

APPENDIX No. 2

Location.

The Head Office of the Federal Reserve Bank would be in some important Eastern centre and for the time being the branches would be the offices now operated by the Receiver General in different portions of the country and the machinery in the Receiver General's office could be taken over by the Federal Reserve Bank.

No Bank Combines.

The Federal Reserve Bank, representing the banking interest of the people of Canada, through the Government, would have the power and duty to take such steps as may be necessary to avoid arrangements for unreasonable high rates of interest, to check activities of banks engaging directly or indirectly in any other business excepting banking, to stop the banks or bank managers acting as insurance agents or agents for diverting business under pressure to their own trust companies and to stimulate a fair and reasonable competition among banking institutions, giving a maximum of service to the public with a minimum of cost and also to eliminate, as far as practicable, any unnecessary duplication of branch banks in small towns. The existence of a Federal Reserve Bank would be a guarantee to every community for better protection of other banking interests and financial operations and would also be of great assistance to provincial and municipal bodies in connection with their financial operations.

An example of a practical scheme to change our present Government Banking System without control, discipline or inspection into a Federal Reserve System with control, discipline and a reasonable inspection.

Dominion Notes in circulation as at 28th February last totalled \$246,000,000. Gold held at that date against the notes was \$146,000,000. Securities against which Dominion Notes were issued were therefore \$100,000,000. By the seventeen banks of Canada subscribing a capital in gold of fifteen million and taking over the Government's gold and liabilities on the notes, a short statement by way of illustration appears, as follows:—

ASSETS	
Gold.	\$205,000,000
Government securities.	100,000,000
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LIABILITIES	
Gold, capital.	\$ 15,000,000
Gold, deposits by banks.	50,000,000
Deposits by chartered Banks <i>re</i> Dom. Gov. notes.	250,000,000
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Total.	\$315,000,000

Explanation of Assets.

The \$205,000,000 is made up of the receipts of the \$15,000,000 capital in gold. The \$50,000,000 in gold which the member banks now have and would deposit to their own credit and finally the \$146,000,000 in gold which the Government has as a reserve for its note issue of approximately \$250,000,000. The \$100,000,000 is, of course, the securities placed in the hands of the Government by chartered banks for notes which the Government has authorized and constitutes the differences approximately between the gold reserve and the Government note issue in circulation.

Explanation of Liabilities.

The first item is the share subscription, the second is the liability of the Federal Bank to the member banks for gold placed with it on deposit and the