $40,000,000 in interest, at 5 per cent per year, it must renew its debt for $20,000,000 on the new terms of the creditors, the capitalists, bankers or others, on the new terms of the debenture market, in the language of the Economists, perhaps at 7 per cent, who knows where the ambition of these people who have made money and profits their God, their Golden Calf, will stop, particularly and especially, if they know that it is the people who pay...both the interest...and the capital.

Nothing further need be said, I believe, to show clearly all the importance of the interest on spontaneously generating capital, in the processes of our financial, economic and political, Canadian, capitalist, orthodox economy.

This however, is why, in the question which concerns us, in the study of removing the 6 per cent ceiling on the maximum rate for bank loans, we can conclude that, if we must continue to juggle interest in order to maintain the established system, at least, with the knowledge we have today, we should ensure that the problem does not get worse, we should take steps, set up new barriers and particularly, not enlarge those which already exist, i.e. the 6 per cent ceiling.

We can talk indefinitely about this juggling of interest and its harmful consequences on the national economy and on the welfare of each of the individuals who make up this nation. Since I am speaking to the Ministers and

Members of Parliament of Canada, I am sure that they will be able to draw their own conclusions from these very precise and very simply expressed facts which I have just drawn to their attention.

1st Resolution

To be practical, as regards our examination of B-222, on the Chartered Bank Act, I suggest that we maintain the ceiling of 6 per cent as the maximum rate of bank interest, if we cannot reduce it, in order to impose some legal limit on boundless ambitions, in all fields of private enterprise, of trade in general. To finance governments, municipalities, school boards, universities, the Bank of Canada will lend the necessary capital, without interest, demanding simply an annual repayment plus administrative costs, until total payment.

2nd Resolution

As for the amount of bank reserves in relation to their deposits, which was 5 per cent from 1933 on, which was recently increased to 8 per cent and which it has been suggested might be lowered to 7 per cent, *I suggest* that we raise the proportion of these reserves gradually, by 10 per cent per year, and that in 10 years, these reserves reach 100 per cent of the deposits, with the result that the banks will gradually lose their right to create new debts, as in 1933 they lost their right to print their own bank notes.

IN THE NAME OF THE PEOPLE THE BANK OF CANADA WILL MAKE USE OF ITS ENTIRE PRIVILEGE TO ISSUE ALL THE MONEY NECESSARY TO THE ECONOMY OF CANADA AND OF ALL CANADIANS.

Let us not forget that we are here as the legislators for the entire Nation, that we ought to achieve national economic equilibrium between all the citizens of Canada, between all the families of Canada, between all the institutions of Canada, so that every person, family and institution may guide itself by the same classic formula, recognized by all:

"INCOME...EXPENSES AND PROFITS"

These basic principles can and must act as the guide in the new orientation of *today's economic policy,* which can no longer be run *by the rules of the past.* This new orientation must take place. IT IS OUR DUTY TO SEE, TO UNDERSTAND...AND TO ACT ACCORDINGLY.

Henry Latulippe, M.P.

APPENDIX BBB

Toronto, Ontario

September 30, 1966.

Mr. Herb Gray, Chairman,
Banking and Finance Committee,
House of Commons,
Ottawa, Ontario.

Re: Revisions to the Bank Act

Dear Sir:

I understand that your Committee has extended an invitation to anyone who would like to make a submission on the above subject.

One change which has not been included in the draft Bill, but which I believe should be incorporated in the new Act, is the *deletion* of the following words:

". . .act as agent for any insurance company or for any person in the placing of insurance, nor shall the bank"

from the first three lines of subsection (4) of Section 75 of the present Bank Act and from subsection (6) of Section 75 of the proposed new Bank Act.

The Minister of Finance has stated that the Government is anxious to encourage the banks and near-banks to compete more actively among themselves and with other financial institutions. In my opinion, the above wording has undoubtedly prevented the banks in the past from developing, in cooperation with some of the life insurance companies, plans and services which would permit them to compete more effectively for peoples' savings and investment dollars.

To date there has been some evidence of the banks and some of the life insurance companies cooperating to offer to the public services (savings plans and loans) which include a life insurance feature. However, I believe that these services have been developed *in spite of* the above wording and certainly not because of it and that a broader range of bank services incorporating desirable life insurance features could and would be developed, to the benefit of all concerned, if this wording was deleted.

Conversely, I believe that if the above wording is left in the new Act—it will almost certainly continue to act as a damper upon the type of competition which the Minister has urged and which, in my opinion, would prove very beneficial in the long run for all concerned.

I consider this a very important matter. Accordingly, if it is necessary for me to appear in person to make this submission, or if it would be desirable for me to do so—in order to answer any questions which Members of your Committee might care to put to me in this regard—I would certainly be prepared to make a special trip to Ottawa for this purpose.

Looking forward to your acknowledgment of receipt of this submission and to receiving your advice concerning the necessity and/or advisability of my appearing before your Committee in person, I remain

Yours very truly,

Alex Mills, C.L.U.

APPENDIX CCC

DOUBTS ABOUT REVISING THE BANK ACT*
MILTON MOORE

MOST CANADIANS MUST NOW KNOW THAT the Minister of Finance plans to amend the Bank Act. He wants to eliminate the 6 per cent ceiling on bank lending charges. In support of this gradual elimination, various arguments have been used in Parliament and outside. Unfortunately, these arguments are less convincing than they seem at first sight. Furthermore, the amendments may be a symptom of an unsatisfactory Government attitude towards monetary policy in general. If so, the public may be misled in the present and disappointed in the future.

It is contended that some persons and some small companies—the relatively poor credit risks—will be able to get cheaper loans under the new arrangements. These are the borrowers who must now go to the small loan companies or go without funds because the banks cannot profitably lend to them at the maximum statutory interest rate. If the banks were free to charge a higher rate, it is said, they would be willing to make some such loans.

It is further reasoned that if the interest ceiling is removed, interest rates in general will fall because the bad risks (who must now go to the small loan companies) will pay lower rates and no one will pay higher rates.

Also, some contend that the banks and the small loan companies will compete more vigorously, reducing rates at least for some categories of borrowers.

Finally, it may seem that credit cannot be rationed properly at present through the price mechanism if the rate of interest—the price of credit—is controlled. Many economists have long thought that, when funds are short, banks do not allocate credit among would-be borrowers solely on the basis of the highest bid (allowing for risk, of course). Credit-worthy borrowers, especially very large companies, are thought to get priority in the banker's office. Under the new arrangements, the companies which get loans during periods of monetary restraints should be those which bid the highest rate of interest to the banks (net of risk).

But I doubt whether the effects of the proposed amendment will be quite so favorable as these four lines of argument suggest.

For one thing, the 6 per cent ceiling is already ineffective both for personal and for commercial loans. By resorting to techniques described below, the effective rate of interest is raised above the ceiling. Since the Federal Government must be aware of these practices, and therefore countenances them, they must be assumed to have its approval.

The banks now charge more than 6 per cent on some classes of personal loans. For example, when a person borrows money for a year, the 6 per cent may be charged on the face value of the loan for a year, although the loan is repaid in equal monthly installments, the last one being due one year from the opening date. The installments are deposited to an amount opened for the purpose and

*Reprinted by courtesy of *The Canadian Forum*.

cumulate there, earning interest at the usual rate paid on the minimum quarterly balance of savings accounts (currently 3 per cent). Thus the effective interest rate is between 9.5 and 11.5 per cent including service charges.

Similarly, the banks can already in effect charge more than 6 per cent on commercial loans. A few years bank, the Canadian banks stopped granting overdrafts—a practice they had apparently long disliked. Instead of allowing overdrafts, banks asked their commercial customers to estimate the amount of credit needed for the period ahead and to take out a loan for that amount. The loan was credited to the borrower's bank account and from time to time drawn down by the amounts which, under the former system, would have produced overdrafts. If the period of the loan is defined as the period during which the customer actually uses the funds (in contrast to leaving it on deposit in his account) the effective interest rate is higher under the loan system than under the overdraft system. Thus, if an individual enterprise or partnership with a doubtful credit rating approaches the bank for a loan, there is some leeway for the bank to stipulate an interest payment which would compensate it for the higher risk of non-payment. To do so, the bank need only require that a larger sum be borrowed than the customer requests and that the excess—a "compensating balance"—be left on deposit in his account. For several months, compensating balances of 10 to 15 per cent have been required on many commercial loans. (In the United States, the standard compensating balance is 20 per cent.

In view of these techniques, the effects of the removal of the ceiling must remain uncertain. Since we are dealing with a situation where interest rates are determined by the forces of price competition only within a range, conventional business practices have a considerable effect and the economist is no better equipped to analyse the probable effects of a change in government regulations than is the businessman or banker. Perhaps the banks would simply be encouraged to charge higher nominal rates in lieu of resorting to the above techniques, if the ceiling were lifted; actual effective rates might not be changed. On the other hand perhaps the main effect would be to raise the effective rates paid by borrowers, both personal and commercial. Especially at this time of extreme monetary tightness, perhaps the least likely outcome would be a decrease in the effective rates, on average.

The analysis which leads to the "favorable" outcomes described above turns on an assumed increase in competition between the banks and small loan companies. It therefore implicitly assumes that there are constraints upon the competition between small loan companies, acceptance corporations, and the like. Such constraints may or may not exist. As for competition between banks and other financial institutions, no one now knows how much would develop under the new arrangements.

The small loan companies say that the main cost of lending to the small marginal borrowers is not the risk of nonpayment, but the high book and collection costs of recapturing a small sum. Some credit unions have recently supported this contention, saying that they could not cover costs with the rates they charged if they had to pay the wages of an ordinary commercial enterprise. Accordingly, one doubts whether the interest rates on very small personal loans to poor credit risks could be much reduced by an enlarged scope of the banks' activities.

