LIBRARY OF PARLIAMENT

BIBLIOTHÈQUE DU PARLEMENT LIBRARY OF PARLIAMENT
3 2354 00302 2376

J 103 H7 1912/13 B3 A1
Canada. Parliament. House of Commons. Select Standing Committee on Banking and Commerce, 1912/13.
DATE NAME — NOM
Revision ...
3 2354 00302 2376

Canada. Parl. H of C. Special Comm.on Broadcasting, 1952/53.

T
103
H7
1912/13
B3
A1

DATE DUE

SEP 10 1999

APR AVR 15 2005

GAYLORD PRINTED IN U.S.A.

REVISION OF THE ACT

RESPECTING

BANKS AND BANKING

MINUTES

OF

PROCEEDINGS, EVIDENCE, &c.

COMMITTEE ON BANKING AND COMMERCE

DURING

PARLIAMENTARY SESSION OF 1912-1913

APPENDIX No. 2

TO

JOURNALS OF THE HOUSE OF COMMONS

OTTAWA
PRINTED BY C. H. PARMELEE, PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1913

CONTENTS.

Order of Reference, Final Report.. .. .. v, vii

Minutes of Proceedings comprising Notices of Motions, Notices of Amendments, Communications, &c.. 1–101

Banks' Rest or Reserve fund by Finance Department.. 3

Chartered Banks *re* Operations of, in Canada, &c.. 13–16

Chartered Banks *re* Dividends, &c.. 24–30

Exhibits *re* Proposed Amendments—Appendix.. 32–35

Statement *re* Canadian Bank of Commerce by Sir Edmund Walker.. .. 69

Statement *re* Profits earned, Dividends paid, &c.. 75–78

Letter of Mr. Henderson *re* Bank Audit.. 83

Correspondence *re* Bank of St. Hyacinthe.. 84–88

Exhibits *re* Bank of St. Hyacinthe.. 88–91

Shareholders' Audit, Auditors, Report to Minister.. 98–101

Index to Witnesses *re* Evidence.. 103

Index to Memoranda and Tabulated Statements 103

Index to Exhibits *re* Communications received from Messrs. H. C. McLeod and J. B. Forgan.. 669

Evidence heard by the Committee on Banking and Commerce.. 107–666

Exhibits (1), (2), (3), (4) and (5).. 671–724

ORDER OF REFERENCE.

HOUSE OF COMMONS,
MONDAY, December 2nd, 1912.

Ordered, That the following Members do compose the Select Standing Committee on Banking and Commerce, viz.:—

Messieurs:

Aikins,
Ames,
Armstrong *(Lambton)*,
Armstrong *(York, O.)*
Baker,
Ball,
Barker,
Barnard,
Beattie,
Bellemare,
Bennett *(Calgary)*,
Best,
Bickerdike,
Blondin,
Boivin,
Boyce,
Bristol,
Buchanan,
Burnham.
Cardin,
Carrick,
Carvell,
Charlton,
Clark *(Bruce)*,
Clark *(Red Deer)*,
Cockshutt,
Crocket,
Currie,
Demers,
Donnelly,
Edwards,
Emmerson,
Fisher,
Forget (Sir Rodolphe),
Fortier,
Foster *(Kings, N.S.)*,
Foster *(Toronto, N.,)*
Fowler,
Gauthier *(St. Hyacinthe,)*
Graham,
Guthrie,
Haggart,
Henderson,
Hughes *(Kings, P.E.I.)*,
Hughes *(Victoria,)*
Jameson,
Kay,
Kemp,
Knowles,
Law,
Lemieux,
L'Esperance,
Loggie,
Macdonald,
Macdonell,
Maclean *(Halifax)*,
Maclean *(York, O.,)*
McCraney,
McCurdy,
McLean *(Sunbury)*,
McMillan,
Martin *(Regina,)*
Meighen,
Middlebro,
Nesbitt,
Nickle,
Northrup,
Osler (Sir Edmund),
Pacaud,
Papineau,
Pardee,
Perley,
Porter,
Power,
Pugsley,
Rainville,
Rhodes,
Robb,
Roche,
Ross,
Sexsmith,
Sharpe *(Lisgar)*,
Sharpe *(Ontario,)*
Sinclair,
Steele,
Stewart *(Hamilton)*,
Stewart *(Lunenburg)*,
Sutherland,
Thompson *(Yukon)*,
Thornton,
Tobin,
Verville,
Warnock,
Webster,
Weichel, and
White *(Leeds)*.—96.

Ordered, That the said Committee be empowered to examine and enquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon; with power to send for persons, papers and records.

Attest

(Sgd.) THOS. B. FLINT,
Clerk of the Commons.

THURSDAY, January 30, 1913.

Ordered, That the Bill No. 36, An Act respecting Banks and Banking, be referred to the said Committee.

Attest (Sgd.) THOS. B. FLINT,
Clerk of the Commons.

WEDNESDAY February 12, 1913.

Ordered,—That Messieurs: Broder, Marshall, Turriff and Thomson (Qu'Appelle), be added to the said Committee.

Attest (Sgd.) THOS. B. FLINT,
Clerk of the Commons.

APPENDIX No. 2

FINAL REPORT.

COMMITTEE ROOM, No. 101,
THURSDAY, May 8, 1913.

The Select Standing Committee on Banking and Commerce beg leave to present the following as their

TWENTY-SECOND REPORT.

Your Committee have had under consideration Bill No. 36, An Act respecting Banks and Banking, and have agreed to report the same with amendments.

Your Committee also submit herewith their minutes of proceedings and evidence, and the exhibits filed, and recommend that the same be referred to the Printing Committee with a view to having the whole printed in blue-book form and as an appendix to the Journals of the House.

All which is respectfully submitted.

(Sgd.) HERBERT B. AMES,
Chairman.

PROCEEDINGS

OF THE

BANKING AND COMMERCE COMMITTEE

OF THE

HOUSE OF COMMONS

IN CONNECTION WITH

BILL NO. 36, AN ACT RESPECTING BANKS AND BANKING.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,
COMMITTEE ROOM No. 8 OF THE SENATE,
WEDNESDAY, February 19, 1913.

Committee met at 11 a.m., Mr. Ames, the Chairman, presiding.

PRESENT:—Messieurs Aikins, Barker, Barnard, Beattie, Boyce, Broder, Buchanan, Burnham, Charlton, Cockshutt, Currie, Donnelly, Emmerson, Foster (Kings), Graham, Guthrie, Henderson, Hughes (P.E.I.), Kemp, Macdonell, Maclean (York), McCraney, McCurdy, Meighen, Nesbitt, Northrup, Papineau, Pardee, Perley, Power, Rhodes, Ross, Sinclair, Stewart (Hamilton), Thornton, Warnock, Webster, White (Leeds), and others.

The Chairman read the memo. of procedure adopted by the Committee on the 13th instant, which is as follows:—

1. Committee to meet three times a week—Wednesday, Thursday and Friday, at 11 a.m.—commencing with February 19. The first two days to be devoted to the consideration of the Bank Act. The last day reserved for Private Bills.

2. Non-contentious sections may be first disposed of. Any clause to which there is objection to stand, on the request of a member, for future consideration.

Reconsideration permissible on notice of motion.

3. Important amendments introduced in Committee by members may be received as notices of motion to be discussed, but not voted upon until at a subsequent meeting of Committee. Members of the Committee shall be furnished with copies of such amendments.

4. Parties desiring to be heard in respect of the provisions of the Bank Act, may be permitted to appear, upon motion of a member.

Mr. Aikins moved, That the hour of meeting of the Committee be 10.30 a.m., which was negatived on division: Yeas, 7; nays, 11.

The Chairman stated that 500 copies of the Proceedings of the Committee would be printed for the use of the members.

The Committee then proceeded to the consideration of Bill No. 36, respecting Banks and Banking.

The following sections were read and adopted: 3, 5, 7, 8, 9, 11, 14, 17, 27, 37, 39, 40, 42, 45, 48, 50, 52, 63, 65, 66, 67, 68, 69, 75, 78, 80, 81, 82 85, 95, and 96.

The following sections were amended and adopted as amended:—1, 6, 71 and 73.

The following sections were, upon the requests of members, allowed to stand for future consideration:—2, 4, 10, 12, 13, 15, 16, 18, 19, 20, 21, 22, 23, 24, 25, 26, 28, 29, 30, 31, 32, 33, 34, 35, 35*a*, 36, 38, 41, 43, 44, 46, 47, 49, 51, 53, 54, 55, 56, 56*a*, 57, 58, 59, 60, 61, 62, 64, 70, 72, 73, 74, 76, 77, 79, 83, 84, 86, 87, 88, 89, 90, 91, 92, 93, 94, 97 and 98.

Mr. Aikins, and the Finance Department submitted various amendments as notices of motion, which were ordered to be printed and distributed to the Committee for consideration.

Mr. Maclean (York) requested the Finance Department to submit to the Committee statement of rest or reserve fund of the banks for the last thirteen months, and also similar statement for each year for the last thirteen years.

At one o'clock p.m., the Committee adjourned until to-morrow at 11 a.m.

NOTICE OF MOTION—By Mr. AIKINS.

To substitute for paragraph (*g*), section 2, the following:

(*g*) "Goods, wares and merchandise," includes, in addition to the things usually understood thereby, *products of agriculture, products of the forest, products of the quarry and mine, products of the sea, lakes and rivers,* petroleum and crude oil, and other articles of commerce.

To substitute for paragraph (*k*), section 2, the following:

(*k*) "Products of agriculture" in addition to the direct products of the soil such as hay, grain, roots, vegetables, fruits and other crops includes milk, cream, butter, cheese, honey, poultry (dead), and eggs, *hides, pelts and wool, and dried, canned and preserved vegetables and fruits.*

To substitute for paragraph (*m*), section 2, the following:

(*m*) "Products of sea, lakes and rivers" includes fish of all kinds whether fresh, frozen, salted, dried, canned, preserved in oil or otherwise preserved, whales and seals, their oil, skins and bone, oysters, lobsters and other crustaceans, fresh and canned or otherwise preserved.

To amend sub-paragraph (*ii*) of paragraph (*o*) of section 2, by substituting for the words in line 47, "delivered to him as bailee" the words "in his possession as bailee."

To add a paragraph to section 2 as follows: "grain" means wheat, oats, barley, rye and flax.

To add to paragraph (*d*) of section 2, the words "horses and sheep."

To add to paragraph (*b*) of section 4 the following: "If the same has not been increased or decreased but if increased or decreased then as increased or decreased before the passing of this Act."

To add to sub-section 3 of section 12 the following: "and the amount paid in on such subscription."

To add to sub-section 2 of section 13, after the words "bona fide," the words "or be complete unless and until."

To add the following paragraph (*c*) to sub-section 3 of section 13:

(*c*) "to provide for the method of filling vacancies in the board of directors until the annual general meeting."

To add at the end of sub-section 3 of section 15 the following:

"and no such expenses shall be paid unless shown in such statement and approved by the Board."

APPENDIX No. 2

NOTICE OF MOTION—BY THE MINISTER.

To amend section 2 by inserting new sub-section 3 as follows:

"3. When by this Act a notice is required to be published in a newspaper for four "weeks or any longer period, publication each week in a weekly newspaper, or once "a week during the period in a newspaper published more frequently, shall be a "sufficient publication for the purposes of the Act."

Former sub-section 3 of the section to then become sub-section 4.

To amend section 21, sub-section 3, line 39, by substituting for the word "election" the words "annual general meeting," and for the word "election" in line 41, the words "said meeting."

Sub-section 1 of section 24 to be amended so as to read as follows:—

"24. The directors as soon as may be after their election, shall proceed to elect, "by ballot, *from* their number a president and *one or more* vice-presidents."

REST OR RESERVE FUND OF THE BANKS—HOW DERIVED.

(Submitted by Finance Dept.)

Name of Bank.	From Shareholders: Premium on issues of Capital Stock.	From profits	Total.
	$	$	$
Bank of Montreal	4,741,450 00	11,258,550 00	16,000,000 00
Home Bank of Canada	344,000 00	106,000 00	450,000 00
Royal Bank of Canada	10,662,069 50	1,897,930 50	12,560,000 00
Molsons Bank	1,925,000 00	2,775,000 00	4,700,000 00
British North America	.....	2,774,000 00	2,774,000 00
Bank of Ottawa	2,362,980 00	1,962,500 00	4,325,480 00
Bank of Nova Scotia	5,143,166 86	3,584,979 14	8,728,146 00
Standard Bank of Canada	1,429,575 00	1,599,700 00	3,029,275 00
Imperial Bank of Canada	4,874,688 00	1,790,433 00	6,665,121 00
Metropolitan Bank	1,000,000 00	250,000 00	1,250,000 00
Dominion Bank	3,882,810 89	2,117,189 11	6,000,000 00
Merchants' Bank of Canada	650,760 00	5,760,000 00	6,410,760 00
La Banque Provinciale	.....	575,000 00	575,000 00
La Banque Nationale	100,000 00	1,300,000 00	1,400,000 00
Quebec Bank	.....	1,250,000 00	1,250,000 00
Banque d'Hochelaga	732,980 00	2,267,020 00	3,000,000 00
Bank of Toronto	3,105,000 00	2,895,000 00	6,000,000 00
Bank of Hamilton	1,558,771 40	1,941,228 60	3,500,000 00
Northern Crown Bank	.....	300,000 00	300,000 00
Union Bank of Canada	1,277,558 00	2,022,442 00	3,300,000 00
Weyburn Security Bank	2,586 40	62,413 60	65,000 00
Bank of New Brunswick	813,010 00	976,990 00	1,790,000 00
Canadian Bank of Commerce	3,413,804 73	9,086,195 27	12,500,000 00
Sterling Bank of Canada	207,994 45	92,005 55	300,000 00
	$48,228,205 23	$58,644,576 77	$106,872,782 00

MINUTES OF PROCEEDINGS.

HOUSE OF COMMONS,
COMMITTEE ROOM No. 101,
THURSDAY, February 20, 1913.

Committee met at 11 a.m., Mr. Ames, the Chairman, presiding.

PRESENT:—Messrs. Aikins, Armstrong (Lambton), Baker, Beattie, Broder, Carvell, Clark (Bruce), Cockshutt, Donnelly, Emmerson, Fisher, Fortier, Gauthier (St. Hyacinthe), Hughes (Kings, P.E.I.), Law, Loggie, Marshall, Meighen, Nesbitt, Osler (Sir Edmund), Papineau, Pardee, Power, Rainville, Rhodes, Ross, Sharpe (Ontario), Steele, Stewart (Hamilton), Stewart (Lunenburg), Thomson (Qu'Appelle), Thompson (Yukon), Thornton, Turriff, White (Leeds).

Mr. Aikins and the Finance Department further submitted various amendments as notices of motions. (To be printed and distributed to the Committee.)

On motion of Mr. Sharpe (Ontario), it was

Resolved, that the Minister of Finance be requested to secure a report from all the chartered banks of Canada for the information of this Committee showing:—

(1) The nominal capital of each bank at the date of the last revision of the Bank Act, 1900.

(2) The paid up capital on February 1, 1900.

(3) The nominal capital of each bank on February 1, 1913.

(4) The paid up capital and reserve of each bank on February 1, 1913.

(5) The amount of dividend and bonuses, if any, paid up each year from 1900 to the present date.

(6) The amount of new stock issued and the price paid by the shareholders of the bank for such new stock.

(7) The amount of the value of the "rights" to the shareholders of each new issue of stock.

(8) The amount of notes issued by the banks and lost between February 1, 1900, and February 1, 1913.

The Committee then proceeded to the further consideration of Bill No. 36, An Act respecting Banks and Banking.

The following sections were read and adopted:—113, 115, 116, 125, 126, 127, 129, 130, 131*a*, 132, 133, 136, 137, 138, 139, 147, 147*a*, 148, 152, 154, 155 and 157.

Section 159 was read and amended, and adopted as amended.

The following sections were, upon the requests of members, allowed to stand for future consideration:—99, 100, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, 112, 114, 117, 118, 119, 120, 121, 122, 123, 124, 128, 131, 134, 135, 140, 140*a*, 141, 142, 143, 144, 145, 146, 149, 150, 151, 153, 156 and 158.

Schedule B was read and adopted, with the exception of section 5 thereof, which stands over for further consideration.

Schedule E was read and adopted.

The Finance Department laid on the Table Statement of assets, &c. of the Banks in Canada for the last twenty years, in answer to the request of Mr. Maclean (York), made at the last meeting of the Committee.

Resolved, that the proposed amendments covering the first 32 sections of the bill, be taken into consideration on Wednesday next, February 26.

The Committee then adjourned.

APPENDIX No. 2

NOTICE OF MOTION—By the MINISTER.

To amend section 26 by adding the word "a" before "vice-president" in line 25.

