
OPENING STATEMENT BY
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GOVERNOR OF THE BANK OF CANADA
BEFORE THE
SENATE STANDING COMMITTEE ON
BANKING, TRADE AND COMMERCE
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Let me say at the outset that I am very pleased to be invited to appear before your Committee to assist in your consideration of the subject matter of Bill C-15. I know that your Committee has had an opportunity to make an extensive study of both the Bill and White Paper which preceded it, and has heard testimony from a number of expert witnesses. Although I am here to attempt to answer your questions, you might find it useful if I were to summarize briefly my position on the provisions of the Bill that relate to the role and the operations of the Bank of Canada.

The first and most important point to make is that the proposals in Bill C-15 would not impair in any way the Bank of Canada's ability to discharge its responsibilities in the field of monetary policy through the exercise of its existing powers; the essential nature of its operations would remain substantially unchanged.

The main way in which the operations of the Bank of Canada have an impact on economic behaviour in this country is through their influence on the level of interest rates. And the main way in which the

operations of the Bank of Canada exert their influence on interest rate levels is by affecting the behaviour of the chartered banking system in such a way as to speed up or slow down the process of monetary expansion. These operations alter the marginal amount by which the cash reserves available to the banks as a group exceed their minimum statutory requirements. The response of the chartered banks to the resulting changes in their reserve positions causes changes in interest rates which spread through financial markets in response to competitive forces. (The Bank of Canada also uses Bank Rate changes from time to time to help speed up the interest rate responses that it is seeking.) The proposed reduction in the required level of these minimum cash reserves does not have significant implications for monetary management since the Bank of Canada will still be able to determine the size of the cash reserve margin available to the banking system in excess of the new minimum required levels.

A second important point to note is that the so-called near-banks -- trust and mortgage loan companies, credit unions and caisses populaires -- are affected by monetary policy even though they are not required to hold cash reserves at the Bank of Canada. They respond to central bank actions because they must keep the interest rates which they charge and pay in line with those which prevail throughout Canadian financial markets generally.

Although in present circumstances reserve requirements on near-banks are not required for monetary policy purposes, such requirements represent a cost which applies to the banks, but not to other deposit-taking institutions. Thus issues of equity and efficiency would seem to be involved. But cash reserve requirements are not the only difference of this kind. Many of the provisions in the complex framework of federal and provincial laws governing deposit-taking institutions -- including capital requirements, liquidity reserves, powers regarding loans and investments, and tax treatment -- raise similar issues. Thus it is difficult to look at differences in cash reserve requirements in isolation.

I turn now for a moment to the proposals with respect to the operation of foreign banks in Canada. Foreign banks already have a significant presence in Canada, albeit on a basis that is outside existing banking legislation. The thrust of the proposals is to regularize this situation and to regulate its future evolution. I believe that foreign banks do have a useful role to play in Canada and I regard it as desirable that all banks operating here should be part of the same system operating under the same basic rules and regulations. At the same time I feel that the principle of applying some limits to the growth of foreign banks in Canada is not unreasonable and is indeed desirable in view of the risks and uncertainties we would invite by opening the door too widely.

The proposals with respect to foreign banks do not in my view have significant implications for the implementation of monetary policy.

I should like to comment briefly on those amendments to the Bank of Canada Act that are consequential to the proposed establishment of the Canadian Payments Association.

The thrust of this group of amendments is to allow non-bank members of the CPA to effect their settlements with other members through the Bank of Canada in much the same way as central bank facilities are now used for this purpose by the chartered banks -- that is, by making transfers between deposit accounts held at the Bank of Canada. The essential difference is that such deposit accounts held by the chartered banks, while available for making clearing settlements, are an integral part of the system of minimum cash reserve requirements, whereas in the case of non-bank members of the CPA these deposit accounts would be maintained for the purpose of clearing settlements only. It may, however, be only the larger near-banks which will choose to maintain such deposit accounts since it is likely that only these institutions will have a sufficiently large volume of items to justify direct participation in the clearings. In any case, to put all members on an equal legal footing in this respect, it is proposed that the power of the Bank of Canada to accept deposits from banks be extended to include the acceptance of deposits from other members

of the CPA. Likewise, any non-bank member which chooses to keep its clearing balance with the central bank will also need access to Bank of Canada lending facilities to provide a source of temporary credit when, as will occasionally happen, unexpectedly large clearing settlements occur. Thus, it is proposed that the Bank of Canada's power to make temporary loans and advances to banks be extended to permit similar credit facilities for non-banks. Since these changes would broaden the group of institutions with which the Bank could have direct dealings, it would accordingly seem desirable to adjust certain other provisions of the Act such as that relating to the eligibility of Directors.

I would be pleased, if members of the Committee desire, to comment on other amendments to the Bank of Canada Act, or any other aspects of the proposed legislation.