



Introductory Statement by
Gerald K. Bouey
Governor of the Bank of Canada
in an appearance before the
House of Commons Standing Committee
on Finance, Trade and Economic Affairs
Wednesday, November 5th, 1986

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The Bank of Canada's involvement in the recent affairs of the Continental Bank, leading to its sale of assets to Lloyds Bank Canada, has been in our role of lender of last resort to chartered banks. As I have indicated before in presentations to this Committee, the Bank's responsibilities in this area stem from the powers provided by Parliament in the Bank of Canada Act which permit the Bank to make secured loans to banks. This power, which is standard for central banks, enables the Bank of Canada to provide liquidity support to a financially sound bank that, due to a loss of confidence, is encountering large withdrawals of deposits. Such loans give the bank that is facing the withdrawals an opportunity to try to reverse the loss of confidence. And if a restoration of confidence is not possible, the liquidity support provides time for the bank to seek other solutions to its problems.

The Continental Bank first encountered funding problems last autumn in the wake of the closure of the Canadian Commercial Bank and the Northland Bank. The collapse of those two banks resulted in an unfortunate decline in depositor confidence in some other banks. The Continental Bank was forced to resort to borrowing from the Bank of Canada, beginning in early October of last year.

In an effort to restore the confidence of its depositors, the Continental Bank arranged, as of October 31st, 1985, a \$2.9 billion support package. That package consisted of a \$1.5 billion stand-by line of credit from the six largest chartered banks and a \$1.4 billion special advance from the Bank of Canada with a term of 6 months. This term advance, which has been provided at the prevailing Bank Rate, was subsequently renegotiated three times -- in January, April and July -- with the final term being extended to the end of January 1987.

In addition to the term advance, the Continental Bank has also made substantial use of daily advances from the Bank of Canada, beginning in November 1985. These daily advances, which have also been at Bank Rate, reached a maximum of just over \$1.3 billion during April. Total advances from the Bank of Canada at the end of April were thus some \$2.7 billion. The use of central bank advances by the Continental Bank declined somewhat through the summer, and as of the end of October its total liability to the Bank of Canada amounted to about \$2.0 billion. All these advances have been fully secured by a floating charge on virtually all of the Continental Bank's assets.

As part of the arrangement between Lloyds Bank and the Continental Bank, Lloyds Bank Canada will take over the liabilities of the Continental, including its indebtedness to the Bank of Canada. The Bank of Canada advance will thereafter be secured by virtually all of the assets of the "new", enlarged Lloyds Bank Canada. Lloyds Bank Canada has agreed to repay the Bank of Canada within a reasonably short period of time of up to three months from the closing date. This timing permits Lloyds Bank Canada to obtain the necessary funding in an orderly manner with minimal disruption to our foreign

exchange and domestic money markets. The repayment of the advance in stages is also helpful to the Bank of Canada in the management of its asset portfolio.

Mr. Chairman, it would of course have been preferable if the Continental Bank could have managed to regain the confidence of depositors. Nonetheless, the bank was able, with the support provided by central bank advances, to take the time needed to consider all its options and to pursue the most promising solutions to its problems. The final outcome provides a successful resolution of the situation for both depositors and shareholders and does so without any loss of the contribution to a competitive banking environment in Canada that the Continental Bank and its branches have been providing.