

# GOVERNMENT, MUNICIPAL, CORPORATION BONDS

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## CORRESPONDENCE INVITED

To Insurance Companies requiring Bonds for deposit with the Government we will be pleased to forward, upon request, a list of issues particularly suitable for this purpose.

# WOOD, GUNDY & COMPANY, TORONTO

The plea advanced herein is that the above changes can be carried out with comparatively little expense, that they would serve to disclose promptly any transactions likely to involve the bank seriously; such in fact, as experience shows, are the causes to be feared, and that in other respects the checks that have been employed by the banks for years, afford ample protection to all interested.

Confining ourselves for the present to the banker's view of the situation, which involves shareholders, directors and officers, let us survey it generally, leaving depositors out of the consideration, as so far, they are shown to have been properly protected under the Bank Act, having lost nothing by reason of bank failures in this country.

An examination of the Bank Act shows a document well conceived, and requiring but few changes to make it meet all present day requirements. The duties and responsibilities of shareholders and directors are defined, the powers of administration appearing to centralize on the latter; the former clothed with ample powers to enable them to protect themselves, in view of their heavy responsibility, viz., the double liability. These powers of the shareholders are, the authority to elect, directors and to regulate certain points of administration by by-law, including the remuneration of the president and vice-president and other directors and the amounts of discounts or loans which may be made to directors or to others. These powers are sufficient to afford ample protection to shareholders. That they do not exercise their power, is their own lookout; if they do not do so they are the greatest sufferers. They have the means to establish the machinery to do the work in such a way as to protect themselves.

### Powers of Directors Not Defined.

The powers and responsibilities of the directors are not quite so clearly defined in the Act. They elect the president and the vice-president and may make by-laws regarding the management and disposition of the stock, property, affairs and concerns of the bank; the duties and conduct of the officers, clerks and servants employed therein and all such other matters as appertain to the business of a bank. They are obliged to submit a clear and full statement of the affairs of the bank, to the annual meeting of shareholders. They are not to pay dividends so as to impair capital; if they do they are jointly and severally liable. Beyond this the Act becomes vague as to the carrying-on of the business; substituting the word "bank" for "directors," in this way: "The bank may" open branches, deal in gold, etc., discount, and lend money and make advances upon the security of bills of exchange, promissory notes, stocks, bonds, etc., etc., and "the bank shall not" do so and so. The inference is that the directors having the power to make by-laws regulating these things, are responsible for the way they are done; but the Act does not say so. It would be helpful to all concerned if it did, for out of its ambiguity has grown the complacent director, who in the midst of disaster, shields himself behind his reputation and tells you "Oh, we had no idea; we thought up to the day of the failure, that our affairs were in

splendid condition." It is noticeable that notwithstanding the duplicity of the general manager of the defunct bank, in the next report from other banks, you will find the most confiding statements made by the directors (or put in their mouths), in print, in respect to their general manager. A more definite statement in the Act, made to centralize responsibility on the directors and providing suitable penalties for neglect or avoidance of the same, for whatever reason, would hit at the seat of the trouble, and replace the incompetent director by one familiar with the subject, able and willing to devote the necessary time and attention to vindicate his responsibility.

### How the Railroad Divides Responsibility.

The responsibility being centralized on them, the board of directors would not be long in organizing themselves into a business body, for the purpose of obtaining information about their business, from day to day, week to week and month to month, in the same way as is done in other corporations. Take the railroad for instance. A few of them are elected to the board on account of their knowledge of a particular branch of railway work and selected by the directors as administrators of the branch which represents their specialty. One may be first vice-president and general manager; another, second vice-president in charge of traffic; a third, third vice-president in charge of operation, etc. In some cases only one director is active in the business affairs of the company; in others, more than one, according to the extent of the business, and the number thought necessary to represent the board. The rest of the board may be ordinary business men, selected to draw patronage, or in view of their holdings, etc. Each one of the active members gives his undivided attention to his department, reporting to the board, in such manner that all of them know the true state of affairs concurrently. The form on which these reports are made, is the result of years of study and experiment, and shows necessary information at a glance, which could not be furnished at all, under less scientific forms of reports. Under this system, the necessity for an independent examination of the bank, on behalf of the directors, would be removed. They would not want it, because, from personal knowledge they would be aware of the true condition.

To segregate the work of the bank into departments, suitable for the guidance of a given director, would be a simple matter for a banker. No doubt the idea that their system is perfect, is at the bottom of the opinion of many who say "nay" to outside inspection; but the system cannot be perfect, where the directors do not direct.

### Of the Manager and the Government.

The general manager is the officer, who in most cases has been the prime cause of bank failures using the directors as his tools. With the public he has no official standing, as he is classed with the other officers in the Act. He is satisfied with the position of eminence and power which he has attained so far, in the working out of the Bank Act.

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