

**THE BANK ACT IN COMMITTEE.**

**Mr. H. C. McLeod's Views—In Favor of External Bank Inspection—Against Further Reduction in Number of Banks—Banking Profits not Excessive.**

The most interesting sitting which has been held thus far by the Banking and Commerce Committee in consideration of the new Bank Act took place on Wednesday, when a statement was made to the committee by Mr. H. C. McLeod, formerly general manager of the Bank of Nova Scotia. Mr. McLeod advanced his well-known views regarding external bank inspection, and advocated the appointment of a Board of Bank Inspectors by vote of the general managers of all the banks. He also expressed the opinion that the number of banks should not be further reduced. Other interesting points made by Mr. McLeod are that banking profits are not excessive; that the amalgamation of banks should be possible through Act of Parliament only; that the effect of a proposal to tax moneys loaned in foreign countries would be detrimental to depositors and disastrous to borrowers in every time of stress.

Following are extracts from Mr. McLeod's statement:—

"The Bank Act of 1913 is a marked improvement over its predecessors. Some desirable features have been introduced. To contend for external examination is no longer necessary; only the method and the thoroughness of inspection require to be considered. The privilege of enlarging the powers of circulation by the deposit of gold in a proposed central reserve, and the clarifying of the government statement, are two more features that should prove beneficial. There are some features that should be introduced, and some that should be improved.

**PROFITS NOT EXCESSIVE.**

"I am not in accord with the prevailing idea that banking profits are excessive, an idea voiced by the press as well as by suggestions before this committee. One of the difficulties that confront Canada pertains to the procurement of sufficient banking capital to keep pace with the expansion of trade and the development of the country. That difficulty would not exist if banking held out the prospect of good profits. Bank capital and reserve profits now have a ratio of 14.98 per cent. to gross assets, a percentage that should not be reduced. The return from bank capital is moderate when the double liability is taken into account.

"The machinery of the Canadian banking system is excellent, but in many individual cases it has been used without skill, or recklessly used. From the outset the Finance Department has failed to exercise effective control over the banks. If efficient supervision cannot be provided in any other way the Department of Finance should organize a bureau for the purpose.

**TAXATION OF FOREIGN LOANS DISASTROUS.**

"In the aggregate the borrower is given far too large a proportion of Canadian bank assets. There would appear to be an impression within this committee that the banks should further expand their loans, for, in the list of main questions on which evidence is desired, we find a proposal to tax moneys loaned in foreign countries.

"Money loaned in foreign financial centres is

almost always a portion of a bank's resources that the management desires to keep readily available, and to say to a banker that he shall not, without penalty, thus employ his funds, is equivalent to saying: 'You must reduce your readily available resources and give more to the Canadian borrower.' If Parliament yields to any such suggestion, the effect will surely be detrimental to depositors, and it will as surely be disastrous to borrowers in every time of stress.

**EXTERNAL INSPECTION.**

"Like its predecessors, the Act has few provisions for the protection of depositors, of whom the majority are savings depositors. In most countries savings depositors are the special wards of legislatures.

"Among the provisions that should be introduced for the protection of depositors there ought to be included a most rigid and thorough external inspection of the general management of each bank. A less efficient inspection, or one where the smaller banks are inspected and the larger ones, through influence, go free, would be a mockery of the depositors' rights. The system proposed in the Bank Act is an acknowledgment that external inspection is necessary, but only by the utmost activity of the Department of Finance can this plan be made effective. No stipulation is made as to the proper qualifications required of the auditors, and it is open to any bank to have its balance sheets duly signed by auditors that are nothing more than 'dummies' of the general manager. I am glad to observe a suggestion that a more rigid system be introduced. Having given very great attention to this subject, I believe the appointment of members to the Board of Bank Inspectors therein proposed should be by vote of the general managers of all the banks.

**FIXED CASH RESERVE.**

"External inspection will clear away false accounting and have a salutary influence, but there are causes of failure that it may not obviate. It may not save a bank from over-expansion of loans, nor prevent the inevitable consequences of running without sufficient cash reserves and liquid resources. The banks should be required to keep a fixed cash reserve in gold and legal tender. Some years ago I advocated 10 per cent. of a bank's liabilities to the public. I now advocate 15 per cent., as present conditions show the need of a large reserve.

"The new form of monthly return will be a great improvement; but loans should be so classified that a bad or deferred debt cannot be included under a misleading heading without sheer falsification.

**WOULD PROHIBIT UNDERWRITING.**

"Banks should be prohibited from underwriting flotation schemes or investing in any security with which a stock bonus is either directly or indirectly given. They should be prohibited from including in their assets any shares of the stock of any corporation, unless such stock be acquired in the liquidation of an existing debt.

"Every bank should be required to annually publish a list of its so-called investments, and this list should bear the verification of the auditor.

**BANK AMALGAMATION.**

"In the list of main questions, Section 99, it is proposed in amendment that the amalgamation of