

STATEMENT BY J. E. COYNE,
GOVERNOR OF THE BANK OF CANADA

New statements about the Bank of Canada pension fund are being made every day by Mr. Fleming and Mr. Diefenbaker, and additional bits of information made public, but important details are still being concealed and misrepresented.

In the House of Commons on July 5th Mr. Fleming accused me of having made "gross misrepresentations" about the contents of Mr. Bryden's letter to him of April 7, 1961 regarding changes made in February 1960 in the Bank of Canada pension fund. Mr. Fleming then proceeded, as he had done before, to give his own version of this letter which he refuses to produce because he says it is confidential. Mr. Bryden read me the letter on the telephone before he sent it to Mr. Fleming, and sent copies of it to several persons at various times --- including myself on June 5th. It is obviously relevant to the Government's charge of improper conduct against me in relation to this matter.

Mr. Diefenbaker on July 7th said it was not "impugning a man's integrity to say that he sat, knew, listened, and took." Mr. Fleming said I had been guilty of dereliction of duty and this constituted misbehaviour justifying removal from office.

Mr. Diefenbaker also said that previously "there was provision that all those matters had to be approved by the Governor-in-Council" (the Cabinet) and that "It was on the occasion of the last amendment that some alteration was made in that provision." That is completely untrue, as legal opinions from the Department of Justice --- which Mr. Diefenbaker asked for --- and the documents in question show.

The procedure followed with respect to the amendments of February 15, 1960 was exactly the same as in the case of other amendments during the past six years---ever since the Privy Council office objected to receiving

such amendments and the Deputy Minister of Justice gave the opinion that approval by the Governor-in-Council was not necessary. They were not published in the Canada Gazette because no-one had any idea that this was necessary in the case of matters which were not required to go before the Government for approval. After Mr. Fleming raised this matter of publication with me on May 30th I took the first opportunity, to settle any possible doubts in the matter, to have all the amendments of the past six years published in the Canada Gazette, and they appeared in the issue of June 10, 1961.

Mr. Fleming has frequently alleged that I have "claimed" a pension. He also refers a number of times to my "pension claims". Mr. Diefenbaker even said (on July 7th) that I was already in receipt of it, that the bylaw was only published "after it had been revealed that he (Mr. Coyne) was in receipt of it." Many Government speakers have made remarks about the impropriety of such a pension at age 51. The fact is I have never claimed a pension. The position I have taken is that the action of the Board of Directors in making a change in the special provision for a pension for the Governor and Deputy Governor (not just the present holders of those offices but all present and future Governors and Deputy Governors) was lawful and justifiable and in accordance with past practice and sound principles, and done by the directors for reasons which they thought were in the public interest.

Mr. Fleming also poured scorn on the idea that there was any unwritten understanding that a Governor would not draw the special pension if after leaving the Bank (before normal retirement age) he found suitable alternative employment. On page 7572 of Hansard for July 5, 1961, Mr. Fleming says, "There is no such arrangement. This is just a red herring that was drawn across the trail by the Governor of the Bank", and at page

7579 Mr. Fleming says, "There is no foundation whatever for the assertion or allegation that there is some unwritten rule or understanding that if a former Governor in receipt of a pension finds himself a salaried position elsewhere he will forego or waive the pension to which he is entitled from the Bank; that is just made out of somebody's imagination."

The fact is there has always been such an understanding, and Mr. Fleming and his representatives had knowledge of it. Mr. Graham Towers and Mr. Donald Gordon understood this thoroughly, and when Mr. Gordon left the Bank (before normal retirement age) to become President of the C.N.R., in accordance with that understanding he did not claim or draw the pension. When I became Deputy Governor, Mr. Towers told me about this understanding and it was with the full knowledge that I might never draw the pension that I nevertheless made for seven years contributions to the pension fund at double the normal rate, in addition to which, of course, I made normal contributions throughout my period of $23\frac{1}{2}$ years with the Bank of Canada at the normal rate. When I became Governor and Mr. Beattie became Deputy Governor I passed on to him the same unwritten understanding. I have also discussed the matter with the directors of the Bank, one of whom on May 11, 1961 said to me that of course it would be understood that if a Governor, even one who had been forced out before the end of his term, or whose appointment had not been renewed so that he left the Bank before normal retirement age, if he did find suitable alternative employment at suitable remuneration he would not have any need and would not have any moral justification to draw the special pension from the Bank of Canada even though he had paid special premiums for that purpose.

