

THE BANK ACT IN COMMITTEE.

A Summary of the Evidence—Audit would not have Averted the Farmers' Bank Disaster—Mr. Joseph Henderson against Small Banks, and in Favor of Central Gold Reserve—Mr. H. B. Mackenzie's Evidence—Favors English System of Audit—American Banker's Views.

At Friday's meeting of the Banking and Commerce Committee, evidence was given by Mr. Geoffrey Clarkson, well known as the liquidator of several of the banks which have failed in recent years, and by Mr. Joseph Henderson, vice-president of the Bank of Toronto. Mr. Clarkson stated that he believed the auditor should be appointed by the shareholders, subject to approval of the Finance Minister. Replying to a question by Hon. Mr. White, as to whether audit would have averted the Farmers' Bank disaster, Mr. Clarkson said if the inspection had been undertaken by a competent firm, the bank would nevertheless not have been saved, though the loss might have been minimized. The failure had been due to a bad loan. Causes of failures, said Mr. Clarkson, generally started at the head office in the shape of irregularities, and for that reason the inspection should begin at the head office.

Mr. Henderson gave interesting evidence on the subject of large and small banks. He said the history of Canadian banking was all against the practice of having small banks. Even when well managed and serving some useful purpose in their districts, it had been found that they could not long survive. He pointed out that the Bank of Oshawa, for instance, had not served industry better than had the branch banks of the great chartered banks in such a town as Peterboro. One cause of shipwreck to small banks was that in a small community the deposits increased rapidly on account of people having an intimate knowledge of the directors and managers, but the scope for making loans did not widen proportionately; hence small banks had been led to make outside investments in the west which had ended disastrously.

THE AUDIT QUESTION.

Regarding the audit question, Mr. Henderson said:—"If you properly appreciate the extent and value of such audit as can be obtained by external inspection, and understand its limitations and do not attach too much importance to it, I think it may be made very valuable in banking. At the same time I do not believe there is any form of external inspection that can be regarded as at all equal to the inspection that can be made by a bank itself through its own properly qualified auditors." Mr. Henderson protested against imputations that directors should be viewed with suspicion, and accordingly that all powers should be taken away from them in connection with the appointment of auditors, etc. He considered the proposal to establish a gold reserve as contemplated in the bill a wise provision. In regard to the proposal to tax circulation and foreign loans of banks he emphatically opposed any such restriction especially on circulation. The Canadian currency system, he declared, was the best in the world. It had worked perfectly and had adapted itself to all the varying conditions of the country. The banks only kept in circulation notes actually required as ready money for the people of the country, and the amount outstanding tallied with the business needs.

The issuing of notes by the banks themselves was of much greater convenience to the public than it was profit to the banks. If a tax on circulation were imposed, it would at once tend to restrict circulation with consequent disaster to the business community. That tax must ultimately be borne by the public. Instead of a tax on circulation, he concluded, the banks should rather be given a bonus for issuing circulation.

IN FAVOR OF CENTRAL GOLD RESERVE.

Mr. Henderson continued his evidence on Tuesday, when in reply to questions by members of the committee, he expressed his views on a number of important points. The chairman of the committee (Mr. H. B. Ames), at the outset of the sitting made reference to a communication he had received from Mr. George Hague, of Montreal, formerly manager of the Merchants Bank, and now at an advanced age, who expressed disapproval of the provision in the Bank Act to have a central gold reserve on the ground that such would reduce the stock of gold held as security against deposits. Mr. Henderson did not agree with this opinion, which he thought was based on conditions of past years. He denied specifically that the Bankers' Association had anything to do with the scheme for a central gold reserve, pointing out that the bill had not been submitted in any way to that body. Canada was growing so rapidly, said Mr. Henderson, that circulation which at present averaged \$15 per head of the population, would have to be greatly increased, and it would be necessary for banks to increase their capital.

On the general question of circulation, Mr. Henderson said: "I think it quite possible if our country goes ahead rapidly that the whole question of currency may come to be a subject of very serious consideration. We may have to reconsider the basis and the nature of it if certain conditions that do not exist now should be created; but until it becomes a serious question and difficulties emerge, this provision made in section 61 (for the establishment of gold reserves) is going to serve a very useful purpose in keeping us out of trouble."

Answering questions by Mr. Ross as to protection of depositors, Mr. Henderson said: "The only franchise the banks have in this business is the right of note issue. In return for that privilege we have made it a first charge upon assets. Instead of putting responsibility upon the Minister of Finance or upon that poor body, the Canadian Bankers' Association, which has no powers, though in the minds of the public it has, would it not be better for people to make inquiries themselves as to the character of the men who conduct the bank and tell their neighbors something about it?"

LEGAL RATE OF INTEREST.

In regard to the legal rate of interest, Mr. Henderson said money was like any other commodity in finding its own level, and he argued that the rate must vary according to district and circumstances. The average rate of interest was, he said, 2.54 per cent. higher in the prairie provinces, but the average rate of expenses was also 2.58 per cent. higher. Farmers gladly paid eight or nine per cent. interest for mortgage loans, giving as security their farms to the extent of half rent, yet they made a grievance because, after the loan company had got the best