To amend section 28—

Line 35, by striking out the word "the" before "vice-president" and inserting instead thereof the word "a."

Add the letter "s" to the word "vice-president" in line 38.

Insert the word "a" before "vice-president" in line 45.

Section 30—

Strike out sub-section 2.

Re-number existing sub-sections 3 and 4 as sub-sections 2 and 3 respectively.

Section 31—

Line 50, insert the word "a" before "vice-president."

Also insert the word "a" before the word "vice-president" in line 4, page 12.

In section 34, line 19, insert the word "at" before "such"—a printer's omission.

Section 34—

In new sub-section 2 of section 34, line 34, substitute "ninety days" for the words "sixty days."

Sub-section 3 of section 34: Substitute the following therefor:—

"Any of such allotted stock which is not *accepted* by a shareholder to whom the "allotment has been made, within *the time so fixed,* or which he declines to accept, "*together with such shares as remain unallotted because of the provision of this sec-* "*tion that no fraction of a share can be allotted,* may be offered for subscription to "the public in such manner and on such terms as the directors prescribe." 53 V., C. 31, S. 27, Am.

NOTICE OF MOTION—By Mr. AIKINS.

To amend section 29 by adding after the word "Act" in the second line thereof the following:—

"or to any by-law duly passed by the shareholders."

NOTICE OF MOTION—By Mr. AIKINS.

To substitute for sub-section 2 of section 88 the following:—

"The bank may lend money to a person engaged in farming upon the security of threshed grain."

PROPOSED AMENDMENTS TO BILL No. 36 RESPECTING BANKS AND BANKING.

By Mr. AIKINS.

To add to paragraph (*d*) of section 2, the words "horses and sheep."

To substitute for paragraph (*g*), section 2, the following:

(*g*) "goods, wares and merchandise," includes in addition to the things usually understood thereby, *products of agriculture, products of the forest, products of the quarry and mine, products of the sea, lakes and rivers,* petroleum and crude oil, and other articles of commerce.

To substitute for paragraph (*k*), section 2, the following:

(*k*) "products of agriculture" in addition to the direct products of the soil such as hay, grain, roots, vegetables, fruits and other crops includes milk, cream, butter.

cheese, honey, poultry (dead), and eggs, *hides, pelts and wool, and dried, canned and preserved vegetables and fruits.*

To substitute for paragraph (*m*), section 2, the following:

(*m*) "products of sea, lakes and rivers," includes fish of all kinds whether fresh, frozen, salted, dried, canned, preserved in oil or otherwise preserved, whales and seals, their oil, skins and bone, oysters, lobsters and other crustaceans, fresh and canned or otherwise preserved.

To amend sub-paragraph (*ii*) of paragraph (*o*) of section 2, by substituting for the words in line 47, "delivered to him as bailee" the words "in his possession as bailee."

To add a paragraph to section 2 following paragraph *re* "goods, wares and merchandise" as follows: "grain" means wheat, oats, barley, rye and flax.

By the MINISTER.

To amend section 2 by inserting in subsection 1 immediately after paragraph (*f*) the following

(*g*) "farmer" includes the owner, occupier, landlord and tenant of a farm;

To amend section 2 by inserting new sub-section 3 as follows:

"3. When by this Act a notice is required to be published in a newspaper for four "weeks or any longer period, publication each week in a weekly newspaper, or once "a week during the period in a newspaper published more frequently, shall be a "sufficient publication for the purposes of this Act."

Former sub-section 3 of section 2 is to then become sub-section 4.

By Mr. AIKINS.

To add to paragraph (*b*) of section 4 the following: "If the same has not been increased or decreased but if increased or decreased then as increased or decreased before the passing of this Act."

By Mr. SHARPE (Ontario).

Section 4.—To be amended by substituting the word "twenty" for the word "twenty-three" in line 31.

Section 10.—That section 10 be struck out and the following substituted therefor:—

Banks shall consist of three different classes: (*a*) Dominion banks with branches in more than one province, (*b*) Provincial banks with branches in only one province, and (*c*) City or County banks with no branches.

The capital stock of such banks hereafter incorporated shall be not less than $500,000 for Dominion banks, $250,000 for Provincial banks, and $100,000 for City or County banks.

And the capital stock of any bank shall be divided into shares of one hundred dollars each.

By Mr. AIKINS.

To add to sub-section 3 of section 12 the following: "and the amount paid in on such subscription."

To add to sub-section 2 of section 13, after the words "bona fide," the words "or be complete unless and until."

APPENDIX No. 2

To add the following paragraph (*c*) to sub-section 3 of section 13:

(*c*) "to provide for the method of filling vacancies in the board of directors until the annual general meeting."

To add at the end of sub-section 3 of section 15 the following:

"and no such expenses shall be paid unless shown in such statement and approved by the Board."

By Mr. SHARPE (Ontario).

Section 18.—To strike out paragraph (*h*).

Section 20, sub-section 2.—That the words: "or such greater amount as is required by any by-law in that behalf," in lines 30 and 31 be struck out.

Section 20, sub-section 3.—That the following words be added: "and domiciled in the Dominion of Canada."

Section 21, sub-section 3.—"and also by mailing a notice thereof to each shareholder at his or her last known P.O. address as shown by the bank at least two weeks previously to the time of holding the election."

By the MINISTER.

To amend section 21, sub-section 3, line 39, by substituting for the word "election" the words "annual general meeting," and for the word "election" in line 41, the words "said meeting."

By Mr. SHARPE (Ontario).

Section 23.—All the words after the word "then" be struck out and the following words added: "the shareholders will proceed to elect one of such candidates by taking a second ballot or more if necessary until one or the other will have received a majority of votes cast."

By the MINISTER.

Sub-section 1 of section 24 to be amended so as to read as follows:—

"24. The directors as soon as may be after their election, shall proceed to elect, "by ballot, *from* their number a president and *one or more* vice-presidents."

To amend section 26 by adding the word "a" before "vice-president" in line 25.

To amend section 28—

Line 35, by striking out the word "the" before "vice-president" and inserting instead thereof the word "a."

Add the letter "s" to the word "vice-president" in line 38.

Insert the word "a" before "vice-president" in line 45.

By Mr. AIKINS.

To amend section 29 by adding after the word "Act" in the second line thereof the following:—

"or to any by-law duly passed by the shareholders."

By Mr. SHARPE (Ontario).

Section 29, paragraph (*a*) struck out and the following substituted:—

"(*a*) The management of the affairs and concerns of the Bank."

By the MINISTER.

Section 30—
Strike out sub-section 2.
Re-number existing subsections 3 and 4 as sub-sections 2 and 3 respectively.
Section 31—
Line 50, insert the word "a" before "vice-president."
Also insert the word "a" before the word "vice-president" in line 4, page 12.

By Mr. SHARPE (Ontario).

Section 34, subsection 1 struck out and the following substituted:—

"Any of the original unsubscribed capital stock, or of the increased stock of the bank shall, at such time as the directors determine, be allotted to the then shareholders of the bank pro rata, at such rate and on such terms as are fixed by..... ..... some competent court or commission designated by Order-in-Council upon application by the Directors, and until such court or commission be created or designated, on such terms as are fixed by the Treasury Board."

By the MINISTER.

In section 34, line 19, insert the word "at" before "such"—a printer's omission.
Section 34—
In new sub-section 2 of section 34, line 34, substitute "ninety days" for the words "sixty days."

Sub-section 3 of section 34: Substitute the following therefor:—

"Any of such allotted stock which is not *accepted* by a shareholder to whom the "allotment has been made, within *the time so fixed,* or which he declines to accept, "*together with such shares as remain unallotted because of the provisions of this sec-* "*tion that no fraction of a share can be allotted,* may be offered for subscription to "the public in such manner and on such terms as the directors prescribe." 53 V., C. 31, S. 27, Am.

MINUTES OF PROCEEDINGS.

HOUSE OF COMMONS,
COMMITTEE ROOM, No. 211.
WEDNESDAY, February 26, 1913.

Committee met at 11 a.m., Mr. Ames, the Chairman, presiding.

PRESENT—Messrs. Aikins, Ames, Barker, Beattie, Bennett (Calgary), Boyce, Carvell, Charlton, Clark (Bruce), Cockshutt, Crocket, Currie, Donnelly, Edwards, Emmerson, Guthrie, Hughes (Kings, P.E.I.), Kemp, Law, Macdonald, Macdonell, Maclean (Halifax), Maclean (York, O.), McCurdy, Meighen, Nickle, Northrup, Osler (Sir Edmund), Pardee, Perley, Power, Rhodes, Robb, Ross, Sexsmith, Sharpe (Ontario), Steele, Stewart (Hamilton), Stewart (Lunenburg), Sutherland, Thomson (Qu'Appelle), Thornton, Turriff, Warnock, Weichel, White (Leeds).

The Minister of Finance submitted partial return in answer to the motion of Mr. Sharpe (Ontario), passed by the Committee on Thursday, February 20.
Ordered, That the same be printed with the Proceedings of the Committee.

Messrs. Steele, McCurdy, Turriff (for Mr. McCraney), and Sharpe (Ontario), submitted motions. (To be printed and distributed to the Committee.)

APPENDIX No. 2

Mr. Maclean (York) moved—

That the Committee proceed to a general discussion of the Bill with a view of ascertaining the contentious clauses or suggested amendments, and that such witnesses as the Committee decide be then examined on those points.

Mr. Aikins moved in amendment thereto—

That the Committee proceed with the Bill clause by clause. Where in the judgment of members a clause is regarded as contentious or on which members require information, that clause should again stand for further consideration.

The question being put on the amendment, it was

Resolved in the affirmative on a standing vote:—Yeas, 22; Nays, 19.

Resolved, That a sub-Committee composed of the Chairman and Messrs. Bennett (Calgary), Maclean (Halifax), Sharpe (Ontario), and Turriff, be appointed to prepare and report to-morrow a list of persons to be later requested to appear before the Committee and give such information on the Bill as the Committee may require.

Mr. Bennett (Calgary) moved the following as a notice of motion:—

That speeches on this Bill be restricted to five minutes, and that no member shall speak more than once on any one clause.

Mr. Emmerson gave notice that he will move to-morrow that the Committee do employ a counsel to represent the interests of the general public in connection with the Bill under discussion.

The Committee then adjourned until to-morrow (Thursday).

NOTICES OF MOTION.

By Mr. SHARPE (Ontario).

Section 41.—That sub-section 1 be struck out and the following words be added to section 2 after the word "do" in line 11: "and personal service of such notice on such shareholders or his personal representatives."

By Mr. F. B. McCURDY.

That clause 43 be struck out.

By Mr. SHARPE (Ontario).

Section 43.—That sub-section (*b*) be struck out.

Section 46.—That in sub-section (2) all the words after "purchase," in line 48 be struck out.

Section 56.—That this section be not now passed, but referred to the Department of Finance with the request that a new section be substituted providing for an efficient system of Government audit and inspection, the inspection to be primarily designed to ensure the provisions of the Bank Act being observed and to ensure that no frauds are being perpetrated upon the public; or in the alternative:

1. The Minister shall appoint a Board of Bank Inspectors consisting of two or more members appointed by the Governor in Council.

2. Each Inspector shall hold office during good behaviour for a period of ten years from the date of the appointment, but may be removed at any time by the Governor in Council for cause. Provided that

(*a*) An Inspector shall cease to hold office upon reaching the age of seventy years.

3. An Inspector on the expiration of his term of office shall, if not disqualified by age, be eligible for re-appointment.

4. One of such Inspectors shall be appointed by the Governor in Council Chief Inspector of the Board and shall be entitled to hold the office of Chief Inspector so long as he continues a member of the Board.

5. No Inspector shall indirectly or directly hold, purchase, take or become interested in any stock or share of any chartered bank of Canada, nor of any trust or loan or other company having any business dealings with the chartered banks of Canada.

6. The remuneration of the Board of Inspectors shall be fixed by the Governor in Council and be paid by an assessment of the chartered banks of Canada, such assessment to be according to the paid up capital of each bank.

7. Every bank shall be inspected twice each year or oftener if deemed necessary by the Minister.

8. Each member of the Board of Bank Inspectors shall have a right of access to the books and accounts, cash, securities, documents and vouchers of the bank, and shall be entitled to require from the directors and officers of the bank such information and explanation as may be necessary for the performance of the duties of the Inspector.

9. If the bank has branches or agencies it shall be sufficient for all the purposes of this section if the auditors are allowed access to the returns, reports, and statements and to such copies of extracts from the books and accounts of any such branch or agency as have been transmitted to the chief office, but the Inspectors may in their discretion visit any branch or agency for the purpose of examining the books and accounts, cash, securities, documents, and vouchers at the branch or agency.

10. It shall be the duty of the Inspectors twice at least each year, in addition to such checking and verification as may be necessary, for this report upon the statement submitted to the shareholders under section 54 of this Act, to check the cash and verify the securities of the bank at the Chief Office of the Bank against the entries in regard thereto in the books of the bank, and should they deem it advisable, to check and verify in the same manner the cash and securities at any branch or agency.

11. The Inspectors shall make a report to the Minister on the accounts examined by them on the checking of cash and verification of securities referred to in the next preceding sub-section and on the statement of the affairs of the bank submitted by the directors to the shareholders under section 54 of this Act during each year of their tenure of office, and the report shall state:

(*a*) Whether or not they have obtained all the information and explanation they have required.

(*b*) Whether their checking of cash and verification of securities required by subsection 10 of this section agreed with the entries in the books of the bank with regard thereto.

(*c*) Whether, in their opinion, the statement referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the bank's affairs according to the best of their information and the explanation given them, and as shown by the books of the bank.

(*d*) Whether there have been any violations of the provisions of the Bank Act, and if so, in what particulars, and

(*e*) Whether there are any acts of fraud being perpetrated by the officials or officers of the bank.

By Mr. STEELE.

To amend section 61 by adding to the first subsection thereof a paragraph as follows:—

(*c*) But the bank shall not re-issue such notes until the same have been sterilized, by heating them to a temperature of 270 degrees or by some other method approved by the minister.

APPENDIX No. 2

By Mr. SHARPE (Ontario).

Section 61.—That the following subsections be added:—

"21. The bank shall pay to the Government of Canada an annual tax equal to .....per cent on every one hundred dollars of notes issued under the authority of this Act.

"22. The bank, in addition to this annual tax, shall pay to the Government of Canada a tax equal to ..... per cent on every one hundred dollars loaned in foreign countries."

By Mr. STEELE.

To amend section 72 by adding thereto the following sub-sections:—

3. or in Dominion notes or bank notes unless the same have been sterilized, by heating to a temperature of at least 270 degrees or by some other method approved by the minister, before each issue or payment of the same after the first issue.

4. No payment shall be made in Canada in silver or nickel coinage of any other country, or in bills which are not Dominion notes or Canadian bank notes.

By Mr. SHARPE (Ontario).

Section 76.—That subsection 2 be amended by adding the following paragraphs:—

(*d*) lend money or make advances to a mining company or mining corporation in which the president, directors, manager or other officer thereof is or are directly or indirectly interested.

(*e*) lend money or make advances in excess of $ to any company or corporation in which the president, directors, manager or other officers thereof is or are directly or indirectly interested without the unanimous consent of all the directors present at a special board meeting called for the purpose of passing upon such loan or advances. Should all the directors be either directly or indirectly interested in the company or the corporation seeking the loan or advance then the loan or advances shall not be made under any circumstances.

(*f*) lend money or make advances in excess of ten per cent of its paid up capital to any foreign person, company or corporation, or upon the securities of such foreign person, company or corporation, or in excess of twenty-five per cent of its paid up capital to any person residing in Canada or any company or corporation having its head office in Canada or upon the securities of such person, company or corporation.

That section 77 be stricken out.

By Mr. F. B. McCURDY.

To strike out section 77.

By Mr. SHARPE (Ontario).

Section 88.—That subsection 3 be struck out and the following substituted therefor:—

"The bank may lend money to a *farmer* upon the security of his *live stock.*"

Section 8.—That sub-section 9 be added:—

"Such security or a copy thereof shall be mailed by registered letter to the offices to be filed therein in the various provinces of the Dominion where bills of sale and chattel mortgages are required now to be filed within twenty-four hours of the giving of such security."

Section 8.—Sub-section 2, add these words:—

"And provided further that such preference shall not be given over the claims of any mechanic or workman for four weeks' wages earned in respect to the goods, wares and merchandise on which the bank holds the security aforesaid."

By Mr. McCRANEY.

To amend section 91 of the Bank Act by adding the following sub-section thereto:—

2. No bank shall, directly or indirectly, charge or receive any sum whatsoever for the keeping of any account in such bank.

By Mr. SHARPE (Ontario).

That section 99 be stricken out.

