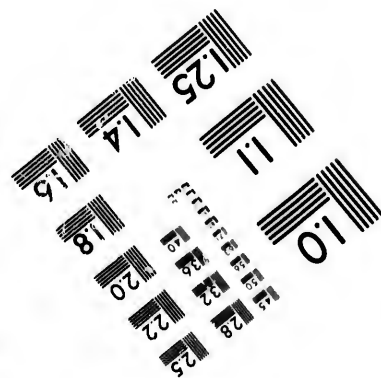
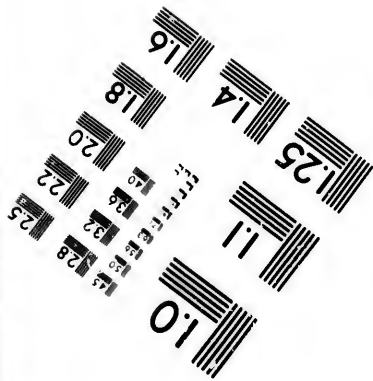
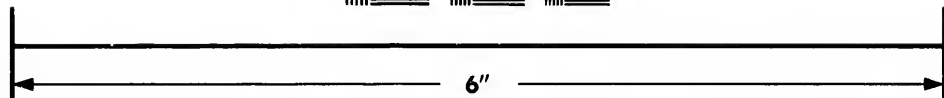
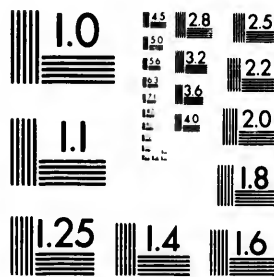


