

institutions, while removing certain existing restrictions on the banks' operations which had placed them at some competitive disadvantage in recent years compared with their principal financial competitors.

In the past, various forms of intercorporate financial relationship between chartered banks and other financial enterprises had developed in Canada. In some instances this involved investment by banks in the shares of these enterprises, and vice versa; in others the relationship involved interlocking directorships. These practices are severely restricted under the terms of the new Bank Act, which limits bank ownership of any Canadian corporation to 10 p.c. of the voting shares and also provides that no more than one fifth of the directors of any company may become directors of a bank. In addition, after a two-year period a director of a trust or mortgage loan company which accepts deposits from the public may not be appointed or elected a director of a bank. In order to ensure that competition is not curtailed by agreements among the banks on interest rates to be paid on deposits or charged for loans, the new Bank Act prohibits the making of such agreements (except with the consent of the Minister of Finance). At the same time the provision that was formerly in the Bank Act limiting to 6 p.c. the interest rate which chartered banks could charge on loans, was abolished effective Jan. 1, 1968. Under the new Bank Act, the determination of interest rates on loans and deposits is left to market forces.

The new Bank Act also granted the banks new mortgage-lending powers. Banks may now charge current rates of interest on mortgage loans under the National Housing Act, and they may also make conventional residential mortgage loans for the first time. In the case of conventional residential mortgages, the amount of an individual mortgage cannot exceed 75 p.c. of the appraised value of the property. After 1973 the maximum amount of a bank's assets to be held in the form of conventional residential mortgages must not be more than 10 p.c. of the bank's Canadian dollar deposit liabilities plus debentures. In the interval, the percentage limitation will rise by 1 p.c. each fiscal year; it is 4 p.c. until Oct. 31, 1968 when it rises to 5 p.c. for the subsequent fiscal year and so on until the 10-p.c. maximum is reached.

The banks have also been given authority to issue their own debentures with an original term to maturity of at least five years; such securities are not subject to a reserve requirement and rank in priority after deposit liabilities. The amount of debentures that any bank may have outstanding is limited by restricting the increase per annum to 10 p.c. of the paid-up capital and rest fund and an upper limit of one half of the bank's paid-up capital and rest fund.

The amendments to the Bank Act in 1967 contained a number of revisions respecting the ownership of Canadian chartered banks. No individual or associated shareholders may vote more than 10 p.c. of a bank's total shares outstanding and, if more than 25 p.c. of a bank's shares are owned by non-residents, the total outstanding liabilities of the bank may not exceed twenty times its authorized capital stock.

The Bank Act also stipulates the minimum statutory cash reserve requirement that the chartered banks must observe. The minimum amount of Bank of Canada notes and deposits each bank must hold as cash reserves was changed in a series of monthly steps from 8 p.c. of all Canadian dollar deposits under the old Bank Act to 12 p.c. of demand deposits and 4 p.c. of other deposits as of February 1968. In addition, the Bank of Canada has been given stand-by powers to require the banks to hold a "secondary reserve" which would consist of cash in excess of their statutory requirements, holdings of treasury bills and day-to-day loans to investment dealers. When initially introduced, this secondary reserve cannot exceed 6 p.c. of a bank's deposit liabilities. Thereafter it may be increased in monthly steps of 1 p.c. to a maximum of 12 p.c. The Bank of Canada may reduce or remove such a secondary reserve at any time; effective April 1968, the required level was 7 p.c.

Branches of Chartered Banks.—Although there are fewer chartered banks now than at the beginning of the century, there has been a great increase in the number of