EXTERNAL EXAMINATION OF BANKS.

Replying to Mr. McLeod's fifth letter, which appears in to-day's issue of THE CHRONICLE, we would say that his citation (other than of the Bank of New Brunswick) of two small isolated banks which had enjoyed prosperity up to the time of selling out to larger institutions, does not disprove our contention that the mortality amongst Canadian banks since Confederation has been chiefly amongst small localized banks, and that competitive conditions in the Dominion are such as to make it very difficult for banks of that type to exist and earn profits. We say that with this type of bank largely eliminated, the statistics of bank failures in the future will cover the representative Canadian type of bank—the branch bank of moderate or large size covering territory larger than a mere county or a couple of counties. It is indeed quite possible that on the conclusion of the present era of Canadian expansion there may be some wrecks strewn by the wayside—results of bad loans. But we do not think the institution of an audit of bank statements will prevent those disasters. Perhaps loans are being made now, in these times of comparatively easy money, which will prove disastrous to some banks. Auditors, in all probability, would not discuss these particular loans with the bank managements. Canada is a young country as yet not plentifully supplied with capital of her own, and so long as she is in that condition it is to be expected that periods of great expansion and progress, with the accompanying speculation, will bring financial breakdowns in their train no matter what systems of audit or supervision are put in force.

Our objection to the institution of an audit such as Mr. McLeod advocates is based upon its insufficiency. As everybody knows, the certificates issued by the auditors declare that they have examined the cash and the securities at the head office and perhaps at one or two other principal branches and found them correct; that they have verified the balances claimed to be carried with correspondent banks; and that through examination of certified returns from the branches they conclude that the statement of the bank to which their signatures are appended is true and reliable. Now the assets which they actually see and count, and upon which they are qualified to pass judgment, may amount to but one-fourth of the whole assets of the bank. Even when the auditors are allowed access to the inspectors' reports and the correspondence, they could hardly be in position to determine the value of the commercial loans which make up the bulk of the assets. If there were anything to conceal the management would not likely let it be seen in the correspondence or the inspectors' reports.

With regard to the claim that there is no record of disaster through loss at the branches we might say that if the head offices were subject to inspection and not the branches a dishonest executive might then use one or more of the branches to cover shortages or deficiencies. At present it is not necessary. But if it were necessary perhaps it would be tried. The evidence in the Banque de St. Jean case proved that an executive can dominate or influence a branch manager to acquiesce in a false showing of the position of the branch.

We note the quotation from the address of the United States Comptroller of the Currency in which he reports that "a complete rehabilitation of the unsound and poorly managed banks has been effected" since September, 1908, and that "there is practically not a national bank in the United States at the present time whose condition is regarded as unsatisfactory." While we concede that the earnest efforts of the present Comptroller have been remarkably effective in bringing up the tone of the national banks, we would hesitate to accept the assurances of his examiners that not one of the six thousand odd banks is in unsatisfactory condition. The test of that will be in the failures; and it will be interesting to watch the record for the next few months, especially in view of the fact that there has been a heavy fall in Wall Street stock prices. Usually every such fall brings to light the fact that some United States bankers have been speculating and using bank funds to do so, and the semi-annual visits of the bank examiners have not hitherto availed to stop the practice.

Finally, in reference to the institution of proceedings against Canadian bankers who have wilfully sent false statements to Ottawa, we should have said that they have been instituted since the Ville Marie affair. It was the illegal over-circulation by the Ville-Marie that was responsible for the changes in the Canadian bank laws regarding the note issues; and with the conferring by Parliament of the right of examination of the circulation books upon the Canadian Bankers' Association that body was invested with an added responsibility for instituting proceedings against bankers making false statements. We think it will be conceded that the Association has moved in all cases where it was clearly advisable to do so.

In the Ontario's case we are aware that the curator, on taking charge, caused the restitution of some $50,000 which had been taken into profits on the assumption that that much of the bank's notes which appeared on the books as outstanding had been destroyed or lost and would never be presented for redemption. If this is the whole extent of the "falsification of the circulation accounts" alluded to by Mr. McLeod it can be understood why the association did not prosecute though aware of the circumstance six years before the end came. Of course, it is now generally acknowledged that the directors had no right to assume that those notes were destroyed, and to take that money into their profits; but it can be said that there were other bankers who, awhile before that time, were of the opinion that it was legitimate enough to allow for the destruction of a certain proportion of the outstanding notes. In view of that circumstance there is some excuse for the inaction of the association in that case if that was the whole extent of the falsification.

MR. J. H. PLUMMER, president of the Dominion Iron & Steel Company, while in Montreal this week, stated that in all probability the accountants at work on the Steel and Coal finances would be able to conclude their work in the course of another week or so. While he would not discuss the Toronto report that the merger might be deferred and a holding company formed temporarily, Mr. Plummer conveyed the impression that there was no official basis for the rumour.