A NEW FORM OF BANK STOCK.

At the recent meeting of the Bankers' Association at Quebec, a paper was read by Mr. Farwell, general manager of the Eastern Townships Bank, on "Deposit Stock."

He makes in it the proposal to issue a new form of bank stock. This is to be effected by the conversion of deposits into stock, which would bear a fixed rate of interest, and carry no responsibility like ordinary shares, nor confer the privilege or right of voting at any meeting of stockholders. The advantages claimed for this novel arrangement are, first, the banks would have a large amount of their deposits made permanent, and not liable to sudden withdrawal in times of panic: second, as these funds would not be so liable to be withdrawn, there would be no need to hold any cash reserves for their protection, and prompt convertibility, by which means their active resources would be proportionately enlarged. The proposal is beset with practical difficulties, some of which the author of the paper seems not to have realized. The first and main objection is, that the Bank Act makes no provision for such a new form of stock, indeed its issue would be a direct infringement of the Act. The law is that the capital stock can only be "increased from time to time by such percentage or such amount as is determined upon by by-law passed by the shareholders, at the annual meeting, or any special general meeting called for the purpose." This action is subject to the approval of the Treasury Board. The capital stock can only be reduced under similar conditions. If a bank issued "deposit stock," it would need to have the power to raise or depress the amount of its capital from day to day at the will of the Manager. We submit that no body of shareholders would approve of such a power being vested in any officials, it would be a serious and dangerous infringement of their rights. Nor would the government sanction a scheme which sets aside its present veto power on the extension or contraction of bank capital. The law provides for the calling up of payments from stock holders to make good any impairment of the capital of a bank, and the shareholders are liable to such calls to the extent of their investment. If "deposit stock" had such liabilities it would not be accepted by depositors, and, if they were not to be subject to such liabilities, the other shareholders would decline to grant such discrimination.

Deposits under existing conditions are practically all "payable on demand," the time condition requiring notice of 30 or 60 days not being enforced. Besides, the liabilities to calls to make up losses of capital, and to pay creditors when liquidation is necessary, the stockholders are liable to hold their stock without getting any dividend. But the "deposit stock" is to be guaranteed a permanent dividend, besides being free from liabilities. We are satisfied that legislation would not be sanctioned by existing stockholders which made any such provision. So much for legal difficulties. Depositors now place their money with the assurance of its being available at any moment. This it is which induces them to accept a moderate rate of interest. If, however, their deposits were converted into stock, irredeemable at call or on short notice, they would naturally expect to be remunerated for the restriction by a much higher rate of interest. To secure an additional half per cent., as is proposed, for "deposits" being turned into "stock," seems to us a wholly inadequate recompense for deposits being inconvertible, when the convenience of the owner requires his money. If then banks gave an additional, an adequate rate for deposits in the form of stock, they would lose the profits now derived from deposits at a low rate. Permanent deposits at a higher rate than promptly convertible ones would then be no advantage to the banks. The holders of such "deposit stock" would have to put such stock on the market, and go through the formalities and incur the expenses of a transfer, before they could realize on them. As the great mass of depositors are farmers, and such persons as are not at all familiar with stock business, we may be certain that the preliminaries to getting their deposit money would be exceedingly unpopular, and certain to be misunderstood. Banks would run imminent risk of a run on their ordinary deposits if holders of "deposit stock" found it difficult to convert such stock into money promptly. This danger Mr. Farwell seems not to have considered, but it is one which is quite enough in itself to prevent bankers approving of "deposit stock." Deposits now are open to withdrawal in convenient amounts, which can be replaced at any time. If they were converted into the new form of stock this could not be done, as fractions of a share could not be sold, and the amount the owner needed might not meet with a buyer at the moment of his need. It is true the stock could be borrowed upon, but such loans would carry more interest than the stock, and the full face value could not be obtained by a loan. This operation to the bulk of depositors would be exceedingly distasteful, as they usually are very careful not to let others know what they have on deposit in a bank. If the banks were granted power to loan on their own deposit stock, we fear they would be put to such trouble, especially at certain periodic seasons, and in times when confidence was disturbed, as would render nugatory any advantage possible to be derived from a portion of their deposits being made permanent. If holders of such stock could only borrow up a certain percentage of its face value, the impression would be created that the deposit itself was not worth its face amount, which would create distrust, and lead to withdrawals of ordinary deposits. As to the benefit which, it is alleged, would arise to banks from having a portion of their cash reserves released, we do not value it as worth much, as we doubt whether our prudent bankers would reduce their cash and available resources below the present averages. These considerations are, we submit, amply sufficient to cause bankers to regard the proposed conversion of deposits into "deposit stock," as inadvisable, even if it were practicable, which is more than doubtful. The Bank Act is a most excellent one, the proposed scheme is not a justifying cause for its being remodelled. When a measure was submitted to Lord Melbourne—one of the