TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: June 11, 1934.

FROM R. L. Hoguet, Jr.

TO Mr. Eccles.

As I understand it, the Bill setting up the proposed bank of Canada and the companion bill embodying decennial revision of the Canadian banking law are still in the process of being debated and the final result may show some changes. The attached memorandum makes a brief comparison of the Bank of Canada and the Federal Reserve System. The proposed Bank of Canada would seem to be a more typical central bank than the Federal Reserve System. However, the absence of any organized money market will no doubt make it difficult for it to effectively regulate credit by means of open market operations and rediscount rates. It is not expected that the new central bank will alter for the present the fact that the Canadian money market is greatly influenced by Wall Street.

The question which has aroused the greatest discussion is that of private versus government ownership. The Parliament Banking Committee has recently voted against government ownership. There has also been a great deal of discussion as to the price at which gold would be taken over by the central bank, but by a recent vote of the Banking Committee it was decided that the new Canadian Central Bank would take over the chartered banks' gold at the statutory price of $20.67 per ounce, rather than at the current price of about $35.00 per ounce. It is not clear from press despatches (June 5th) whether the profit thus arising will accrue to the Government or to the Central Bank. At the same time it was also decided that the divident rate would be 4.5 per cent rather than 6 per cent, as originally proposed. Lastly, an amendment was introduced and passed by the Banking Committee giving to the Government power to veto the Central Bank Board's decisions. (Details unknown).

It is generally conceded that the take-over of gold by the Central Bank is an excellent and almost necessary preliminary to statutory devaluation of the Canadian dollar. The provisions for the Central Bank's own reserves and for redemption point further to elimination of gold from circulation. "Bank of Canada Notes are to be legal tender in Canada; it is not contemplated that they should be redeemable in gold coin", said the Finance Minister. Provision is made, however, that when suspension of specie payments is not in effect, Bank of Canada notes will be redeemable in gold bars containing approximately 400 ounces of fine gold. This adopts the "gold bullion" principle which has been developed in Great Britain. It accepts the theory that gold is primarily for use only in the settling of international payment, and would seem to be designed to prevent any possible embarrassment to the bank from an internal drain of gold for hoarding or other purposes.

Opposition to the Central Bank has come mainly from the chartered banks. Their greatest argument is that depriving them of their note issue privilege will force them to shut many of their smaller branches. This view seems to be subscribed to only by the chartered banks.

	Bank of Canada		Federal Reserve System
1.	One central bank at Ottawa.	1.	Twelve regional banks.
2.	Branches and agencies attached to central bank.	2.	Branches and agencies attached to regional banks.
3.	Capital subscribed by individuals or corporations. But no share of the capital stock of the Bank shall be held by or for the benefit of any chartered bank or any director, officer, clerk or employee of such bank. Nor shall any person except the Minister of Finance hold more than 50 shares of $100 par value. Total paid-up capital to be $5,000,000.	3.	Capital subscribed by member banks in proportion to their paid-up capital and surplus. Total paid-up capital of twelve banks is $146,000,000.
4.	Board of Directors composed of a Governor, Deputy Governor, and seven directors. Directors are elected by stockholders and appoint Governor and Deputy Governor with the approval of the Governor General in council. The first board and officers are to be appointed by the Government and the directors are to retire according to a scheme of rotation, and new directors are then to be elected as above.	4.	Federal Reserve Board appointed by the President with the advice and consent of the Senate. Boards of Federal Reserve Banks partly appointed by Federal Reserve Board and partly elected by member banks.
5.	To take over power to issue Dominion notes. Notes of chartered banks to be gradually reduced to 25 per cent of their unimpaired paid-up capital, with further reduction at discretion of Parliament.	5.	Note issue right shared with Treasury and national banks.
6.	One-third of all net profits in excess of a 4.5 per cent cumulative dividend to be paid into surplus and the remainder to the Government until surplus equals paid-up capital; afterwards 10 per cent of such profits shall be paid into surplus and the remainder to the Government until surplus is double paid-up capital; and thereafter all such profits shall be paid to the Government.	6.	Franchise tax until Banking Act of 1933. Then subscription to Federal Deposit Insurance Corporation stock and payment of net profits in excess of 6 per cent cumulative divident requirements to surplus.

7. To be fiscal agent of Dominion Government. Upon request of Minister of Finance, shall act generally in respect of the management of the Canadian public debt. May also act as banker or fiscal agent for provincial governments.	7. Fiscal agents for Federal Government when required by Secretary of the Treasury.
8. Commercial banks to keep on deposit reserves equal to 5 per cent of their deposit liabilities within Canada. Non-interest-bearing deposits may be accepted from the Dominion or provincial governments. Deposits from any foreign central bank or the Bank for International Settlements may also be accepted.	8. Member banks keep 7, 10 and 13 per cent reserves against demand deposits and 3 per cent against time deposits. Deposits may be accepted from Federal Government, certain Federal Agencies, Foreign central banks and non-member banks for purpose of clearing and exchange.
9. Specie and exchange powers:	9. Specie and exchange powers:
(a) Buy and sell gold, silver, nickel, and bronze coin and gold and silver bullion. Gold may be sold only in bars of about 400 fine ounces. This provision may be suspended at any time in the discretion of the Governor.	(a) Gold may be sold only to holders of Treasury Licenses.
(b) Effect transfers of funds.	(b) Effect transfers of funds.
(c) Buy and sell trade acceptances, bankers' acceptances, and bills of exchange drawn in or on places outside Canada and maturing not more than 3 months from purchase date.	(c) Buy and sell bills of exchange eligible for rediscount and 90-day bankers' acceptances.
10. Investment powers--to buy and sell:	10. Investment powers--to buy and sell:
(a) Securities issued or guaranteed by Dominion of Canada or any province maturing not more than 2 years from date of purchase.	(a) United States Government securities
(b) An amount (not exceeding twice the amount of the paid-up capital of the bank) of securities issued or guaranteed by the Dominion of Canada or any province maturing more than 2 years from date of purchase.	(b) Certain local Government obligations issued in anticipation of assured revenues
(c) Securities of the United Kingdom, the British Dominions, the United States and France, maturing not more than 6 months from date of purchase	(c) Specified obligations of certain Federal agencies