This leaves the final possible "favorable" effect of removing the ceiling: that banks would be able to ration credit by the interest rate. But why should a bank run the risk of losing a large client tomorrow just to earn a few more dollars of interest today? In the words of the over worked cliché: nobody says no to General Motors—even if GM offers 6.5 per cent interest and Podunk Knitting Mills offers 9 per cent.

To sum up: any measures which increase flexibility in the money markets, and increase competition therein are desirable. When dealing with customary business practices, however, it is not possible to deduce the effects of changes in regulations with confidence. The net effect of the removal of the six per cent ceiling therefore cannot be predicted.

When the government changes the interest rate ceiling it is changing the institutional framework of the economy. However desirable they may be, such institutional changes are not substitutes for a correct monetary policy. At present one is disturbed by the nagging fear that Ottawa may have become convinced that high interest rates are desirable *per se*.

Given the events of the last decade, it is reasonable to conclude that, starting about 1957, the Bank of Canada, in conjunction with the Government of Canada, has pursued a long-term policy of high interest rates. The chartered banks could hardly be censured if they interpreted the raising of the 6 per cent ceiling as an encouragement to raise the level of interest charges on their loans, as well as to serve marginal borrowers.

At present, most Canadian university economists, and perhaps most government economists, believe that the economic problem of the next several years will be inadequate growth, rather than inflation—in spite of the euphoria of the last two years. If so, a policy of moderate monetary ease is indicated for the coming years.

The level of interest rates also affects the distribution of income and wealth. Though we are not certain that incomes become more unequal when interest rates rise, there is a strong *prima facie* case that this happens. After all, the bulk of borrowing is done by companies and governments. The former recoup higher interest costs by higher prices, transferring some of the interest burden to the very poor. Similarly, the taxes most likely to be raised to provide revenue to cover increasing government debt service costs, also fall to some extent upon the very poor. Accordingly, low interest rates might be favored if we really want to reduce—or to prevent an increase in—the inequality of wealth.

It is to be hoped, therefore, that the Minister of Finance has not been convinced of the desirability of removing the ceiling to bank interest rates mainly by the contention that the level of interest charges would thereby be reduced. It would be even more regrettable if the Minister regards his amendments to the Bank Act as a substitute for a long-run policy of monetary ease—that is, low interest rates. At best, the amendments can effect only a small improvement in institutional arrangements—and that best is not assured.

It is unfortunate that, in the discussions of the matter which I have read, no mention has been made of the valid argument for retention of the interest

ceiling. This argument is that those who borrow from banks are entitled to protection from unjustifiably high charges—as are all other members of the public. If there is insufficient competition to provide adequate protection, there should be some constraint upon prices by government regulation. And, as the Royal Commission on Banking and Finance was aware, competition between the Canadian banks includes very little price competition.

October 1966.

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. 54

THURSDAY, MARCH 16, 1967

Respecting

Bill S-28, An Act to incorporate Anniversary Life Insurance Company

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WITNESSES:

Mr. Meredith Fleming, Q.C., Parliamentary Agent; Mr. R. Humphrys, Superintendent of Insurance; Dr. J. O. Lockhart, President, and Mr. W. S. Major, General Manager, Anniversary Life Insurance Company.

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

26110—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

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

Dorothy F. Ballantine,
Clerk of the Committee.

ORDER OF REFERENCE

THURSDAY, March 2, 1967

Ordered,—That Bill S-28, An Act to incorporate Anniversary Life Insurance Company, be referred to the Standing Committee on Finance, Trade and Economic Affairs.

Attest

LÉON-J. RAYMOND
The Clerk of the House of Commons

26110—1½

REPORT TO THE HOUSE

MARCH 16, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

TWENTY-THIRD REPORT

Your Committee has considered Bill S-28, An Act to incorporate Anniversary Life Insurance Company, and has agreed to report it without amendment.

A copy of the relevant Minutes of Proceedings and Evidence (Issue No. 54) will be tabled later.

Respectfully submitted,

HERB GRAY,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, March 16, 1967.
(109)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:15 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Flemming, Gray, Irvine, Lambert, Latulippe, Lind, Macdonald (*Rosedale*), Monteith, More (*Regina City*) (10).

Also present: Mr. Fairweather, M.P., sponsor of Bill S-28.

In attendance: Mr. Meredith Fleming, C.Q. Parliamentary Agent; Mr. R. Humphrys, Superintendent of Insurance; Dr. J. O. Lockhart, President and Mr. W. S. Major, General Manager, Anniversary Life Insurance Company.

The Committee proceeded to consideration of Bill S-28, An Act to incorporate Anniversary Life Insurance Company.

On the preamble

The sponsor of the Bill, Mr. Fairweather, introduced the Parliamentary Agent, Mr. Fleming, who in turn introduced the witnesses, Dr. Lockhart and Mr. Major. Mr. Fleming made a brief statement on the organization and aims of the proposed company.

In response to a question, Mr. Humphrys stated that his Department is satisfied with the application.

Messrs. Fleming, Humphrys and Major were questioned, and the preamble was carried.

Clauses 1 to 8 inclusive were carried.

The Title and the Bill were carried.

Ordered: That the Chairman report the Bill without amendment.

The Chairman thanked the witnesses, who were allowed to retire.

The Chairman explained to the Committee that, because of an error, the pages of the brief submitted by Mr. Latulippe had been reproduced in the wrong order when it was printed as Appendix AAA to Issue No. 53 of the Minutes of Proceedings and Evidence. The Committee agreed that, in fairness to Mr. Latulippe, this situation should be corrected.

Therefore, on motion of Mr. Monteith, seconded by Mr. Irvine.

Resolved—That the Committee cause to be printed the same number as originally printed of Issue No. 53, that is to say 1,500 copies in English and 700 copies in French, of Appendix AAA to Issue No. 53 of the Minutes of Proceedings and Evidence.

At 12:10 p.m. the Committee adjourned to the call of the Chair.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(*Recorded by Electronic Apparatus*)

THURSDAY, March 16, 1967.

The CHAIRMAN: Gentlemen, I think we are in a position to begin unofficially with the taking of the evidence, and then we will see where we are at when we are ready to vote on the bill itself.

I would now ask the sponsor, Mr. Gordon Fairweather, M.P., to formally introduce the Parliamentary Agent and that will discharge his official duty. If you do not want to say anything, I will merely indicate that you are here Mr. Fairweather, in your capacity as sponsor.

Mr. FAIRWEATHER: I am here in my capacity as sponsor and there are no monetary emoluments from my point of view at all. I am happpy to introduce Mr. Meredith Fleming, as Parliamentary Agent, and officers of the company.

Mr. IRVINE: Mr. Chairman, would you tell us who Mr. Fairweather is?

The CHAIRMAN: Yes, I have seen him on several occasions on your side of the House and I would assume that he is well known to all and sundry. We are referring to none other than Mr. Gordon Fairweather, M.P. for Royal, distinguished citizen of New Brunswick, former Attorney General, and a well-known student of parliamentary affairs.

We are also now in a position to proceed officially, so in any event I will ask you, Mr. Fleming, as Parliamentary Agent, to introduce the witnesses you have and to then make any initial presentation that you may wish to make to us, following which we will hear from the Superintendent of Insurance.

Mr. MEREDITH FLEMING, Q.C. (*Parliamentary Agent*): Thank you, Mr. Chairman. Gentlemen, I am the Parliamentary Agent as well as one of the sponsors of the Corporation. At my immediate right is Dr. J. O. Lockhart, of Hamilton, who is one of the sponsors, and on his right is Mr. W. S. Major, of Toronto.

This is an application to incorporate a life insurance company with the candid intention that this company will work along with P.S.I., Physicians' Services Incorporated, and handle the life end of the business.

In the twenty-year experience of P.S.I., and more especially in the latter years, we have found—and I say "we"; I should say that I am General Counsel for Physicians' Services Incorporated, Dr. Lockhart is the President and Mr. Major is the General Manager—we have found that competition from the commercial health insurance companies has indicated that we are rather at disadvantage in selling a health product alone, and that the unions, the large employers and large groups have been asking with increasing frequency for a group life coverage to be in the package along with the health benefits; so that Physicians' Services desires to work along with it a life company.

None of the incorporators are connected with any life insurance company or financial institution. They are all connected with the Physicians' Services Incorporated. Dr. Lockhart is the President and has been such for seven or eight years; Dr. Owen B. Millar is the Vice President and has held that position for some four years; Mr. Frank W. Correll, executive, who is in fact the Assistant Comptroller of General Motors in Oshawa, is a lay director; that is, a non-medical director of P.S.I.; Dr. W. Donaldson Whyte is a general surgeon from Peterborough; Mr. Wallace Stewart Major, executive, is the General Manager of P.S.I., and I might say that he has been the General Manager for 20 years.

I think this is the place that I can say that a great deal of the substantial success of Physicians' Services Incorporated has been due to the skill and ability of Mr. Major as its only General Manager. And I have been connected literally with the P.S.I. since the time of its incorporation. As a law student, I took up the papers to have them signed, and my firm has acted for P.S.I. continuously.

We anticipate that all, or substantially all, of the capital stock of the insurance company will be either held by P.S.I. or held by persons closely connected with P.S.I. There is no intention whatsoever to sell the company to American interests or indeed to sell the company to any other interests whatsoever, be they Canadian or American.

We are looking largely to the skill of the present management of Physicians' Services Incorporated to carry on this new venture, life insurance, with, of course, some specialized help that we may have to obtain elsewhere.