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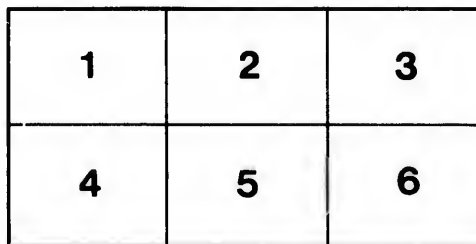
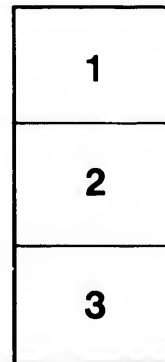
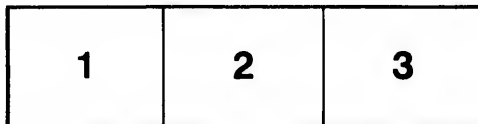
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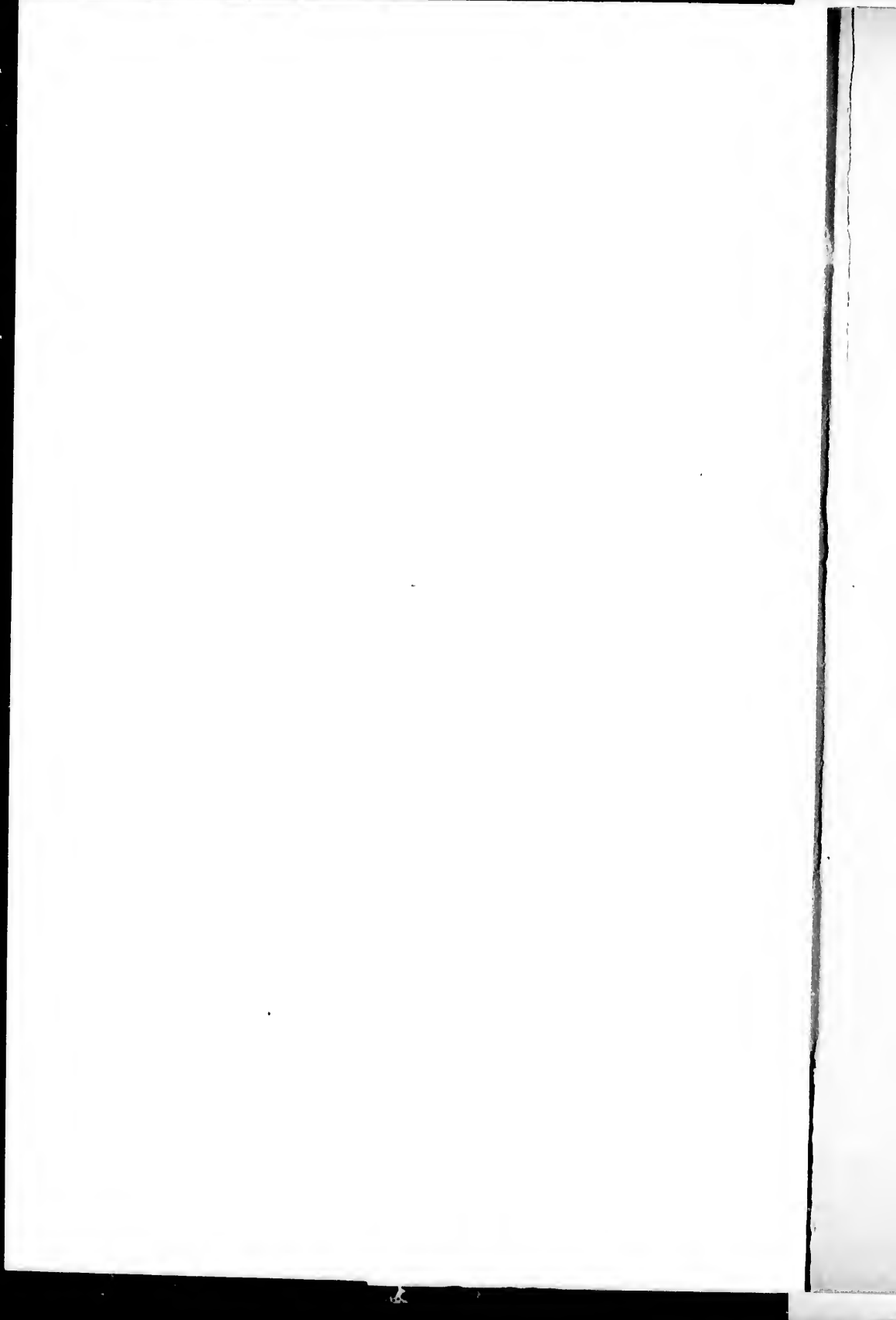
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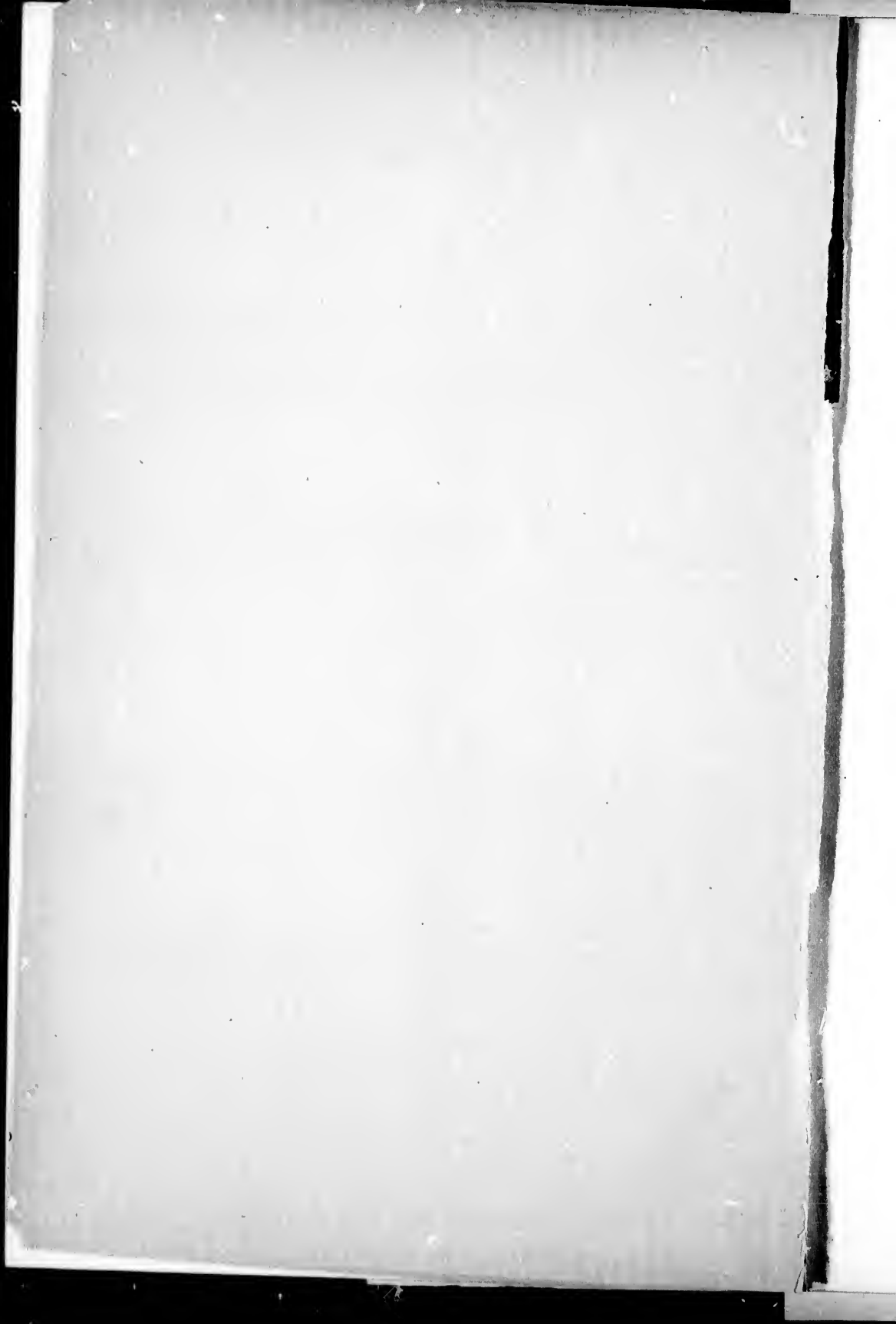
ORIGIN OF THE CANADIAN BANKING SYSTEM

BY

ADAM SHORTT, M.A.

QUEEN'S UNIVERSITY,
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TORONTO
JOURNAL OF THE CANADIAN BANKERS' ASSOCIATION
1896.



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THE EARLY HISTORY OF CANADIAN BANKING

ORIGIN OF THE CANADIAN BANKING SYSTEM

THE history of banking in Canada, as in other countries, is but one phase of the general economic history of the people. Banking operations are so wholly dependent upon the commercial habits and ideas of the people, the character of their business and the nature of their occupations, that they cannot be studied with much certainty or profit apart from the general economic atmosphere in which they are carried on. It will be my purpose in these articles to set forth, as fully and as accurately as the material which I have been able to gather will permit, the origin of the Canadian banking system, the early history of the first banks, particularly those of Upper Canada, and their relations to the economic condition of the country at the period of their introduction.

The present article deals with the origin of the Canadian banking system.

