

was that the auditors did not concern themselves about the realizable value of the assets to which they certified. And, we might ask, how could accountants or auditors in Canada pass intelligently at the head office upon loans and discounts to commercial borrowers in every part of the Dominion?

In his pamphlet and in his letters Mr. McLeod makes it an important point that the bankers in the United Kingdom and in Australia make use almost universally of the independent audit. We referred in our article of December 31st, to the difference in the laws and practice regarding statements prevailing in Canada and in these countries. In Great Britain and Australia the banks publish statements of position only at long intervals. Some publish half-yearly, others quarterly, and a few monthly. Their statements are lacking in details; for example, they will bulk in one total "Cash on hand, at call and in the Bank of England." So there are only a few headings in their statements. Furthermore the statements are not made to government or to any authoritative body; they are merely published in the press. There is no legal penalty provided for wilful misstatements. We contend that for statements of this kind—mere sketches as they are, issued at long intervals, and not to a responsible authority—the certificate of outside auditors might be properly affixed, but at the same time every banker would know that the certificates had value with reference to only a part of the balance sheet and that they were not of great moment in regard to the current loans and discounts.

In Canada it is different. The law is more strict than in any other country. Each bank must specify exactly all its assets and all its liabilities under some forty different heads. The statements are to be made to the government itself once every month; and, as we said before, a prison penalty attaches to wilful misstatements. In spite of what Mr. McLeod says we think these monthly returns and the penalties provided for falsehood in them, are a restraining influence upon gross misrepresentation. Charles McGill is in the Kingston penitentiary; Roy, of the St. Jean is in St. Vincent de Paul. That law regarding false statements is no dead letter. Every general manager in the country has it in mind, we venture to say, at least twelve times a year, on the occasion of signing the monthly return.

True a bank may not progress far toward ruin in one year if the cause of disaster be in the loans and discounts, but if it is defalcation it can be ruined in a day or two days. Mr. J. B. Forgan of the First National Bank of Chicago, a graduate of Mr. McLeod's own Bank of Nova Scotia, in referring to the system of examination practised by the Chicago Clearing House, a system by the way much more thorough than the United States Government examination, admitted in his address to the Michigan Bankers' Association last summer, that their examiner "went in with the key—so far as supervision was concerned—the key to lock the stable door after the horse is gone." So when a bank is ruined by defalcation the appearance of the outside examiner is the signal for the flight of the culprit; it does not save the bank.

Mr. McLeod says he did not feel the force of public opinion at the time of the Ontario failure, but the remainder of that paragraph in his letter implies that the other banks did. Also we note that he does not deal with the point which we raised in our last article, viz.: that the institution of an audit by the Bankers' Association would have almost the force of placing the banks under a scheme of mutual guaranty of deposits without giving them adequate protection for that responsibility. We think this an important objection to his plan, one calculated to ruin it unless explained away or answered.

We note that Mr. McLeod claims that an overwhelming majority of opinion amongst bank shareholders is in favour of a strict supervision of the banks. Very well then, if that is the case it is to be expected that at the coming annual meetings the stockholders of the various banks will influence their directors to institute systems of supervision. We think the shareholders and directors of each bank should have such a system as they consider necessary to make them feel that their affairs were in safe and sound condition. But we deprecate the course of trying to make the matter a political question.

EXTERNAL EXAMINATION OF BANKS.

Communication from H. C. McLeod, Esq., General Manager of the Bank of Nova Scotia.

To the Editor of THE CHRONICLE:

Referring to the article in your issue of 31st of December, as we are in accord with regard to the United States systems not only as to their imperfections but as to the necessity for external examination, which was admitted in your article of December 17th, we need now consider them only in estimating the value of outside supervision. The rest is irrelevant. In most features save external examination the United States National system is greatly inferior to the Canadian system, and taken as a whole the systems of the various States are not the equal of the National system. If our system is better, the average stability of our banks should show superiority by every measure of comparison, but statistics of failures show that there is a disparity of about seven to one according to number and four to one according to capital. I contend that external examination will put the stability of our banks where it ought to be; on a plane infinitely higher than that of the national system and closely approaching that of Scotland. Opponents say in effect, that plane is not accessible to us; that the opinions and experience of all the bankers in Christendom are as nothing compared with the view of the majority of Canadian bankers. I submit that their position is wholly untenable.

To Scotland we should always turn for inspiration with regard to branch banking, and your suggestion that we should look to that country and to England to learn a little has my hearty concurrence. I would also include Ireland and Australia. In all these British countries external audit prevails. If the weight of banking opinion and of banking records in these countries is educative,