I point with some pride to the selection of the name Anniversary Life Insurance Company, as it is unique. It cannot be confused in any way with any existing life insurance company or any insurance company, so far as I know.

I might inject a humorous note here that our original name was York Life Insurance Company and we were very disappointed when we could not get the name. Now, we have rather changed our minds.

Commencing over one year ago we have had discussions with Mr. Humphrys, and I trust he will speak favourably about us. And that, gentlemen, is my formal presentation, thank you. I would be pleased, as I am sure my confreres would, to attempt to answer any questions.

The CHAIRMAN: Before inviting questions from Mr. Fleming and his associates, I think we should hear from the Superintendent of Insurance with respect to this application.

Mr. R. HUMPHRYS (*Superintendent of Insurance*): Mr. Chairman and gentlemen, this bill to incorporate a life insurance company is in standard form. The authorized capital is one million dollars, which may be increased to four million. At least $500,000 of capital must be paid in. At least $500,000 surplus must be paid in before the company can commence business. We, in the department, have no objection to raise to this proposed incorporation. It is our understanding that it will be operated in conjunction with Physicians' Services Incorporated and its prime business will be group life business issued in conjunction with the health coverage that P.S.I. offers.

The CHAIRMAN: They have met all the requirements demanded by your department to date, have they?

Mr. HUMPHRYS: Yes, Mr. Chairman.

The CHAIRMAN: And have you discovered anything adverse about any of the applicants for the incorporation?

Mr. HUMPHRYS: No, Mr. Chairman. The record of Physicians' Services Incorporated is well known in Ontario. I have been in touch with the Superintendent of Insurance for Ontario, who has had the supervision of P.S.I. for many years. I am also familiar with the financial statements of P.S.I. and I have discussed this proposal with officers of P.S.I. on a number of occasions in the past year. So far as the department is concerned, Mr. Chairman, we are satisfied with the proposal.

The CHAIRMAN: You agree that there is no possibility of confusion with respect to the proposed name?

Mr. HUMPHRYS: Yes, Mr. Chairman. We had a search made of records in the office of the Registrar General of Canada and we found no companies having a name that was similar to this or would be confused with this.

The CHAIRMAN: Now, we will accept questions. Mr. Macdonald, then Mr. Irvine, Mr. Cameron and Mr. Lambert.

Mr. MACDONALD (*Rosedale*): Perhaps, Mr. Chairman, I could direct my first question to Mr. Fleming. In view of his close affiliation with P.S.I., I wonder if he could just mention briefly for us the nature of the incorporation, the nature of the ownership of P.S.I. and, in a brief way, how it functions?

Mr. FLEMING: Physicians' Services Incorporated is an Ontario corporation under the Ontario Corporations Act and incorporated as a non-profit corporation. It is composed of members known collectively as the House of Delegates and they, in turn, elect directors who are known as the Board of Governors. It has always had a very close association with the Ontario Medical Association and it is popularly known as the doctors' sponsored plan in Otario. It arranges prepaid medical care on a non-profit basis; that is, contracts between subscribers on the one hand, and participating physicians on the other.

There are, I understand, at the present time, approximately 1,800,000 participants, or beneficiaries, if I might use an inexact expression, and there are 6,000-odd participating physicians.

The scheme of the corporation is that the operation, the subscription rates, subscription income, will cover the payments out and leave a reserve for disasters.

The corporation's head office is in Toronto in a building which it owns, and it would be anticipated that this company would be a tenant, formal or informal of P.S.I., at least in its initial stages, in that building at Yonge and Eglinton Streets in Toronto

Mr. MACDONALD (*Rosedale*): As a non-profit corporation, therefore, no distribution may be made to the members, except in the event of its winding up, as I understand it?

Mr. FLEMING: That is correct, sir.

Mr. MACDONALD (*Rosedale*): And, if I could inquire as to the nature of the ownership of the shares of Anniversary Life, will they be held by individual

members of the medical profession, or will they be held either by, or on behalf of P.S.I.?

Mr. FLEMING: Well, candidly, sir, I cannot answer that question at the present time, but it would be fair to say that they would either be held with the beneficial interest in P.S.I. or would be held by participating physicians in P.S.I.

Mr. MACDONALD (*Rosedale*): So that theoretically, at least, whatever the policy to be followed, the profits of this company we are being asked to incorporate could be distributed among the members? There is no legal inhibition?

Mr. FLEMING: No. There would not be.

Mr. MACDONALD (*Rosedale*): You referred to the Ontario Medical Association. P.S.I. is Ontario-based and the intention would be presumably that this company also would be Ontario-based as well?

Mr. FLEMING: Ontario-based, but doing business these days with national groups. We do business in all the provinces.

Mr. MACDONALD (*Rosedale*): So it would be possible for it to write contracts in jurisdictions other than Ontario?

Mr. FLEMING: Yes.

Mr. MACDONALD (*Rosedale*): What life insurance experience does the group have at the executive level?

Mr. FLEMING: Very little life insurance experience, to be frank. That is the aspect in which we think we would have to get some specialist help. If I might put it loosely, we think we know how to operate a health insurance company, but we realize that there may be some problems in life insurance that we have not experienced and on which we would be well advised to have some expert help.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, this is my final question to the Superintendent. Is the anticipated type of life insurance business so different from the health business they have been running heretofore as to create any problems in management? Will inexperience, in your opinion, be a problem?

Mr. HUMPHRYS: Mr. Chairman, I think that the present management has a depth of experience in administering group operations, that is the type of insurance that deals with a large number of people on the basis of group contracts. I think that experience would be very useful in the administrative end of handling life insurance in the same way, but I think that they will require some experienced management, although perhaps not as much as if the company were operating completely on its own. They will also require actuarial advice. I would think that in the initial stages they will probably get their acturial advice on a consulting basis, but they will need some management which is knowledgeable in the insurance field.

Mr. MACDONALD (*Rosedale*): Thank you, Mr. Chairman.

Mr. IRVINE: Mr. Fleming said, in reply to one of Mr. Macdonald's questions —there are a couple of those questions that I would like to ask, but I do not have the information now—that as an association you had very little life insurance experience. Does P.S.I. now have any life insurance program for its subscribers?

Mr. FLEMING: No, we do not.

Mr. IRVINE: As of now there is no coverage at all. Do they intend holding any policies on anyone outside of P.S.I. subscribers?

Mr. FLEMING: It is not the present intention, but it might be in the future, sir. I realize that it would be impossible to control a subscriber or participant who might leave a group covered by P.S.I.; he might leave his P.S.I. coverage and still carry on with life, but initially, certainly the policy holders would be recruited from P.S.I. participants and subscribers.

Mr. IRVINE: Then further, do you have any idea now how a program of this type might affect subscription fees? Would it have a tendency to increase them?

Mr. FLEMING: I would not affect them either way. If they could get the life insurance in the package, the package would be more expensive, but at the same time they certainly do not have to take life insurance in the package.

Mr. IRVINE: It would be an optional thing?

Mr. FLEMING: Oh, yes.

Mr. IRVINE: Right now, I would like to ask one more question. I do not want this to appear facetious because it is not. Has the proposed company any intention of entering in any way into the finance field?

Mr. FLEMING: No. You mean acceptance corporations, banks, trust companies? No; none whatsoever.

Mr. IRVINE: Thank you, Mr. Chairman.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not know the details of it, but I understand the Ontario government has a medicare scheme. What is the relationship of P.S.I. to that, or what will it be?

The CHAIRMAN: That would be OMSIP.

Mr. CAMERON: When the federal government institutes its medicare plan, how will the operation of P.S.I. fit into that?

Mr. FLEMING: We have certainly given some thought to that, sir. We feel that we will be left in existence. It is possible, of course, that some part of our activity—possibly a great part of our activity—will be taken over by the government, but there will be scope for continued activity in what I might call surplus medical services, paramedical services and that sort of thing, which would continue in a similar way to that in which Blue Cross has continued in Ontario, covering over and above what is covered by the government hospital service.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This development, you feel, would not affect your operations in the life insurance business, much of your medical business.

Mr. FLEMING: No, that would be fair to say. No, it would not affect our operations in the life field at all, because it would be the same situation as it it today. Life would be a frill, a fringe benefit, or surplus, as it were, which would be carried on, and today the basic service that we sell is basic medical care.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Fleming, Mr. Humphrys made some reference to experience in handling group coverage in your life insurance operations. Are you planning group insurance?

Mr. FLEMING: Yes, initially it would be confined to group insurance.

Mr CAMERON (*Nanaimo-Cowichan-The Islands):* It would be your subscribers to P.S.I. as a group.

Mr. FLEMING: No, pardon me, sir, we rather contemplated that groups who subscribed to P.S.I. would also take, partly on their own demand or request, life coverage. I mean by a group, for instance, the employees of the XYZ company in North Bay. That would be where the insurance coverage would be initiated, rather than the single lady that lives on Avenue Road who used to be with a group but now pays direct. It would be sold to the groups, and those are the groups.

Mr. CAMERON: (*Nanaimo-Cowichan-The Islands*): What proportion of your membership of P.S.I. is tied to groups of that type?

Mr. FLEMING: First of all, membership. The participants and subscribers are not, in fact, members of the corporation in the sense that members are our shareholders. Participants or subscribers—pardon me, what is the percentage?

Mr. MAJOR: Two hundred and fifty thousand of the 1,850,000 are on what is known as "pay direct". These are people who have left the group and continue to carry the coverage.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But the rest are in groups.

Mr. MAJOR: That is right.

