

Supposing that the Chicago precedent were followed in Canada, as is apparently desired by Mr. Swanson, the place of the clearing house committee would be taken, presumably, by a representative committee of the Canadian Bankers' Association. The effect of such an arrangement would be to throw an enormous responsibility upon the auditors. Because to report a bank to the Association committee would mean the revelation of its affairs to its rivals, and a mistake by the auditors in this connection—though nothing more than an error of judgment—might easily produce circumstances which would result in the bank reported upon having a most serious grievance. In this matter, we appreciate, although we do not altogether endorse, the views put forward by Mr. D. R. Wilkie. In the present condition of Canadian banking affairs, "with mergers and amalgamations following one on the heels of another," as Mr. Wilkie puts it, it is entirely natural that the smaller banks who wish to retain their own individuality should be very wary of any proposals, which might have the effect of placing their affairs within the knowledge of powerful competitors. If the present tendency continues, the time is not far distant when the number of the Canadian banks will have been reduced to no more than twenty, those disappearing not being necessarily weaker institutions but quite possibly well-established and useful banks like those which have gone in the past twelve months. In the circumstances, an ultra-cautious attitude on the part of the smaller banks in a matter of this kind is only to be anticipated. We do not say that it is not desirable that any system of inspection should be in the hands of the Canadian Bankers' Association. In our view a system of bank inspection by the Government is undesirable, and inspection by auditors appointed by the shareholders, on the English model, is not effective enough. On the other hand, inspection by the Bankers' Association would be a logical development in Canadian banking. The whole problem of inspection is a complex one, which needs prolonged and careful consideration, and can, perhaps, only be satisfactorily solved by actual experience.

#### SUMMARY OF THE PROPOSALS.

Mr. Swanson writes, *inter alia*:—It will be evident that the bankers are interested in the success of the system as a whole, and that upon them lies the duty of making it safe. To that end they should appoint, through the Bankers' Association, a board of auditors to supervise the accounts of all the banks of the country. In appointing this board, each general manager must have one vote. It is not the purpose of this paper to enter into details as to how the board should be constituted; its duties need be outlined only in a general way. The board of auditors should consist of sufficient numbers to carry through properly the work to be done. Its members must be men of experience belonging to some recognised institute of chartered accountants. These auditors, in order to verify the annual statement made by the bank to its shareholders and incidentally to

the public depositors should make an examination of the books, accounts and vouchers at the head office of the bank; and should also examine such important branch offices as might seem to them desirable. The auditors should also report upon:

(a) Whether in their judgment the inspection of the branches is regularly and effectively performed by the bank's regular inspectors.

(b) Whether the general supervision of the loans and investments seems to be thorough.

(c) Whether they have obtained all the information and explanations they have required from the bank's officials.

(d) Whether, in their opinion, the balance sheet laid before the shareholders of the bank in general meeting gives a fair and conservative view of the bank's affairs.

In addition each auditor should be required to pledge himself to secrecy concerning any information he might acquire concerning the affairs of any bank or its clients; and should also bind himself not to reveal any information save in compliance with the provisions of the law.

#### MR. WILKIE'S OBJECTIONS.

Mr. D. R. Wilkie has strongly opposed this plan. He says: "It would be unreasonable to hold the Association as a whole responsible for the reputed solvency and worthiness of its members. Moreover, no bank, under present conditions of competition, with the readiness of some to retire from business, and of others to add to their size and importance, with mergers and amalgamations following one on the heels of another, should be called on to place its affairs under the review of officials appointed by rival institutions. One can imagine what might happen to even a sound institution whose business and connections were coveted by a bank more influential than itself in the councils of the Association. The very proxies given to directors to assist in carrying on a bank might be used to destroy its separate existence. Mergers may even throw the control of the Association into comparatively few hands."

Mr. Wilkie's position and experience, as well as his acknowledged ability as a financier, require that his views be given the most careful consideration. But it is evident that his statements here can be easily refuted. In the first place it is just to hold the Association, at least in part, responsible for the safe conduct of Canadian banking, for the good and sufficient reason that it has already been given wide powers over a system, which may in many ways, as pointed out, be regarded as a unit. In the second place, Mr. Wilkie's fears that the larger banks would exercise undue control appear to be groundless, if each bank is to be given an equal voice in the operation of the plan; just as the little State of Nevada has a vote equal in power to that cast by the great and powerful State of New York in the Upper House of Congress. In the third place, there need be no divulgence of the private business of the bank or its clients, unless the business is of such a nature that it ought to be exposed. This is in accordance with the methods followed by the clearing house examiners in the United States.

#### A SUPPLEMENT TO INTERNAL INSPECTION.

On the other hand, it cannot be too strongly urged that these measures can only be supplementary to the present policy of internal bank inspection. To depend upon external examination alone, whether by