In treating of banking in Canada little attention has hitherto been given to the question of its origin. So far as it has been looked upon as other than a native growth, Scotland has commonly been credited with its parentage. At first sight this conclusion seems so natural and obvious as to be hardly worth questioning. From the very infancy of Canadian banking Scottish names have been chiefly associated with its growth and expansion. Moreover, prominent external resemblances, particularly in the feature of branch banks, seem to closely relate the two systems on the one hand, while distinguishing them from their nearer neighbors on the other. Closer inspection, however, and especially a slight acquaintance with the history of the two systems, soon show us that the resemblance is merely accidental, or at the best only to be attributed, in the course of their development, to a community of national temperament in

the persons of the most influential managers. Evidence of the most direct kind shows that the Canadian system was derived from quite another source. But since its origin has been attributed to Scotland, it may be as well to make a few observations on the negative side.

Though the Canadian system was established largely through the influence, and under the direction of persons of Scottish nationality, yet it does not follow that these persons were prejudiced in favor of Scottish examples. The richest national individuality is that which is capable of absorbing the widest range of foreign experience without losing its characteristics. It is matter of common observation that the pronounced individuality of the Scotchman is almost invariably accompanied by the widest cosmopolitanism. The Scotchman's capacity, in every region of the world, to adapt himself to circumstances, or more often to induce them to meet him half way, is proverbial, and mainly because in so doing he only intensifies his national identity. The Scotchmen who were so prominent in the early days of Canadian commerce, did not attain to that position by any special adherence to Scottish experience. Few of them had much occasion to be familiar with the mechanism of exchange before leaving their native country, otherwise Canada had never known them. Their commercial experience was gained on this side of the Atlantic. Even after they became extensive traders, there were few occasions in which they had any direct intercourse with their countrymen in Scotland. The Canadian trade was almost wholly confined to New York and the New England States, and the West Indies, on this side the Atlantic, and London, with a few other English towns, on the other. So late as 1823 the shipping lists show only rare arrivals from any Scottish port.

But even had the Canadians been familiar with Scottish banking, at the time they were forming their own ideas on the subject, they would hardly have been likely to take the Scottish banking of that time as a model. That was the period of the great struggle with France, from 1793 to 1815, during which both English and Scottish banking were in a most unstable condition and subject to frequent crises. In 1797 the Bank of England suspended cash payments, followed imme-

diately by the Scottish banks, and did not resume until 1821. During this period banking in Scotland was carried on by two chartered banks,—the Bank of Scotland and the Royal Bank, each with a branch in Glasgow,—and a multitude of small private banking corporations with little community of system and no branches. It was only after 1816, and mainly through the action and example of the National Bank of Scotland, started in 1824, that the transition was gradually made to the present system of a few large banks with numerous branches. But before this experience was available the Canadian system had been already determined.

Turning to the positive side of the subject, I may state categorically that the Canadian banking system was derived in a very direct and literal manner from the United States. The more one becomes acquainted with the economic condition and commercial relations of Canada, during the last quarter of the eighteenth and first quarter of the nineteenth century, the more one recognizes that this was no accident, but quite inevitable. It was equally inevitable that the currency of Canada should assimilate itself to that of the United States, despite the relatively large sums in English currency which were continually coming to the country, and despite also the laws, regulations, and bonuses intended to maintain the English system and exclude the American.

The father of the Canadian banking system was Alexander Hamilton, the first Secretary of the Treasury under the present constitution of the United States. Hamilton had given much attention to economic, and especially to financial questions, long before he was called upon to lay the financial foundations of the young republic. The ability and thoroughness with which he studied questions of banking and general finance are shown in the radical changes which his own ideas underwent, and the frankness with which he afterwards exposed the fallacy of ideas which he had earnestly supported at earlier stages of his own progress. It is quite true that several of his ideas afterwards proved to be inadequate or erroneous, but, comparing them with the best ideas then current on the subjects of paper money, credit and banking, we have to admit that Hamilton was singularly sane and practical in the principles which

he laid down. In his work on the History of Banking in the United States, Professor Sumner is inclined to be rather severe in his criticism of Hamilton, but the force of his criticism falls not so much on Hamilton as on those who achieved disastrous results by a one-sided and often deliberately perverse development of certain of Hamilton's ideas. It could be pointed out also that these ideas, and others of a similar nature, in the hands of different men, did not have the same evil consequences in Canada or in Scotland. However, this is merely by the way. Our present task is to show what were Hamilton's principles and how they came to be adopted in Canada.

Politically, we find that the English traditions of the Colonies were faithfully reflected by the founders of the American Republic in their federal constitution. The singular stability of the American constitution, and its capacity to serve with efficiency for so long a period of rapid growth and enormous expansion, are undoubtedly due to the conservative resolution of its framers to try no novel political experiments, but to rely on the experience of their own colonial condition, and of their mother country. Financially the same spirit showed itself. English precedent and English experience were closely followed by Hamilton and his associates in laying the foundations of the public credit.

During the trying and uncertain period when the colonies were struggling for their freedom, Mr. Robert Morris, the financial agent of the colonial government, managed to obtain in the Bank of North America a financial instrument which, with the help of silver specie supplied by France, was of the greatest assistance to the struggling government, being a bond of union between itself and the commerce of the country. After the restoration of peace its position became rather uncertain, especially as it received and acted upon a new charter from the State of Pennsylvania. With the establishment of the Republic on a new and firmer foundation in 1789, Hamilton, who became the first Secretary of the Treasury, desired to find a financial agent for the government which would be more distinctly national, and on a more definite basis than the Bank of North America. He therefore drew up and presented to Congress, as part of his report on the establishment of the public

credit, his plan for the formation of a National Bank. The greater part of the report consists of a statement of his views on the nature of credit, the uses and limitations of paper money, the functions of banks, and the relation in which the government should stand to the national mechanism of exchange.