Mr. MONTEITH: May I just ask a short supplementary question? Do all of your clients or beneficiaries, as you call them, emanate from groups to begin with?

Mr. MAJOR: That is correct.

Mr. IRVINE: Mr. Chairman, are those people who are now outside of the group subscribers for various reasons, entitled to this insurance coverage, or will they be entitled to this insurance coverage?

Mr. MAJOR: Not at the offset, sir.

Mr. IRVINE: Not at the offset.

Mr. MAJOR: No, sir, it is not the intention of the proposed corporation to sell individual life insurance. I think that we will have to give the people who buy it in groups the opportunity to carry it on a converted basis. There is no intention to set up agencies, nor can I foresee agencies for maybe three, four, five or six years.

Mr. IRVINE: The subscribers formerly with a group, not now with a group, would be given a privilege to put this in. Right?

Mr. MAJOR: No. But as people leave groups and you have more and more individuals to care for, then the pressure grows to get into the agency business and this should take quite a while.

(*Translation*)

The CHAIRMAN: Mr. Latulippe. Have you any questions to ask?

Mr. LATULIPPE: No, but I could perhaps take advantage of the opportunity—

The CHAIRMAN: I thought you might have a few questions.

Mr. LATULIPPE: Mr. Chairman, does this insurance company intend selling insurance? Is it exclusively Canadian?

(*English*)

Mr. MAJOR: Yes.

(*Translation*)

Mr. LATULIPPE: Does it have the intention of doing business outside of Canada?

(*English*)

Mr. MAJOR: No.

(*Translation*)

Mr. LATULIPPE: So, it is a company with exclusively Canadian capital in which all profits will be reinvested in Canada?

(*English*)

Mr. MAJOR: Exclusively, yes.

(*Translation*)

Mr. LATULIPPE: All profits coming from the insurance business will be recapitalized in Canada. Those are the questions I had to ask. If it is an exclusively Canadian company, we have no objection to it, we welcome new Canadian businesses who render service to the Canadian people, but will your company invest in various regions in Canada?

(*English*)

Mr. MAJOR: I would say that remains to be seen. Originally we would start out on those things that we are now well acquainted with: those organizations in which we now have many millions of dollars invested, most of them in bonds and short-term notes; very little of it in equities. I suppose if this is a successful corporation, we will eventually come to the day when it would be prudent and wise for the investment policy of the corporation to go into equities. These equities will definitely be Canadian. Whether or not we go to British Columbia or Quebec, I think, depends on the times and the circumstances when a particular amount of money required for investment is available.

(*Translation*)

Mr. LATULIPPE: Thank you very much. Providing it is exclusively Canadian capital, we have no objection to it. We are looking for new companies and for new capital to come to Canada, because we need capital. We have more need for Canadian capital than for foreign capital. That is why I wanted to know if you are going to invest in other parts of Canada, so that if your company becomes stronger, more powerful, you might find it advantageous to sell insurance in other parts and to invest in other parts. I will finish by saying that you can count on our co-operation.

The CHAIRMAN: Thank you, Mr. Latulippe.

(*English*)

Mr. LIND: Mr. Fleming, I think you said earlier that this would be fairly closely associated with P.S.I. Is this Anniversary Life Insurance Company being set up as a mutual or...

Mr. FLEMING: No, it is not.

Mr. LIND: But P.S.I. will be the majority shareholder.

Mr. FLEMING: It is anticipated P.S.I. or people connected with P.S.I.

Mr. MACDONALD (*Rosedale*): If I may have a supplementary here. As I recall it, your answer to me was that the question had not been decided as to whether the shares will be held py P.S.I. or by the participating doctors.

Mr. FLEMING: That is fair to say.

Mr. LIND: What connection is there with the OMA, the Ontario Medical Association? Is that pretty closely connected here?

Mr. FLEMING: The majority of our directors are members of the OMA, and the OMA have a right to nominate sixteen members of the House of Delegates who, in turn, selected the governors. I think it is fair to say that there is a pretty close connection, although we are an autonomous corporation legally.

Mr. LIND: Is P.S.I. available to all physicians if they will adhere to the schedule of fees and deductions?

Mr. FLEMING: That is right, sir.

Mr. LIND: There are some physicians who choose not to belong to P.S.I. though.

Mr. FLEMING: There are a small number. Pardon me, is it 6,000 we have?

Mr. MAJOR: Six thousand, seven hundred.

Mr. FLEMING: Out of how many in Ontario?

Mr. MAJOR: Possibly 8800; 9000, perhaps.

Mr. LIND: So that you have by far the majority of physicians in Ontario who adhere to the P.S.I. and work through P.S.I.

Mr. FLEMING: That is correct.

Mr. LIND: What happens when you set up this life insurance? Will this be extended to all medical men also on a group basis?

Mr. MAJOR: Mr. Chairman, may I answer that. If we could form first of all the total number of the medical profession into a group basis, it would be available to them. Then they would have to buy their own service. There may be subgroups qualified to take it, but this is something that will develop. I have no anticipation of selling this to the medical profession per se as a group. They are not now a group that would be eligible for it. And unless something changes, I cannot foresee that they will be, but they may be.

Mr. LIND: Not through your O.M.A.?

Mr. MAJOR: I doubt—

Mr. LIND: Is that a group life?

Mr. MAJOR: I would be tempted to say that the O.M.A. now has some kind of a setup with which I am not acquainted and it may not be possible to change this. I do not know.

Mr. LIND: Well, I would venture to say that when you are going to put a factor in here on for instance, a company who has P.S.I. and now your service for

their employees, the option is that you provide each employee with two or three or maybe five thousand dollars of life insurance if they desire it at the same time. Is this what you have in mind?

Mr. MAJOR: That is correct, sir. The fine point, sir, is that when you sell to employee groups there is a stereotyped approach which involves a payroll deduction but there are no payrolls in the O.M.A. to properly approach the medical profession or the legal profession and have the legal profession join any firm on a group insurance basis. The first hurdle that must be overcome is whether or not you can handle this through a payroll deduction and what the alternative is. Certainly, there would be no common payroll deduction available to members of the legal profession or members of the medical profession. So that I do not think it would be prudent, for argument's sake in starting this business, to try to cross such a hurdle because there are lots of companies that can use this where the ground is fertile and the requirements are all there automatically, and these are the people that we would talk to. We would not try to develop right away a new method. We would work on the established lines.

Mr. LIND: This is a legal point, probably, and one for the tax department. As I understand it now, these deductions from the employee and any contributions by the employer are taxable. Is that not right?

Mr. MAJOR: I cannot answer that. I know that it is true in respect of the contributions for the Ontario Hospital Services Commission, but I cannot answer whether the contribution by an employer, if any, to a group life insurance benefit is taxable or not. I cannot answer that. I am sorry.

Mr. HUMPHRYS: Mr. Chairman, I do not believe that that is treated as taxable income to the employee.

Mr. LIND: That is what I was thinking. Thank you.

Mr. MONTEITH: I have just one or two questions, Mr. Chairman. As I understand it, P.S.I. is really only to set up to do business with groups. Your office mechanics are only set up to do business with groups, and you are assuming the same as far as the Anniversary Life goes.

Mr. FLEMING: Correct.

Mr. MONTEITH: I do not know if this question is too related or not, but I would like to ask it. Since the inception of OMSIP in Ontario, has it had any effect on the volume of new business written by P.S.I.?

Mr. MAJOR: Not on the volume of new business, sir, because OMSIP does not write group business, and all our new business is group business. But it has had some effect on the volume of P.S.I. and, as a matter of fact, approximately 150,000 bodies and souls, because of the subsidies that the government pays to certain people in certain tax brackets. It was much more prudent for these people to go to OMSIP, where they would either get their medical care free or at a reduced rate, than to pay the non-subsidized rates of P.S.I. after they have left the group and went on pay direct. Our pay direct, now running at 250,000 bodies and souls, is approximately 150,000 less than it used to be because of this feature.

Mr. MONTEITH: I think that answers all the questions I have Mr. Chairman.

The CHAIRMAN: Perhaps I could ask a question at this point. Is it your intention, gentlemen, to offer insurance coverage under the Anniversary Life Company, if it is incorporated, for sale through leaflets in doctors' waiting rooms?

Mr. MAJOR: No, Mr. Chairman. We have not used this type of promotion. It was considered many years ago that the doctors of the province would be prime salesmen for Physicians' Services, but it did not work out because the doctors of the province just were too busy to talk to management. The number of management people that walked into the doctor's office did not warrant setting forth advertising material in the doctor's office and the thing has never been instituted. We have not used this type of sales approach, nor would it be our intention to do so in life insurance. It would not be a good approach. It would not be reasonable. I would say it would be a waste of money.

Mr. MORE (*Regina City*): Mr. Chairman, just to be clear. The Act as presented to us does not limit the type of insurance that you may engage in, does it?

Mr. MAJOR: Not in the personal aspect.

Mr. MORE (*Regina City*): Well, I mean in regard to—we are talking about groups but you could develop—

Mr. MAJOR: Oh, yes.

Mr. MORE (*Regina City*): —and sell to individuals some types of coverage.

Mr. MAJOR: Oh, yes.

Mr. MORE (*Regina City*): So that there is no limitation in the Act, although your initial approach is through your group. And your initial capital will come from reserves of P.S.I., I take it.

Mr. FLEMING: It may, sir. On the other hand, it may come from participating physicians.

Mr. MORE (*Regina City*): I see. Well, now, under the requirement for a director, a director must hold shares in his own right, is that not a fact?

Mr. HUMPHRYS: Yes, Mr. Chairman, that is correct.

Mr. MORE (*Regina City*): Thank you. That is all.

