

speculative stocks will be importantly affected by the outcome, it seems as if any important bull campaign in stocks during 1912 would be conducted under difficulties.

Money rates in Canada are unchanged, call loans in Montreal and Toronto being still quoted at 5 to 5½ p.c. Some of the banks have been sounding notes of warning. In their opinion the rise in certain Canadian stocks has been too fast; and the market would be all the better for a reactionary period. Brokers in Toronto have complained that while the banks apparently have plenty of funds in hand they are arbitrarily holding the rate of interest on call loans at 5 to 5½ p.c. However, it should be remembered that as Canada has no central bank, with monopoly of certain functions, the duty of keeping speculation within reasonable bounds devolves upon the ordinary commercial banks. It certainly seems that Canada's best interests will not be forwarded by a wild boom in stocks at this time. After a period of aloofness, London is just beginning to accept our new securities. Its disposition to do so will not be increased if over-ardent bulls are allowed to whip speculative sentiment in Canada into a frenzy through pushing prices of their favorite stocks to high levels. Such a demonstration would tend to make London less friendly. And the maintenance of a reasonably high rate for call loans is one way in which the banks may help to keep speculation within bounds.

THE GUARDIAN ACCIDENT & GUARANTEE COMPANY.

The Guardian Accident & Guarantee Company, having made the necessary deposit at Ottawa, has received a Dominion license for the transaction of business. Mr. A. G. Sweet, assistant manager of this department of the Guardian in London, has been in Montreal for some time, making the necessary arrangements. He will return to London within the next week or two. Mr. H. M. Lambert will be the managing director of the Company, and Mr. E. E. Kenyon, its secretary. The directorate is composed of the following well-known gentlemen:—Messrs. K. W. Blackwell, president; D. Forbes Angus, vice-president; H. M. Lambert, managing director; Hon. A. W. Atwater, K.C., Hon. Evelyn Hubbard, F. W. Molson, Edward Norman, A. J. Relton and A. G. Sweet.

The Guardian Accident & Guarantee Company begins business with a fully subscribed capital of \$1,000,000, of which \$250,000 has been paid up. Its head office is in the Guardian Building, 160 St. James Street, Montreal. Attractive prospectuses of insurance against accidents and diseases and all illness are already in circulation, and the company, in addition, is undertaking employers liability, public liability, general liability, elevator liability, teams liability, and workmen's collective insurance. The name of the Guardian is a household word throughout Canada and we are sure that the new Accident & Guarantee Company will transact its fair share of business on these lines.

THE BANKS AND SECRET RESERVES.

One of the interesting features of the proceedings at the chartered accountants' recent annual meeting was the discussion of the question of "Reserves," as applicable to banks, in the paper prepared by Messrs. James Hutchison and John Patterson, of Montreal. The paper pointed out that a bank might accumulate secret reserves in four different ways: (1) By building up an excessive reserve for depreciation in securities held for investment, the amount of such depreciation being deducted from the value of the investments as appearing in the balance sheet. (2) By creating an excessive provision for depreciation or reserve for losses estimated to arise from bad debts, the amount being deducted from the assets in the balance sheet. (3) By continuing assets in the balance sheet at book value, these assets having largely increased in value. (4) By writing down of fixed assets, such as buildings, at a rate in excess of reasonable depreciation.

The writers of the paper remark that secret reserves are indefensible as a general rule, on the ground that a statement which is under-estimated is incorrect just as much as a statement which is over-estimated is incorrect. They, however, make due allowances for the peculiar circumstances and responsibilities of the banks and they conclude that in the case of a bank "the existence of secret reserves to a considerable amount is not only expedient, but necessary if the institution is to move successfully and fulfil all the functions for which it was incorporated."

In the paper it is mentioned that the public has some ground for objecting to secret reserves because the existence of such reserves might permit a bank to entirely conceal a declining business. To quote the paper, "a declining business might continue to show by this method the same profits year by year, thus keeping up the value of shares which might be quoted on the stock exchange."

Fair minded bankers must confess that the practice of keeping these reserves from the knowledge of the investing public operates to prevent a satisfactory analysis of the position of the respective banks. When an investor scans the various banking institutions with the object of discovering which stock offers the best investment he is met at the beginning with this matter of reserves. It may be the case that Bank A is an old institution standing well to the front and paying a dividend of 10 per cent. or more. It may have accumulated large reserves in the several ways mentioned above. For example, it might have followed the policy of appropriating a part of the interest income from security investments and a part of the profits realized from the sale or redemption of bonds into an investment or security reserve designed to protect