It was obviously Hamilton's intention that the proposed National Bank should stand to the United States Government in practically the same relation as the Bank of England stood to the British Government. It should rest largely upon the national debt, and should be at once the channel through which the government collects revenue and makes payments, the custodian of the surplus cash of the treasury and the money-lender from whom the government might obtain temporary advances in time of need. But, as in the case of the bank of England, it must be essentially a free and independent corporation, consisting of private individuals and corporate bodies seeking by every legitimate means, in connection with the trade and commerce of the country, to further their own joint interests. Only on this basis could the bank be itself a prosperous institution, in normal and intimate connection with the economic life and strength of the nation, and therefore capable of being an effective aid to the government in time of need. It is to be the medium through which the government may, when necessary, find an immediate access to the resources of the country in a fluid shape. Were the institution simply a department of the government, or controlled and managed by the government, it would be of little assistance to it when most required: for, instead of the government being able to depend upon the bank in time of need, it would simply find the bank an additional burden to carry.

Hamilton saw also that such an institution, from its financial connection with the government, would, under all normal political conditions, derive stability, and inspire confidence and respect both at home and abroad. This would enable it to maintain stable and uniform conditions in the interstate exchanges, as well as to carry on with confidence and dignity the international exchanges of the country.

The latter part of the report contains the draft of a plan

for the constitution of a National Bank, followed by explanations of its leading features. On the lines of this plan a bill was framed by Hamilton and introduced to Congress for the incorporation of the Bank of the United States. After considerable discussion the bill was passed on March 2nd, 1791. The bank was soon in operation, and from the first achieved a marked success; its stock soon passed to a premium, which amounted at one time to fifty per cent.

In order to bring out the connection of the more essential banking features of the Act with the Canadian system, I shall give some of these sections in full, together with the corresponding sections of the Canadian bill. A skeleton of the other interesting features of the Act may be given as follows: The capital stock is placed at \$10,000,000 in 25,000 shares of \$400 each. Any person, corporation, or body politic may subscribe, under certain limitations as to the number of shares to be taken by each. The government of the United States is permitted to take stock in the bank to the extent of \$2,000,000. The government subscribed for the whole of this amount. The instalments on the stock are to be paid, one fourth in gold and silver and three fourths in the public debt of the United States. The corporation was given the customary legal powers and was chartered for twenty years.

The very success of this bank was the chief cause of its downfall, through its failure to obtain a renewal of its charter. Its stability and credit became so great, both at home and abroad, that its power and precedence in the American commercial world were very marked, giving rise to much jealousy, and causing it to be attacked on the ground of its aristocratic and un-American tendencies. These attacks received justification, in the eyes of many, from the very respect which the bank commanded abroad. Its shares were readily bought up in Europe, and especially in England; yet no stockholder residing abroad was permitted to vote, and none but citizens of the United States were eligible as directors. Finally about 18,000 shares were held abroad and only 7,000 in the United States: still these 7,000 shares elected the directors and controlled the whole institution. When, in 1811, the period of the charter came to an end, the friction between the United States and England

afforded the opponents of the bank an excellent basis for attack. The bank was represented as an engine of the British Government planted in their midst, capable at any time of working, in some mysterious way, untold destruction. The demagogues prevailed and the bank was forced to wind up its affairs. Had England any desire to be revenged on the United States, it should surely be satisfied by the injuries wrought to the country through its Anglophobic element, in the name of frustrating English designs.

During the existence of the first Bank of the United States, the principles embodied in its charter naturally shared in the respect and credit of the institution itself; hence its charter was taken as a model for very many of the new banks which came into existence during that period.

As already noted, the commerce of Canada at this time, which was mainly in the hands of the English element, was closely connected with the United States. Quite a number of the merchants in the lower province had come from the American colonies before the separation from England; many others came after that separation. However their views as to British connection might differ from those of their brethren in the United States, there was little change in the social, economic and municipal ideas in which they had been trained. These ideas were not affected by their political allegiance, and were as well suited to the natural conditions of Canada as they were to those of the United States. Those who came directly from Britain found their circumstances so completely altered that they naturally laid aside most of their old ideas and adopted others better suited to the customs and conditions of a new country. For a considerable time, following the independence of the American colonies, trade was practically free between the two countries, and even after restrictions were prescribed they were but very laxly enforced. The physical condition of the interior of the country made it necessary that certain portions of the United States should find an outlet through Canada, and some parts of Canada an outlet through the United States. Thus Montreal became the natural port of entry and outlet for Vermont and north-eastern New York; and before the opening of the Erie Canal, much of the trade of the western portion of

New York State, and of all the trading posts in the territory bordering on the lakes and as far west as the Mississippi River, found its natural outlet through the Detroit, Niagara and Kingston route, finally centering at Montreal. Montreal was thus the Canadian city which had most constant and intimate relations with the American Republic. It was here that the first definite ideas on banking in Canada found expression, here the first effort was made to establish a bank in Canada, and here the first bank was afterward established.