The CHAIRMAN: Mr. Irvine, you are next.

Mr. IRVINE: At the outset, with the inception of this proposed plan, what amount of coverage were you figuring on per subscriber or does it vary. Is it the same amount?

Mr. MAJOR: Coverage for life insurance?

Mr. IRVINE: Yes.

Mr. MAJOR: Well, this has not been developed but I can develop it for you very quickly. A base approach for group life insurance would be at least $1,000 for every member of the staff. Following that initial presentation and the staff being graded by income, as incomes moved up, people would have available to them a certain amount of additional thousands of dollars of life insurance in relation to brackets of salary with possibly a maximum amount of $15,000 or $20,000. Group life insurance is a tailor-made proposition in most cases, but with a reasonable base to start on so that you are not going to sell somebody $100 worth of life insurance or $500 worth. You must start at some reasonable

base. I would think $1,000 would be a reasonable base for the starting echelon of employees. Is that what you wanted to know?

Mr. IRVINE: But this is optional?

Mr. MAJOR: It is optional to a point. That is correct.

Mr. IRVINE: Thank you very much, Mr. Chairman.

The CHAIRMAN: I have a further question. Is there anything similar to this with respect to any of the other doctor-sponsored medical care plans in other provinces as yet?

Mr. FLEMING: Is there anything similar to this?

The CHAIRMAN: In so far as you are aware?

Mr. MAJOR: No, there is not that I am aware of, Mr. Chairman. I guess the closest that would come to it would be Quebec Mutual Life, which is a running mate for Quebec Hospital Services Association. But Quebec Hospital Services Association is not a doctor-sponsored plan so that is why I—

The CHAIRMAN: It offers hospital service?

Mr. MAJOR: It offers both but it is not sponsored by the doctors of the province of Quebec. It is sponsored by the hospitals.

The CHAIRMAN: Do we have any further questions or discussion on the preamble? If not, I will ask if the preamble carries.

Preamble agreed to.

Clauses 1 to 8 inclusive agreed to.

The CHAIRMAN: Shall the bill carry?

Bill agreed to.

Title agreed to.

The CHAIRMAN: Shall I report the bill without amendment?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Before we adjourn, there is another matter which I think we should deal with.

Gentlemen, this has nothing to do with your bill so you are excused. Thank you for providing us with the necessary information for the consideration of this bill.

In the rush to get the proceedings of the Finance Committee on the banking legislation ready for consideration in the House, the printers unfortunately inverted one of the pages of Mr. Latulippe's brief and the effect, I gather, is to make it difficult for others who have not had the opportunity we have had to consider the brief which was circulated amongst us, I think, last December, to consider the views put forward in an orderly fashion.

Because of this inadvertent printer's error, I would like to suggest to the Committee that we may want to cause to be printed a number of additional copies in English and in French of the particular Appendix itself which is Mr. Latulippe's brief, but in this case and on this occasion the pages would be in the right order. So that, as I say, others who might want to consider the brief and who have not had the opportunity we have had to look at it, beginning last December, would be able to get the views put forward in the proper order.

I am informed that we must have a definite motion to permit this to be done. Perhaps I would invite the Committee to present a motion and the motion would

read as follows: That the Committee cause to be printed a certain number of copies in English and a certain number of copies in French of Appendix AAA to Issue No. 53 of the Minutes of Proceedings and Evidence of this Committee.

Mr. MONTEITH: What do you mean by "a certain number"?

The CHAIRMAN: Well, this is something, I think, for the Committee to decide. What was the number of copies that were printed of the original Issue No. 53? There were 1500 in English and 700 in French printed of the original issue No. 53. I think I should make clear that the idea would be that the whole issue would not be reprinted but instead, the Appendix itself with an appropriate identifying cover.

Mr. MONTEITH: You would want one for each member of the House of commons and Senate. How many more would you want?

The CHAIRMAN: Well, I gather there are a certain number of other copies that have to be available because members may wish to get extra copies for their own use, as is done with others. I am informed by the Clerk that it takes at least 515 for distribution to the House of Commons and Senate and officials; therefore, you have to have a certain extra number available for members and so on for requests.

Mr. MONTEITH: I do not see why you should not do the whole 1500.

The CHAIRMAN: It is up to the Committee.

Mr. MORE (*Regina City*): Well, then, there would be no question that the brief would be fully covered.

The CHAIRMAN: That is right. That is quite so.

Mr. MORE (*Regina City*): That is the way it should be.

The CHAIRMAN: That is quite so. Would someone care to move a motion?

(*Translation*)

Mr. LATULIPPE: Mr. Chairman, I thank you for bringing this before the Committee and I want to thank the Committee also for the attention they have given this document. It is a small error which happened at the printers, when they printed the brief. Now I want the brief well presented, and well printed. One page was placed in the wrong order and it changes the whole sense of my brief, so if it is at all possible, I would like to have it reprinted. It is unfortunate, but I sincerely thank Mr. Chairman, because he really is looking after the matter and I want to thank the Committee

Now with regard to the number of volumes to be printed, would it not be possible to have the same number in French as in English. Could we not have an equal number.

The CHAIRMAN: I am in the hands of the Committee. It has been suggested that we should have printed the same amount of copies as we had printed for volume 53 in the first place. In other words, 1500 in English, and 700 in French. Now your suggestion is that this additional volume be printed in equal number of French and English copies.

Mr. LATULIPPE: If this is acceptable to the Committee, I would like to have the same number in French as in English. 1500 in English and 1500 in French. I would be most appreciative.

(*English*)

Mr. MORE (*Regina City*): Mr. Chairman, could I ask the purpose? They are not printing the whole brief.

The CHAIRMAN: No.

Mr. MORE (*Regina City*): They are just printing the Appendix, but if you print more copies of the Appendix than of the original brief, what purpose would this serve? I wonder if Mr. Latulippe understands this.

The CHAIRMAN: Well, your point, Mr. More, is that—

Mr. MORE (*Regina City*): That the Appendix without the original brief is useless.

The CHAIRMAN: The Appendix will contain the original brief.

Mr. MORE (*Regina City*): Oh, it will?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The Appendix without the brief would be useless.

The CHAIRMAN: The Appendix is the brief.

Mr. MORE (*Regina City*): Oh, I see. It is set up, so what is the difference?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It makes no difference.

Mr. MORE (*Regina City*): If it is set up it is a matter of run off. Once it is set up, and you are setting it up—

The CHAIRMAN: Well, then, Mr. Irvine, you were moving the motion?

Mr. MONTEITH: It would seem reasonable to me that we should have the same number printed as were originally printed, only correctly.

The CHAIRMAN: Well, it is up to the Committee. The original number printed which would have been available if there had not been the unfortunate printing error would have been 1500 in English and 700 in French, and in fact these have been printed. The only thing is—and I think Mr. Latulippe's point is well founded—that with the pages inverted, people who will be reading these printed copies of the brief will not have the same benefit as we have had to follow his argument.

Mr. MONTEITH: My motion was to the effect, Mr. Chairman, that we have the same number printed as was originally printed.

The CHAIRMAN: All right. I will accept your motion in this sense, seconded by Mr. Irvine. Just so that we will have it before us for discussion, if you both agree to change that or if there is an amendment, I am sure we can entertain it.

Mr. IRVINE: Mr. Latulippe I believe is satisfied with that, are you not?

Mr. LATULIPPE: Yes, I am satisfied.

(*Translation*)

The CHAIRMAN: Would you be satisfied then to have printed 700 French and 1500 English copies of your statement?

Mr. LATULIPPE: I would have preferred the numbers be equal, but if it is not possible to have the same number in French as in English, I will not insist. Of course, if it were possible I would have liked the number to be even, but if this is not acceptable to the Committee—

(*English*)

Mr. MONTEITH: Could you point out to Mr. Latulippe that this was the original number.

The CHAIRMAN: I want to make sure that in another place there will not be any suggestions that the Committee did not deal with this matter in a fair and equitable manner.

Mr. MONTEITH: Well, yes, but—

The CHAIRMAN: I want to have it absolutely clear on this—

Mr. MONTEITH: Does he fully understand that my motion is to the effect that we reprint exactly the same number as the original printed?

The CHAIRMAN: Yes I take from what he just said that he understands that, and although he would prefer to have an equal number in both languages, he is willing to accept this. Is there any further discussion on the motion? Before putting it to a vote, I would like to say for the record that—

(*Translation*)

I regret that there was an error in this matter of Mr. Latulippe's statement. I regret that he did not appear as a witness through some misunderstanding and I would like, personally, and I think I am speaking on behalf of the Committee that there was no intention on our part to prevent Mr. Latulippe from appearing as a witness and the Committee would be very happy to hear him as a witness. We would be happy, now we have heard his wishes in the matter.

Mr. LATULIPPE: There too probably there was an error, I think, because I attended the Steering Committee and I noticed my name had been struck off the list as a witness, so I spoke to the Steering Committee, I stated that I wished to appear as a witness. I was replaced on the list once more and I was aked by the Steering Committee whether I would be willing to give evidence any time, at some time perhaps, when the Committee might have been short of witnesses, and I might have taken somebody's place. So I accepted this arrangement and I waited until the end of the hearings, thinking that I was going to appear, but Mr. Chairman showed me another brief which was discussed at the opening of a Committee sitting when I was not present, because I was not aware of the situation. It was then decided that the Briefs which had not been presented up to that date, would not be considered. The matter was discussed and Mr. Chairman showed me the transcript in the Committee Proceedings where it is written in black and white although I had no knowledge of the matter. That is why I said in the House that I never said anything that was not true and that I was not going to start now. It is an error, a misunderstanding somewhere—either I was not present at the beginning of the sitting during which time you spoke of this matter. I was not aware you had dealt with it, that you had discussed the matter and had come to a decision. I was present at that particular meeting but I had no knowledge whatever of this discussion with regard to those who had briefs to submit. So there was a misunderstanding because I was not aware that there had been any other discussion of the matter. Had I been aware I certainly would have asked to appear as a witness. Now that the thing is settled I will forget it, and I want to thank all the members for their consideration, and I regret that I may have offended some by the statements I made. I would not have done it for

anything, and now I would like to let the whole thing drop. As long as the brief appears in the proceedings, I am satisfied, satisfied with the whole Committee and of the treatment I have received.

