

security, the bank, which trusted the farmer on his personal credit, charged over seven per cent. "If you legislators wish to make a name for yourselves," he counselled, "just as the old usury laws were removed from the statute book, you will have this clause taken out, and let money, like everything else, find its own level."

CANNOT REDUCE PROFITS.

On Wednesday, Mr. Henderson closed his evidence. Being asked his opinion on the proposal to add a clause making any agreement among banks to limit competition a punishable offence, Mr. Henderson said he regarded it as an unfair proposal. He pointed out that already banks made what were regarded as reasonable working arrangements for mutual working together, and the public had not suffered thereby. In discussing a point which had already been dealt with, Mr. Henderson said if the banks had to increase the rate of interest, payable to depositors by reason of the action of the Government, they would have to correspondingly increase the rate of interest on loans.

Mr. W. F. Maclean (South York) inquired why the banks could not reduce their profits instead.

Mr. Henderson—"We cannot reduce profits; you yourself would not make investment in bank stocks to-day because you would not get enough profit from them."

MR. H. B. MACKENZIE'S VIEWS.

Mr. H. B. Mackenzie, general manager of the Bank of British North America, gave evidence regarding the audit of the accounts of his bank by a firm of chartered accountants. These auditors were elected and re-elected by shareholders. They had arrived recently in New York and made examination of securities without notice.

These auditors, Mr. Mackenzie told Mr. Turriff, obtained their information regarding the bulk of the branches from returns sent in and reports of inspectors, and they could drop in on any branch when they cared. If they found anything wrong, their duty was to make a report to the shareholders. He stated that the shareholders did not attend the meetings in large numbers, most of them voting by proxy. This statement led to several questions from Mr. Sharpe and other members as to whether the audit was not really in the hands of the directors. The witness, however, said the shareholders were not indifferent and would at once manifest their views if any change were made.

AGAINST A GOVERNMENT AUDIT.

Replying to questions regarding a Government audit, Mr. Mackenzie said:—"I should say it would be undesirable, because it would leave the Government exposed to recriminations whenever there was any trouble with banks. There is a feeling on the part of the people of Canada that the Government is already held very strictly to account in regard to banks....."

I think you are quite as likely to get efficient inspection from some of these experienced and well trained firms of auditors as you would at the hands of the Government."

A MORAL EFFECT.

Mr. Nickle (Kingston) asked the witness to pronounce between the efficiency of Government audit, Bankers' Association audit, or chartered accountants audit.

Mr. Mackenzie—"My recommendation would be to follow the example of the banks in England and adopt the chartered accountants' audit. That may or may not be best; I could not say, but I would be inclined to adopt it. It has coincided in England with an entire absence of the troubles we have had here. I am strongly inclined to think there has been a moral effect of considerable weight in having the annual accounts submitted to audit by a firm of high standing. Whether a better result would be achieved by Government audit or other kind, I am not prepared to say."

AMERICAN BANKER'S EVIDENCE.

Yesterday, evidence was given by Mr. J. B. Forgan, president of the First National Bank of Chicago, and one of the best-known of American bankers. Mr. Forgan stated that he did not consider local banks with small capitals desirable, because small banks cannot compete successfully with branch banks, because the branch banks afford better service, because small banks are usually controlled by local borrowing interests, and because they are at a disadvantage in carrying sufficient reserves against current liabilities.

INSPECTION AND AUDIT.

Regarding the inspection and audit question, Mr. Forgan said:—

"The practical difficulty of inspection legislation is that it misleads public opinion as to where responsibility for management really belongs. When banks fail, public opinion is liable to hold the highest supervisory authority responsible for their condition. If government through a department assumes supervisory authority over the general management of the banks, it will be held responsible for what it did not do, what it did not consent to being done and could not therefore prevent, and what it could only discover through an inspection of conditions produced under other authority, which would be too late. It might then close the stable after the horse had been stolen.

"No external authority will ever undertake to declare a bank's condition such as to warrant summary action to close it so long as it can keep its customers afloat in business and itself in condition to meet its obligations.

"In the last analysis responsible supervision must rest on the bank directors who control the management. Executive officers, judiciously selected, are readily controlled. You cannot legislate good judgment and honest purpose into their minds and hearts.

"I would advise the Canadian government keeping its hands off bank supervision or anything approaching it. The Finance Minister's suggestion for a shareholders' audit seems to me what is wanted. With the excellent system of internal supervision now in force, it should be feasible for practical accountants to certify without going outside the head office. The right of the Minister to require special audits is an excellent provision."

The Cedar Rapids Manufacturing & Power Company, which is closely allied with the Montreal Light, Heat & Power Company, and the Shawinigan Water & Power Company, has given out contracts in connection with the new hydro-electric development amounting to over \$3,000,000.