Section 114.—Sub-section 8 be amended by adding thereto:—

"The bank shall transfer and pay over to the Minister notwithstanding any statute of limitation or other Act relating to prescription,—

'(*a*) all stock, no dividend whereon is claimed for six years before the last day on which a dividend thereon becomes payable (except where payment of dividend has been restrained by order of a court);

'(*b*) all dividends and all amounts of drafts or bills of exchange issued by the bank which have remained unpaid for more than six years after they became payable;

'(*c*) all sums of money, deposits or balances in respect of which no transactions have taken place, or upon which no interest has been paid, or no acknowledgement has been made by the bank, or to which no claim has been made by any person entitled thereto, during the six years prior to the date of the last annual return of the bank.

"If a claim to any stock so transferred or money so paid is thereafter established to the satisfaction of the Treasury Board, the Governor in Council shall, on the report of the Treasury Board, direct the retransfer or payment thereof to be made to the person entitled thereto.

"3. Upon transfer or payment to the Minister as herein provided, the bank and its assets shall be held to be discharged from further liability for the stock so transferred and the amounts so paid."

Section 138.—Sub-section (*a*) is amended by inserting after the word "manager" in line 6 in said sub-section (*a*) the following words:—

"And every local manager of a branch."

Section 140*b*.—"Every person who, being the president, vice-president, director, general manager, manager or other officer of a bank, enters into an agreement with any other president, vice-president, director, general manager, manager, or other officer of any other bank, or is a party to any agreement to which a bank is a party to control, regulate, raise or lower the rates of interest on deposits or loans, discounts, or exchange, or limit competition in establishing branch banks, shall be guilty of an indictable offence and liable to imprisonment for a term not exceeding five years, or to a fine not exceeding $2,000, or to both."

Section 158.—Sub-section 3 be amended by adding thereto:—

"In case any violation of this Act be brought to the attention of the Minister and on request the latter refuses to sue for the amount of the penalties as provided by this Act, and neglects to sue for a period of three months after such notice, then such person so notifying the minister may bring suit in his own name for the recovery of the penalties and such penalties shall belong to such person so suing."

APPENDIX No. 2

ANSWERS TO QUESTIONS 1, 2, 3 AND 4, UNDER RESOLUTION OF BANKING AND COMMERCE COMMITTEE, FEBRUARY 20, 1913, ON MOTION OF MR. SHARPE.

Number.	——	Capital Authorized.	Capital Subscribed.	Capital Paid up.	Reserve Fund.
		$	$	$	$
1	Bank of Toronto	2,000,000	2,000,000	2,000,000	2,000,000
2	Canadian Bank of Commerce	8,000,000	8,000,000	8,000,000	2,000,000
3	Dominion Bank	3,000,000	2,500,000	2,462,271	2,462,271
4	Ontario Bank	1,500,000	1,396,300	1,379,351	350,000
5	Standard Bank of Canada	2,000,000	1,000,000	1,000,000	750,000
6	Imperial Bank of Canada	2,500,000	2,500,000	2,500,000	1,850,000
7	Traders Bank of Canada	1,500,000	1,350,100	1,345,310	250,000
8	Bank of Hamilton	2,000,000	2,000,000	1,997,820	1,500,000
9	Bank of Ottawa	2,000,000	2,000,000	2,000,000	1,665,000
10	Western Bank of Canada	1,000,000	500,000	401,239	134,000
11	Bank of Montreal	12,000,000	12,000,000	12,000,000	7,000,000
12	Bank of British North America	4,866,666	4,866,666	4,866,666	1,703,333
13	Provincial Bank of Canada	1,000,000	873,487	816,321	Nil.
14	Bank d'Hochelaga	2,000,000	1,500,000	1,500,000	750,000
15	Molsons Bank	2,500,000	2,500,000	2,500,000	2,050,000
16	Merchants Bank of Canada	6,000,000	6,000,000	6,000,000	2,600,,000
17	Banque Nationale	1,200,000	1,200,000	1,200,000	275,000
18	Quebec Bank	3,000,000	2,500,000	2,500,000	700,000
19	Union Bank of Canada	2,000,000	2,000,000	2,000,000	550,000
20	Banque de St. Jean	1,000,000	500,200	262,299	10,000
21	Banque de St. Hyacinthe	1,000,000	404,600	323,790	75,000
22	Eastern Townships Bank	2,000,000	2,000,000	1,742,875	1,050,000
23	Bank of Nova Scotia	2,000,000	2,000,000	2,000,000	2,600,000
24	Royal Bank of Canada	3,000,000	2,000,000	2,000,000	1,700,000
25	People's Bank	800,000	700,000	700,000	260,000
26	Union Bank of Halifax	1,500,000	900,000	900,000	505,605
27	Halifax Banking Company	1,000,000	600,000	600,000	475'000
28	Bank of Yarmouth	300,000	300,000	300,000	30'000
29	Exchange Bank of Yarmouth	280,000	280,000	262,815	30'000
30	Commercial Bank of Windsor	500,000	500,000	350,000	60'000
31	Bank of New Brunswick	500,000	500,000	500,000	700'000
32	People's Bank of New Brunswick	180,000	180,000	180,000	155·000
33	St. Stephen's Bank	200,000	200,000	200,000	45·000
34	Summerside Bank	48,666	48,666	48,666	24·333
35	Merchants Bank of Prince Edward Island	500,000	256,408	256,295	128,194
		$ 74 875,·32	$ 68,156,427	$ 67,095,718	$ 36,437,736

Capital et cetera of the Chartered Banks of Canada as at June 30, 1901, immediately before last Revision came into effect.

Name of Bank. / Nom de La Banque.	JANUARY 31, 1913.			
	Capital Stock.			
	Capital Authorized. — Capital autorisé.	Capital Subscribed. — Capital souscrit.	Capital Paid up. — Capital versé.	Amount of Rest or Reserve Fund. — Montant du fonds de réserve.
	$	$	$	$
Bank of Montreal	25,000,000	16,000,000	16,000,000	16,000,000
Bank of New Brunswick	1,000,000	1,000,000	1,000,000	1,790,000
Quebec Bank	5,000,000	2,637,300	2,560,550	1,250,000
Bank of Nova Scotia	5,000,000	4,941,800	4,801,010	8,821,414
Bank of British North America	4,866,666	4,866,666	4,866,666	2,774,000
Bank of Toronto	10,000,000	5,000,000	5,000,000	6,000,000
Molsons Bank	5,000,000	4,000,000	4,000,000	4,700,000
Banque Nationale	5,000,000	2,000,000	2,000,000	1,400,000
Merchants Bank of Canada	10,000,000	6,758,900	6,751,960	6,410,760
Bank Provinciale du Canada	2,000,000	1,000,000	1,000,000	575,000
Union Bank of Canada	8,000,000	5,000,000	5,000,000	3,300,000
Canadian Bank of Commerce	25,000,000	15,000,000	15,000,000	12,500,000
Royal Bank of Canada	215,000,000	11,560,000	11,560,000	12,560,000
Dominion Bank	10,000,000	5,000,000	5,000,000	6,000,000
Bank of Hamilton	3,000,000	3,000,000	3,000,000	3,500,000
Standard Bank of Canada	5,000,000	2,464,659	2,429,275	3,129,275
Banque d'Hochelaga	4,000,000	3,726,500	3,161,595	3,000,000
Bank of Ottawa	5,000,000	3,892,000	3,864,040	4,364,040
Imperial Bank of Canada	10,000,000	6,909,600	6,721,059	6,721,059
Sovereign Bank of Canada	3,000,000	3,000,000	3,000,000	.....
Metropolitan Bank	2,000,000	1,000,000	1,000,000	1,250,000
Home Bank of Canada	2,000,000	1,370,000	1,303,065	450,000
Northern Crown Bank	6,000,000	2,862,400	2,719,209	300,000
Sterling Bank of Canada	3,000,000	1,150,000	1,065,448	300,000
Bank of Vancouver	2,000,000	1,174,300	848,322	40,000
Weyburn Security Bank	1,000,000	630,000	315,000	65,000
Banque Internationale du Canada	10,000,000	10,000,000	1,359,833	.....
Total	$196,866,666	$125,944,116	$115,327,032	$107,200,548

APPENDIX No. 2

FINANCE DEPARTMENT, OTTAWA, CANADA.

Question No. 8.

The amount of notes issued by the banks and lost between February 1, 1900, and February 1, 1913.

Answer:

It is not possible to furnish an answer to this question. Some of the notes issued in 1900 will in all probability be presented for redemption in 1950, so that at so near a point of time as the present it is impossible to say what notes, if any, issued since 1900 are lost.

As affording some means of arriving at an estimate of what notes issued for circulation are lost, the following is offered, though in every case redemptions are still being made:—

PROVINCE OF CANADA NOTES.

June 30, 1867.—Amount outstanding	$8,326,700 00
January 31, 1913.—Amount outstanding	27,792 25

These notes are still being redeemed in small quantities. During the last four (4) years the redemption has been as follows:—

1909	$149 00
1910	62 50
1911	81 00
1912	29 00

PROVINCE OF NOVA SCOTIA NOTES.

First issue, 1811.

June 30, 1867.—Amount outstanding	$605,859 12
March 31, 1912.—Amount outstanding	39,224 61

During the past two (2) years these notes have been redeemed to the extent of $48.

BANQUE DU PEUPLE NOTES.

First issued in 1844.

At failure, July, 1895.—Amount outstanding	$818,648 00
January 31, 1913.—Amount outstanding	14,765 68

$70 redeemed last year.

ONTARIO BANK NOTES.

First issued in 1857.

September 30, 1906.—Amount outstanding	$1,351,402 00
January 31, 1913.—Amount outstanding	76,606 00

BANK OF YARMOUTH.

First issued in 1859.

April 30, 1903.—Amount outstanding	$91,064 00
January 31, 1913.—Amount outstanding	1,474 00

Still being presented for redemption.

BANQUE ST. JEAN.

First issued in 1873.

April 30, 1908.—Amount outstanding	$219,334 00
November 30, 1912.—Amount outstanding.	2,854 00

SOVEREIGN BANK.

First issued in 1901.

November 30, 1909.—Amount outstanding.	$2,184,880 00
January 31, 1913.—Amount outstanding	27,865 00

MINUTES OF PROCEEDINGS.

HOUSE OF COMMONS,
COMMITTEE ROOM No. 101,
THURSDAY, February 27, 1913.

Committee met at 11 a.m., Mr. Ames, the Chairman, presiding.

PRESENT—Messrs. Aikins, Ames, Armstrong (Lambton), Ball, Barker, Barnard, Beattie, Boyce, Broder, Buchanan, Burnham, Carvell, Clark (Bruce), Cockshutt, Crocket, Currie, Donnelly, Edwards, Emmerson, Fisher, Graham, Guthrie, Henderson, Hughes, (Kings, P.E.I.), Kemp, Law, Lemieux, L'Esperance, Loggie, Macdonald, Maclean (Halifax), Maclean (York, O.), McCraney, Marshall, Meighen, Nesbitt, Nickle, Northrup, Osler (Sir Edmund), Papineau, Pardee, Perley, Power, Rainville, Rhodes, Robb, Ross, Sexsmith, Sharpe (Ontario), Sinclair, Steele, Stewart (Hamilton), Stewart (Lunenburg), Sutherland, Thompson (Yukon), Thornton, Turriff, Warnock, Webster, Weichel, White (Leeds).

According to order, Mr. Maclean (Halifax), submitted the following report:—

Your sub-committee, having met and considered the names of a number of persons, have determined to recommend that the following gentlemen be invited to appear before this Committee from time to time, and to give to the Committee the benefit of their knowledge and experience in matters relating to Banking:

AMERICAN BANK EXPERTS.

Lawrence O. Murray, Supt. of Currency, Washington, D.C.
J. B. Forgan, Pres. National City Bank, Chicago, Ill.
Alex. Robertson, Cont. & Com. National Bank, Chicago, Ill.
Jos. F. Johnson, Dean of New York University, School of Commerce, New York City.
H. C. McLeod, c/o H. V. Cann, Manager Foreign Department, National City Bank, New York.

CANADIAN BANKERS.

Sir B. Edmund Walker, Toronto.
Ed. L. Pease, Manager, Royal Bank, Montreal.
Tancred Bienvenu, General Manager of Union Bank of Canada, 498 Mount Pleasant Ave., Montreal.
H. S. Strathy, ex-General Manager, Traders Bank, Toronto.
Jos. Henderson, Bank of Toronto.
Manager, Weyburn Bank, Weyburn, Sask.
John Knight, Secretary Bankers' Association, Montreal.
Geoffrey Clarkson, Liquidator, Toronto.

APPENDIX No. 2

AGRICULTURAL INTERESTS (EAST AND WEST).

G. F. Chipman, *Grain Growers' Guide,* Winnipeg.
C. A. Dunning, Regina.
E. J. Fream, Calgary.
Alex. Darrah, St. Thomas, Ont.
The Editor, *Farmers' Advocate,* London, Ont.

(Signed) HERBERT B. AMES,
A. K. MACLEAN,
J. W. TURRIFF,
SAM. SHARPE.

HOUSE OF COMMONS,
February 27, 1913.

Mr. Maclean (Halifax) moved that the foregoing report be adopted.

Mr. Meighen moved in amendment thereto:—

That the report be not now adopted, but that the same be sent back to the sub-committee with instruction to reduce by half the number of persons mentioned therein, with one person only from the United States to be called.

The question being put on the amendment, it was

Resolved in the affirmative on a standing vote:—Yeas, 24; nays, 18.

Resolved, That the amended report of the sub-Committee be received by the Committee to-morrow (Friday) before the Private Bills are taken up.

Mr. Clark (Bruce) moved:—

That speeches on this Bill be restricted to five minutes, and that no member shall speak more than once on any one clause.

Mr. Currie moved in amendment, that consideration of the said motion be postphoned until a later date. Which was carried in the affirmative, and ordered accordingly.

Mr. Guthrie and Mr. McCurdy submitted amendments as notices of motions. (To be printed and distributed to the Committee.)

The Committee then proceeded to the further consideration of Bill No. 36, respecting Banks and Banking.

Section 2, consideration of "interpretation" paragraphs postponed.

Section 2 amended by inserting new sub-section 3 as follows:—

"3. When by this Act a notice is required to be published in a newspaper for four "weeks or any longer period, publication each week in a weekly newspaper, or once "a week during the period in a newspaper published more frequently, shall be a "sufficient publication for the purposes of this Act."

Former sub-section 3 of section 2 is to then become sub-section 4.

Section 4—

Mr. Thornton moved:—

That the consideration of the date in Section 4, to which the bank charters are to be extended, be postponed for further information and discussion.

Mr. Currie moved in amendment, that the whole section do stand for further consideration.—Which was Resolved in the affirmative.

Section 10 again stands for further consideration.

Section 12—Mr. Aikins' proposed amendment was withdrawn by consent of the Committee.

Section 13—To be reprinted as proposed to be amended.

Section 15—Mr. Aikins' proposed amendment withdrawn by consent of the Committee, and section adopted as printed in the Bill.

Section 16—Read and adopted.

Section 18—Again stands over for further consideration.

Section 19—Read and adopted.

Section 20.—Mr. Sharpe's proposed amendment to subsection 2 thereof withdrawn by consent of the Committee.

Subsection 3 of section 20 amended by adding thereto: "and domiciled in the Dominion of Canada."

Section 21.—Subsection 3, line 39, amended by substituting for the word "election" the words "annual general meeting," and for the word "election" in line 41, the words "said meeting."

Subsection 3 of section 21 further amended by adding thereto: "and by mailing a copy of such notice to each shareholder at his last known post office address as shown by the books of the bank at least twenty days prior to the time of holding the annual general meeting."

Section 22—Read and adopted.

Section 23—Mr. Sharpe's proposed amendment thereto withdrawn by consent of the Committee.

Section 24—Sub-section 1 thereof amended so as to read as follows:—

"24. The directors as soon as may be after their election, shall proceed to elect, "by ballot, *from* their number a president and *one or more* vice-presidents."

Section 25—Read and adopted.

At 1.10 p.m., the Committee adjourned until to-morrow at 11 a.m.

HOUSE OF COMMONS,
COMMITTEE ROOM No. 101,
FRIDAY, February 28, 1913.

Committee met at 11 a.m., Mr. Ames, the Chairman, presiding.

PRESENT—Messrs.—Aikins, Ames, Armstrong (Lambton), Barker, Barnard, Bennett (Calgary), Burnham, Clark (Red Deer), Cockshutt, Currie, Demers, Henderson, Hughes (Kings, P.E.I.), Kemp, Maclean (Halifax), McCraney, McCurdy, Marshall, Meighen, Middlebro, Nesbitt, Northrup, Perley, Power, Rhodes, Sexsmith, Sharpe (Lisgar), Steele, Stewart (Lunenburg), Thomson (Qu'Appelle), Thompson (Yukon), Turriff, Warnock, White (Leeds).

