

in four large cities. At the end of 1963, these banks together operated 5,626 banking offices of which 5,447 were in Canada and 179 abroad. Thus, the chief distinguishing feature of the Canadian banking system is the relatively small number of large banks having an extensive network of branches, operating under a single legislative jurisdiction (the Federal Government) and under one detailed and comprehensive statute (the Bank Act).

Since the first banks were established during the first quarter of the nineteenth century, the commercial banking system has developed in response to the changing needs of the Canadian economy, an evolution which is still in rapid progress. Canadian economic development has been characterized by two main features—successive but by no means continuous periods of rapid geographical expansion of settlement, and a continued dependence on export markets as new natural resources (agricultural land, forests and 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 much 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. The decennial revision was due in 1964, but the Bank Act was extended for one year in order to provide time to consider recommendations made by the Royal Commission on Banking and Finance.

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

* 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 the commercial banking facilities in the Caribbean area (see Table 10, p. 1043).