

was begun in early October 1972 and the plant is expected to be in operation toward the end of 1974.

#### 19.1.4 Chartered banks

Canada's commercial banking system consists of ten privately owned banks. Eight have been in operation for many years, one commenced operations in July 1968 and another received its charter in November 1972 but had not begun operations by the end of the year. At the end of December 1970, these banks operated 6,200 banking offices in Canada and 270 abroad. Canadian chartered banks engage in a very wide range of activities; they accept various types of deposits from the public including accounts payable on demand, both chequing and non-chequing, notice deposits and fixed-term deposits. The banks, in addition to holding a portfolio of securities, make loans under a wide variety of conditions for commercial, industrial, agricultural and consumer purposes. They also deal in foreign exchange, receive and pay out bank notes, provide safekeeping facilities and perform a variety of other services. For the most part, these operations are carried out in Canada by the extensive network of bank branches. The head offices of the banks confine their activities largely to general administration and policy-making functions, the management of the banks' investment portfolio and related matters. A detailed account of the branch banking system in Canada is given in the *1967 Canada Year Book*, pp. 1126-1128.

All banks operating in Canada are chartered (i.e., licensed) by Parliament under the terms of the Bank Act. The Act regulates certain internal aspects of bank operations such as the auditing of accounts, the issuing of stock, the setting aside of reserves and similar matters. In addition, the Bank Act regulates the banks' relationship with the public, the government and the Bank of Canada.

The Bank Act has been revised at approximately ten-year intervals; the most recent revision was enacted by Parliament early in 1967 and came into effect on May 1 of that year. Increased competition and flexibility in the Canadian banking system were reflected in various new Bank Act provisions. These imposed certain restrictions on corporate and other relationships between banks and other financial 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 relationships between chartered banks and other financial enterprises had developed in Canada. In some instances these 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 1967 Bank Act, which limits bank ownership of any Canadian corporation to 10% 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 1967 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% the interest rate which chartered banks could charge on loans was abolished effective January 1, 1968. Under the 1967 Bank Act, the determination of interest rates on loans and deposits is left to market forces.

The 1967 Bank Act also granted the banks new mortgage-lending powers, permitting them to charge current rates of interest on mortgage loans under the National Housing Act, and also, for the first time, to make conventional residential mortgage loans. In the case of conventional residential mortgages, the amount of an individual mortgage cannot exceed 75% 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% of the bank's Canadian dollar deposit liabilities plus debentures. In the interval, the percentage limitation will rise by 1% each fiscal year; it was 4% until October 31, 1968 when it rose to 5% for the subsequent fiscal year and will so continue until the 10% 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 reserve requirements and rank in priority after deposit liabilities. The amount of debentures that any bank may have