In 1792, just after the successful launching of the Bank of the United States, we find the leading Montreal firms connected with the export and import trade of the country, attempting to establish a bank in Montreal with prospective branches in other parts of the country, as in the case of the Bank of the United States. As the constitution of this proposed bank does not seem to have survived in any form, we are unable to say definitely how closely it was related to Hamilton's plan. But in 1808, while the same firms were still the leading trading houses of Montreal, we find the renewal of the attempt to form a bank, this time with the co-operation of Quebec merchants. A bill to give effect to their petition was introduced in the Legislature of Lower Canada. The bill failed to pass, but it had been printed by order of the Legislature. Doubtless several copies are still in existence; one, at least, survives in the collection of Mr. Neilson, at that time proprietor of the *Quebec Gazette*. Through the kindness of its present owner, Surgeon-Major Neilson, I have been able to examine it and compare it with the charter of the Bank of the United States. Allowing for the necessary changes required to adapt the American charter to Canadian conditions, the bill reproduces in a very literal manner every essential feature of the American Act. It contains several additional clauses, only one of which is of any special importance. The bank provided for in the bill was naturally on a smaller scale than that of the United States. The stock, outside of the contribution of the Provincial Government, was limited to £250,000, or \$1,000,000, in shares of £25, or \$100 each. Following the example of the Bank of the United States, provision was made for a Government subscription to the stock of the bank, not to exceed £50,000. This feature, though necessarily

dropped in the articles of association of the private banks, which were the first to go into actual operation in Canada, was revived and included in the first charter granted in Upper Canada, that of the Bank of Upper Canada. Following the American model, again, the bill provided for subscriptions to the stock, not only by the Provincial Government, but by any corporation or body politic. As Lower Canada, unlike the United States, was not an independent nation, and had no regular national debt, freely selling on the market, in which subscriptions might be made, the instalments on the stock were to be paid in gold and silver only. Nevertheless the Provincial Government itself was privileged to create and contribute provincial debt, by paying its subscriptions to the stock in its own notes, bearing interest at six per cent., the interest to be paid half-yearly. Even the name of the bank was obtained by substituting the words 'Lower Canada' for the words 'the United States.' The bank might elect directors and commence operations after £10,000 in gold and silver had been actually paid in. Offices were to be opened in both Montreal and Quebec, and there were to be twenty-four directors, twelve for Montreal and twelve for Quebec. In connection with the directorate the Canadians made a slight innovation. The American Act makes no special provision for government representation on the board of directors, but the Canadian bill provides that if the Government shall subscribe not less than £25,000 to the stock of the bank, then instead of this stock being employed in the usual way in voting for the election of directors, the Government should appoint two directors, one for Montreal, and one for Quebec. This feature also re-appears, slightly modified, in the first bank charter in Upper Canada. The only other new feature of importance appearing in the Canadian bill is the clause which provides "that no stockholder or stockholders shall be answerable in his, her or their private capacity or capacities, for the debts of the said corporation," with the exception of the directors who should overstep the limits of the debt which the corporation is permitted to contract. This clause, when reproduced in the articles of the private banks, gave rise to much hostile criticism.

I shall now give some of the corresponding sections of the

American Act and of the Canadian Bill in which some of the more important details of Hamilton's banking regulations are expressed. Incidentally these sections will show how completely the Canadian Bill absorbs the American Act, and also what changes and additions were thought to be necessary in adapting it to Canada.

The numbers attached to the different clauses follow the order of the sub-sections of section 7 of the American Act. The same numbers are given to the corresponding Canadian clauses, although in the Canadian Bill there are a few variations from this order.

Charter of the Bank of the United States

1. The number of votes to which each stockholder shall be entitled, shall be according to the number of shares he shall hold, in the proportions following, that is to say: For one share and not more than two shares, one vote; for every two shares above two, and not exceeding ten, one vote; for every four shares above ten, and not exceeding thirty, one vote; for every six shares above thirty, and not exceeding sixty, one vote; for every eight shares above sixty, and not exceeding one hundred, one vote; and for every ten shares above one hundred, one vote. But no person, co-partnership, or body politic, shall be entitled to a greater number than thirty votes. And after the first election, no share or shares shall confer a right of suffrage, which shall not have been holden three calendar months previous to the day of election. Stockholders actually resident within the United States, and none other, may vote in elections by proxy.

Proposed Charter of the Bank of Lower Canada.

1. The number of votes to which each stockholder or stockholders, body politic or corporate, holding stock in the said corporation, shall be entitled on every occasion when in conformity to the provisions and requirements of this Act, the votes thereof are to be given shall be in proportion following, that is to say: For one share and not more than two, one vote; for every two shares above two, and not exceeding ten, one vote, making five votes for ten shares; for every four shares above ten and not exceeding thirty, one vote, making ten votes for thirty shares; for every six shares above thirty and not exceeding sixty, one vote, making fifteen votes for sixty shares; for every eight shares above sixty and not exceeding one hundred, one vote, making twenty votes for one hundred shares; and for every ten shares above one hundred, one vote, making thirty votes for two hundred shares; but no person or persons, body politic or corporate, shall be entitled to a greater number than thirty votes. And all stockholders resident within this province or elsewhere, may vote by proxy, if he, she or they shall see fit, provided always, that such proxy shall be one of His Majesty's subjects, as hereafter designated, and do produce a sufficient authority from his constituent or constituents for so representing and voting for him, her or them. Provided

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2. Not more than three-fourths of the directors in office, exclusive of the President, shall be eligible for the next succeeding year. But the director who shall be president at the time of an election may always be re-elected.

3. None but a stockholder, being a citizen of the United States, shall be eligible as a director.

4. No director shall be entitled to any emolument, unless the same shall have been allowed by the stockholders, at a general meeting. The stockholders shall make such compensation to the President, for his extraordinary attendance at the bank, as shall appear to them reasonable.

