

penitentiary. In Scotland, Mr. Cameron, of the Royal British Bank, was sent to prison for one year for a similar offence, even before the Fraudulent Trustees' Act was made. Would not an efficient audit have discovered the fraud, if it was really committed, at Winnipeg? But people who do such things are likely to use their best endeavors to prevent an efficient audit. If the fraud in question has been committed, and if Rokeby made the false entry himself, he alone may be guilty. If made by a clerk, who knew that it was false, he would share the guilt of the act: no order from a superior officer would shield him. It is just possible that a clerk in such a situation might not be conscious of the legal guilt, and might suppose that the fact of his acting under orders would absolve him. The delusion is one which ought to be dispelled.

Once more the Government of Newfoundland is pressing for Imperial ratification of the Bond-Blaine convention. The executive council of the island has sent a private memorandum to Mr. Gladstone, praying that the royal sanction may no longer be withheld. These island councillors profess to know what would happen in a negotiation between Canada and the Republic—what conditions the latter would insist on; an assumption which, we should think, Mr. Gladstone will not find it easy to accept as beyond question. It is also contended that because Canada has mackerel for which she wants a market, and Newfoundland has none, the negotiation for the two countries would have to proceed upon different lines. It does not follow, even if these facts be assumed, that the negotiations had better be separate. Reference is made to the Halifax Fishery Commission, which sat many years ago, to show what Canada has refused; and on the strength of this historical reference, the conclusion is drawn that what she would not then do, neither will she now. By this process of reasoning it would be possible to prove anything; and we think the Imperial Government will not find it possible to accept it as ground of the action invoked.

THE LAST OF THE FEDERAL BANK.

At last, after years of doubt and liquidation, the affairs of the Federal Bank are reported to be practically wound up. In 1884, the capital was reduced from \$3,000,000, of which \$2,952,680 was represented as paid up, to \$1,250,000. The difference between these two amounts disappeared by a stroke of the pen. On the reduced capital a final dividend, in winding up, has been paid of 50¢ per cent., so that about half the remnant of \$1,250,000 of the stock disappeared too in the gulf of waste and disaster. Besides this the Rest, at one time stated at \$1,500,000, has gone with the other losses, and leaves not a wreck behind.

Though too much that is not creditable is known of the history of the defunct bank, there is an absence of information on some points, which makes it desirable that, in such cases, some public officer should become associated with the management and required to report on the general condition in which the concern was found when disaster came.

We need look back but just beyond the time when trouble came into the board room and the manager had to be changed, to see that some of the statements sent forth to the public through annual reports and monthly returns to the Government, were characterized by a want of candor and by positive inaccuracy.

June 19, 1883, the directors, acting in connection with the general manager, and often necessarily relying upon him, state that "after making full provision for bad and doubtful debts," there was a net profit for the past year of \$459,265.64. On the 17th May, 1884, they tell how much net profits remain after "providing for bad and doubtful debts." It is true they do not say "all bad and doubtful debts," but they must be assumed to have intended that their language should be understood in this sense.

Subsequently events showed that, at this time, bad debts had accumulated to an enormous extent. A state of things existed which made it necessary to change the manager, and on the 28th June Mr. Yarker came to the aid of the bank, to which it was necessary to bring the knowledge of an expert. After examining the accounts for four months, the new manager came to the conclusion that the bad debts, for which just before his accession to the management provision was said to have been made, figured up to \$2,624,121.37, and doubtful debts to \$349,155.94. It is difficult to believe that the directors had not the means of knowing, in June, that sufficient provision had not been made for bad and doubtful debts, which, on investigation, were found in November to amount to \$2,973,277.31; and if they had not taken the trouble to ascertain the facts, they ill discharged the duties of their office. No doubt the directors relied to a great extent, often implicitly, on their chief executive officer.

In June, not only was it claimed that bad and doubtful debts had been provided for: \$1,500,000 was paraded as standing at the credit of the Rest account. This amount was, so to speak, a second capital, over and above the amount which appeared to have been regularly subscribed and paid in.

Mr. Yarker, after an examination of four months, told the shareholders and the public something of a startling nature about \$500,000 of the regular capital.

At a special meeting of the Federal Bank, Nov. 20th, 1884, he recommended "the cancellation in full of the 5,000 shares, \$500,000 being part of the stock that has reverted to the bank," giving as a reason that the appearance of this amount "as part of the paid-up stock in our Government statement is misleading, as the proper construction of such an item is, that it represents capital paid into the bank in money, by *bona fide* shareholders; while, as a matter of fact, in this case, it is no such thing." Mr. Yarker further develops the mischievous consequences of the inaccurate return by saying, truly: "It conveys the misleading idea that it represents to the depositor and note holder a double liability, whereas in reality, being our own property, it has no such force." This stock had reverted to the bank principally through the

Commercial Loan and Stock Company, which became insolvent.

When the Commercial Loan and Stock Company was formed, the suspicion that it was intended to operate in Federal stock, expressed before a parliamentary committee, was met by blank denial. At first, it dealt in other stocks as well as Federal; but in its latter days the one object of its existence was to inflate Federal stock. At one time, the bank granted to this auxiliary company, which was on the road to bankruptcy, an overdraft of \$1,500,000. In this way, half a million of capital was squeezed out of the bank. And in the return to the Government, as Mr. Yarker showed, the capital was represented as still there.

The directors and the first general manager may consider themselves fortunate to have escaped criminal prosecution. The English Act, known as the Fraudulent Trustees' Act, makes the publication by any director or officer of a public company, of a statement which he knows to be false, "with intent to induce any person to become a shareholder or partner," a misdemeanor, punishable with three years' imprisonment. This provision of the English statute was incorporated into the laws of Canada in 1858, in the following words: "If any director, manager or public officer of any body corporate shall make, circulate or publish, or concur in making, circulating or publishing, any written statement or account, which he shall know to be false in any material particular, with intent to deceive or defraud any member, shareholder, or creditor, or with intent to induce any person to become a shareholder or partner therein, or to intrust or advance any money or property to such body corporate or public company, or to enter into any security for the benefit thereof, he shall be guilty of a misdemeanor."

The penalty for this offence is three years in the penitentiary. If such a thing had occurred in England, the directors would certainly have been put on trial for a misdemeanor. In this case, only one of the directors of the bank was a shareholder in the Commercial Loan and Stock Company; and the other directors disclaimed, in a note in the books of the bank, any knowledge of certain advances made to be used as loans on the stock of the bank. There can be no doubt that the object of the advances on the stock of the bank was to inveigle outside parties into purchasing the stock, into becoming "shareholders or partners therein." The advances on the stock, which were purchases in substance, and became so in fact, were illegal; for though the Commercial Loan and Stock Company could legally advance on the stock of the bank, the bank could not, directly or indirectly, loan upon its own stock.

All the transactions in connection with the loan by the bank on its own stock, illegal as they were, and fraudulent as the law may regard many of them, were intended to entrap the public into the purchase of the stock, by creating the belief, through high quotations, of its great value. The bait was taken by all sorts of people,