(d) Securities (amounting to not more than half of the paid-up capital of the bank) of United Kingdom or United States Government maturing more than 6 months from date of purchase	(d) Bankers' acceptances and acceptances of certain Federal agencies
(e) Commercial and industrial bills of exchange and promissory notes, endorsed by a chartered bank, issued in connection with the production or marketing of certain goods, wares, and merchandise, maturing not more than 3 months from date of purchase	(e) 90-day bills of exchange and secured sight and demand bills eligible for rediscount.
(f) Bills of exchange and promissory notes issued in connection with agriculture, mining, lumbering and fishing, endorsed by a chartered bank, and maturing not more than 6 months from date of purchase. In the discretion of the board, the amount of such paper having a maturity in excess of three months but not exceeding six months may be limited.	
11. Discount and rediscount powers:	11. Discount and rediscount powers:
(a) Securities issued or guaranteed by Dominion of Canada or any province maturing not more than 2 years from date of purchase	(a) For member banks--commercial, agricultural, and industrial paper of specified maturities.
(b) Commercial and industrial bills of exchange and promissory notes, endorsed by a chartered bank, issued in connection with the production or marketing of certain goods, wares, and merchandise, maturing not more than 3 months from date of purchase	(b) For Federal Intermediate Credit Banks--agricultural paper of specified maturities unless endorsed by a State bank or trust company eligible for membership in the Federal Reserve System.
(c) Bills of exchange and promissory notes issued in connection with agriculture, mining, lumbering and fishing, endorsed by a chartered bank, and maturing not more than 6 months from date of purchase. In the discretion of the board, the amount of such paper having a maturity in excess of three months but not exceeding six months may be limited.	(c) For regional agricultural credit corporations --agricultural paper of specified maturities
	(d) For any bank--promissory notes with no more than 9 months to run secured by adjusted service certificates

	(e) For individuals, partnerships, or corporations--in unusual and exigent circumstances--with the approval of the Federal Reserve Board, paper suitably secured and eligible for rediscount for member banks.
12. Loans and advances:	12. Loans and advances:
(a) To chartered banks for 3 months or less on any of the foregoing instruments or Canadian municipal securities or specie.	(a) To member banks for not more than 90 days on their promissory notes secured by paper eligible for rediscount
(b) To the Dominion or any provincial government when properly secured	(b) To member banks for not more than 15 days on their promissory notes secured by Federal Government issues, certain obligations of specific Federal agencies.
(c) To the Dominion Government an amount not more than one-third of anticipated yearly income and to be repaid before the end of the first quarter of the fiscal year following that in which the loan was made	(c) To member banks, or groups of member banks, in exceptional circumstances on their properly secured time or demand notes
(d) To the Government of any province an amount not more than one-fourth of anticipated yearly income and to be repaid before the end of the first quarter of the fiscal year following that in which the loan was made	(d) To individuals, partnerships, and corporations--in exceptional circumstances for not more than 90 days on their promissory notes secured by direct obligations of the United States.
13. Open-market operations: For the purpose of its open-market operations, the Bank is to buy and sell in the open market from or to any person any credit instruments with or without the endorsement of a chartered bank, in which the Bank may deal for exchange, investment, or rediscount purposes except "United Kingdom and United States Government securities maturing more than six months from date of purchase."	13. Open-market operations: Any Federal Reserve bank may purchase and sell in the open market cable transfers; bankers' acceptances and bills of exchange of the kinds and maturities eligible for rediscount, with or without the endorsement of a member bank; obligations of the Federal Government; certain securities of local governments issued in anticipation of assured revenues; and specified obligations of certain Federal agencies.

14. (a) Every chartered bank to surrender all gold. Governor may also require other people from time to time to transfer any or all gold to central bank.

14. This done by the Treasury.

15. To keep a 25 per cent gold reserve against note and deposit liability plus an unspecified amount of silver bullion and foreign exchange. As far as gold is concerned, this section may be suspended by the Governor without sanction of Parliament for as much as one year.

15. Must keep a 40 per cent reserve in gold certificates against notes in actual circulation and a 35 per cent reserve in gold certificates or lawful money against deposits.

16. Direct prohibitions -
    (a) Lending on real estate
    (b) Lending on or purchasing of any stock except the Bank for International Settlements.
    (c) Accepting of time or interest-bearing deposits.
    (d) Allowing the renewal of maturing bills of exchange, etc.

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