

BANK OF CANADAFOOTNOTE TO MONTHLY STATEMENT
FOR DECEMBER 31, 1956

Effective with the statement for December 31, 1956, the Bank of Canada has adopted amortized values as the basis for valuing its holdings of securities. This is the basis used in the Government's own investment accounts and was authorized by Parliament in 1952 for federal, provincial and certain foreign government securities held by life insurance companies in Canada; it is also the authorized basis of valuing securities by banks and life insurance companies in the United States. Each weekly and monthly statement of the Bank of Canada hereafter will follow the same practice. Amortization of premiums and discounts on securities bought at prices above or below par values will be calculated weekly so that changes in this factor between successive statements will be small.

Previous practice of the Bank was to carry government securities in its published statements at values not exceeding market prices and substantially below cost. This was accomplished by setting aside out of profits certain amounts by way of inner reserves, which have grown over the years to large proportions, and the balance sheet figures of changes in the Bank's holdings of securities have tended at times to give a somewhat inaccurate indication of the results of actual transactions from week to week and over longer periods.

With the change in the basis of valuation, inner reserves previously set aside out of past years' profits become redundant and have been paid over to the Receiver General of Canada to be placed to the credit of the Consolidated Revenue Fund, which is the statutory procedure for disposal of Bank of Canada profits.

The general reserve or Rest Fund of the Bank, now at the maximum permitted by statute, is not affected by these accounting changes.