(*English*)

The CHAIRMAN: Before calling the motion, I would say that on future occasions, if any member of the Committee feels that his wishes or rights are not being adequately handled, I think we will be in agreement that he should not remain silent until the matter under consideraton has been disposed of but should make use of his rights and opportunities to bring this to the attention of the Committee so that apparent misunderstandings cannot develop and become possible matters of controversy at a later date.

You know what the motion is. Shall the motion carry?

Motion of Mr. Monteith agreed to.

The CHAIRMAN: The meeting is adjourned.

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. 55

TUESDAY, MARCH 21, 1967

Respecting

Bill S-41, An Act respecting La Société des Artisans.
Bill S-27, An Act to incorporate Laurier Life Insurance Company.

WITNESSES:

Mr. R. Humphrys,, Superintendent of Insurance. *Representing La Société des Artisans:* Mr. Luc Parent, Q.C., Parliamentary Agent. Representing *Laurier Life Insurance Company:* Mr. V. R. E. Perry, Parliamentary Agent.

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

26112—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

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

Dorothy F. Ballantine,
Clerk of the Committee.

ORDER OF REFERENCE

THURSDAY, March 16, 1967.

Ordered,—That the following bills be referred to the Standing Committee on Finance, Trade and Economic Affairs:

Bill S-41, An Act respecting La Société des Artisans.

Bill S-27, An Act to incorporate Laurier Life Insurance Company.

Attest.

LÉON J. RAYMOND,
The Clerk of the House of Commons.

26112—1½

REPORT TO THE HOUSE

MARCH 22, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

TWENTY-FOURTH REPORT

Your Committee has considered the following bills and has agreed to report them without amendment:

Bill S-27, An Act to incorporate Laurier Life Insurance Company.

Bill S-41, An Act respecting La Société des Artisans.

A copy of the Minutes of Proceedings and Evidence relating to these bills (*Issue No. 55*) will be tabled later.

Respectfully submitted,

HERB GRAY,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, March 21, 1967.
(110)

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. Clermont, Gray, Irvine, Laflamme, Lambert, Leboe, Lind, Macdonald (*Rosedale*), Mackasey, Monteith, More (*Regina City*)—(11).

Also present: Mr. Cameron (*High Park*), sponsor of Bill S-27; and Mr. Gendron, sponsor of Bill S-41.

In attendance: Mr. R. Humphrys, Superintendent of Insurance; *With respect to Bill S-41*: Mr. Luc Parent, Q.C.; the Honourable Senator Lefrançois. *With respect to Bill S-27*: Mr. V. R. E. Perry, Parliamentary Agent; Mr. E. E. Brooker, Comptroller, Laurier Life Insurance Company and Mr. R. Haddad, Comptroller, Laurier Life Insurance Company.

The Committee first proceeded to consideration of Bill S-41, An Act respecting La Société des Artisans.

On the preamble

The sponsor of the bill, Mr. Gendron, introduced the Parliamentary Agent, Mr. Parent, who made a brief statement.

At the request of the Chairman, Mr. Humphrys also made a brief statement.

Mr. Parent and Mr. Humphrys were questioned, and the preamble was carried.

Clauses 1 to 4 inclusive were carried.

The Title and the Bill were severally carried.

Ordered: That the Chairman report the Bill to the House without amendment.

The Committee then proceeded to consideration of Bill S-27, An Act to incorporate Laurier Life Insurance Company.

On the preamble

In the unavoidable absence of the sponsor of the Bill, Mr. Cameron (*High Park*), the Chairman introduced the Parliamentary Agent, Mr. Perry, who in turn introduced the witnesses, Messrs. Brooker and Haddad.

Mr. Perry and Mr. Humphrys were questioned.

The Preamble was carried, and clauses 1 to 10 inclusive were carried.

The Title and the Bill were carried.

Ordered: That the Chairman report the Bill to the House without amendment.

The Chairman thanked the witnesses who were permitted to withdraw.

At 11.40 a.m. the Committee adjourned to the call of the Chair.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, March 21, 1967.

The CHAIRMAN: Gentlemen, I think we are in a position to begin our meeting. We will proceed informally for the moment for the purpose of taking evidence. The first item on our agenda is Bill No. S-41: "An Act respecting La Société des Artisans."

(Translation)

We have with us this morning, the sponsor of the Bill, our colleague, Mr. Rosaire Gendron. I would therefore ask Mr. Gendron to introduce the members of the Society.

Mr. GENDRON: Mr. Chairman, thank you very much. We have with us the legal adviser of the Society, Mr. Parent, who will make a brief statement on the purpose of the amendments and answer your questions. We also have Senator Lefrançois, who is the general administrator of "Le Société des Artisans".

The CHAIRMAN: Thank you, Mr. Gendron. Now Mr. Parent, I would ask you to give us a brief statement on the purpose of this Bill.

Mr. Luc PARENT: Q.C. *(Parliamentary Agent)*: Thank you, Mr. Chairman. The "Société des Artisans" is a fraternal benefit society, under the Canadian and British Insurance Companies Act. It was established under Chapter 71, and amended by the Statutes of 1923. Both these Acts were subsequently replaced by the Law of 1946 relative to the Société des Artisans, and it is this latter law which constitutes the charter of the Society which the Bill is to amend.

The Society is authorized to ask for adoption of legislation under terms of a resolution of its general council, of March 11th, 1966; a copy of this resolution was tabled along with the petition and sent to the House of Commons.

The Bill was passed by the Senate on July 6th, 1966, after having been approved by the Superintendent of Insurance.

The Bill was introduced in the House of Commons after the Standing Committee on Procedure of the latter consented to suspending Article 93 of the Rules.

Definition of the Proposed Amendments

We want to bring in four amendments to the charter of the Society.

Here are a few brief comments to supplement the explanatory notes of the Bill.

Clause 1

As mentioned in the explanatory notes, the sole purpose is to make the french version of Section 5 of the charter agree with the English section of the Canadian and British Insurance Companies Act.

The Bill, in French, uses the expression "société fraternelle de secours mutuels" whereas the French of the charter is "société de bienfaisance fraternelle".

Of course the French charter has to be amended so that the expression will be the same as used in the general legislation. This difference in text does not exist in the English version, because the general legislation and the charter both use the expression the "fraternal benefit society" in English.

Clause 2

The purpose is to authorize the Society to act as a re-insurer for other fraternal societies. It is a current practice for insurance institutions to partially be re-insured by another institution, which they do not consider it wise to assume alone.

Thus, if the Society issue life insurance for over $25,000, they must reinsure the surplus with another society.

Although they have always had the power to re-insure such sums, they do not have the power to re-insure for another society.

It is this latter power which would be given under Clause 2 of the Bill, under certain conditions which are listed in Clause 2 in the explanatory notes.

Clause 3

According to the charter of the Society, executive power is exercised by the assembly of members, whose convention must be held at least once every four years. Under Section 12 of the charter, the convention can, however, delegate to the General Council the power to prescribe or modify contract plans or policies as well as the premiums for these insurance policies. But in the case of such delegation of authority, it can only be exercised by the General Council until the date of the next convention.

Because there has to be a constant improvement in insurance plans to take into account the evolution and the wishes or desires of the public, it is always the General Council which legislates in these matters, and has for several years.

Consequently, the purpose of Clause 3 of the Bill is to amend section 12 of the charter so that it will be the General Council which exercises full authority and can, to the extent it deems necessary, delegate this to the executive council.

The General Council meets every three months whereas the Executive Council meets twice a month.

Clause 4

Finally, Section 13 of the charter requires that the Executive Council will include at least seven members of the General Council residing in Montreal or in the suburbs. The proposed amendment would eliminate the provisions of this section relative to residence of the members of the Executive Council.

Transportation is much speedier than it was in 1946 and 1917 or course, and several administrators living outside the suburbs of Montreal could now regularly attend meetings of the Executive Council.

The CHAIRMAN: Thank you, Mr. Parent. Now before we ask for questions on the part of our colleagues, I have Mr. Clermont on my list. I would like to ask Mr. Humphrys to give his comments.

(*English*)

Mr. Humphrys, would you give us any comments you may have on this proposed bill?

Mr. R. HUMPHRYS (*Superintendent of Insurance*): Mr. Chairman, we have discussed the amendments with representatives of the society and the department has no objection to the amendments. We think that they will serve to improve the administrative convenience of the society.

Mr. Chairman, if it is your wish, I would make a comment on the nature of the fraternal benefit society and why it is subject to the Canadian and British Insurance Companies Act.

The CHAIRMAN: Perhaps it would be useful to the members if you would make a comment in that regard.

Mr. HUMPHRYS: Under the Canadian and British Insurance Companies Act, there is defined a class of institution known as a fraternal benefit society. These societies have had a long history in Canada growing up primarily from the fraternal activites. In past years there have been many of them and there are still some 14 Canadian societies and over 30 foreign societies doing business in Canada.

