

minerals) were exploited. Thus, Canadian banking has continually had to migrate to new areas and to find appropriate methods of financing new industries and new products; and it has from the beginning possessed a strongly 'international' character\* with a good deal of emphasis on the financing of foreign trade, on foreign exchange operations, and on correspondent relations with foreign banks. At the same time, as regional isolation has gradually broken down and the economy has been integrated, banks originating in local areas have become part of a nation-wide banking system, in part by process of amalgamation particularly marked in the first twenty-five years of the present century.

### Bank Legislation

From the first, banks in what is now Canada sought to operate under Acts of incorporation (charters) passed by the legislatures of the colonies in which they operated. As new banks were incorporated and older ones obtained charter renewals, there developed in the bank charters themselves a quite extensive and fairly uniform code of banking law. At Confederation, responsibility for banking and currency was given to the Dominion Government and in 1871 the first general Bank Act was passed. This legislation is subject to review and revision every ten years, a feature that has helped to keep the banking system adapted to the needs of a changing economy.

Certain characteristic features of the Canadian financial system have thus emerged—notably the traditional emphasis of the chartered banks on "commercial" banking. The early banks were established by merchants for merchants. Their note issues provided a badly needed medium of internal exchange and they advanced working capital to finance the processes of trade. The aim was to make lending as far as possible short-term and self-liquidating. The bank charters from the first contained prohibitions against lending on the security of real property, except as secondary or subsequent security. Now, however, exceptions to the rule against lending upon security of real property, incorporated in the Bank Act in 1944 and 1954, allow the banks to participate in government-guaranteed loans to farmers and fishermen and for housing constructed under the National Housing Act, to lend to oil companies on the security of oil "in, under or upon the ground" and production equipment, and to extend their consumer-finance lending by taking chattel mortgages. It is also permissible for banks to make advances on the security of natural products and goods, wares and merchandise while they remain in the borrower's possession. These 'pledge' arrangements have facilitated loans to small businesses and farmers and have aided in commercial and manufacturing development, while giving the banks a reasonable degree of protection for their loans.

Today the Bank Act has become a most detailed and comprehensive piece of legislation which provides for the internal regulation and organization of the banks, for the auditing of their accounts, and for the ways in which their capital stock may be issued and transferred, their dividends paid, and their affairs settled in case of amalgamation, winding-up or insolvency. In addition, it states what cash reserves the banks must keep, what reports they must make to the Government and to the Bank of Canada about their affairs and sets forth a variety of rules governing the conduct of business with the public. The Bank Act also specifies the maximum rate of interest that may be charged on bank loans. (Since the 1944 Bank Act Revision this ceiling has been 6 p.c., replacing the 7-p.c. ceiling that had prevailed since 1871.) The banks derive their corporate existence from the Act, which states that "each bank. . . . is a body politic and corporate and this Act is its charter"; successive Bank Acts have empowered the banks to do business for a period of ten years, until the next revision of the Act.

### Banking Operations

Operating under the Bank Act, the chartered banks at their branches accept deposits from the public, make loans covering a wide range of commercial, industrial, agricultural and consumer activities, deal in foreign exchange, receive and pay out Bank of Canada

\* The larger Canadian banks have long maintained offices in London and New York. In addition, some Canadian banks for more than half a century have been providing an important part of commercial banking facilities in the Caribbean area (see Table 10, p. 1100). The Bank of Montreal opened an office in Tokyo in January 1962, the first to be established in Japan by a Canadian bank.