Section 2.—The Bank of Canada

Subsection 1.—The Bank of Canada Act and Its Amendments

C. 43 of the Statutes of 1934, "An Act to incorporate the Bank of Canada", provided for the establishment of a central bank in Canada. The capital of the Bank was originally $5,000,000, divided into shares of $50 par value. These shares were offered for public subscription by the Minister of Finance on Sept. 17, 1934, and were largely oversubscribed. The maximum allotment to any one individual or corporation was 15 shares. Shares of the Bank could be held only by British subjects ordinarily resident in Canada, or by corporations controlled by British subjects ordinarily resident in Canada. The maximum holding permitted one person was 50 shares. The Bank commenced business on Mar. 11, 1935.

By an amendment to the Act, passed at the 1936 session of Parliament, the capitalization of the Bank was increased to $10,100,000 by the sale of $5,100,000 Class "B" shares to the Minister of Finance; the original shareholders were designated Class "A".

The Bank of Canada Act was further amended in 1938 (c. 42 of the Statutes of 1938). By this legislation the capital of the Bank was reduced from $10,100,000 to $5,000,000 divided into 100,000 shares of the par value of $50 each to be exchanged for the Class "B" shares held by the Minister of Finance which were to be cancelled by the Bank of Canada. All "A" shares, held by the public, were purchased for the sum of $59·20 each plus accrued dividends, and these certificates were also cancelled. This legislation, therefore, brought the Bank of Canada under complete government ownership. Owing to changes in constitution and ownership, adjustments were made in the method of appointing directors as well as in other directions.

The Bank is authorized to pay cumulative dividends of 4½ p.c. per annum from its profits after making such provision as the Board thinks proper for bad and doubtful debts, depreciation in assets, pension funds, and all such matters as are properly provided for by banks. The remainder of the profits will be paid into the Consolidated Revenue Fund of Canada and to the Rest Fund of the Bank in specified proportions until the Rest Fund is equal to the paid-up capital, when all the remaining profits will be paid into the Consolidated Revenue Fund.

The Bank may buy and sell securities of the Dominion and the provinces without restriction if of a maturity not exceeding two years, and in limited amounts if of longer maturity: short-term securities of the Dominion or provinces may be rediscounted. It may also buy and sell short-term securities of British Dominions, the United States or France without restriction, if maturing within six months, and such securities having a maturity exceeding six months in limited amounts. The Bank may buy and sell certain classes of commercial paper of limited currency, and, if endorsed by a chartered bank, may rediscount such commercial paper. Advances for six-month periods may be made to chartered banks, Quebec Savings Banks, the Dominion or any province against certain classes of collateral, and advances of specified duration may be made to the Dominion or any province in amounts not exceeding a fixed proportion of such government's revenue. The Bank may accept from the Dominion or Provincial Governments, or from any chartered bank or any bank incorporated under the Quebec Savings Banks' Act, deposits that shall not bear interest. The Bank may buy and sell gold, silver, nickel and bronze coin, and gold and silver bullion, and may deal in foreign exchange.

The provisions regarding the note issue of the Bank of Canada are dealt with at pp. 808-809.