

Dear Mr. Eder,

Thank you for your follow-up of email of May 21, 2019.

This confirms that the *Bank Act* does not have any information on “money creation”.

We regret that we cannot be of further assistance on this matter.

Sincerely,

Jeams Cherestal

Correspondence Officer / Agent de la correspondance

Communications and Consultations / Communications et consultations

Office of the Superintendent of Financial Institutions / Bureau du surintendant des institutions
financières

255 Albert St. Ottawa ON K1A 0H2 / 255, rue Albert, Ottawa (Ontario) K1A 0H2

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Government of Canada / Gouvernement du Canada

From: Jeff Eder <jseder@outlook.com>

Sent: May-21-19 1:30 AM

To: Information <Information@osfi-bsif.gc.ca>

Subject: 3781-4_Money Creation by Commercial Banks

Hello Jeams,

Thank you for your reply, however, it does not really relate to my question. It is very interesting that there is no reference to money creation through the loans process in the Bank Act. I must assume that there is no law that is directly associated with the money creation process. I couldn't find a direct correspondence to it in the Capital Adequacy Ratio requirements either. Maybe I am missing something, any direction would be helpful.

Have a good day, Jeff

From: Cherestal, Jeams <Jeams.Cherestal@osfi-bsif.gc.ca> on behalf of Information <Information@osfi-bsif.gc.ca>

Sent: May 9, 2019 7:19 AM

To: Jeff Eder

Subject: 3781-3_Money Creation by Commercial Banks

Dear Mr. Eder,

Thank you for your email of April 23, 2019.

The provisions of the Bank Act apply primarily to certain federally regulated financial institutions (“FRFI”), namely a “bank”, “authorized foreign bank” and “bank holding company” as defined in section 2. Please note that the Bank Act does impose certain restrictions on entities that are not a FRFI. For example, section 983 of the Bank Act restricts the use of “bank” words in a non-FRFI name and to describe a non-FRFI’s business.

Your question appears to relate to “financial intermediation”. In regards to banks, their power to engage in such activity comes under s. 409 of the Bank Act.

In terms of non-FRFIs involvement in such activity, you may find the following Bank of Canada article of interest: <https://www.bankofcanada.ca/2019/03/non-bank-financial-intermediation-in-canada-an-update/>

To ensure compliance with the Bank Act, as well as other relevant federal and provincial laws, you may wish to seek legal advice.

I hope this will be of assistance.

Sincerely,

Jeams Cherestal

Correspondence Officer / Agent de la correspondance

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From: Jeff Eder <jseder@outlook.com>

Sent: April-23-19 8:56 PM

To: Information <Information@osfi-bsif.gc.ca>

Subject: 3781-3_Money Creation by Commercial Banks

Hello Jeams,

I am not quite sure what you are asking, as far as context goes? I would be happy to answer any specific questions you have for me. I attempted to keep the question as simple and direct as possible.

Currently privately owned commercial banks (CIBC, RBC, TD...) have the right to create digital money when issuing loans to persons and businesses (Bank of Canada, “Commercial banks and other financial institutions provide most of the assets used as money through loans made to individuals and businesses. In that sense, financial institutions create, or can create money.”).

This money does not come from anywhere; it is brand new digital money. As you are probably aware the process is quite simple involving double-entry bookkeeping to accomplish this task.

However, after the money is created the complexity of the system increases with every added layer. Money creation by privately owned commercial banks is misunderstood by many people

including the general public, politicians, and economists. I think that you would agree that it is an extraordinary privilege to be allowed to create money.

I am also quite familiar with the capital adequacy ratio requirements that restrict, but do not fully constrain the money creation process.

In my research, I cannot find a specific law or rule that allows commercial banks the privilege to create money. Given that the OSFI is directly responsible for regulating banks I thought the question would be best directed to your office.

Have a good day, Jeff E.

From: Cherestal, Jeams <Jeams.Cherestal@osfi-bsif.gc.ca> on behalf of Information <Information@osfi-bsif.gc.ca>

Sent: April 23, 2019 8:38 AM

To: Jeff Eder

Subject: 3781-2_Money Creation by Commercial Banks

Dear Mr. Eder,

Thank you for your email of April 4, 2019.

We would like to be of some assistance by providing you with the necessary information; however, we would need more context to better address your question.

Thank you in advance.

Sincerely,

Jeams Cherestal

Correspondence Officer / Agent de la correspondance

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From: Jeff Eder <jseder@outlook.com>

Sent: April-04-19 11:32 AM

To: Information <Information@osfi-bsif.gc.ca>

Subject: 3781-2_Money Creation by Commercial Banks

Hello,

Can you direct me to a section of the Bank Act or other law that allows privately owned commercial banks the right to create digital money through the issuance of loans?

Have a good day, Jeff E.