

About Canadian Bank Notes

The following by J. W. Johnston, principal of the Ontario Business College, Belleville, shows how strong Canadian banking institutions are and how the holder of bank currency is secured:

The bills of a Canadian bank are promises of the bank to pay the bearer on demand the sums named. If a demand were made for the payment the bank could make its choice of paying in gold or legal tender, legal tender being notes of the Dominion of Canada. To be in readiness to meet a demand for payment of their currency, the banks hold a reserve of gold and Dominion legal tender notes. Every day experience on this continent proves that people don't desire to carry gold money; they are content to receive, keep and pay paper money, because it is convenient and less liable to be lost; and the experience of many years has demonstrated in Canada that an instantly available cash and legal tender reserve to the extent of ten per cent. of all liabilities of the banks to the public is a safe provision.

It must not be forgotten that banking is the giving and receiving of credit, and there is inherent in any commercial risk. The depositor takes a risk when he deposits; the bank takes a risk when it lends to a customer. The ultimate test of a bank's financial ability to meet its obligations is the solvency of the merchants, the manufacturers and the other classes of customers to which it lends the funds at its disposal.

The currency of a Canadian bank is, practically, a currency secured on a gold basis; and to insure that no loss shall come to the holders of bank bills, the law makes special provision for their security and redemption, which is as follows: The bills of a bank have the first claim upon all its assets, including what is known as the double liability of the shareholders, which means that in the event of a failure of a bank, each shareholder may be called upon to pay in, for the benefit of the bank's creditors, a sum equal to the par value of the stock he holds. Besides ranking thus as preferred creditors on the bank's assets, the holders of the currency of a suspended bank have recourse also to a fund in the hands of the Canadian Government, known as the "Bank Circulation Redemption Fund," which was created and is maintained by each of the banks contributing a sum equal to five per cent. of its accurately ascertained average yearly circulation. This fund is available to pay the bills of any suspended bank, irrespective of the sum which the particular bank contributed to it. All the banks are thus made security for the redemption of the currency of each bank. It is further provided in the Bank Act, that in the event of suspension, the notes then in circulation shall bear interest at the rate of five per centum per annum from the day of suspension to such day as shall be named by the directors or liquidators for their redemption and that there shall be some place in each province where, for the convenience of the public, the bills of each bank may be presented for payment.

A bank must not issue bills of a lower denomination than five dollars, nor of any denomination that it is not a multiple of five, and its total issue of bills must not exceed the sum of its paid-up capital.

With such admirable security for redemption, provision for interest, in case of suspension, and convenience in the matter of presentation, no one need hesitate to accept without question the bills of any Canadian bank.

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