According to order, Mr. Maclean (Halifax) submitted the following as the amended report from the sub-Committee:—

Your sub-Committee, having again met and considered the names of a number of persons, have determined to recommend that the following gentlemen be invited to appear before this Committee from time to time, and to give to the Committee the benefit of their knowledge and experience in matters relating to banking:—

J. B. Forgan, President, National City Bank, Chicago.

Lawrence O. Murray, Supt. of Currency, Washington.

H. C. McLeod, care of H. V. Cann, Mgr. Foreign Dept., National City Bank, New York City.

Sir Edmund Walker. Toronto.

Edson L. Pease, The Royal Bank, Montreal.

Jos. Henderson, care of Bank of Toronto, Toronto.

J. H. Plummer, Sydney, C.B.

Gordon Waldron, *The Weekly Sun,* Toronto.

Editor *Farmers' Advocate,* London, Ont.

APPENDIX No. 2

A representative of The Grain Growers' Ass. of Manitoba.
A representative of The United Farmers of Alberta.
C. A. Dunning, Regina.
The Mgr. or Ass. Mgr. Union Bank of Canada, Winnipeg.
Mgr. Weyburn Security Bank, Weyburn.
Geoffrey Clarkson, Liquidator Toronto.

Your Committee further recommends that a letter of invitation, signed by the Chairman, be sent to each one of the above-mentioned parties, and that the necessary travelling expenses and reasonable hotel expenses be defrayed by Parliament when so desired.

(Signed) HERBERT B. AMES.
A. K. MACLEAN.
J. W. TURRIFF.
SAM. SHARPE.
RICHARD B. BENNETT.

HOUSE OF COMMONS, February 28, 1913.

Mr. MACLEAN (Halifax) then moved the adoption of the foregoing report:

Mr. MEIGHEN moved in amendment thereto,

That the report be amended by striking out the name of the manager of the Union Bank, Canada, and that Mr. G. F. Chipman, editor of the *Grain Growers' Guide,* be called as the representative of the grain growers of Manitoba.

Mr. COCKSHUTT moved in amendment to the amendment:—

That the name of Mr. A. K. Bunnell, Brantford, president of the Chartered Accountants' Association of Ontario, be added to the list.

The question being put on the amendment to the amendment, it was

Resolved in the affirmative on a standing vote:—Yeas, 11; nays, 5.

The report was then adopted as amended.

Mr. AIKINS moved that the report of the Sub-committee as amended by the Committee, be reconsidered and that a representative of the Grain Growers' Association of Manitoba be re-inserted in the list. Which was negatived on division.

The Minister of Finance and Messrs. Graham and Aikins submitted amendments as notices of motions. (To be printed and distributed to the Committee).

Committee adjourned until Wednesday, March 5.

NOTICES OF MOTION.

By Mr. AIKINS.

(Section 13 reprinted as proposed to be amended as follows):—

First meeting of subscribers.

13. *Whenever* a sum not less than five hundred thousand dollars of the capital stock of the bank has been *bona fide* subscribed, *and payments in money on account thereof have been made by the subscribers, the total of such payments making a sum of not less than two hundred and fifty thousand dollars, and as soon thereafter as the provisional directors have paid thereout* to the Minister the sum of two hundred and fifty thousand dollars, the provisional directors may, by public notice published for at least four weeks, call a meeting of the subscribers to the said stock, to be held in the place named in the Act of incorporation as the chief office of the bank, at such time and at such place as is set forth in the said notice.

What is a bona fide subscription.

2. *For the purposes of the foregoing subsection no subscription shall be deemed to have been made bona fide unless payment in money equal to at least ten per cent of the amount subscribed has been made on account of such subscription by the subscriber, and such payment with the date thereof shall be entered on the stock books opposite to such subscription.*

Business thereat.

3. The subscribers shall, at such meeting,—

(*a*) determine the day upon which the annual general meeting of the bank is to be held; and

(*b*) elect such number of directors, duly qualified under this Act, not less than five, as they think necessary.

Tenure of directors.

4. Such directors shall hold office until the annual general meeting next succeeding their election.

Provisional directors cease.

5. Upon the election of directors as aforesaid the functions of the provisional directors shall cease. 53 V., c. 31, s. 13; 4-5 E. VII., c. 4, s. 2. Am.

By Mr. McCURDY.

Section 18.—That the sixth word of line 1, section 18, be changed from "may" to "shall".

By the MINISTER.

Section 35 A.—Line 7, page 15: the word "each" to be added immediately after the word "dollars."

Section 36.—Strike out sub-sections 5 and 6, lines 8 to 15, page 16; the reference to the antecedent statute, 53 V., c. 31, s. 29, Am., being then added to sub-section 4.

APPENDIX No. 2

Section 38.—Add new sub-section 2:

"2. *Any number of calls may be made by one resolution.*"

Sub-sections 2, 3 and 4 will then become 3, 4 and 5, respectively.

Substitute in line 27, page 16, the word "*payable*" for the word "made."

Strike out in line 29 the word "any" and add the letter "s" to the word "call" in the same line.

Section 41.—Line 10, page 17: strike out the words "thirty days"; and in line 11, after word "notice" insert the words "*published for at least four weeks.*"

Line 17, sub-section 3, before the word "vice-president" insert the word "a" and before the words "general manager" in the same line insert the word "*the.*"

Section 43.—In new subsection 2, line 6, page 18, add after the word "description" the words "*of the transferee.*"

Add new sub-sections 4 and 5 as follows:—

"4. The shares shall be transferable *at the chief office of the bank, and at such of its branches and such other places as the directors designate,* according to such form and subject to such rules and regulations as the directors prescribe.

"5. The directors may appoint such agents for the purposes of this section as they deem necessary." 53 V., c. 31. ss. 35 and 29. Am.

NOTE.—This is merely a transfer of sub-sections 5 and 6 struck out of section 36. The change is made inasmuch as these sub-sections more properly come under the heading *Transfer and Transmission of Shares* than under the heading *Shares and Calls.*

Sec. 44.—to be amended so as to read as follows:—

"44. A list of all transfers of shares registered each day in the books of the bank *at the respective places where transfers are authorized,* showing in each case the parties to such transfers and the number of shares transferred, shall be made up at the end of each day."

"2. Such lists shall be kept at the *said respective places* for the inspection of *the* shareholders." 53 V., c. 31, s. 36. Am.

Sec. 46.—sub-section 2, line 46 on page 18: insert the word "*a*" before "vice-president" and the word "*the*" before "general manager."

Sec. 47.—line 6, page 19: insert the word "*lunacy*" before "bankruptcy."

Sec. 54.—sub-section 1, line 10: insert the word "*a*" before "vice-president" and add the word "directors" in the same line the words "*neither of whom shall be an officer of the bank.*"

Insert after (*g*), line 38, page 22, new paragraph (*h*), as follows:—

"(*h*) *Canadian municipal securities, and British, foreign and colonial public other than Canadian,*" and re-letter remaining paragraph of sub-section 2. Line 46: leave space of one and a-half inches after the word "interest" in lines 46 and 48 respectively, so that the amount of rebate of interest may be shown.

By Mr. GUTHRIE.

Section 88.—Amended by adding thereto the following as sub-section 9:—

9. Nothing in this section contained shall in any way alter or affect the preference or priority heretofore granted to wage earners by the statutes of the various provinces of Canada, but such preferences or priorities shall in all cases hereunder be fully maintained.

By Mr. GRAHAM.

Amend section 89 by adding, at the end of sub-section 2, the following:—

"Provided, however, that the filing of a lien note to the unpaid vendor in the office of the Registrar of Deeds, or any other public office, as provided by any provincial law, shall be deemed to be a notice to the bank of the claim of any such unpaid vendor; and also provided, that nothing herein contained shall be deemed to interfere with any employee's lien or any preference in favour of employees, provided by any Provincial statute."

By Mr. AIKINS.

To amend section 54 by adding to paragraph (*j*) of liabilities the words: "and all acceptances"; and by adding to paragraph (*d*) of assets the words: "and the nature of such cash items."

To amend section 76 by adding after the words "The Bank may" the following: "within Canada," and by striking out the words "agencies and offices" in the second line of said section and by adding to subparagraph (e) the following: "open agencies and offices elsewhere than in Canada in so far as the same may be advantageous for the business in Canada."

To amend section 134 by adding the following: "and every bank shall show in its returns under section 112 how much such cash reserves are held in Canada and how much elsewhere."

MINUTES OF PROCEEDINGS.

HOUSE OF COMMONS,
COMMITTEE ROOM No. 101,
MONDAY, March 10, 1913.

A meeting of the Committee was called for 2.15 p.m., this day, for the purpose of authorizing the Chairman to invite substitutes for C. A. Dunning, E. L. Pease and others, to appear before the Committee in connection with Bill No. 36, An Act respecting Banks and Banking.

Owing to certain circumstances, the meeting could not be held at that hour.

The members convened were:—Messieurs. Emmerson, Hughes (Kings), Maclean (York), Ross and Thornton.

The following was submitted as a

NOTICE OF MOTION.

By Mr. EMMERSON.

Section 91—To amend the same by adding thereto the following at the end of the last line thereof:—

"and all payments made by or on behalf of any borrower, whether paid voluntarily or otherwise, and all monies accepted or retained by or on behalf of any bank under

APPENDIX No. 2

" the provisions of this section for interest or discount charges in excess of said rate " of seven per cent, shall be recoverable by the person or corporation so making such " payment or from whom such interest or discount charge in excess of the said rate " of seven per cent, is exacted or retained, in an action therefor in any court of com- " petent jurisdiction."

And by adding the following as subsection 2:—

" 2. All banks shall furnish a statement monthly to the Minister showing the " maximum rate of interest or discount paid to, charged or retained by such bank at " its head office or at any of its branch offices."

ANSWERS TO QUESTIONS 5, 6 AND 7, UNDER RESOLUTION OF BANKING AND COMMERCE COMMITTEE, FEBRUARY 20, 1913, ON MOTION OF MR. SHARPE.

Name of Bank.	Year.	Dividends Paid		Bonuses Paid.		New Stock Issued.	Price paid.	Value of Rights per Share of New Stock.	Total Value of such Rights.
		Rate.	Amount.	Rate.	Amount.				
		%	$ cts.	%	$	$ cts.	$	$ cts.	$
Sterling Bank	1907	5	29,555 86		Nil				
	1908	5	49,273 93		"				
	1909	5	41,625 27		"	date not given			
	1910	5	46,419 68		"	1,000,000 00	100	Nil	
	1911	5	47,319 97		"				
	1912	5 and 6	54,630 64		"				
Bank of Nova Scotia	1900	9	164,641 76		Nil				
	1901	9	176,020 00		"	140,000 00	230	1 00	1,400
	1902	9 and 10	190,000 00		"				
	1903	10	200,000 00		"				
	1904	10	200,000 00		"	Jan. 340,800 00	260	5 00	17,040
	1905	19 & 11	233,209 00		"	Dec. 159,200 00	265	5 00	7,960
	1906	11	308,387 92		"	500,000 00	268	5 00	25,000
	1907	11 & 12	360,000 00		"				
	1908	12	360,000 00		"				
	1909	12	360,000 00		"				
	1910	12	360,000 00		"	1,000,000 00	268	2 00	20,000
	1911	13 & 14	480,106 71		"				
	1912	14	583,537 73		"	1,000,000 00	240	17 50	175,000
Bank of Montreal	1900	10	1,200,000 00		Nil				
	1901	10	1,200,000 00		"				
	1902	10	1,200,000 00		"				
	1903	10	1,303,905 71		"	2,000,000 00	270	12 59	251,800
	1904	10	1,399,740 97		"				
	1905	10	1,420,000 00		"	400,000 00	253	Nil	"Purchase Peoples Bank."
	1906	10	1,440,000 00		"				
	1907	10	1,440,000 00		"				
	1908	10	1,440,000 00		"				
	1909	10	1,440,000 00		"				
	1910	10	1,440,000 00		"				
	1911	10	1,441,160 23		"	1,600,000 00	175	7 10	113,600
	1912	10	1,573,532 17	2%	3,319,384 00				

Metropolitan	1902	Nil		Nil	Nil	Nil	Nil		
	1903	"		"	"	"	"		
	1904	"		"	"	"	"		
	1905	8	80,000 00	"	"	"	"		
	1906	8	80,000 00	"	"	"	"		
	1907	8	80,000 00	"	"	"	"		
	1908	8	80,000 00	"	"	"	"		
	1909	8	80,000 00	"	"	"	"		
	1910	8	80,000 00	"	"	"	"		
	1911	10	100,000 00	"	"	"	"		
	1912	10	100,900 00	"	"	"	"		
Bank of Toronto	1900	10	200,000 00	Nil					
	1901	10	212,907 40	"		500,000 00	200	not possible to ascertain with any certainty.	
	1902	10	258,737 41	1%	25,873 64				
	2903	10	267,802 39	Nil		500,000 00	200		
	1904	10	297,422 55	"					
	1905	10	320,880 50	"		500,000 00	200		
	1906	10	370,293 62	"		500,000 00	200		
	1907	10	398,974 70	"					
	1908	10	400,000 00	"					
	1909	10	400,000 00	"					
	1910	10	400,000 00	"					
	1911	11	455,721 32	"		1,000,000 00	200		
	1912	11	541,959 73	1%	49,269 06				
Banque d'Hochelaga	1900		98,880 34	Nil		250,000 00	130	1 60	4,000
	1901		105,000 00	"					
	1902		111,412 54	"		500,000 00	125	4 00	20,000
	1903		138,889 93	"					
	1904		140,000 00	"					
	1905		210,000 00	"					
	1906		145,000 00	"					
	1907		188,464 36	"		500,000 00	135	2 50	12,500
	1908		200,000 00	"					
	1909		200,000 00	"					
	1910		200,000 00	"					
	1911		218,750 00	"					
	1912		286,117 20	"		500,000 00	145	3 00	15,000
Banque Provinciale	1900	3		Nil		828,054 00	100	Stock not quoted and impossible to ascertain with any certainty.	
	1901	3		"					
	1902	3		"		182 00	100		
	1903	3		"		967 00	100		
	1904	3		"		4,619 00	100		
	1905	3		"		770 00	100		
	1906	3		"		2,300 00	100		

ANSWERS TO QUESTIONS 5, 6 AND 7, UNDER RESOLUTION OF BANKING AND COMMERCE COMMITTEE, ETC.—*Con.*

Name of Bank.	Year.	Dividends Paid.		Bonuses Paid.		New Stock Issued.	Price paid.	Value of Rights per Share of New Stock.	Total Value of such Rights.
		Rate.	Amount.	Rate.	Amount.				
		%	$ cts.	%	$ cts.	$ cts.	$	$ cts.	$
Banque Provinciale—(*Con.*)	1907	5		Nil		170,788 00	100		
	1908	5		"					
	1909	5		"					
	1910	5		"					
	1911	5		"					
	1912	6		"					
Home Bank (commenced business Jan. 2, 1906)	1906	6	38,479 87	Nil					
	1907	6	50,382 59	"					
Stock not listed	1908	6	52,902 43	"		500,000 00	133		
	1909	6	58,851 93	"					
	1910	6	67,293 66	"					
	1911	6	74,833 09	"					
	1912	6 and 7	86,689 25	"					
The Quebec Bank	1900	6	150,000 00						
	1901	6	150,000 00						
	1902	6	150,000 00						
	1903	6	150,000 00						
	1904	7	175,000 00						
	1905	7	175,000 00						
	1906	7	175,000 00						
	1907	7	175,000 00						
	1908	7	175,000 00						
	1909	7	175,000 00						
	1910	7	175,000 00						
	1911	7	175,000 00						
	1912	7	175,000 00						
Royal Bank	1900	7	139,869 89		Nil				
	1901	7	140,000 00		"				
	1902	7	150,000 00		"	500,000 00	250	Nil	
	1903	8	220,171 87		"	500,000 00	200	21 00	105
	1904	8	240,000 00		"				
	1905	8 and 9	247,500 00		"				

	1906	9 & 10	323,782 62	.....	Nil	900,000 00	210	25 00	225,000
	1907	10	390,000 00	.....	"	.....	.....	.....	
	1908	10	390,000 00	.....	"	.....	.....	.....	
	1909	10	463,597 83	.....	"	1,100,000 00	200	33 00	330,000
	1910	11 & 12	586,500 00	.....	"	1,200,000 00	.....	Purchase Union Bk. of Halifax	
	1911	12	744,000 00	.....	"	2,000,000 00	210	26 00	520,000
	1912	12	943,585 97	.....	"	2,360,000 00	.....	Purch. Leaders Bk. of Canada.	
Molsons Bank	1900	8	181,471 35	1%	23 817 37	500,000 00	175	20 00	100,000
	1901	8	200,000 00	1%	25,000 00	.....	.....	.....	
	1902	9	225,000 00	.....	.....	.....	.....	.....	
	1903	9	235,580 95	.....	.....	500,900 00	190	9 00	45,000
	1904	9	266,929 32	.....	.....				
	1905	10	300,000 00	.....	.....	.....	.....	.....	
	1906	10	300,000 00	.....	.....	.....	.....	.....	
	1907	10	320,801 89	.....	.....	500,000 00	200	15 00	75,000
	1908	10	337,287 77	.....	.....				
	1909	10	350,000 00	.....	.....				
	1910	10	350,000 00	.....	.....	500,000 00	210	Nil	
	1911	11	440,000 00	.....	.....	.....	.....	.....	
	1912	11	440,000 00	.....	.....	.....	.....	.....	
Bank of Hamilton.....	1900	8	133,899 08	.....	Nil	Jan. 250,000 00 Oct. 250,000 00	166 166		
	1901	10	198,855 50	.....	"	.....	.....		
	1902	10	200,000 00	.....	"	.....	.....		
	1903	10	207,806 75	.....	"	250,000 00	185	Not possible to ascertain with any certainty.	
	1904	10	222,964 63	.....	"	.....	.....		
	1905	10	231,719 57	.....	"				
	1906	10	246,392 31	.....	"	250,000 00	200		
	1907	10	247,028 50	.....	"				
	1908	10	247,161 00	.....	"				
	1909	10	249,764 28	.....	"				
	1910	10	258,514 53	.....	"	500,000 00	200		
	1911	11	300,809 27	.....	"	.....	.....	.....	
	1912	11	326,965 98	.....	"	.....	.....	.....	
Dominion Bank*.....	1900	12 & 10	183,659 72	.....	.....	1,000,000 00	200	33 00	330,000
	1901	10	236,407 76	.....	.....	.....	.....	.....	
	1902	10	255,640 14	.....	.....	500,000 00	200	51 00	255,000
	1903	10	346,331 59	.....	.....	.....	.....	.....	
	1904	10	300,000 00	.....	.....	.....	.....	.....	
	1905	10	300,000 00	.....	.....	.....	.....	.....	
	1906	12	360,009 00	.....	.....	.....	.....	.....	
	1907	12	428,893 23	.....	.....	1,000,000 00	210	21 00	210,000

*In an added statement The General Manager claims that the market value of the stock, owing to the new issues was depreciated and that the shareholders suffered a temporary loss in each instance in all estimated at $1,867,500.