Their origin was in fraternal activities amongst groups that were bound together by ties of religion, employment, national origin or other common ties. Insurance was granted as a supplementary or a benefit that went with memberships because a good deal of their objective was to help their members against illness or death. It was really to look after the welfare of their members. An insurance element was a strong part of fraternal benefit societies over the years.

As years have gone by there has been a trend away from fraternal and lodge activities—fraternal societies generally—and a somewhat increasing emphasis on insurance. For a great many years the insurance activities of these societies have been brought under the supervision of the Canadian and British Insurance Companies Act and the Foreign Insurance Companies Act so that there will be adequate reserves held and so that the institution will be in a position to meet the insurance liabilities when they arise. That is the reason that there is reference to this kind of society in the Insurance Act and the reason that they fall under the supervision of our department.

The CHAIRMAN: Thank you, Mr. Humphrys. Mr. Clermont.

(*Translation*)

Mr. CLERMONT: Mr. Parent, my question comes from a layman with regard to insurance. What is the difference in French between "bienfaisance fraternelle" and "secours mutuels"?

Mr. PARENT: It is the same thing, except that we noticed in preparing amendments to the charter that we omitted to submit to you that there was a difference precisely in the expression used in the general legislation and the expression used in our charter. So, the purpose of our amendment is to make both those expressions agree in French. In English this distinction did not exist, because in both cases, the words "for general benefit society" were used. What we are asking for, "société fraternelle de secours mutuel" is the expression used in the law.

Mr. CLERMONT: In fact there is no difference?

Mr. PARENT: No.

Mr. CLERMONT: What is the major change in clause 2 of the Bill?

Mr. PARENT: Under clause 2, as I said perhaps a little too fast a little while ago, at the present time the Société des Artisans, for instance, when they insure a person for an amount exceeding $25,000 as a practice, so as not to have too great a risk attached to the same society, if it takes over $25,000 it will be reinsured by another society under the legislation which always existed. What it is now asking is that when another company asks us for reinsurance, we be in a position to be able to do it.

Mr. CLERMONT: What you don't have now?

Mr. PARENT: What we don't have at the present time.

Mr. CLERMONT: In fact one of the changes is a change in residence, and secondly you want to give the general Council more powers?

Mr. PARENT: Yes. Previously it was the Convention which had the powers and it could delegate these powers between conventions to the general Council. Now we are asking for the general council to have the authority directly and to be able to delegate to the executive council.

Mr. CLERMONT: Thank you.

The CHAIRMAN: Are there any other questions? I might perhaps propose some clarification. Does the Société des Artisans have a great deal of business in Canada? throughout Canada?

Mr. PARENT: No. In Quebec, a little bit in Ontario, a little in New Brunswick and in the States which are generally called New England in the United States.

The CHAIRMAN: And can anyone in the society have an insurance policy?

Mr. PARENT: In fact at present time, to be a member of the Société des Artisans, you have to have an insurance policy. At the beginning the founder of the Société des Artisans was a carpenter and he developed the company among the group of carpenters. That is how it got its name.

(*English*)

Mr. HUMPHRYS: Mr. Chairman, this indicates a point I made earlier that originally the main emphasis was on fraternal activities but gradually the emphasis has changed to insurance activities. There is less emphasis now, although the society still maintains a lodge system.

The CHAIRMAN: Are there any further questions? If not, then I will ask: shall the preamble carry?

Some hon. MEMBERS: Agreed.

(*Translation*)

Clauses 1 to 4 inclusive, agreed to.

Title agreed to.

The CHAIRMAN: Shall the bill carry?

Some hon. MEMBERS: Agreed.

(*English*)

The CHAIRMAN: Shall I report the bill without amendments?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Now, gentlemen, would the President of the Laurier Life Insurance Company advance and be seated. The sponsor of this bill is our colleague, Mr. Pat Cameron, Member for High Park. As you know, he is Chairman of the Justice Committee, and I think he has to preside over a meeting this morning. So we will take it that I am acting on his behalf, in formally introducing the Parliamentary Agent, Mr. Perry, and I will ask him to introduce the other witnesses he has with him.

Mr. V. R. E. PERRY (*Parliamentary Agent*): Thank you, Mr. Chairman. The other witnesses accompanying me today are Mr. Brooker, on my immediate right, President of Laurier Life Insurance Company, and Mr. Haddad, second on my right, who is the comptroller of the company. Both these gentlemen will be available to assist in the answering of any questions that you might have.

The CHAIRMAN: Mr. Perry, may I ask you to make any opening presentation you may care to bring to our attention?

Mr. PERRY: Laurier Life Insurance Company is a company that had, perhaps, a different start from most insurance companies. It was formed with the purpose, amongst other things, of purchasing the group life portfolio of a company known as Global Life Insurance Company.

The normal manner of incorporation would have been to apply to the Parliament of Canada for the incorporation of the company, but because of the timing involved in the availability of this group portfolio, the approach taken was to incorporate the company by letters patent in the province of Ontario. This was accomplished by letters patent dated October 6, 1965, then application was made to the federal Department of Insurance, who gave the company a certificate of registry in December 1965, and upon receipt of the certificate of registry the province of Ontario licensed the company again in December 1965. This roundabout way was made necessary, as I said, by the timing involved in the purchase of the group life portfolio.

The approach showed a co-operation between the federal and provincial departments in that the Ontario department did not want to be solely responsible for this incorporation and licensing and the federal department co-operated to the extent of giving us a certificate of registry under Part 9 of the Act, which confined our activity to the province of Ontario.

We had purchased the group life portfolio of Global Life Insurance Company which was made up of policies in both Ontario and in Quebec. The federal department gave us the approval to service the policies in Quebec. However, we agreed not to sell insurance in the province of Quebec at that time. We also undertook, as soon as conveniently possible, to apply to become a company fully under the jurisdiction and discipline of the federal department. That is why we are here today, gentlemen.

I can give you some background on your applicants, if that is of interest, Mr. Chairman.

The CHAIRMAN: You can do so briefly, if you wish.

Mr. PERRY: The major bit of background I should give you is that of Mr. Brooker who, since service with the Air Force and completion of university in 1949, has devoted all his endeavours in the life insurance field. He came up through the Great West Life Insurance Company and then joined Global shortly after that company received its charter in 1957, as a group sales manager and then rose to be the executive officer in charge of all group activities of the company. Mr. Brooker comes well qualified as an insurance executive, in our opinion.

The rest of the applicants are businessmen in the Toronto, Windsor and Barrie areas and have been active on the board over the past year and, in our opinion, have proved themselves to be able insurance company directors.

The CHAIRMAN: Thank you, Mr. Perry. Mr. Humphrys, do you care to give us your report on this proposed incorporation?

Mr. HUMPHRYS: Mr. Chairman and gentlemen, during the discussions and steps leading to the incorporation of this company under Ontario law, our department, as Mr. Perry has indicated, worked closely with the promoters of the company and with the Ontario authorities so that we were fully aware of all things that were being done. The incorporation proceeded with the clear understanding on everyone's part that the company would apply for federal incorporation as soon as it was conveniently able to do so.

When the company was incorporated under Ontario law, the company became registered under the federal Insurance Companies Act at the request of the Ontario authorities and is now subject to the supervision of our department, but as a provincial company.

This application, if approved, will convert the company to a federal company and it will then be, in all respects, subject to the Canadian and British Insurance Companies Act.

The bill itself is in the standard form for incorporating a federal company with power to take over the business, the assets and liabilities of the corresponding provincial company. The Committee, I am sure, will recall seeing many bills of this type having gone through in the past years. The clauses are standard. The company has an authorized capital of $5 million, and at least $1 million must be paid before business can be commenced. The Act does not come into force until it has been approved by members of the provincial company and until notice has been published in the *Canada Gazette*, and until we are satisfied that the provincial company will cease doing business once the federal company is established.

There will be a private agreement between the federal company and the provincial company whereby the business will be transferred from the provincial corporation to the federal corporation and the provincial corporation will then disappear. This is the same procedure as has been followed in many cases.

There are one or two comments on particular clauses of the bill, but perhaps I could make that comment when we come to them.

The company has been in business for a little over a year. It started with this block of group business taken over from an existing Ontario company. This may seem a rather unusual transaction and it was. The company that sold the business to this new Laurier Life, for its own reasons decided it did not want to pursue the group business extensively. Mr. Brooker was head of the group

department in that company and this opportunity opened up to split off the group business and place it with another company, and this led to the formation of Laurier Life.

The first year of activity has resulted in some underwriting losses as, perhaps, is not unusual. When a new company gets going, there is a certain amount of initial expense to be absorbed and some inevitable reshaping as the management settles down into the position to take over the business. The company still has a very substantial margin of assets over its liabilities so that there is adequate protection for the public, and we are closely in touch with the affairs of the company on a frequent basis.

The CHAIRMAN: Thank you. Mr. Laflamme, and then Mr. More.

Mr. LAFLAMME: I have one question. The main purpose is to have a federal charter?

Mr. HUMPHRYS: That is correct.

Mr. MORE *(Regina)*: Does the company have to raise any new capital to meet the requirements of the federal incorporation?

Mr. HUMPHRYS: No. All the capital of the federal company, once the transfer is made, will be exactly the same as the capital of the provincial company. That amounts to a paid capital of $1 million.

The CHAIRMAN: Mr. Lind, did you have a question?

Mr. LIND: Yes. What I was concerned about, Mr. Perry, I think Mr. Humphrys has partially answered. What portion did you take over from the Global Insurance Company? Is Global still in operation?

Mr. PERRY: They are, sir, and they are still, in a very small way, active in the group field, but not to any extent. We took over practically all of their group life at the time and we paid $1 million for this portfolio and wound up with $80 million of group life on our books from that transaction.