5. Not less than seven directors shall constitute a board for the transaction of business, of whom the president shall always be one, except in case of sickness, or necessary absence: in which case his place may be supplied by any other director whom he, by writing under his hand, shall nominate for the purpose.

also that after the first election of directors, no share or shares of the capital stock of the corporation shall confer a right of voting, either in person or by proxy, which shall not have been holden during three calendar months, at the least, prior to the day of election or of the general meeting where the votes of the stockholders are to be given.

2. Not more than nine (exclusive of the president or vice-president) of the directors in office, at each of the cities of Quebec and Montreal, shall be eligible for the next succeeding twelve months: but the directors who are president and vice-president at the time of an election, may always be re-elected.

3. None but a stockholder actually resident in this province and holding at least twenty shares in the capital stock, and being a natural born subject of His Majesty, or a subject of His Majesty naturalized by Act of the British Parliament, or a subject of His Majesty's having become such by the conquest and cession of this province, shall be capable of being elected or chosen a director of the said corporation, or shall serve as such.

4. No director shall be entitled to any salary or emolument unless the same shall have been allowed to him by a general meeting of the stockholders; but the stockholders shall make such compensation to the president and vice-president for their extraordinary attendance at the bank as shall appear to them reasonable and proper.

5. Not less than five directors shall constitute a Board for the transaction of business at each of the branches of the Bank at Quebec and Montreal, whereof the President or Vice-President shall always be one, except in case of sickness and necessary absence, in which case their places may be supplied by any other directors whom the President or Vice-President so absent, shall respectively by writing under their hands, appoint for that purpose. The President and Vice-President shall vote at their respective Boards as

6. Any number of stockholders, not less than sixty, who together, shall be proprietors of two hundred shares or upwards, shall have power, at any time, to call a general meeting of the stockholders, for purposes relative to the institution, giving at least ten weeks notice, in two public gazettes of the place where the bank is kept, and specifying, in such notice, the object, or objects, of such meeting.

7. Every cashier or treasurer, before he enters upon the duties of his office, shall be required to give bond, with two or more sureties, to the satisfaction of the directors, in a sum not less than fifty thousand dollars, with condition for his good behavior.

8. The lands, tenements and hereditaments, which it shall be lawful for the said corporation to hold, shall be only such as shall be requisite for

directors, and in case of there being an equal number of votes for and against any question before them, they respectively shall have a casting vote.

6. Any number of stockholders not less than ———, who together shall be proprietors of — shares, or upwards, shall have power at any time, by themselves or their proxies, to call a general meeting of the stockholders for purposes relative to the corporation, giving at least six weeks notice thereof in at least one of the newspapers published at Quebec and at Montreal respectively, and specifying in such notice the time and place of such meeting, with the object or objects thereof: and the said directors or any seven of them shall have the like power at any time (upon observing the like formalities) to call a general meeting as above said, and if the object for which any general meeting called either by stockholders or directors as above-said, shall be to consider of a proposal for the removal of the President, Vice-President or other director or directors for maladministration, then and in such case the person or persons so proposed to be removed shall from the day on which such notice shall first be published, be suspended from the execution of the duties of his or their office: and if he be the President or Vice-President, his place shall be filled up by the remaining directors, to serve during the time of such suspension.

7. Every cashier and every agent and clerk of the bank, before he enters upon the duties of his office, shall give bond, with two or more sureties, to the satisfaction of the directors, that is to say, every cashier in a sum not less than ——— thousand pounds, with conditions for his good and faithful behavior, and every agent and clerk with the like condition and sureties in such sum as the directors shall consider adequate to the trust to be reposed in him.

8. The lands and tenements which it shall be lawful for the corporation to hold shall be such only as are hereinbefore prescribed and

its immediate accommodation, in relation to the convenient transacting of its business, and such as shall have been bona fide mortgaged to it by way of security, or conveyed to it in satisfaction of debts, previously contracted in the course of its dealings, or purchased at sales upon judgments which shall have been obtained for such debts.

9. The total amount of the debts which the said Corporation shall, at any time, owe, whether by bond, bill, note, or other contract, shall not exceed the sum of ten millions of dollars, over and above the moneys then actually deposited in the bank for safe keeping, unless the contracting of any greater debt shall have been previously authorized by a law of the United States. In case of excess, the directors, under whose administration it shall happen, shall be liable for the same in their natural and private capacities; and an action of debt may, in such cases, be brought against them, or any of them, their, or any of their heirs, executors or administrators, in any court of record of the United States, or either of them, by any creditor or creditors, of the said Corporation, and may be prosecuted to judgment and execution; any condition, covenant or agreement to the contrary notwithstanding. But this shall not be construed to exempt the said Corporation, or the lands, tenements, goods or chattels of the same, from being also liable for and, chargeable with, the said excess. Such of the said directors who may have been absent when the said excess was con-

limited. Provided always that the corporation may hold mortgages or hypothecations on all kinds of property which can by law be mortgaged or hypothecated, by way of security for debts contracted with the corporation in the course of its dealings, and also may hold such lands and tenements as shall be purchased at sales made upon judgments and executions, which shall have been obtained at the suit of the corporation for debts so contracted; or where the corporation, for debts so contracted, shall be an intervening party in any suit brought by any other person or persons; or where for such debts the corporation shall lodge an opposition with the sheriff *afin de conserver*; but in all such cases of purchase, the corporation shall be bound to sell the lands and tenements within _____ years after the date of the purchase respectively so made by the corporation.