ANSWERS TO QUESTIONS 5, 6 AND 7, UNDER RESOLUTION OF BANKING AND COMMERCE COMMITTEE, ETC.—*Con.*

Name of Bank.	Year.	Dividends Paid.		Bonuses Paid.		New Stock Issued.	Price paid.	Value of Rights per Share of New Stock.	Total Value of such Rights.
		Rate.	Amount.	Rate.	Amount.				
		%	$ cts.	%	$ cts.	$ cts.	$	$ cts.	$
Dominion Bank—(*Con.*)	1908	12	473,462 64	.....	.....	.....	.....	.....	
	1909	12	478,156 34	.....	.....	.....	.....	.....	
	1910	12	480,000 00	.....	.....	.....	.....	.....	
	1811	12	508,997 40	.....	.....	1,000,000 00	200	25 00	250,000
	1912	12	590,174 17	2	98,362 26	.....	.....	.....	
Imperial Bank	1900	9	203,269 80	½	20,485 24	.....	.....	.....	
	1901	9 & 10	236,429 41	.....	.....	.....	.....	.....	
	1902	10	250,000 00	.....	.....	500,000 00	185	65 00	325,000
	1903	10	285,237 37	.....	.....	.....	.....	.....	
	1904	10	299,194 04	.....	.....	.....	.....	.....	
	1905	10	300,000 00	.....	.....	1,000,000 00	200	37 00	370,000
	1906	10	335,406 23	.....	.....	1,000,000 00	200	34 00	340,000
	1907	10¼	453,212 28	.....	.....	.....	.....	.....	
	1908	11	535,524 21	.....	.....	.....	.....	.....	
	1909	11	549,539 52	.....	.....	.....	.....	.....	
	1910	11	550,000 00	.....	.....	1,000,000 00	200	30 00	300,000
	1811	11¼	625,427 59	.....	.....	.....	.....	.....	
	1912	12	712,349 22	.....	.....	1,000,000 00	200	23 00	230,000
Bank of Ottawa	1900	9	166,060 37	.....	Nil.	.....	.....	.....	
	1901	9	179,740 49	.....	"	.....	.....	.....	
	1902	9	180,000 00	.....	"	.....	.....	.....	
	1903	9	208,743 19	.....	"	500,000 00	190	30 00	150,000
	1904	9	224,407 22	.....	"	.....	.....	.....	
	1905	9½	237,500 00	.....	"	.....	.....	.....	
	1906	10	294,871 15	.....	"	500,000 00	200	20 00	100,000
	1907	10	300,000 00	.....	"	.....	.....	.....	
	1908	10	300,000 00	.....	"	.....	.....	.....	
	1909	10	303,785 83	.....	"	500,000 00	200	10 00	50,000
	1910	10½	360,334 23	.....	"	.....	.....	.....	
	1911	11	885,000 00	.....	"	.....	.....	.....	
	1912	11½	418,432 74	.....	"	500,000 00	200	8 00	40,000

Standard Bank	1900	8	80,000 00	1	5,000 00				
	1901	10	100,000 00						
	1902	10	100,000 00						
	1903	10	100,000 00						
	1904	10	100,000 00						
	1905	10	100,000 00						
	1906	12	132,848 01						
	1907	12	184,538 45			1,000,000 00	200	3 12	31,200
	1908	12	171,599 11						
	1909	12	213,264 07						
	1910	12	238,442 64						
	1911	12	240,000 00						
	1912	13	269,658 25			500,000 00	200	12 50	62,500
Canadian Bank of Commerce	1900	7	420,000 00			2,000,000 00	Purchase	Bank of British Columbia.	
	1901	7	549,268 24						
	1902	7	560,000 00						
	1903	7	584,500 00			700,000 00	Purchase	Halifax Banking Co.	
	1904	7	609,000 00						
	1905	7	685,201 20			1,300,000 00	140	17 85	232,143
	1906	7	700,000 00	1	100,000 00				
	1907	8	800,000 00						
	1908	8	800,000 00						
	1909	8	800,000 00						
	1910	9	900,000 00						
	1911	10	1,062,141 00			2,000,000 00	180	21 12	422,218
	1912	10	1,428,041 96	1	142,804 00	3,000,000 00	Purchase	Eastern Townships Bank.	
Crown Bank	1906	4	32,917 04		Nil				
	1907	4	38,204 78		"				
	1908-6 m	4	19,148 70		"				
Northern Bank	1907	5	59,910 70		Nil				
	1908-6 m	5	31,339 35		"				
Northern Crown Bank	1908-6 m	5	55,039 40		Nil				
	1909	5	110,114 51		"	Date not given.			
	1910	5	110,170 22		"	654,900 00	100	Nil.	
	1911	5 and 6	121,410 88		"				
	1912	6	127,836 48		"				
Union Bank of Canada	1900	6	120,000 00		Nil				
	1901	6	130,000 00		"				
	1902	7	143,678 40		"	250,000 00	125	Nil.	
	1903	7	168,849 27		"	250,000 00	130	5 00	12,500
	1904	7	175,000 00		"				
	1905	7	182,397 00		"	500,000 00	140	4 00	20,000

ANSWERS TO QUESTIONS 5, 6 AND 7, UNDER RESOLUTION OF BANKING AND COMMERCE COMMITTEE, ETC.—*Con.*

Name of Bank.	Year.	Dividends Paid.		Bonuses Paid.		New Stock Issued.	Price paid.	Value of Rights per Share of New Stock.	Total Value of such Rights.
		Rate.	Amount.	Rate.	Amount.				
		%	$ cts.	%	$ cts.	$ cts,	$ cts.	$ cts.	$
Union Bank of Canada—(*Con.*)	1906	7	210,000 00	.....	Nil	.....	.....	.....	.....
	1907	7	213,723 20	.....	"	1,000,000 00	140	5 00	50,000
	1908	7	222,487 95	.....	"	.....	.....	.....	.....
	1909	7	224,126 50	.....	"	.....	.....	.....	.....
	1910	7½	249,621 20	.....	"	.....	.....	.....	.....
	1911	8	360,949 14	.....	"	1,000,000 00	150	2 00	20,000
	1912	8	397,964 30	.....	"	.....	.....	.....	.....
Weyburn Security Bank	1911-6 m	5	7,532 50	.....	Nil	.....	.....	.....	.....
	1912	5	15,625 00	.....	"	27,400 50%	called.100	Stock not listed.	
Merchants Bank	1900	7	420,000 00	.....	Nil	.....	.....	.....	.....
	1901	7	420,000 00	.....	"	.....	.....	.....	.....
	1902	7	420,000 00	.....	"	.....	.....	.....	.....
	1903	7	420,000 00	.....	"	.....	.....	.....	.....
	1904	7	420,000 00	.....	"	.....	.....	.....	.....
	1905	7	420,000 00	.....	"	.....	.....	.....	.....
	1906	7 and 8	450,000 00	.....	"	.....	.....	.....	.....
	1907	8	480,000 00	.....	"	.....	.....	.....	.....
	1908	8	480,000 00	.....	"	.....	.....	.....	.....
	1909	8	480,000 00	.....	"	.....	.....	.....	.....
	1910	8 and 9	510,000 00	.....	"	.....	.....	.....	.....
	1911	9 and 10	570,000 00	.....	"	.....	.....	.....	.....
	1912	10	649,004 53	.....	"	1,000,000 00	175	25	250,000

APPENDIX No. 2

MINUTES OF PROCEEDINGS.

HOUSE OF COMMONS,
COMMITTEE ROOM No. 101,
WEDNESDAY, March 19, 1913.

A meeting of the Committee was called for 11 a.m., this day.

The members convened were: Messieurs Ames (Chairman), Barker, Emmerson, Marshall, Rhodes, Steele and White (Leeds).

On the suggestion of Mr. Barker, it was agreed to make a report to the House recommending that leave be granted to the Committee to sit while the House is in session, for the purpose of hearing parties who have been invited or who may desire to appear before the Committee in connection with Bill No. 36, An Act respecting Banks and Banking.

The meeting was then adjourned until Wednesday next, 26th instant.

(Often referred to in Minutes of Evidence.)

SOME OF THE MAIN QUESTIONS ON WHICH EVIDENCE IS DESIRED BY MEMBERS OF THE BANKING AND COMMERCE COMMITTEE.

Section 4. As to whether bank charters should be continued in force for a longer or shorter period than ten years.

Sections 10 and 13. Whether a further system of local banks with smaller capital is desirable.

Sections 18 and 29. As to what by-laws should be made by shareholders, and what by directors.

Section 34. As to the rate and terms upon which new bank stock may be issued. It is proposed that this be fixed by a Court or Commission instead of, as at present, by the directors.

Sections 43*b* and 77. Proposed that these clauses be struck from the Bill, having for effect to abolish the banks' privileged lien on its own stock when held by a debtor of the bank.

Section 54. As to what fuller details are desirable in the annual and special statements submitted by the directors for the consideration of the shareholders.

Section 56. Alternate proposals as to audit:—

(*a*) The shareholders' audit as set forth in the Bill is the proposal of the Minister of Finance.

(*b*) It will be moved in amendment that there be a system of government audit and inspection. (*See appendix, Exhibit A.*)

Section 61:—

(*a*) The proposal of the Minister is to establish central gold reserves, as set forth in the printed copy of the Bill.

(*b*) The further proposal that banks should pay an annual tax for the privilege of issuing bank notes; and

(*c*) That a tax be levied on monies loaned by Canadian banks in foreign countries. (*See appendix, Exhibit B.*)

Section 76. It is proposed to permit a Canadian bank to establish branches and open agencies outside the Dominion *only* in so far as it can be shown that these are advantageous to its Canadian business.

It is also proposed to place limitations upon a bank's powers to loan:—

(*a*) to mining companies;

(*b*) to companies in which directors or officers of the bank are financially interested;

And to limit the amount which a bank may loan outside of Canada. (*See appendix, Exhibit C.*)

Section 77. See section 43, paragraph (*b*).

Section 83. As to the advisability of banks acting as landlords.

Section 88 and section 2, paragraphs (*d*) and (*k*). As to authorizing banks to loan to farmers upon the security of threshed grain, and to stockmen upon their cattle.

Also, whether claims of wage earners, when so provided by provincial statutes, should be privileged. (*See appendix, Exhibit D.*)

Section 91. As to the rate of interest which banks may charge to borrowers. Also as to other charges for keeping small accounts.

Section 99 *et seq.* The amalgamation of banks. It is proposed in amendment that this be rendered possible only through Act of Parliament.

Section 114. An Amendment is proposed in effect that all unclaimed dividends, drafts, bills of exchange and deposits of solvent banks shall, after six years, revert to the Government. (*See appendix, Exhibit E.*)

Section 140. It is proposed to add a clause making any agreement among bankers, whether specific or implied, to limit competition, a punishable offence. (*See appendix, Exhibit F.*)

Section 153. By the new Act bank officers will be liable for "negligently" signing any statement as to the bank's affairs. Formerly knowledge and intent had to be proven.

Section 158. Where the Minister refuses to take action, it will be in amendment proposed to permit the aggrieved party to bring personal suit for the recovery of the penalties. (*See appendix, Exhibit G.*)

Schedule C. As to the lien of the bank by way of security for loans—and whether this should be registered.

NOTE.—This list by no means exhausts the topics that may be discussed, but merely indicates those matters most likely to be of interest to the Committee.

APPENDIX

EXHIBIT A.

Section 56.—That this section be not now passed, but referred to the Department of Finance with the request that a new section be substituted providing for an efficient system of Government audit and inspection. the inspection to be primarily designed to ensure the provisions of the Bank Act being observed and to ensure that no frauds are being perpetrated upon the public; or in the alternative·

1. The Minister shall appoint a Board of Bank Inspectors consisting of two or more members appointed by the Governor in Council.

2. Each Inspector shall hold office during good behaviour for a period of ten years from the date of the appointment, but may be removed at any time by the Governor in Council for cause. Provided that

(*a*) An Inspector shall cease to hold office upon reaching the age of seventy years.

3. An Inspector on the expiration of his term of office shall, if not disqualified by age, be eligible for re-appointment.

4. One of such Inspectors shall be appointed, by the Governor in Council, Chief Inspector of the Board and shall be entitled to hold the office of Chief Inspector so long as he continues a member of the Board.

APPENDIX No. 2

5. No Inspector shall indirectly or directly hold, purchase, take or become interested in any stock or share of any chartered bank of Canada, nor of any trust or loan or other company having any business dealings with the chartered banks of Canada.

6. The remuneration of the Board of Inspectors shall be fixed by the Governor in Council and be paid by an assesssment of the chartered banks of Canada, such assessment to be according to the paid up capital of each bank.

7. Every bank shall be inspected twice each year or oftener if deemed necessary by the Minister.

8. Each member of the Board of Bank Inspectors shall have a right of access to the books and accounts, cash, securities, documents and vouchers of the bank, and shall be entitled to require from the directors and officers of the bank such information and explanation as may be necessary for the performance of the duties of the Inspector.

9. If the bank has branches or agencies it shall be sufficient for all the purposes of this section if the auditors are allowed access to the returns, reports, and statements and to such copies of extracts from the books and accounts of any such branch or agency as have been transmitted to the chief office, but the Inspectors may in their discretion visit any branch or agency for the purpose of examining the books and accounts, cash, securities, documents, and vouchers at the branch or agency.

10. It shall be the duty of the Inspectors twice at least each year, in addition to such checking and verification as may be necessary, for this report upon the statement submitted to the shareholders under section 54 of this Act, to check the cash and verify the securities of the bank at the Chief Office of the Bank against the entries in regard thereto in the books of the bank, and should they deem it advisable to check and verify in the same manner the cash and securities at any branch or agency.

11. The Inspectors shall make a report to the Minister on the accounts examined by them on the checking of cash and verification of securities referred to in the next preceding sub-section and on the statement of the affairs of the bank submitted by the directors to the shareholders under section 54 of this Act during each year of their tenure of office, and the report shall state:

(*a*) Whether or not they have obtained all the information and explanation they have required.

(*b*) Whether their checking of cash and verification of securities required by subsection 10 of this section agreed with the entries in the books of the bank with regard thereto.

(*c*) Whether, in their opinion, the statement referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the bank's affairs according to the best of their information and the explanation given them, and as shown by the books of the bank.

(*d*) Whether there have been any violations of the provisions of the Bank Act, and if so, in what particulars, and

(*e*) Whether there are any acts of fraud being perpetrated by the officials or officers of the bank.

EXHIBIT B.

Section 61.—That the following subsections be added:—

'21. The bank shall pay to the Government of Canada an annual tax equal to .....per cent on every one hundred dollars of notes issued under the authority of this Act.

