

should not be allowed except under rigid limitations or in exceptional circumstances. These are among the various kinds of business specifically prohibited in the bill.

It is intended that the bank shall eventually possess the sole right to issue notes in Canada. The Macmillan report's comment on this matter is worth giving. It will be found on page 98 of their report and it reads as follows:

A central bank is responsible for the control of the volume of credit and the maintenance of the stability of the value of the currency. This responsibility connotes that the bank should be granted the sole right of issuing currency (other than coin) for it would be intolerable that a central bank's policy should be hampered by the action of other issuing authorities in a country. The experience of other countries has shown conclusively that the right of issue is not indispensable in assuring adequate profits to commercial banks.

In accordance with this recommendation the Bank Act is being amended to provide for the gradual retirement of the notes of the chartered banks. The Dominion Notes Act will be amended, and this act, together with the act of 1915 respecting dominion notes, and the Finance Act, will be repealed as of the day on which the Bank of Canada is authorized to commence business. With the opening of the Bank of Canada, the Minister of Finance will transfer to it gold now held against dominion notes, silver bullion to the limited amount necessary to implement the London Agreement, namely, 1,671,802 ounces, and securities of the dominion equal to the balance of dominion notes outstanding, and thereafter the bank will become responsible for the redemption of all such notes.

Bank of Canada notes are to be legal tender in Canada. It is not contemplated that they should be redeemable in gold coin. Provision is made, however, that when suspension of specie payments is not in effect, Bank of Canada notes will be redeemable in gold bars containing approximately 400 ounces of fine gold. This regulation providing for the redemption of notes in gold bars follows the practice adopted by Great Britain when gold payments were resumed in that country in 1925, and subsequently adopted by a great many other countries. The United States, which recently passed the Gold Reserve Act sponsored by President Roosevelt, is the most recent country to provide for the redemption of its currency in the form of gold bars. This arrangement is usually called the gold bullion standard; it accepts the theory that under conditions gold is primarily of use only in the settling of international balances of pay-

ments and it is designed to prevent any possible embarrassment to the bank from an internal drain of gold for, say, hoarding purposes.

Against its notes and deposit liabilities the bank is required to hold a minimum reserve of 25 per cent in gold. In addition to this minimum reserve, the bank may hold silver bullion in an amount limited to the obligation assumed by Canada under the International Silver Agreement, signed at London last summer, and foreign exchange in the form of bank balances, short-term treasury bills of the United Kingdom or the United States of America and short-term bills of exchange payable in sterling or United States funds or funds of any country on a gold standard.

In fixing the minimum reserve ratio at 25 per cent in gold and in providing, as above, that notes be redeemable only in gold bullion, the government is meticulously observing the resolutions passed at the London conference last summer. It is going beyond the recommendation of the Macmillan report, which suggested that part of the minimum reserve of 25 per cent might be held in the form of foreign exchange. Such foreign exchange as the Bank of Canada may hold may be regarded as part of the bank's reserve, but it must be in addition to the minimum gold reserve of 25 per cent.

In order that the central bank may be enabled to exercise the necessary control over credit policy in Canada, the chartered banks are to be required to maintain with the bank deposits equal to five per cent of their deposit liabilities within Canada. At present, each bank is free to determine the size, form and location of its cash reserves, except for the requirement that 40 per cent of whatever reserve is held must be in the form of dominion notes. The regulations here proposed will tend to concentrate the banking reserves of Canada and to provide that they shall not fall below a certain limit. It is through this power to influence the volume of chartered bank reserves by various kinds of action that the bank is able to exert its influence over the total volume of credit. These provisions which concentrate reserves and ensure an adequate reserve position should add considerably to the strength of our credit structure.

On the opening of the bank all gold held by the chartered banks is to be transferred to the Bank of Canada. The value of the gold so transferred is to be computed on the basis established by the Currency Act, that is to say, \$20.67 per fine ounce. Profits from such gold transferred to the Bank of Canada by the