

Bank Notes Free from Doubt

REASONS WHY CANADIAN BANK BILLS ARE ALWAYS AT PAR

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IN the course of a lecture on "The Banking System of Canada," delivered to the students of the Third Year of the Law School, Toronto, Mr. Z. A. Lash reviewed the reasons for the stability of Canada's bank notes. The main reason lies in the fact that no bank can do business without the authority of the Dominion Parliament. Section 100 of the Bank Act of 1900 enacts "That every person assuming to use the title of Bank, Banking Company, Banking House, Banking Association or Banking Institution, without being authorised so to do by this Act or by some other Act in force in that behalf, is guilty of an offence against this Act."

With this basis, the Government has created a banking system which has proved itself one of the most efficient in the world.

Mr. Lash, in dealing with the question of bank notes or currency, says:

"Our banking system should create a currency free from doubt as to value. Has it done so? The answer is unquestionably, yes.

"In the first place, a new bank cannot obtain the right to issue notes until not less than \$500,000 of capital stock has been bona fide subscribed and not less than \$250,000 thereof have been paid in cash to the Minister of Finance and Receiver General. And until it has received a license from the Treasury Board (which is a Committee of the Government) to commence business. This license will not be given unless the Treasury Board is satisfied by proper evidence that all the requirements of the Statute have been complied with. When the license has been issued the \$250,000 are returned and the bank may commence business and issue notes payable to bearer on demand and intended for circulation as money (Bank Act, 1890, Secs. 13 to 17); but the total amount of these notes in circulation at any time must not exceed the unimpaired paid up capital of the bank (Sec. 51). Heavy penalties are imposed for excess of circulation and any profits which the bank might derive from such excess are more than absorbed by the penalties, so that no inducement to over-issue exists; and the bank is prohibited (under heavy penalties upon its officers) from pledging or hypothecating its notes and no advance or loan made on the security of its notes can be recovered from it (Sec. 52).

"The payment of the notes in circulation is by Section 53 of the Act made a first charge upon the assets of a bank in case of its insolvency and by Section 89, in the event of the property and assets of the bank being insufficient to pay its debts and liabilities each shareholder is liable for the deficiency to an amount equal to the par value of the shares held by him in addition to any amount not paid up on such shares. This is usually called the 'double liability.' In addition to all this, a fund called 'The Bank Circulation Redemption Fund' is created by Section 54 and every bank must keep to its credit in this fund, which is in charge of the Government, five per cent. upon the average amount of its notes in circulation from year to year. This average is ascertained from the monthly sworn returns during the year and the differences are adjusted as soon as possible after the 30th of June in each year. In the event of suspension by the bank of payment in specie or legal tender of any of its liabilities as they accrue, its outstanding notes bear interest at 5 per cent. from the day of suspension until public notice has been given of the day fixed by the liquidator for payment thereof, and they continue to bear interest if not then paid on presentation, and if arrangements are not made for payment of the notes

within two months from the day of suspension the Government may pay the outstanding notes and interest out of the Bank Circulation Redemption Fund, and if the fund be thus depleted a call not exceeding one per cent. per annum to make up the deficiency, may be made upon the other banks in proportion to their average circulation for the year. You will thus see that in the last analysis each bank in Canada is liable to make good any deficiency required for the payment of the notes of each other bank, together with interest thereon from the day of suspension. You will also now see the reason for giving the Bankers' Association the powers relating to the manufacture, delivery, disposition and destruction of notes above mentioned, for the banks being liable in the way explained for each other's notes, are entitled to see that such liability is not enlarged by an over-issue or other improper or careless means.

"It is impossible to conceive that the holder of a Canadian bank bill can ever lose any part of its amount, for he has the following securities for its payment:

"(1st) A first charge upon the entire assets.

"(2nd) The 'double liability.'

"(3rd) The Bank Circulation Redemption Fund.

"(4th) The obligation upon the other banks to maintain this fund so that each will at all times have to its credit therein 5 per cent. of the average of its outstanding circulation, for the year.

"You will better appreciate the extent of the security afforded by the first charge on the entire assets, when I tell you that on the 31st December, 1906, the total of the notes in circulation of all the banks in Canada was \$78,416,780 and the total of their assets, not including the double liability of shareholders, was \$95,419,546, or more than twelve times the circulation. I do not of course mean that in the case of each bank its assets are more than twelve times the amount of its circulation, as the proportion of the assets of one bank to its circulation may be less than that of another, but these total figures will give you an idea of the general situation and of the great difference between circulation and assets.

"You will also better appreciate the security afforded by the obligation of each bank to maintain its proper proportion of the redemption fund when I tell you that the total paid up capitals of all the banks was on December 31st, 1906, \$95,509,015 and their total rests or reserves of surplus profits was \$69,258,007. So that before all the banks could become unable to pay their calls for the redemption fund \$260,276,037 would have to be lost, this amount being made up as follows:

Capitals	\$95,509,015
Double liability	95,509,015
Reserves or rests	69,258,007
Total	\$260,276,037

"Prior to the establishment of the redemption fund and to the addition of interest upon bank notes as above explained, the notes of an insolvent bank fell immediately below par, and though they are afterwards paid in full yet a serious loss fell upon such of the first holders who could not afford to wait and who had to sell their notes to speculators at a heavy discount, and those who could afford to wait lost the interest, but since the change in the law the notes of a failed bank have passed at par as readily almost as before the failure, because no one doubts their ultimate payment and other banks and financial institutions readily take them because they bear interest at 5 per cent.

"I think I have said sufficient to show that our system has created a currency free from doubt as to value."