'22. The bank, in addition to this annual tax, shall pay to the Government of Canada a tax equal to.....per cent on every one hundred dollars loaned in foreign countries.'

EXHIBIT C.

Section 76.—That subsection 2 be amended by adding the following paragraphs:—

(*d*) lend money or make advances to a mining company or mining corporation in which the president, directors, manager or other officer thereof is or are directly or indirectly interested.

(*e*) lend money or make advances in excess of $ to any company or corporation in which the president, directors, manager or other officers thereof is or are directly or indirectly interested without the unanimous consent of all the directors present at a special board meeting called for the purpose of passing upon such loan or advances. Should all the directors be either directly or indirectly interested in the company or the corporation seeking the loan or advance then the loan or advances shall not be made under any circumstances.

(*f*) lend money or make advances in excess of ten per cent of its paid up capital to any foreign person, company or corporation, or upon the securities of such foreign person, company or corporation, or in excess of twenty-five per cent of its paid up capital to any person residing in Canada or any company or corporation having its head office in Canada or upon the securities of such person, company or corporation.

That section 77 be stricken out.

EXHIBIT D.

Section 88—Amended by adding thereto the following as subsection 9:—

9. Nothing in this section contained shall in any way alter or affect the preference or priority heretofore granted to wage earners by the statutes of the various provinces of Canada, but such preferences or priorities shall in all cases hereunder be fully maintained.

or

Section 8.—Subsection 2, add these words:—

"And provided further that such preference shall not be given over the claims of any mechanic or workman for four weeks' wages earned in respect to the goods, wares and merchandise on which the bank holds the security aforesaid."

EXHIBIT E.

Section 114.—Subsection 8 be amended by adding thereto:—

"The bank shall transfer and pay over to the Minister notwithstanding any statute of limitation or other Act relating to prescription,—

'(*a*) all stock, no dividend whereon is claimed for six years before the last day on which a dividend thereon becomes payable (except where payment of dividend has been restrained by order of a court);

'(*b*) all dividends and all amounts of drafts or bills of exchange issued by the bank which have remained unpaid for more than six years after they became payable;

'(*c*) all sums of money, deposits or balances in respect of which no transactions have taken place, or upon which no interest has been paid, or no acknowledgement has been made by the bank, or to which no claim has been made by any person entitled thereto, during the six years prior to the date of the last annual return of the bank.

"2. If a claim to any stock so transferred or money so paid is thereafter established to the satisfaction of the Treasury Board, the Governor in Council shall, on the report of the Treasury Board, direct the retransfer or payment thereof to be made to the person entitled thereto.

"3. Upon transfer or payment to the Minister as herein provided, the bank and its assets shall be held to be discharged from further liability for the stock so transferred and the amounts so paid."

APPENDIX No. 2

EXHIBIT F.

Section 140*b*.—"Every person who, being the president, vice-president, director, general manager, manager or other officer of a bank, enters into an agreement with any other president, vice-president, director, general manager, manager, or other officer of any other bank, or is a party to any agreement to which a bank is a party to control, regulate, raise or lower the rates of interest on deposits or loans, discounts, or exchange, or limit competition in establishing branch banks, shall be guilty of an indictable offence and liable to imprisonment for a term not exceeding five years, or to a fine not exceeding $2,000, or to both."

EXHIBIT G.

Section 158.—Subsection 3 be amended by adding thereto:—

"In case any violation of this Act be brought to the attention of the Minister, and on request the latter refuses to sue for the amount of the penalties as provided by this Act, and neglects to sue for a period of three months after such notice, then such person so notifying the Minister may bring suit in his own name for the recovery of the penalties and such penalties shall belong to such person so suing."

MINUTES OF PROCEEDINGS.

HOUSE OF COMMONS,
COMMITTEE ROOM No. 101,
WEDNESDAY, March 26, 1913.

Committee met at 11 a.m.

PRESENT—Messrs. Aikins, Armstrong (Lambton), Ball, Barker, Beattie, Buchanan, Burnham, Charlton, Emmerson, Guthrie, Henderson, Kay, Kemp, Loggie, Macdonell, McCurdy, Martin (Regina), Middlebro, Nesbitt, Nickle, Osler (Sir Edmund), Papineau, Rhodes, Robb, Ross, Sexsmith, Sharpe (Lisgar), Steele, Sutherland, Thompson (Yukon), Thornton, Turriff, Warnock, Webster, White (Leeds).

In the absence of the Chairman, on motion of Mr. Rhodes, Mr. Barker took the chair.

The Committee proceeded to the further consideration of Bill No. 36, An Act respecting Banks and Banking.

Section 20, subsection 3 thereof, reconsidered and further amended by striking out "the Dominion of" in the previous amendment.

Section 21, the previous addition to subsection 3 thereof amended so as to read, "and by mailing a copy of such notice to each shareholder at his last known post-office address as shown by the books of the bank at least twenty days prior to the time aforesaid."

Section 26 amended by adding the word "a" before "vice-president" in line 25.

Section 28 amended by striking out the word "the" before "vice-president," line 35, and inserting therefor the word "a"; and by adding the letter "s" to the word "vice-president" in line 38; and by inserting the word "a" before "vice-president" in line 45.

Section 29 stands over for further consideration.

Section 30 amended by striking out subsection 2.

Section 31, line 50, insert the word "a" before "vice-president."

Section 32.—Adopted with the exception of subsections 7 and 8, which were reserved for further consideration.

Section 33 adopted.

Section 34 stands for further consideration.

Section 35 adopted.

Section 35A again read and further amended by striking out the word "last" in line 8 and reinserting therefor the word "next"; and by inserting the word "each" after "dollars" in line 10.

Section 36 again read and amended by striking out subsections 5 and 6 thereof, the same to be transferred to form part of section 43.

Section 38 amended by adding the following as a new subsection:

2. "*Any number of calls may be made by one resolution.*"

Subsections 2, 3 and 4 of the Bill being renumbered 3, 4 and 5, respectively.

In subsection renumbered 3, substitute the word "*payable*" for the word "made."

In subsection renumbered 4, strike out the word "any" and add the letter "s" to the word "call."

Section 41, line 8, strike out "thirty days," and in line 9, after the word "notice" insert the words "*published for at least four weeks.*"

In subsection 3 of section 41, line 1, before the word "vice-president" insert the word "a" and before the words "general manager" in the same line insert the word "*the.*"

Section 41, subsections 1, 3 and 4 thereof stand over for further consideration.

Sections 43 and 44 stand over for further consideration.

Section 46, line 7, insert the word "a" before "vice-president," and the word "*the*" before "general manager."

Section 46, subsection 1 thereof adopted; and subsections 2 and 3 stand over for further consideration.

Section 47 again read as previously amended by inserting "lunacy" after "death"" in line 3, and by inserting "the" before "person" in line 12, and by inserting "or a commissioner for taking affidavits" after "public" in line 17.

Section 49 read and adopted.

Section 51 read and adopted.

Section 53 stands over for further consideration.

Further consideration of the Bill postponed until to-morrow (Thursday).

The Minister of Finance and Messrs. McCurdy and Middlebro, submitted various proposed amendments, which were ordered to be printed as notices of motions.

The Committee then adjourned until to-morrow at 11 a.m.

NOTICES OF MOTIONS.

By Mr. McCURDY.

Section 131A.—Add new subsection 4 thereto, as follows:—

"Any person who, being a director, officer, clerk, or servant of a bank, accepts, directly or indirectly, a gift, payment or other consideration or receives a promise of consideration from any person who is seeking or has obtained, on his own or any other account, a loan or discount or other advantage from the bank, shall be guilty of an offence against this Act."

Section 32.—Strike out subsection 8 thereof and substitute therefor the following:

APPENDIX No. 2

"A proxy may be given to vote only at one meeting of the shareholders or an adjournment thereof, and shall not be valid unless it has been made in writing within three months last preceding the date of such meeting."

By Mr. MIDDLEBRO.

That Section 56 be amended by adding after the word "meeting" in the first line thereof the following words:

"And subsequent to the election of Directors."

Also by adding the following as sub-section 1A of section 56:—

"No shareholder elected as a Director at the said annual meeting, and no shareholder who was a Director of said Bank for the year preceding the said annual meeting, or for part thereof, shall vote upon or for the appointment of said auditor or auditors either upon the shares standing in the books of the said Bank in his own name or by proxy for other shareholders of the said Bank."

Also by adding the following as section 56B:

"(1) If at the said annual meeting shareholders representing one fourth of the shares of the Bank request an inspection and audit of the said Bank by an auditor or auditors to be appointed by the Minister, the Minister shall, within one month from receipt of written notice of such request, appoint a suitable person or persons to examine and enquire into the affairs and business of the said Bank, and such auditor or auditors shall, at the conclusion of such examination and enquiry, report fully to the Minister the results thereof, and a certified copy of such Report shall thereupon be mailed or delivered to the said Bank."

"(2) For the purposes of this section the auditor or auditors so appointed shall have all the rights and powers given to an auditor under section 56 of this Act."

"(3) Upon the performance of the duties imposed by this section by the said auditor or auditors the Minister shall fix the remuneration therefor which shall thereupon be paid by the said Bank to the said auditor or auditors."

By the MINISTER.

Section 56.—To amend section 56 by inserting new subsection 2, as follows:—

"2. *After the appointment of an auditor or auditors under the next preceding "subsection of this section, shareholders the aggregate of whose paid-up capital stock "is equal to at least one-third of the paid-up capital stock of the bank, who in writ-"ing under their respective hands allege that they are dissatisfied with the appoint-"ment so made, may, in and by the same writing, make application to the Minister "to have the person or persons so appointed superseded, and the Minister may, after "such inquiry as he may deem necessary, select an auditor or auditors instead of the "auditor or auditors appointed at the annual general meeting, and the auditors so "appointed shall thereupon cease to be the auditors of the bank and the auditors so "selected shall be the auditors of the bank until the next annual general meeting.*"

Re-number remaining subsections in consequence of the addition of new 2.

Change the figure "5," line 45, page 24, to "6."

Substitute for re-numbered sub-section 11—"Remuneration of Auditors"—the following:—

"11. *The remuneration of auditors appointed by the shareholders shall be fixed by the shareholders at the time of their appointment, and in the event of such*

appointees being superseded and other auditors selected, as provided by sub-section 2 of this section, the remuneration so fixed shall be divided between them according to the length of time they respectively are auditors of the bank."

Amend new sub-section 15 by adding new sub-clause (b), as follows:—

"(*b*) Whether, in their opinion, the transactions of the bank have been within the powers of the bank;"

Change existing (*b*) and (*c*) of this sub-section to (*c*) and (*d*), respectively, and change the figures "13" in line 42 to the figures "14."

Section 56A.

AUDITORS' REPORT TO MINISTER.

Substitute for section 56A the following:—

"56A. *The Minister may direct and require any auditor appointed under the next preceding section of this Act, or any other auditor whom he may select. to examine and inquire specially into any of the affairs or business of the bank and the auditor so appointed or selected, as the case may be, shall, at the conclusion of his examination and inquiry, report fully to the Minister the results thereof.*"

2. *For the purposes of this section the auditor appointed or selected as aforesaid shall have all the rights and powers given to an auditor under the next preceding section.*"

"3. *For the performance of the duties imposed by this section, the auditor shall be paid as remuneration out of the Consolidated Revenue Fund such sum as the Governor in Council may direct.*"

"4. *The person selected by the Minister under this section shall, for the purposes of section 153 of this Act, be deemed to be an auditor of the bank.*"

Section 57. Strike out in line 1, page 27, the words "at least thirty days" and insert after the word "notice" in line 2, the words "published for at least four weeks."

Strike out the word "or" in line 4, page 27, and substitute therefor the word "and."

Strike out the word "or" in line 5, and substitute therefor the word "and."

NOTICE OF MOTION BY THE MINISTER.

Section 61. Amend subsection 10, line 37, page 29, by substituting the word "his" for the word "their."

Subsection 13, line 6, page 30, strike out the words "the members"; line 7, strike out the word "of" and the words "in such relative amounts."

Subsection 18, line 44, page 30, insert the word "a" before the word "vice-president."

Subsection 20, line 9, page 31, insert the words "last mentioned" before the word "Bank."

Section 62. Line 23, page 31, strike out the words, "office or" and insert in lieu thereof the word "branch"; line 24, after the word "agency" insert the words "or office"; line 34, substitute for the word "nor" the word "and"; line 41, strike out the words "office or" and substitute therefor the word "branch"; insert after the word "agency," in the same line, the words "or office"; line 46, strike out the words "an office" and substitute therefor the words "a branch"; line 47, insert after the word "agency" the words "or office."

Section 71. Line 38, page 35, insert before the word "offices' the words "branches, agencies or."

APPENDIX No. 2

Section 74. Substitute for the present proviso the following:—

Provided that if all such names are impressed by machinery, at least one such name to each note or bill together with a distinguishing device and number shall be impressed or engraved under the authority of the bank after the notes are received by the bank from the engraver and printer, and shall not be otherwise impressed or engraved. 53 V., c. 31, s. 29. Am.

Section 77. Subsection 3, before the word "vice-president" insert the word "a" and before the words "general manager" insert the word "the."

Section 84. Strike out the word "general," line 19, page 40; strike out the words "in such form," line 24.

Section 86. Subsection 2, sub-clause *b*, strike out the words "right and title," line 9, page 41, and substitute therefor the words "goods, wares and merchandise."

Section 88. Sub-section 1, line 2, page 42, strike out the word "and" and substitute therefor the word "or."

Line 3, same page, strike out the word "and" and substitute therefor the word "or."

Subsection 2, line 6, strike out the words "(of any kind)."

Substitute for existing sub-sections 5, 6, 7 and 8 the following:—

"5. *If, with the consent of the bank,* the goods, wares and merchandise, *live stock or dead stock or the products thereof, upon the security of which money has been loaned under the authority of sub-sections 1 and 4 of this section, are* removed and other goods, wares and merchandise, *live stock or dead stock or the products thereof* of substantially the same character *are respectively* substituted therefor, *then to the extent of the value of the goods, wares and merchandise, or live stock or dead stock or the products thereof* so removed the goods, wares and merchandise, live stock or dead stock or the products thereof so substituted shall be covered by such security as if originally covered thereby; *but failure to obtain the consent of the bank to any such substitution shall not affect the validity of the security either as respects any goods, wares and merchandise, or live stock or dead stock or the products thereof actually substituted as aforesaid or in any other particular.*

"6. Any such security, as mentioned in the foregoing provisions of this section, may be given by the owner of the said goods, wares and merchandise. *stock or products thereof, grain or cattle*

"7. The security may be taken in the form set forth in Schedule 'C' to this Act or to the like effect.

"8. The bank shall by virtue of such security acquire the same rights and powers in respect of the goods, wares and merchandise, *stock or products thereof, grain or cattle* covered thereby as if it had acquired the same by virtue of a warehouse receipt; *provided, however, that the wages, salaries or other remuneration of persons employed by any wholesale purchaser, shipper or dealer, by any wholesale manufacturer, by any farmer or rancher, in connection with any of the several wholesale businesses referred to, or in connection with the farm or ranch respectively, for a period not exceeding three months, shall be a charge upon the property covered by the said security in priority to the claim of the bank thereunder, and such wages, salaries or other remuneration shall be paid by the bank if the bank takes possession or in any way disposes of the said security or of the goods, wares and merchandise, stock or products, grain or cattle covered thereby."*

MINUTES OF PROCEEDINGS.

HOUSE OF COMMONS,
COMMITTEE ROOM No. 101,
THURSDAY, March 27, 1913.

Committee met at 11 a.m.

PRESENT—Messrs. Armstrong (Lambton), Baker, Ball, Barker, Best, Broder, Buchanan, Burnham, Carvell, Charlton, Clark (Bruce), Currie, Donnelly, Emmerson, Guthrie, Henderson, Jameson, Kay, Kemp, Loggie, Macdonald, Macdonell, McCurdy, Middlebro, Nesbitt, Nickle, Osler (Sir Edmund), Pardee, Rhodes, Ross, Sharpe (Ontario), Sinclair, Steele, Thompson (Yukon), Thornton, Turriff, Warnock, Webster, White (Leeds).

In the absence of the Chairman, Mr. Barker took the chair.

The Committee proceeded to the further consideration of Bill No. 36, An Act respecting Banks and Banking.

Section 54, again to stand over for future consideration.

Section 55 again read and adopted.

Sections 56 and 56A again to stand over for future consideration.

Section 57 again read, and amended by striking out the words "at least thirty days'" in line 1 of subsection 2; and by inserting the words "published for at least four weeks," after "notice" in line 2 of subsection 2, and by substituting "and" for "or" in line 2 of subsection 3; and by substituting "and" for "or" in line 3 of subsection 3, and adopted as amended.