Mr. LIND: But you did not take over any of the sickness, accident or casualty?

Mr. PERRY: Yes, we took over sickness and accident, too. These are the powers which the company seeks—life, sickness and accident insurance.

Mr. LIND: Thanks, Mr. Chairman.

The CHAIRMAN: Mr. Macdonald.

Mr. MACDONALD *(Rosedale)*: Mr. Humphrys, under Clause 9, just as a matter of interest, what do you require? A winding up under the provincial legislation or just a change of name after the incorporation?

Mr. HUMPHRYS: We require a meeting of the members of the provincial company to approve the bill and to approve a draft agreement transferring the assets and liabilities and policies from one company to another and a resolution at that meeting indicating that the provincial company will cease to transact business when the federal company is registered and has been accepted as adequate, in compliance with Section 9. The result of this is that the provincial company is left as an empty shell. The letters patent still exist but it has no

assets, no liabilities and no business so that the normal course would be to surrender the letters patent.

Mr. PERRY: May I speak to that? Practically, because of the mechanics, the Ontario company will be wound up. The way it works out, it will cause the winding up of the Ontario company.

Mr. CLERMONT: Mr. Humphrys said that the capital stock of the provincial chartered company is the same as the federal one will be. Mr. Chairman, is any stock in the provincial chartered company held by non-residents?

Mr. PERRY: No, all stock is held by Canadians.

The CHAIRMAN: Are there any further questions at this time? If not, perhaps I might ask Mr. Humphrys one or two brief questions.

I presume, Mr. Humphrys, that you have satisfied yourself that the name is such as to cause any confusion or misunderstanding in the minds of the public?

Mr. HUMPHRYS: Yes, Mr. Chairman. This was carefully gone into at the time the provincial company was formed.

Mr. MACDONALD (*Rosedale*): How is it that two prominent Tories like Glen Day and Robert Macaulay are incorporating a company under the name Laurier?

Mr. CLERMONT: Is that the Mr. Macaulay who was the former president of the Sun Life a few years ago?

Mr. PERRY: No. I believe not, sir.

The CHAIRMAN: The name of someone well known in public and professional life in the Province of Ontario, if I am not mistaken?

I gather that the predecessor of this proposed federal company is to be wound up. This means that it would not be possible for anyone to get the provincial charter and use the name? Is that right?

Mr. PERRY: Yes. The company must cease to do business. According to the mechanics that we have in mind at the moment, the provincial company will have to be wound up to distribute the money back to the shareholders.

The CHAIRMAN: I also presume, Mr. Humphrys, that your inquiries have not disclosed anything adverse about the incorporators, or petitioners, with respect to this bill which you would like to tell us about?

Mr. HUMPHRYS: No, we have not discovered anything adverse, Mr. Chairman.

The CHAIRMAN: If there are no further questions, I will ask if the preamble carries.

Some hon. MEMBERS: Agreed.

Clauses 1 to 3 agreed to.

The CHAIRMAN: Shall Clause 4 carry?

Mr. HUMPHRYS: Mr. Chairman, could I comment on that? It looks a little odd to say:

> The amount to be subscribed and fully paid before the general meeting for the election of directors is called shall be twenty-two hundred and fifty dollars.

That amount represents the minimum amount that must be subscribed for qualifiying shares for directors. It is a technical point only because the federal company, being the provisional directors, will subscribe for the minimum amount of shares and thus the company will be validly in existence and can sign the agreement to take over the assets and liabilities of the provincial company. But it will not start to do any insurance business until at least $1 million in capital has been paid.

Clauses 4 to 10 agreed to.

The CHAIRMAN: I might add, before asking whether the title shall carry, that Mr. Cameron, the sponsor of the bill, has been with us for most of our consideration of it.

Mr. CAMERON (*High Park*): I came in a little late, Mr. Chairman.

The CHAIRMAN: Yes, I had already indicated that you were occupied with respect to your official duties as Chairman of the Justice Committee.

Title and bill agreed to.

The CHAIRMAN: Shall I report the bill without amendments?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Gentlemen, the meeting is adjourned.

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

PROCEEDINGS

No. 56

THURSDAY, MARCH 16, 1967
TUESDAY, MARCH 21, 1967

Respecting

Bill S-28, An Act to incorporate Anniversary Life Insurance Company.
Bill S-41, An Act respecting La Société des Artisans.
Bill S-27, An Act to incorporate Laurier Life Insurance Company.

INCLUDING TWENTY-FIFTH AND TWENTY-SIXTH REPORTS TO THE HOUSE

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

26114—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairnam: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

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

Dorothy F. Ballantine,
Clerk of the Committee.

REPORTS TO THE HOUSE

WEDNESDAY, April 26, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

TWENTY-FIFTH REPORT

On Thursday, March 16, 1967, your Committee reported on Bill S-28, An Act to incorporate Anniversary Life Insurance Company.

A copy of the relevant Minutes of Proceedings and Evidence (*Issues No. 54 and No. 56*) is tabled.

WEDNESDAY, April 26, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

TWENTY-SIXTH REPORT

On Wednesday, March 22, 1967, your Committee reported the following bills:

Bill S-27, An Act to incorporate Laurier Life Insurance Company.

Bill S-41, An Act respecting La Société des Artisans.

A copy of the relevant Minutes of Proceedings and Evidence (*Issues No. 55 and No. 56*) is tabled.

Respectfully submitted,
Herb Gray,
Chairman.

MINUTES OF PROCEEDINGS

(Reprinted from Issue No. 54)

THURSDAY, March 16, 1967.
(109)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:15 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Flemming, Gray, Irvine, Lambert, Latulippe, Lind, Macdonald (*Rosedale*), Monteith, More (*Regina City*) (10).

Also present: Mr. Fairweather, M.P., sponsor of Bill S-28.

In attendance: Mr. Meredith Fleming, Q.C., Parliamentary Agent; Mr. R. Humphrys, Superintendent of Insurance; Dr. J. O. Lockhart, President and Mr. W. S. Major, General Manager, Anniversary Life Insurance Company.

The Committee proceeded to consideration of Bill S-28, An Act to incorporate Anniversary Life Insurance Company.

On the preamble

The sponsor of the Bill, Mr. Fairweather, introduced the Parliamentary Agent, Mr. Fleming, who in turn introduced the witnesses, Dr. Lockhart and Mr. Major. Mr. Fleming made a brief statement on the organization and aims of the proposed company.

In response to a question, Mr. Humphrys stated that his Department is satisfied with the application.

Messrs. Fleming, Humphrys and Major were questioned, and the preamble was carried.

Clauses 1 to 8 inclusive were carried.

The Title and the Bill were carried.

Ordered: That the Chairman report the Bill without amendment.

The Chairman thanked the witnesses, who were allowed to retire.

The Chairman explained to the Committee that, because of an error, the pages of the brief submitted by Mr. Latulippe had been reproduced in the wrong order when it was printed as Appendix AAA to Issue No. 53 of the Minutes of Proceedings and Evidence. The Committee agreed that, in fairness to Mr. Latulippe, this situation should be corrected.

Therefore, on motion of Mr. Monteith, seconded by Mr. Irvine.

Resolved—That the Committee cause to be printed the same number as originally printed of Issue No. 53, that is to say 1,500 copies in English and 700 copies in French, of Appendix AAA to Issue No. 53 of the Minutes of Proceedings and Evidence.

At 12:10 p.m. the Committee adjourned to the call of the Chair.

(Reprinted from Issue No. 55.)

TUESDAY, March 21, 1967.
(110)

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. Clermont, Gray, Irvine, Laflamme, Lambert, Leboe, Lind, Macdonald (*Rosedale*), Mackasey, Monteith, More (*Regina City*)—(11).

Also present: Mr. Cameron (*High Park*), sponsor of Bill S-27; and Mr. Gendron, sponsor of Bill S-41.

In attendance: Mr. R. Humphrys, Superintendent of Insurance; *With respect to Bill S-41*: Mr. Luc Parent, Q.C.; the Honourable Senator Lefrançois. *With respect to Bill S-27*: Mr. V. R. E. Perry, Parliamentary Agent; Mr. E. E. Brooker, Comptroller, Laurier Life Insurance Company and Mr. R. Haddad, Comptroller, Laurier Life Insurance Company.

The Committee first proceeded to consideration of Bill S-41, An Act respecting La Société des Artisans.

On the preamble

The sponsor of the bill, Mr. Gendron, introduced the Parliamentary Agent, Mr. Parent, who made a brief statement.

At the request of the Chairman, Mr. Humphrys also made a brief statement.

Mr. Parent and Mr. Humphrys were questioned, and the preamble was carried.

Clauses 1 to 4 inclusive were carried.

The Title and the Bill were severally carried.

Ordered: That the Chairman report the Bill to the House without amendment.

The Committee then proceeded to consideration of Bill S-27, An Act to incorporate Laurier Life Insurance Company.

On the preamble

In the unavoidable absence of the sponsor of the Bill, Mr. Cameron (*High Park*), the Chairman introduced the Parliamentary Agent, Mr. Perry, who in turn introduced the witnesses, Messrs. Brooker and Haddad.

Mr. Perry and Mr. Humphrys were questioned.

The Preamble was carried, and clauses 1 to 10 inclusive were carried.

The Title and the Bill were carried.

Ordered: That the Chairman report the Bill to the House without amendment.

The Chairman thanked the witnesses who were permitted to withdraw.

At 11.40 a.m. the Committee adjourned to the call of the Chair.

Dorothy F. Ballantine,
Clerk of the Committee.

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