

APPENDIX No. 2

'From the history of bank disasters, it appears that, while there are exceptions, the rule is, that at least the directors dominating, have knowledge of, or are directly concerned in, the failure of their bank, and often they are the cause of the disaster. The remedy is external inspection, and that remedy was applied in Scotland after the failure of the City of Glasgow Bank in 1878. There, in each case, chartered accountants are appointed to audit the bank and to verify its statements. The same plan is in vogue throughout the United Kingdom.'

H. C. McLEOD.

Toronto, November 28, 1906.

MORE ABOUT BANK INSPECTION.

Copy of an article which appeared in *The Globe* of November 29, 1906:

'Mr. H. C. McLeod, general manager of the Bank of Nova Scotia, discounts the suggestion that a useful purpose would be served by a special official on the staff of a bank whose duties are confidentially inquisitorial, whose standing is not subject to the approval of the general manager, and whose services are at the call of the president, or of the board of directors, or of any individual member of the directorate. He cites instances in which such an officer would be handicapped because, he says: "The rule is that at least the directors dominating have knowledge of, or are directly concerned in, the failure of their bank, and often they are the cause of the disaster." Granted that dishonest "directors dominating" would be able to dismiss or circumvent any of their employees, what is contemplated in the appointment of such an official is that the directors are honest as well as capable, and are desirous of obtaining all useful information concerning the operations of their bank. Assuming that the directors are dishonest and the general manager dishonest, not only could the bank's own inspection be defeated, but even "external inspection" might be deceived. In any case "inspection from within" is a protection provided by the bank itself, its shareholders, or its directors, while "external inspection" being a matter for the government, or the Bankers' Association, or some other outside interest. The one does not exclude the other.'

OUTSIDE BANK INSPECTION.

Copy of letter by Mr. Thomas Fyshe which appeared in the *Montreal Witness* of December 1, 1906:

'To the Editor of the *Witness*: Sir,—Allow me to congratulate you on having found among the bankers a supporter of your proposal to establish a system of outside bank inspection. I am afraid, however, that it will take more than all the assistance you can get both from Mr. McLeod and your correspondent, "Observer," to make out a good case for the establishment of any such foolish machinery.

'You say, "An effective bureau of inspection would have saved the Banque du Peuple, the Banque Ville Marie, the Ontario Bank and others from their worst evils, even if it did not save them altogether."

'Setting aside the necessary definition of your phrase, "an effective bureau of inspection," and supposing such a thing were objectionable, in my opinion it could not have done any such work as you claim. It is hardly possible to conceive of such results being brought about by any possible audit or inspection.

'What manager or director in control of any of our banks would be content to be taken charge of, like so many stupid, errant schoolboys, and twisted or guided or bullied into a condition of fitness, by irresponsible auditors or inspectors, carrying probably less weight than some of their own clerks?

'You talk of "inspection," but what you evidently have in mind is some kind of regenerating apparatus for achieving a combination of moral and mental reform, rounded out and completed with a special banking training by means of which