9. The total amount of the debts which the said Corporation shall at any time owe, whether by obligation, bond, bill or note, or other contract whatsoever, shall not exceed treble the amount of gold and silver actually in the bank arising from their capital stock (but exclusive of a sum equal in amount to that of the gold and silver actually in the bank arising from other sources than the said stock, as also exclusive of a sum equal in amount to the notes of the Government of this province, held by the Corporation as part of the general stock), unless thereunto authorized by an Act of the Legislature of this province; and in case of excess the directors under whose administration it shall happen, shall be liable for the same in their private capacities (unless such excess shall have arisen in consequence of any of the agents hereafter mentioned having acted contrary to the regulations and instructions of the directors), and an action of debt in every such case may be brought against them, or any of them, their heirs, executors, administrators, and curators, and be prosecuted to judgment and execution, according to the laws of this province. But this shall not exempt

tracted, or created, or who may have dissented from the resolution or act, whereby the same was so contracted or created, may, respectively, exonerate themselves from being so liable, by forthwith giving notice of the fact, and of their absence or dissent, to the President of the United States, and to the stockholders at a general meeting which they shall have power to call for that purpose.

10. The said Corporation may sell any part of the public debt whereof its stock shall be composed, but shall not be at liberty to purchase any public debt whatsoever; nor shall, directly or indirectly, deal or trade in anything, except bills of exchange, gold or silver bullion, or in the sale of goods, really and truly pledged for money lent, and not redeemed in due time: or of goods which shall be the produce of its lands. Neither shall the said corporation take more than at the rate of six per centum per annum, for or upon its loans or discounts.

11. No loan shall be made by the said Corporation for the use, or on account, of the government of the United States, to an amount exceeding one hundred thousand dollars, or of any particular State, to an amount exceeding fifty thousand dollars, or of any foreign prince or state, unless previously authorized by a law of the United States.

12. The stock of the said Corporation shall be assignable and transferable, according to such rules as shall be instituted in that behalf, by the laws and ordinances of the same.

the said corporation, or the lands, tenements, goods or chattels thereof, from being also liable for such excess. Such directors, however, as shall have been absent when the said excess was contracted, or shall have entered their protest against it upon the records of the Corporation, may respectively exonerate and discharge themselves therefrom, by pleading and proving such absence or showing such record.

10. The said Corporation shall not directly or indirectly deal in anything excepting bills of exchange, gold or silver bullion, or in the sale of goods really and truly pledged for money lent, and not redeemed in due time, or in the sale of stock pledged for money lent, and not so redeemed: which said goods and stock so pledged and not so redeemed may be sold by the said Corporation at any time not less than ten days after the period for redemption without judgment first obtained, any law or usage to the contrary notwithstanding; and if upon such sale of goods or stock there shall be a surplus (after deducting the expenses of sale) over the payment of the money, such surplus shall be paid to the proprietors thereof respectively. Neither shall the said Corporation take at the rate of more than six per centum per annum for or upon its loans or discounts.

11. The corporation is hereby empowered to make any loan or loans for the use or on account of this province that shall be previously authorized by a law or laws of the Provincial Parliament.

12. The stock of the said Corporation shall be assignable and transferrable according to such rules and forms as shall be established in that behalf by the by-laws, ordinances and regulations of the same, but no assignment or transfer shall be valid or effectual unless such assignment or transfer shall be entered or registered in a book or books

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to be kept by the directors for that purpose, nor until the person or persons making the same shall previously discharge all debts due by him, her or them to the said Corporation, which may exceed in amount the remaining stock belonging to such person or persons, and in no case shall any fractional part of a share or other than a complete share or shares be assignable or transferable.

13. The bills obligatory, and of credit, under the seal of the said Corporation, which shall be made to any person, or persons, shall be assignable, by endorsement thereupon, under the hand or hands of such person or persons, and of his, her, or their assignee, or assignees, and so as absolutely to transfer and vest the property thereof in each and every assignee, or assignees, successively, and to enable such assignee, or assignees, to bring and maintain an action thereupon, in his, her, or their own name, or names. And bills or notes which may be issued by order of the said Corporation, signed by the President, and countersigned by the principal cashier, or treasurer, thereof, promising the payment of money to any person, or persons, his, her or their order, or to bearer, though not under the seal of the said Corporation, shall be binding and obligatory upon the same, in the like manner and with the like force and effect, as upon any private person or persons, if issued by him or them in his, her or their private or natural capacity, or capacities; and shall be assignable or negotiable, in like manner, as if they were so issued by such private person or persons; that is to say, those which shall be payable to any person or persons, his, her, or their order, shall be assignable by endorsement in like manner, and with the like effect, as foreign bills of exchange now are; and those which are payable to bearer shall be negotiable and assignable by delivery only.

13. Bank obligations, bank bonds, bank bills, obligatory and of credit under the common seal of the said Corporation, signed by the President or Vice-President, and countersigned by a cashier which shall be made to any person or persons, shall be assignable by indorsements thereupon without signification thereof, any law or usage to the contrary notwithstanding. And bank bills or bank notes which shall be issued by order of the said Corporation, signed and countersigned as above said, promising the payment of money to any person or persons, his, her or their order, or to bearer, although not under the seal of the Corporation, shall be binding and obligatory upon the same, and shall be assignable and negotiable in like manner as if they were issued by private persons; that is to say those which shall be payable to any person or persons, his, her or their order shall be assignable by indorsement in like manner and with the like effect as foreign bills of exchange now are; and those which shall be payable to bearer shall be negotiable by delivery only.

14. Half-yearly dividends shall be made of so much of the profits of the bank as shall appear to the directors advisable; and once in every three years the directors shall lay before the stockholders, at a general meeting, for their information, an exact and particular statement of the debts which shall have remained unpaid after the expiration of the original credit, for a period of treble the term of that credit; and of the surplus of profit, if any, after deducting losses and dividends. If there shall be a failure in the payment of any part of any sum subscribed by any person, co-partnership, or body politic, the party failing shall lose the benefit of any dividend which may have accrued prior to the time for making such payment, and during the delay of the same.