Section 58 again read, and adopted as previously amended.

Section 59 again read, and adopted.

Section 60 again read, and adopted.

Section 61 again to stand over for future consideration.

Section 62 again read, and amended by striking out the words "office or" and inserting therefor the word "branch," in line 2, and by inserting the words "or office" after "agency" in line 3; and by making the same changes in subsections 3 and 4; and by substituting "and" for "nor" in line 3 of subsection 2. Section adopted as amended.

Section 64 again read and adopted.

Section 70 again read, and adopted.

Section 72 again read, and reserved for further consideration.

Section 74 again read, and amended by inserting the words "*together with a distinguishing device and number*" after "*bill*" in line 13, and adopted as amended.

Sections 76, 77 and 79 again to stand over for future consideration.

Section 83 again read, and reserved for future consideration.

Section 84 again read as amended previously, and further amended by making a new section 84A out of subsection 2, and adopted as further amended.

Sections 86, 87, 88, 89, 90, 91, 92 and 93 again reserved for future consideration.

Section 94 again read. Mr. Ross moved to amend the same by substituting the words "one-quarter" for the words "one-half" in line 7. Further consideration postponed.

Section 97 again read and reserved for further consideration.

Mr. Turriff moved "that Mr. Frederic Kirkham, of Saltcoats, Sask., be required to appear at once and give evidence before the Committee, and that his travelling and living expenses shall be paid."

After discussion, the foregoing motion was postponed for further consideration.

The Committee then adjourned until to-morrow at 11 a.m., for the consideration of Private Bills.

APPENDIX No. 2

PROPOSED AMENDMENTS TO BILL No. 36, RESPECTING BANKS AND BANKING.

WEDNESDAY, April 2, 1913.

By Mr. AIKINS.

To add to paragraph (*b*) of section 4 the following: "If the same has not been increased or decreased but if increased or decreased then as increased or decreased before the passing of this Act."

By Mr. SHARPE (Ontario).

Section 4.—To be amended by substituting the word "twenty" for the word "twenty-three" in line 31.

Section 10.—That section 10 be struck out and the following substituted therefor:—

Banks shall consist of three different classes: (*a*) Dominion banks with branches in more than one province, (*b*) Provincial banks wit hbranches in only one province, and (*c*) City or County banks with no branches.

The capital stock of such banks hereafter incorporated shall be not less than $500,000 for Dominion banks, $250,000 for Provincial banks, and $100,000 for City or County banks.

And the capital stock of any bank shall be divided into shares of one hundred dollars each.

By Mr. AIKINS.

First meeting of subscribers.

(Section 13 reprinted as proposed to be amended as follows):—

13. *Whenever* a sum not less than five hundred thousand dollars of the capital stock of the bank has been *bona fide* subscribed, *and payments in money on account thereof have been made by the subscribers, the total of such payments making a sum of not less than two hundred and fifty thousand dollars, and as soon thereafter as the provisional directors have paid thereout* to the Minister the sum of two hundred and fifty thousand dollars, the provisional directors may, by public notice published for at least four weeks, call a meeting of the subscribers to the said stock, to be held in the place named in the Act of incorporation as the chief office of the bank, at such time and at such place as is set forth in the said notice.

What is a bona fide subscription.

2. *For the purposes of the foregoing subsection no subscription shall be deemed to have been made bona fide unless payment in money equal to at least ten per cent of the amount subscribed has been made on account of such subscription by the subscriber, and such payment with the date thereof shall be entered on the stock books opposite to such subscription.*

Business thereat.

3. The subscribers shall, at such meeting,—

(*a*) determine the day upon which the annual general meeting of the bank is to be held; and

(*b*) elect such number of directors, duly qualified under this Act, not less than five, as they think necessary.

Tenure of directors.

4. Such directors shall hold office until the annual general meeting next succeeding their election.

Provisional directors cease.

5. Upon the election of directors as aforesaid the functions of the provisional directors shall cease. 53 V., c. 31, s. 13; 4-5 E. VII., c. 4, s. 2. Am.

By Mr. McCURDY.

Section 18.—That the sixth word of line 1, section 18, be changed from "may" to "shall".

By Mr. SHARPE (Ontario).

Section 18.—To strike out paragraph (*h*).

By Mr. AIKINS.

To amend section 29 by adding after the word "Act" in the second line thereof the following:—

"or to any by-law duly passed by the shareholders."

By Mr. SHARPE (Ontario).

Section 29, paragraph (*a*) struck out and the following substituted:—

"(*a*) The management of the affairs and concerns of the Bank."

By Mr. McCURDY.

Section 32.—Strike out sub-section 8 thereof and substitute therefor the following:—

"A proxy may be given to vote only at one meeting of the shareholders or an adjournment thereof, and shall not be valid unless it has been made in writing within three months last preceding the date of such meeting."

By Mr. SHARPE (Ontario).

Section 34, subsection 1 struck out and the following substituted:—

"Any of the original unsubscribed capital stock, or of the increased stock of the bank shall, at such time as the directors determine, be allotted to the then shareholders of the bank pro rata, at such rate and on such terms as are fixed by..... .....some competent court or commission designated by Order-in-Council upon application by the Directors, and until such court or commission be created or designated, on such terms as are fixed by the Treasury Board."

By the MINISTER.

In section 34, line 19, insert the word "at" before "such"—a printer's omission.

Section 34—

In new sub-section 2 of section 34, line 34, substitute "ninety days" for the words "sixty days."

Sub-section 3 of section 34: Substitute the following therefor:—

"Any of such allotted stock which is not *accepted* by a shareholder to whom the "allotment has been made, within *the time so fixed,* or which he declines to accept, "*together with such shares as remain unallotted because of the provisions of this sec-*"*tion that no fraction of a share can be allotted,* may be offered for subscription to "the public in such manner and on such terms as the directors prescribe." 53 V., C. 31, S. 27, Am.

By Mr. SHARPE (Ontario).

Section 41.—That sub-section 1 be struck out and the following words be added to section 2 after the word "do" in line 11: "and personal service of such notice on such shareholders or his personal representatives."

APPENDIX No. 2

By Mr. McCURDY.

That paragraph (*b*) of clause 43 be struck out.

By Mr. SHARPE (Ontario).

Section 43.—That sub-section (*b*) be struck out.

By the MINISTER.

Section 43.—In new sub-section 2, line 6, page 18, add after the word "description" the words "*of the transferee*"

Add new sub-sections 4 and 5 as follows:—

"4. The shares shall be transferrable *at the chief office of the bank, and at such of its branches and such other places as the directors designate,* according to such form and subject to such rules and regulations as the directors prescribe.

"5. The directors may appoint such agents for the purposes of this section as they deem necessary." 53 V., c. 31, ss. 35 and 29. Am.

NOTE.—This is merely a transfer of sub-sections 5 and 6 struck out of section 36. The change is made inasmuch as these sub-sections more properly come under the heading *Transfer and Transmission of Shares* than under the heading *Shares and Calls.*

Sec. 44.—to be amended so as to read as follows:—

"44. A list of all transfers of shares registered each day in the books of the bank *at the respective places where transfers are authorized,* showing in each case the parties to such transfers and the number of shares transferred, shall be made up at the end of each day."

"2. Such lists shall be kept at the *said respective places* for the inspection of *the shareholders.*" 53 V., c. 31, s. 36. Am.

By Mr. SHARPE (Ontario).

Section 46.—That in sub-section (2) all the words after "purchase," in line 48 be struck out.

By the MINISTER.

Sec. 54.—sub-section 1, line 10: insert the word "*a*" before "vice-president" and add the word "directors" in the same line the words "*neither of whom shall be an officer of the bank.*"

Insert after (*g*), line 38, page 22, new paragraph (*h*), as follows:—

"(*h*) *Canadian municipal securities, and British, foreign and colonial public other than Canadian,*" and re-letter remaining paragraph of sub-section 2. Line 46: leave space of one and a-half inches after the word "interest" in lines 46 and 48 respectively, so that the amount of rebate of interest may be shown.

By Mr. AIKINS.

To amend section 54 by adding to paragraph (*j*) of liabilities the words: "and all acceptances"; and by adding to paragraph (*d*) of assets the words: "and the nature of such cash items."

By Mr. MIDDLEBRO.

That Section 56 be amended by adding after the word "meeting" in the first line thereof the following words:—

"*And subsequent to the election of Directors*"

Also by adding the following as subsection 1A, of section 56:—

"No shareholder elected as a Director at the said annual meeting, and no shareholder who was a Director of said Bank for the year preceding the said annual meeting, or for part thereof, shall vote upon or for the appointment of said auditor or auditors either upon the shares standing in the books of the said Bank in his own name or by proxy for other shareholders of the said Bank."

Also by adding the following as Section 56B:—

"(1) If at the said annual meeting shareholders representing one-fourth of the shares of the Bank, request an inspection and audit of the said Bank by an auditor or auditors to be appointed by the Minister, the Minister shall, within one month from receipt of written notice of such request, appoint a suitable person or persons to examine and inquire into the affairs and business of the said Bank, and such auditor or auditors shall at the conclusion of such examination and inquiry report fully to the Minister the results thereof, and a certified copy of such report shall thereupon be mailed or delivered to the said Bank."

"(2) For the purposes of this section the auditor or auditors so appointed shall have all the rights and powers given to an auditor under section 56 of this Act.

"(3) Upon the performance of the duties imposed by this section by the said auditor or auditors, the Minister shall fix the remuneration therefor which shall thereupon be paid by the said bank to the said auditor or auditors."

By Mr. SHARPE (Ontario).

Section 56.—That this section be not now passed, but referred to the Department of Finance with the request that a new section be substiuted providing for an efficient system of Government audit and inspection, the inspection to be primarily designed to ensure the provisions of the Bank Act being observed and to ensure that no frauds are being perpetrated upon the public; or in the alternative:

1. The Minister shall appoint a Board of Bank Inspectors consisting of two or more members appointed by the Governor in Council.

2. Each Inspector shall hold office during good behaviour for a period of ten years from the date of the appointment, but may be removed at any time by the Governor in Council for cause. Provided that

(*a*) An Inspector shall cease to hold office upon reaching the age of seventy years.

3. An Inspector on the expiration of his term of office shall, if not disqualified by age, be eligible for re-appointment.

4. One of such Inspectors shall be appointed by the Governor in Council Chief Inspector of the Board and shall be entitled to hold the office of Chief Inspector so long as he continues a member of the Board.

5. No Inspector shall indirectly or directly hold, purchase, take or become interested in any stock or share of any chartered bank of Canada, nor of any trust or loan or other company having any business dealings with the chartered banks of Canada.

6. The remuneration of the Board of Inspectors shall be fixed by the Governor in Council and be paid by an assessment of the chartered banks of Canada, such assessment to be according to the paid up capital of each bank.

7. Every bank shall be inspected twice each year or oftener if deemed necessary by the Minister.

8. Each member of the Board of Bank Inspectors shall have a right of access to the books and accounts, cash, securities, documents and vouchers of the bank, and

APPENDIX No. 2

shall be entitled to require from the directors and officers of the bank such information and explanation as may be necessary for the performance of the duties of the Inspector.

9. If the bank has branches or agencies it shall be sufficient for all the purposes of this section if the auditors are allowed access to the returns, reports, and statements and to such copies of extracts from the books and accounts of any such branch or agency as have been transmitted to the chief office, but the Inspectors may in their discretion visit any branch or agency for the purpose of examining the books and accounts, cash, securities, documents, and vouchers at the branch or agency.

10. It shall be the duty of the Inspectors twice at least each year, in addition to such checking and verification as may be necessary, for this report upon the statement submitted to the shareholders under section 54 of this Act, to check the cash and verify the securities of the bank at the Chief Office of the Bank against the entries in regard thereto in the books of the bank, and should they deem it advisable to check and verify in the same manner the cash and securities at any branch or agency.

11. The Inspectors shall make a report to the Minister on the accounts examined by them on the checking of cash and verification of securities referred to in the next preceding sub-section and on the statement of the affairs of the bank submitted by the directors to the shareholders under section 54 of this Act during each year of their tenure of office, and the report shall state:

(*a*) Whether or not they have obtained all the information and explanation they have required.

(*b*) Whether their checkinfg of cash and verification of securities required by subsection 10 of this section agreed with the entries in the books of the bank with regard thereto.

(*c*) Whether, in the opinion, the statement referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the bank's affairs according to the best of their information and the explanation given them, and as shown by the books of the bank.

(*d*) Whether there have been any violations of the provisions of the Bank Act, and if so, in what particulars, and

(*e*) Whether there are any acts of fraud being perpetrated by the officials or officers of the bank.

By the MINISTER.

Section 56.—To amend section 56 by inserting new subsection 2, as follows:—

"2. *After the appointment of an auditor or auditors under the next preceding "subsection of this section, shareholders the aggregate of whose paid-up capital stock "is equal to at least one-third of the paid-up capital stock of the bank, who in writ- "ing under their respective hands allege that they are dissatisfied with the appoint- "ment so made, may, in and by the same writing, make application to the Minister "to have the person or persons so appointed superseded, and the Minister may, after "such inquiry as he may deem necessary, select an auditor or auditors instead of the "auditor or auditors appointed at the annual general meeting, and the auditors so "appointed shall thereupon cease to be the auditors of the bank and the auditors so "selected shall be the auditors of the bank until the next annual general meeting.*"

Re-number remaining subsections in consequence of the addition of new 2.

Change the figure "5," line 45, page 24, to "6."

Substitute for re-numbered subsection 11—"Remuneration of Auditors"—the following:—

"11. *The remuneration of auditors appointed by the shareholders shall be fixed by the shareholders at the time of their appointment, and in the event of such appointees being superseded and other auditors selected, as provided by sub-section*

2 of this section, the remuneration so fixed shall be divided between them according to the length of time they respectively are auditors of the bank."

Amend new sub-section 15 by adding new sub-clause (*b*), as follows.—

" (*b*) Whether, in their opinion, the transactions of the bank have been within the powers of the bank;"

Change existing (*b*) and (*c*) of this sub-section to (*c*) and (*d*), respectively, and change the figures " 13 " in line 42 to the figures " 14."

Section 56A.

AUDITORS' REPORT TO MINISTER.

Substitute for section 56A the following:—

" 56A. *The Minister may direct and require any auditor appointed under the next preceding section of this Act, or any other auditor whom he may select, to examine and inquire specially into any of the affairs or business of the bank and the auditor so appointed or selected, as the case may be, shall, at the conclusion of his examination and inquiry, report fully to the Minister the results thereof.*

" 2. *For the purposes of this section teh auditor appointed or selected as aforesaid shall have all the rights and powers given to an auditor under the next preceding section.*

" 3. *For the performance of the duties imposed by tihs section, the auditor shall be paid as remuneration out of the Consolidated Revenue Fund such sum as the Governor in Council may direct.*

" 4. *The person selected by the Minister under this section shall, for the purposes of section 153 of this Act, be deemed to be an auditor of the bank.*

Section 57.—Strike out in line 1, page 27, the words " at least thirty days " and insert after the word " notice " in line 2, the words " published for at least four weeks."

Strike out the word " or " in line 4, page 27, and substitute therefor the word " and."

Strike out the word " or " in line 5, and substitute therefor the word " and."

By Mr. STEELE.

To amend section 61 by adding to the first sub-section thereof a paragraph as follows:—

(*c*) But the bank shall not re-issue such notes until the same have been sterilized, by heating them to a temperature of 270 degrees or by some other method approved by the Minister.

By the MINISTER.

Section 61. Amend subsection 10, line 37, page 29, by substituting the word " his " for the word " their."

Subsection 13, line 6, page 30, strike out the words " the members "; line 7, strike out the word " of " and the words " in such relative amounts."

Subsection 18, line 44, page 30, insert the word " a " before the word " vice-president."

Subsection 20, line 9, page 31, insert the words " last mentioned " before the word " Bank."

By Mr. SHARPE (Ontario).

Section 61.—That the following subsections be added:—

' 21. The bank shall pay to the Government of Canada an annual tax equal to .....per cent on every one hundred dollars of notes issued under the authority of this Act.

APPENDIX No. 2

'22. The bank, in addition to this annual tax, shall pay to the Government of Canada a tax equal to.....per cent on every one hundred dollars loaned in foreign countries.'

By the MINISTER.

Section 62. Line 23, page 31, strike out the words, "office or" and insert in lieu thereof the word "branch"; line 24, after the word "agency" insert the words "or office"; line 34, substitute for the word "nor" the word "and"; line 41, strike out the words "office or" and substitute therefor the word "branch"; insert after the word "agency," in the same line, the words "or office"; line 46, strike out the words "an office" and substitute therefor the words "a branch"; line 47, insert after the word "agency" the words "or office."

Section 71. Line 38, page 35, insert before the word "offices' the words "branches, agencies or."

By Mr. STEELE.

