

over-ruled the recommendation of the trustees in this regard. As a matter of fact the trustees have nothing to do with the appointment of these auditors; the auditors are appointed by this parliament as the shareholders of the Canadian National Railways, so the trustees do not enter into the picture at all.

—shall, at each annual general meeting, appoint two persons, not members of the same firm, whose names are included in the last published list, to audit the affairs of the bank, but if the same two persons, or members respectively of the same two firms have been appointed for two years in succession to audit the affairs of any one bank, one such person or any member of one such firm shall not be again appointed to audit the affairs of such bank during the period of two years next following the term for which he was last appointed.

In brief that simply means what I think it very clearly states, that the banks of this country cannot have the same auditors for more than two years. Every two years the shareholders of the banks must change their auditors, and it is on exactly that principle this proposal is made.

It will be remembered that I said these were parliament's auditors. For the benefit of those who have not studied the question I should like to read the two sections dealing with this matter from the Canadian National-Canadian Pacific Act of 1933, under which these auditors are appointed. Section 13 reads:

(1) A continuous audit of the accounts of national railways shall be made by independent auditors appointed annually by a resolution of parliament and annually reporting to parliament in respect of their audit. Their annual report shall call attention to any matters which in their opinion require consideration or remedial action. They shall be paid by the national company such amounts as the governor in council shall from time to time approve.

Then section 14 reads:

The trustees shall make a report annually to parliament setting forth in a summary manner the results of their operations, any cooperative measures, plans or arrangements, effective pursuant to this act, any economies or more remunerative operation thereby produced, the amounts expended on capital account in respect of national railways and such other information as appears to them to be of public interest or necessary for the information of parliament with relation to any situation existing at the time of such report, or as may be required from time to time by the governor in council.

I had that marked, although it has not really any bearing on the question. But as a rule the trustees themselves do incorporate the auditors' certificate in their report.

Mr. HANBURY: Does the second to last clause refer to the trustees' report?

Mr. MANION: Yes. I just wish to make it clear that the auditors we are appointing to-day are the auditors appointed by parliament under that act. There is no connection whatever between a change in auditors and their recommendation.

In regard to these recommendations may I say that they did not originate with George A. Touche and Company. I have made it my business to look into the history surrounding this whole matter in connection with the recommendation for recapitalization. The first person who made any real proposal in connection with a proposed recapitalization of the Canadian National Railways was Sir Joseph Flavelle. In a letter written to Right Hon. Arthur Meighen in 1921 he made that suggestion. We might as well suggest that Sir Joseph Flavelle was dropped from the Grand Trunk board because he had the temerity to suggest a refinancing or a change in the financial set-up of the Canadian National Railways.

Mr. HEAPS: He knows something about set-ups, doesn't he?

Mr. MANION: My hon. friend says so, and I do not quarrel with him.

Mr. POULIOT: Does the minister take his inspiration from Sir Joseph Flavelle?

Mr. MANION: No. In 1923, 1924, and again in 1925, the late Sir Henry Thornton in the annual report of the Canadian National Railways made to the government of the day suggested—well, so that there may be no misunderstanding I shall read one or two sentences from the annual report of 1923. Sir Henry said:

Consideration is being given to the policy to be followed with respect to the capitalization of the system, and the extent to which, if at all, the advances made and capital held by the government should be written down to a figure which may be regarded as consistent with the earning prospects of the railway. In the consideration of such a problem, the interests of the government, which is to say the people of Canada, must be given due weight. On the other hand it would seem unreasonable to burden the Canadian National railways with a load which is beyond its conceivable earning capacity.

Again in 1924, a similar suggestion was made, which I shall not quote. Then, in 1925, the following clause appears, bearing on the question in hand to-day:

The work is being performed effectively and it is expected—