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Toronto, September 6, 1870.

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THE

Monetary and Commercial Times.

WITH WHICH HAS BEEN INCORPORATED

THE MONTREAL TRADE REVIEW.

TORONTO, CAN., FRIDAY, NOV. 4, 1870.

THE CANADIAN BANKS AND WALL STREET.

For some days back the papers have been copying paragraphs from New York journals respecting suits alleged to have been commenced against the Bank of Montreal, and other Canadian Banks, for a breach of the usury laws of the State of New York, by loaning money in Wall Street at very high rates, said to be as much sometimes as 150 or 200 per cent. per annum. We may as well say at the outset what is well understood in financial circles, that proceedings were really commenced, but the question mainly affects the Bank of Montreal. The only other Canadian Bank that has an agency in New York is the Bank of British North America, but it is not at all probable that its operations are of a character to bring it into difficulty. We may say further, that proceedings have been stopped, and that it is very improbable that any suit would have been prosecuted to an issue. So much odium would attach to its promoters, and the inconvenience of the withdrawal of loaning facilities would be so great, that we might be sure proceedings would be withdrawn before anything but a mere formal stage would be reached. Stockholders in the Bank of Montreal need have no fear of the Bank having to pay any immense sum, by way of fine, for breach of the laws of New York, and of their next year's dividend being affected thereby.

These proceedings, however, may have the effect of restricting the Bank's business in New York, for fear of any possible results in the future, which would of course diminish profits, and might determine the question of whether or not a bonus could be granted next year.

Passing to the general subject of the operations of the Canadian Banks in New York, it may be well to explain what the business is which their agents transact there, and how far such business comports with the rules of legitimate banking. The manner in which agencies of Canadian Banks came to be established in New York was obviously, in the first instance, to transact the large volume of business between Canada and the States. All Canadian Banks have a correspondent in New York on whom they draw, and to whom they remit; and some of them in addition have a broker there, who acts for them in buying and selling sterling exchange, and converting American currency into gold. Any Bank whose business is large, will naturally consider whether they can do the business more economically by establishing an agency for themselves; and the Bank of Montreal, and the Bank of B. N. America, both answered this question in the affirmative, and have had agencies there for some years.

But, once in New York and subject to the enormous expense which New York business entails, a Canadian Bank is naturally led to enquire why they should confine themselves to the business which arises between Canada and New York? Why not take part in the enormous volume of business between New York and Europe, or New York and China, or New York and the interior of the States? There could scarcely be but one answer to this enquiry; and thus it has come to pass that a business has been developed of a very extensive and complicated character, involving the carrying on of far larger operations than can arise in Canada, offering the prospect of corresponding profits, and involving, of course, the usual risks of a widely spread business. Let us explain what this business is. The most extensive and important, and also the most steady, is the buying and selling of bills on England. The exports of New York all give rise to bills on Liverpool, London, or Glasgow, or perhaps on Paris, which are offered to those in the trade, from day to day. It is a singular fact that the banks of New York do very little of this business, the greater part of it being carried on by a few private firms of vast capital, having connections in England, and by the agencies of the two Canadian Banks before named. Conspicuous amongst the private firms is the great house of Brown Brothers, whose capital

is estimated at about twenty millions, and whose transactions in foreign bills amount to millions of pounds sterling per month. The Rothschilds have also an agent who draws on them. The bills drawn against cotton alone will sum up in a season to thirty millions sterling, all of which are sold at six months; and in addition there are the exports of grain, pork, and every other description of produce to be drawn against. Not only this, but the immense transactions in United States securities, sent to Europe for sale, all give rise to foreign bills, the united volume of which has at times probably exceed that of all export bills put together. The buying of these bills is entered into on a very large scale by the Canadian banks, and particularly by the Bank of Montreal, which, of course, draws its own against them, at an advanced rate, the business being subject to the usual contingencies of such large operations, and involving the risk of bills afloat and current before payment, to the extent of many millions sterling. This, however, is legitimate banking business, and if managed prudently, ought to yield a steady line of profit, with no more than the average of loss. Connected with this, however, is a facility for entering into transactions of a more speculative character, which are exceedingly tempting to a bold financier. A bank which has undoubted credit in England can use that credit in the way of selling large amounts of bills for gold. This selling may be purely speculative, and intended to depress the market, when large buying operations are in view, either in New York or Canada, or it may be that the gold is required for use. There are times when gold is very much in request for payment of customs dues, (which are all payable in gold,) and when it may not suit the purpose of merchants to obtain it in the ordinary way by buying it. If a merchant who has \$50,000 gold to pay for duties thinks the premium is going to fall, he will prefer to borrow gold for a day or two, and be perfectly willing to deposit his current money as security. Hence, a banker who has gold to lend has often the chance of placing it out on the most perfect security, and it is now an established custom to carry on operations in this manner. Gold is lent for a day at a time, at a rate varying according to the demand, from one sixty-fourth of one per cent, to one-half of one per cent., and even higher still in rare circumstances. Now the first of these rates amounts to only 6 per cent. per annum, but the other amounts to 180 per cent., or, to put it in another light, the banker receives, for lending his money for a day, as much as ordinary interest amounts to in a month. Such transactions, of course, are only short, and the rate paid is really more of the nature of a commission than otherwise.