Section 2.—The Bank of Canada

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

The Bank of Canada was incorporated in 1934 and commenced operations on Mar. 11, 1935. An account of the capital structure of the Bank and its transition from a privately owned institution to a wholly government-owned one is given at p. 800 of the 1941 Year Book.

The Bank is authorized to pay cumulative dividends of $4\frac{1}{2}$ 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. 997 998.

The Bank of Canada Act (c. 43, Statutes of 1934 and amendments) provides that the Bank shall maintain a reserve of gold equal to not less than 25 p.c. of its total note and deposit liabilities in Canada. Under the terms of the Exchange Fund Order, 1940, authorizing the transfer of the Bank's gold holdings to the Foreign Exchange Control Board, the minimum gold reserve requirement has been temporarily suspended. The reserve, in addition to gold, may include silver bullion; balances in pounds sterling in the Bank of England, in United States dollars in the Federal Reserve Bank of New York, and in gold currencies in central banks in gold-standard countries or in the Bank for International Settlements; treasury bills of the United Kingdom or the United States of America having a maturity not exceeding three months; and bills of exchange having a maturity not exceeding 90 days, payable in London or New York, or in a gold-standard country, less any liabilities of the Bank payable in the currency of the United Kingdom, the United States of America or a gold-standard country. In accordance with the terms of the Foreign Exchange Acquisition Order, 1940, the Bank of Canada sold foreign exchange with a Canadian dollar value of $27,734,444 to the Foreign Exchange Control Board.