Mr. Towers retired only 3 years before normal retirement age. Whether any other Governor or Deputy Governor will hereafter draw the special pension only the future can tell. He will only do so in the circum-

stances which this special kind of insurance or contingency provision was intended to meet. If that contingency does not arise, the Governor or Deputy Governor concerned will not put in a claim, and the special premiums which he paid will be kept by the Pension Fund and used to help pay the claims of others.

Mr. Fleming denies he was given any intimation by Mr. Bryden of the intention of the directors to change the provisions affecting the pensions of the Governor and Deputy Governor, and says that his conversation with Mr. Bryden in August 1959 contained merely a casual reference to the general subject of salaries and pensions of all Bank of Canada employees.

This cannot be correct. The only salaries that Mr. Bryden would have spoken to Mr. Fleming about are those of the Governor and Deputy Governor, which require approval by the Government. As for pensions, a general review of the pension fund by-law affecting all employees was carried out and certain amendments made in February 1959. The pension matter on Mr. Bryden's mind in August 1959 related to the special provisions affecting the Governor and Deputy Governor.

Mr. Bryden's letter of April 7, 1961 was written shortly after a discussion he had with Mr. Fleming on this subject on March 21st. It was written before this matter had been made public, and weeks before Mr. Fleming asked me to resign. In this letter Mr. Bryden quite clearly set down his own best recollection, in chronological sequence, of various discussions and meetings he and other directors had had, re-inforced by the notes he had kept over those months.

I fail to see why Mr. Bryden's incomplete version of ten days ago (June 28th) should be made public, and the more complete details given in his letter of April 7th should be kept confidential.

In Mr. Bryden's letter of April 7, 1961, he says that he kept rough notes of his conversation with Mr. Fleming in August 1959. According to those notes, he mentioned very briefly "that the matter of both salaries and pensions was currently engaging our attention". He said: "With regard to the

former, I have you noted as indicating that it was difficult to make changes during a period of stringency, and with regard to the latter, I have it noted that you did not know whether you would have to approve." This note, made in August 1959 immediately after the conversation, shows by Mr. Fleming's own remark that it can only refer to the salaries of the Governor and Deputy Governor ---the only ones that Mr. Fleming (or the Government) would be required to approve. (The salaries of all other employees of the Bank are reviewed every year without reference to the Minister of Finance.) The reference to pensions can likewise refer only to the special provisions regarding the Governor and Deputy Governor, to study which the sub-committee of the Board, of which Mr. Bryden was the chairman, had been re-constituted at the June 1959 meeting of the Board.

As mentioned in a previous statement, the sub-comittee completed their studies and prepared their recommendation in February 1960. A week before the Board meeting Mr. Bryden told the Deputy Minister of Finance, Mr. K W. Taylor, what was proposed and Mr. Taylor said he thought the proposal was reasonable. Mr. Bryden told me on the phone before the meeting about the Deputy Minister's knowledge and approval.

At the Board meeting on February 15, 1960, the Minister of Finance was represented by Mr. A. F. W. Plumptre, the Assistant Deputy Minister of Finance. The subject was discussed for an hour or more, and the decision by the directors was unanimous. At the next meeting on April 11, 1960 Mr. Fleming was represented by Mr. Taylor. The minutes of the previous meeting were read in full, including the whole text of the report of the sub-committee and of the amendment to the by-law, which were explained to the four new directors who were attending their first Board meeting.