15. It shall be lawful for the directors aforesaid to establish offices wheresoever they shall think fit, within the United States, for the purposes of discount and deposit only, and upon the same terms, and in the same manner, as shall be practised at the bank; and to commit the management of the said offices, and the making of the said discounts, to such persons, under such agreements, and subject to such regulations, as they shall deem proper; not being contrary to law, or to the constitution of the bank.

14. Half yearly dividends shall be made of so much of the profits of the bank as shall appear to the directors advisable, and shall be payable at such place or places as the directors shall appoint, of which they shall give public notice in a Quebec and Montreal newspaper at least four weeks before; and the directors shall every year at the general meeting for election thereof lay before the stockholders for their information, an exact and particular statement of the debts due to and by the bank, specifying the amount of bank notes then in circulation, and such debts as in their opinion are bad or doubtful, as also stating the surplus of profit if any remaining after deduction of losses and provision for dividends:

If there shall be a failure in payment of any part of the sum or shares subscribed by any person or persons, body politic or corporate, the party or parties failing in paying the first instalment of ten per centum succeeding the deposit of ten per centum hereinbefore required to be made at the time of subscribing, shall respectively forfeit the said deposit, to and for the use of the said corporation, and on failure of paying the other instalments or any of them, the party or parties failing therein shall lose the benefit of dividends (as well on the deposit as on the instalments paid by him, her or them) which shall have accrued prior to the time for making such payment and during the delay of the same, but shall not forfeit the principal sum of the said deposit excepting in the instance above said.

15. It shall be lawful for the directors of the bank to establish offices, for the purpose of deposit and discount only, in such places in the provinces of Lower and Upper Canada as they shall think advisable, upon the same terms and in the same manner as shall be practised at the bank, and to commit the management thereof to such agents under such agreements and subject to such regulations as the directors shall deem proper, the same not being contrary to the constitution or laws of this province, or to this Act.

16. The officer at the head of the treasury department of the United States shall be furnished, from time to time, as often as he may require, not exceeding once a week, with statements of the amount of the capital stock of the said Corporation, and of the debts due to the same; and shall have a right to inspect such general accounts in the books of the bank as shall relate to the said statements: *Provided*, that this shall not be construed to imply a right of inspecting the account of any private individual, or individuals, with the bank.

16. And be it further enacted by the authority aforesaid that the Governor, Lieutenant-Governor, or person administering the Government of this province for the time being, shall be furnished (at such times as he shall require the same) with statements of the amount of the capital stock of the Corporation, of the amount of debts due to and by the same, of the amount of monies deposited therein, of the amount of notes in circulation, and of monies on hand belonging to the said Corporation: and shall have authority himself, or by a person or persons for that purpose by him authorized and appointed, under his hand and Seal at Arms, to inspect the general accounts of the bank: provided that such inspection shall not extend to any right or authority to inspect the account of any individual or individuals with the bank.

The reasons for the failure of the Canadian bill to pass the Legislature need not be given here. What we are concerned with at present is the fact that the Canadian bill is a copy, somewhat extended in parts, of the American Act. It shows that the Canadians, at this time at least, were quite under the influence of the American ideas as expressed in Hamilton's plan. The only question which remains to be considered is whether the Canadians had really adopted these principles or had merely come under their influence temporarily. The subsequent history of Canadian banking shows clearly that these ideas were permanently adopted. They became the basis of the Canadian system, and all its after history reveals a gradual development, not without blunders, it is true, from these fundamental principles. In 1816, when the mistake of destroying the first Bank of the United States had been recognized, the second bank of that name was established, with much the same charter as the first. The following year the Bank of Montreal came into existence as an unchartered corporation. Its articles of association were published in the *Montreal Herald* in the latter part of May, 1817, and in several subsequent issues. Notwithstanding much search and many enquiries in likely quarters, I have, so far, been unable to find any copy of the *Herald*

of that time. However, we know as accurately as need be for our purpose, what these articles were. The following year, 1818, three other unchartered banks were started, following closely the example of the Bank of Montreal. These were the Quebec Bank at Quebec, the Bank of Canada at Montreal, and the Bank of Upper Canada at Kingston. These likewise published their articles of association in the newspapers, and I have been fortunate enough to obtain a copy of each of them. On comparing them we find that, allowing for a few necessary verbal variations, they are almost identical. From what we know of the substance of the articles of association of the Bank of Montreal from contemporary references to them, we recognize that the articles of the other banks were simply copied from them. On comparing the articles of these private banks with the bill for establishing the Bank of Lower Canada, we find that these articles closely reproduce that bill, allowing for the omission of all that was specially required in a government charter, and the insertion of what was needed to give them the form of private corporations. This proves that the adoption of the principles embodied in that bill was not a temporary expedient, but undertaken with mature deliberation and recognized as expressing the intelligent convictions of the Canadian merchants on the subject. When, after several ineffectual attempts, the Bank of Montreal was at length successful in obtaining a charter, it was in accordance with their petition that it should be as nearly as possible in harmony with their articles of association. Here we have the beginning of that series of Acts which renewed from time, with such modifications and additions as were deemed necessary, the charters of the various banks, at first individually, and now collectively under the general Bank Act. In our present Bank Act we may still recognize many features of Hamilton's first charter of the Bank of the United States. Indeed we may say that the present Canadian banking system is a much more direct and legitimate descendant from the plan drawn up by Hamilton than is the present banking system of the United States.

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