Subsection 3.—The Chartered Banks*

The Canadian commercial banking system consists of ten privately owned banks, chartered by Parliament and operating under the provisions of the Bank Act.† Of the eight in operation, five are nation-wide institutions; two operate mainly in Quebec and in other French-speaking areas and one, affiliated with a New York bank, has branches in six large cities. At Sept. 30, 1966, these banks together operated 6,031 banking offices of which 5,802 were in Canada and 229 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 in order to provide time to consider recommendations made by the Royal Commission on Banking and Finance established in 1961; the Commission's report was published in 1964.††

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

* More detail is included in an article appearing in the 1961 Year Book, pp. 1115-1120, prepared by J. Douglas Gibson, General Manager of The Bank of Nova Scotia. The early history of currency and banking in Canada is given in the 1938 Year Book, pp. 900-905. A list of the banks at Confederation appears in the 1940 Year Book, p. 897, and bank absorptions since 1867 are given in the 1941 edition, pp. 812-813. A table in the 1937 Year Book, pp. 894-895, shows the insolvencies since Confederation; the last insolvency occurred in 1923.

† The Bank of Western Canada and the Bank of British Columbia were chartered by Parliament but had not commenced operations as of Feb. 28, 1967.

‡ 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. 1129).

†† At time of writing, the Bank Act revision was before Parliament; see Chap. XXVII, Pt. V, outlining Federal Legislation, 1966-67.