In reporting for the sub-committee at the Board meeting of February 15, 1960, Mr. Bryden said: "The Committee were of the opinion that the

existing rules would not make adequate provision to underwrite a position of independence for any Governor or Deputy Governor who did not have relatively long service with the Bank".

In his letter of April 7, 1961, Mr. Bryden said: "After what I took to be a very full discussion (during which all the members of the Board, to my recollection, expressed themselves solidly in favour of the change in the special provision) and in the knowledge that pension fund changes were within our competence, the Board approved the pension fund changes". The letter then refers to the desire of the directors to increase the salaries of the Governor and Deputy Governor, which was rejected by Mr. Fleming, first in February and again in September 1960, and concludes: "May I say that in my view these matters were dealt with over an extended period and reflect the considered view of the Board at that time"

When I called Mr. Bryden on the telephone on June 5, 1961, to tell him of Mr. Fleming's accusation on May 30th that I had been guilty of a dereliction of duty in not vetoing this decision of the Board and myself submitting the pension by-law amendment to Mr. Fleming---an accusation which Mr. Fleming has repeated many times since---Mr. Bryden said (and I wrote down his comment): "What complete and utter God-damned nonsense". He immediately said he would give me a copy of his letter of April 7th to Mr. Fleming.

Mr. W. A. Johnston, one of the four directors not appointed by the present Government who was still on the Board in February 1960, in a press interview on June 16th, 1961 said "the pension increase was voted to insure that the Governor, in the interest of the Canadian economy, could act independently of the federal government without having to consider a great personal sacrifice at the same time" (Winnipeg Free Press). Mr. Bryden in a press interview on June 14, 1961, said, "The action was taken in February 1960, after consideration which extended over several months, and the recommendation was unanimously approved by the Board. Obviously it was our firm belief that we were justified and it was our opinion after

consultation with the Justice Department that it was within our powers". He said the pension provided "seemed to us to be reasonably consistent with the job, the tenure of office, the responsibilities and the hazards". (Toronto Star and Winnipeg Free Press, June 15, 1961)

Two other matters may be of interest in connection with this pension business. In discussing this matter with me, one point made by Mr. Bryden was that the Central Mortgage and Housing Corporation's pension fund rules also contained special provisions for a pension to the chief executive officer to commence at any age if he retired before normal retirement age, but in that case there was no requirement for a special premium, double contributions for seven years, as in the case of the Governor of the Bank of Canada, and he (Mr. Bryden) suggested that the double contribution should be abolished. I said I had not known about the Central Mortgage and Housing case, but I was sure the directors of the Bank of Canada who twenty-five years ago set up this provision for a special premium by way of double contributions for seven years must have felt it was a good thing to do. I knew that Mr. Towers felt such a provision was desirable, and I did not think it should be changed now.

Mr. Bryden and others also pointed out that in the case of the chartered banks and many other business corporations, senior executives contribute to only a fraction of the amount they receive by way of pension and retiring allowances combined. The contributory scheme in their case applies to all employees but only in respect of the first \$15,000 or \$25,000 of salary. In addition, retiring allowances similar to a pension are paid on an annual basis for life to senior executives with higher salaries, and these are paid entirely out of company funds. These additional amounts may be five times as great as the nominal pension.

There is no such arrangement in the case of the Bank of Canada. All annual pensions are paid out of the pension fund, not out of Bank of Canada funds or taxpayers' funds. The Bank of Canada as employer pays an annual contribution into the fund, based on the size of the payroll of the Bank, in the same way as any other employer. Under my administration

the amount which is paid each year by the Bank has been greatly reduced---
the Bank of Canada and the Industrial Development Bank together are
paying more than a quarter of a million dollars less each year into the
pension fund as a result of my administration of the investments of the
fund---which are as safe, and as profitable, as those of a life insurance
company---and as a result of changes in the pension fund rules over the
past six years.