

APPENDIX No. 1

amount, the balance of the notes is a claim on the assets of the bank; do you admit that?—A. The balance of the notes.

Q. The balance of the notes. Suppose there is \$2,000,000 in notes. You have only to make good on these notes to the extent of the \$100,000 which that bank has in the Note Circulation Redemption Fund. These notes remaining are a first claim on the assets of the bank.—A. Yes, the whole \$2,000,000.

Q. And if, when all this is swept away, including the depositors' accounts, if there are any notes left over, you can go back under the note circulation redemption fund and get the balance. Is that a fact?—A. Well, hold on, I do not think I understand—

Q. I am taking you step by step, and I think I am correct.

Mr. Good: Take the Home Bank case.

By Mr. Spencer:

Q. We will take the Home Bank. It had about \$2,000,000 out in notes?—A. Yes.

Q. It had paid into the note circulation redemption fund about \$100,000, and after the Home Bank went smash, all the money they could call on from that fund was the amount paid in, plus possibly interest.—A. Well, in the first place, the liquidators have to realize on their quick assets at once to meet the notes. The bank would surely have some quick assets. They would take up as far as the quick assets of the bank would allow before they came on the circulation fund. In other words, the assets take care of the note circulation as far as they can and then the circulation redemption fund functions.

Q. Otherwise, if you follow the Bank Act closely, you will find that they are allowed to call on the note circulation redemption fund to the extent of the money they have paid in; then the notes are the first claim on the assets of the bank?—A. Yes.

Q. Then, after all these assets have been swept away, if there are still notes outstanding, they have the opportunity of going and getting these notes by calling on the balance in the note redemption fund?—A. The other banks will come to the rescue.

Q. Therefore, the balance of those private notes have a claim on the depositors' accounts prior to the depositors themselves.

The CHAIRMAN: What do you mean by private notes?

Mr. SPENCER: The banks' private notes.

WITNESS: They have the same amount as the assets of the bank.

By Mr. Spencer:

Q. I will take you over it again.

Some Hon. MEMBERS: No, no.

WITNESS: Mr. Spencer, I do not think you grasp—

Mr. McMASTER: Will you forgive me, Mr. Spencer, if I offer a suggestion? Suppose you ask the question, please Mr. Saunders tell us how bank notes are protected upon the insolvency of a bank, and let him tell us from which type of reserve the obligation is first met.

By Mr. Spencer:

Q. I would rather put it in another way. The notes are, I understand, the first lien on the assets of a bank?—A. Yes, the notes outstanding are the first lien on the assets of a bank.

Q. Consequently, Federal Government deposits or bills under the Finance Act are secondary?—A. Yes.

[Mr. J. C. Saunders.]