To amend section 72 by adding thereto the following sub-sections:—

3. or in Dominion notes or bank notes unless the same have been sterilized, by heating to a temperature of at least 270 degrees or by some other method approved by the Minister, before each issue or payment of the same after the first issue.

4. No payment shall be made in Canada in silver or nickel coinage of any other country, or in bills which are not Dominion notes or Canadian bank notes.

By the MINISTER.

Section 74. Substitute for the present proviso the following:—

Provided that if all such names are impressed by machinery, at least one such name to each note or bill together with a distinguishing device and number shall be impressed or engraved under the authority of the bank after the notes are received by the bank from the engraver and printer, and shall not be otherwise impressed or engraved. 53 V., c. 31, s. 29. Am.

By Mr. AIKINS.

To amend section 76 by adding after the words "The Bank may" the following: "within Canada," and by striking out the words "agencies and offices" in the second line of said section and by adding to sub-paragraph (*e*) the following: 'open agencies and offices elsewhere than in Canada in so far as the same may be advantageous for the business in Canada."

By Mr. SHARPE (Ontario).

Section 76.—That subsection 2 be amended by adding the following paragraph:—

(*d*) lend money or make advances to a mining company or mining corporation in which the president, directors, manager or other officer thereof is or are directly or indirectly interested.

(*e*) lend money or make advances in excess of $ to any company or corporation in which the president, directors, manager or other officers thereof is or are directly or indirectly interested without the unanimous consent of all the directors present at a special board meeting called for the purpose of passing upon such loan

or advances. Should all the directors be either directly or indirectly interested in the company or the corporation seeking the loan or advance then the loan or advances shall not be made under any circumstances.

(*f*) lend money or make advances in excess of ten per cent of its paid up capital to any foreign person, company or corporation, or upon the securities of such foreign person, company or corporation, or in excess of twenty-five per cent of its paid up capital to any person residing in Canada or any company or corporation having its head office in Canada or upon the securities of such person, company or corporation.

That section 77 be stricken out.

By Mr. McCURDY.

To strike out section 77.

By the MINISTER.

Section 77. Subsection 3, before the word "vice-president" insert the word "a" and before the words "general manager" insert the word "the."

Section 84. Strike out the word "general," line 19, page 40; strike out the words "in such form," line 24.

Section 86. Subsection 2, sub-clause (*b*), strike out the words "right and title," line 9, page 41, and substitute therefor the words "goods, wares and merchandise,"

Section 88. Sub-section 1, line 2, page 42, strike out the word "and" and substitute therefor the word "or."

Line 3, same page, strike out the word "and" and substitute therefor the word "or."

Subsection 2, line 6, strike out the words "(of any kind)."

Substitute for existing sub-sections 5, 6, 7 and 8 the following:—

"5. *If, with the consent of the bank,* the goods, wares and merchandise, *live stock or dead stock or the products thereof, upon the security of which money has been loaned under the authority of sub-sections 1 and 4 of this section, are* removed and other goods, wares and merchandise, *live stock or dead stock or the products thereof* of substantially the same character *are respectively* substituted therefor, *then to the extent of the value of the goods, wares and merchandise, or live stock or dead stock or the products thereof* so removed the goods, wares and merchandise, live stock or dead stock or the products thereof so substituted shall be covered by such security as if originally covered thereby; *but failure to obtain the consent of the bank to any such substitution shall not affect the validity of the security either as respects any goods, wares and merchandise, or live stock or dead stock or the products thereof actually substituted as aforesaid or in any other particular.*

"6. Any such security, as mentioned in the foregoing provisions of this section, may be given by the owner of the said goods, wares and merchandise, *stock or products thereof, grain or cattle.*

"7. The security may be taken in the form set forth in Schedule 'C' to this Act or to the like effect.

"8. The bank shall by virtue of such security acquire the same rights and powers in respect of the goods, wares and merchandise, *stock or products thereof, grain or cattle* covered thereby as if it had acquired the same by virtue of a warehouse receipt; *provided, however, that the wages, salaries or other remuneration of persons employed by any wholesale purchaser, shipper or dealer, by any wholesale manufacturer, by any farmer or rancher in connection with any of the several wholesale business referred to, or in connection with the farm or ranch respectively, for*

APPENDIX No. 2

a period not exceeding three months, shall be a charge upon the property covered by the said security in priority to the claim of the bank thereunder, and such wages, salaries or other remuneration shall be paid by the bank if the bank takes possession or in any way disposes of the said security or of the goods, wares and merchandise, stock or products, grain or cattle covered thereby."

By Mr. AIKINS.

To substitute for sub-section 2 of section 88 the following:—

"The bank may lend money to a person engaged in farming upon the security of threshed grain."

By Mr. SHARPE (Ontario).

Section 88, That sub-section 3 be struck out and the following substituted therefor:—

"The bank may lend money to a *farmer* upon the security of his *live stock.*"

Section 8.—That sub-section 9 be added:—

"Such security or a copy thereof shall be mailed by registered letter to the offices to be filed therein in the various provinces of the Dominion where bills of sale and chattel mortgages are required now to be filed within twenty-four hours of the giving of such security."

Section 8.—Sub-section 2, add these words:—

"And provided further that such preference shall not be given over the claims of a mechanic or workman for four weeks' wages earned in respect to the goods. wares and merchandise on which the bank holds the security aforesaid."

By Mr. GUTHRIE.

Section 88—Amended by adding thereto the following as sub-section 9:—

"9. Nothing in this section contained shall in any way alter or affect the preference or priority heretofore granted to wage earners by the statutes of the various provinces of Canada, but such preferences or priorities shall in all cases hereunder be fully maintained."

By Mr. GRAHAM.

Amend section 89 by adding, at the end of sub-section 2, the following:—

"Provided, however, that the filing of a lien note to the unpaid vendor in the office of the Registrar of Deeds, or any other public office, as provided by any provincial law, shall be deemed to be a notice to the bank of the claim of any such unpaid vendor; and also provided, that nothing herein contained shall be deemed to interfere with any employee's lien or any preference in favour of employees, provided by any Provincial statute."

By Mr. EMMERSON.

Section 91—To amend the same by adding thereto the following at the end of the last line thereof:—

"and all payments made by or on behalf of any borrower, whether paid voluntarily "or otherwise, and all monies accepted or retained by or on behalf of any bank under "the provisions of this section for interest or discount charges in excess of said rate "of seven per cent, shall be recoverable by the person or corporation so making such

" payment or from whom such interest or discount charge in excess of the said rate " of seven per cent, is exacted or retained, in an action therefor in any court of com- " petent jurisdiction."

And by adding the following as subsection 2:—

" 2. All banks shall furnish a statement monthly to the Minister showing the " maximum rate of interest or discount paid to, charged or retained by such bank at " its head office or at any of its branch offices."

By Mr. SHARPE (Ontario).

That section 99 be struck out.

Section 114. —Subsection 8 be amended by adding thereto:—

" The bank shall transfer and pay over to the Minister notwithstanding any statute of limitation or other Act relating to prescription,—

' (*a*) all stock, no dividend whereon is claimed for six years before the last day on which a dividend thereon becomes payable (except where payment of dividend has been restrained by order of a court);

' (*b*) all dividends and all amounts of drafts or bills of exchange issued by the bank which have remained unpaid for more than six years after they became payable;

' (*c*) all sums of money, deposits or balances in respect of which no transactions have taken place, or upon which no interest has been paid, or no acknowledgement has been made by the bank, or to which no claim has been made by any person entitled thereto, during the six years prior to the date of the last annual return of the bank.

" 2. If a claim to any stock so transferred or money so paid is thereafter established to the satisfaction of the Treasury Board, the Governor in Council shall, on the report of the Treasury Board, direct the retransfer or payment thereof to be made to the person entitled thereto.

" 3. Upon transfer or payment to the Minister as herein provided, the bank and its assets shall be held to be discharged from further liability for the stock so transferred and the amounts so paid."

Section 138.—Sub-section (*a*) is amended by inserting after the word "manager" in line 6 in said subsection (*a*) the following words:—

" And every local manager of a branch."

By Mr. McCURDY.

Section 131A.—Add new subsection 4 thereto, as follows:—

" Any person who, being a director, officer, clerk, or servant of a bank, accepts, directly or indirectly, a gift, payment or other consideration or receives a promise of consideration from any person who is seeking or has obtained, on his own or any other account, a loan or discount or other advantage from the bank, shall be guilty of an offence against this Act."

Section 32.—Strike out subsection 8 thereof and substitute therefor the following:

" A proxy may be given to vote only at one meeting of the shareholders or an adjournment thereof, and shall not be valid unless it has been made in writing within three months last preceding the date of such meeting."

By Mr. AIKINS.

To amend section 134 by adding the following: " and every bank shall show in its returns under section 112 how much such cash reserves are held in Canada and how much elsewhere."

APPENDIX No. 2

By Mr. SHARPE (Ontario).

Section 138.—Sub-section (*a*) is amended by inserting after the word "manager" in line 6 in said subsection (*a*) the following words:—

"And every local manager of a branch."

Section 140*b*.—"Every person who, being the president, vice-president, director, general manager, manager or other officer of a bank, enters into an agreement with any other president, vice-president, director, general manager, manager, or other officer of any other bank, or is a party to any agreement to which a bank is a party to control, regulate, raise or lower the rates of interest on deposits or loans, discounts, or exchange, or limit competition in establishing branch banks, shall be guilty of an indictable offence and liable to imprisonment for a term not exceeding five years, or to a fine not exceeding $2,000, or to both."

Section 158.—Subsection 3 be amended by adding thereto:—

"In case any violation of this Act be brought to the attention of the Minister, and on request the latter refuses to sue for the amount of the penalties as provided by this Act, and neglects to sue for a period of three months after such notice, then such person so notifying the Minister may bring suit in his own name for the recovery of the penalties and such penalties shall belong to such person so suing."

MINUTES OF PROCEEDINGS.

HOUSE OF COMMONS,
COMMITTEE ROOM No. 101,
FRIDAY, March 28, 1913.

Committee met at 11 a.m., Mr. Ames, the Chairman, presiding.

PRESENT—Messrs. Ames, Armstrong (Lambton), Barker, Barnard, Beattie, Bennett (Calgary), Best, Burnham, Carvell, Currie, Edwards, Emmerson, Fisher, Henderson, Loggie, Macdonell, Meighen, Nesbitt, Papineau, Perley, Ross, Sharpe (Lisgar), Thornton, Turriff and White (Leeds).

In connection with Bill No. 36, An Act respecting Banks and Banking, the question of deciding when the examination of the persons invited to give their views on the Bank Act, should begin, having been raised by the Chairman,

Mr. Emmerson moved, That such examination do begin on Wednesday next, the 2nd April.

The question being put to the Committee, it was resolved in the affirmative.

The Committee then proceeded to the consideration of Private Bills.

NOTICE OF MOTION.

By Mr. CURRIE.

New section 97A:—

A depositor in a bank, not being under sixteen years old, may by writing under his hand delivered at or sent to the office, nominate any person, not being an officer or servant of the directors (unless such officer or servant be the husband, wife, father, mother, child, grandchild, brother, sister, nephew or niece, of the nominator), to whom any sum, not exceeding five hundred dollars, which may remain due to such depositor at his decease may be paid at such decease, and may from time to time

revoke or vary such nomination by writing under his hand similarly delivered or sent; and on receiving satisfactory proof of the death of a nominator, the directors shall pay to the nominee the sum due to the deceased depositor, provided it does not exceed five hundred dollars.

A nomination may be partly printed, and if made in a book kept at the office shall be taken to be delivered at such office.

All payments made by a bank under the powers aforesaid shall be valid with respect to any demand of any other person as next of kin to a deceased member, or as his lawful representative or person claiming to be such representative, against the bank, or the directors, but such next of kin, representative or claimant shall have remedy for recovery of such money, so paid as aforesaid, against the person or persons who shall have received the same.

MINUTES OF PROCEEDINGS.

HOUSE OF COMMONS,
COMMITTEE ROOM No. 101,
WEDNESDAY, April 2, 1913.

Committee met at 11 a.m., Mr. Ames, the Chairman, presiding.

PRESENT—Messrs. Ames, Armstrong (Lambton), Ball, Barker, Beattie, Best, Broder, Buchanan, Burnham, Charlton, Clark (Bruce), Cockshutt, Donnelly, Edwards, Emmerson, Guthrie, Henderson, Hughes (Kings, P.E.I,). Kay, Kemp, Loggie, Macdonald, Macdonnell, Maclean (Halifax), McCraney, McCurdy, Marshall, Meighen, Middlebro, Nesbitt, Northrup, Power, Rhodes, Ross, Sexsmith, Sharpe (Ontario), Sinclair, Steele, Stewart (Hamilton), Stewart (Lunenburg), Thomson (Qu'Appelle), Thompson (Yukon), Thornton, Turriff, Webster, White (Leeds).

The Committee proceeded to the further consideration of Bill No. 36, An Act respecting Banks and Banking.

The following persons, invited to give their views on the foregoing Bill, reported to the Committee:—

Messrs. H. C. McLeod and Gordon Waldron, Toronto; Peter McArthur, Appin, Ont.

Mr. Henry Collingwood McLeod, bank manager, was called. After reading a prepared statement (printed herewith), Mr. McLeod was examined by members of the Committee. At one o'clock Mr. McLeod's examination was discontinued, to be resumed to-morrow.

By a standing vote, the Committee resolved to meet at 10.30 a.m. to-morrow (Thursday).

HOUSE OF COMMONS,
COMMITTEE ROOM, No. 101.
THURSDAY, April 3, 1913.

Committee met at 10.30 a.m., Mr. Ames, the Chairman, presiding.

PRESENT.—Messrs. Ames, Armstrong (Lambton), Baker, Ball, Barker, Beattie, Charlton, Clark (Bruce), Cockshutt, Donnelly, Edwards, Emmerson, Fisher, Guthrie, Henderson, Hughes (Kings, P.E.I.), Jameson, Kay, Kemp, Knowles, Loggie, Mac-

donald, Maclean (Halifax), McCraney, McCurdy, Marshall, Middlebro, Nesbitt, Nickle, Northrup, Papineau, Pardee, Rhodes, Robb, Ross, Sexsmith, Sharpe (Lisgar), Sharpe (Ontario), Sutherland, Thomson (Qu'Appelle), Thompson (Yukon), Thornton, Turriff and White (Leeds).

The Committee again proceeded to the further consideration of Bill No. 36, An Act respecting Banks and Banking.

The following persons, invited to give their views on the foregoing Bill, were present:—Messrs. H. C. McLeod, G. Waldron, P. McArthur, A. K. Bunnell, and J. Henderson.

Mr. McLeod's examination was resumed by the Minister and others.

On motion of Mr. Maclean (Halifax), it was

Resolved, That a report be made to the House recommending that leave be granted to the Committee to sit to-day while the House is in session, for the purpose of hearing parties who have been invited to appear before them in connection with Bill No. 36, An Act respecting Banks and Banking.

At one o'clock, the Committee rose to sit again at four o'clock, p.m., subject to the adoption by the House of the foregoing report.

The examination of Mr. McLeod was resumed, and concluded.

On motion of Mr. White (Leeds), seconded by Mr. Maclean (Halifax), it was

Resolved, That a hearty vote of thanks be tendered Mr. McLeod for his kind attendance before the Committee at the cost of long travel and great personal inconvenience.

Accordingly, the Chairman offered to Mr. McLeod the unanimous thanks and appreciation of the Committee.

It being 6 o'clock, the Committee rose to resume at 8 o'clock, p.m.

8 O'CLOCK, P.M.

The Chairman stated he "wished to have entered on our record a correction that should be made in the proceedings of the Committee of March 10, 1913, on page 4. In the answers to questions 5, 6 and 7 the Bank of Montreal apparently has paid out in bonuses in the year 1912 $3,319,384. That is a clerical error and the $3,000,000 should be struck out. It should be $319,384. The Bank people wish to have that entered on the Minutes, so that no one will be misled by it."

Mr. Gordon Waldron, of *The Weekly Sun,* Toronto, Mr. Arthur K. Bunnell, president of the Chartered Accountants' Association of Ontario, of Brantford; and Mr. Peter McArthur, of Appin, Ontario, were then called to give their views on Bill No. 36, and were thanked by the Committee.

On motion of Mr. Armstrong, (Lambton), Mr. W. D. Albright, Mng. Editor of *The Farmers' Advocate,* of London, Ontario, was also called upon to give his views on Bill No. 36, and was thanked by the Committee.

The Committee than adjourned until to-morrow (Friday) at 10.30 a.m.

HOUSE OF COMMONS,
COMMITTEE ROOM, No 101,
FRIDAY, April 4, 1913.

Committee met at 10.30 a.m., Mr. Ames, the Chairman, presiding.

PRESENT—Messrs. Ames, Armstrong (Lambton), Ball, Barker, Beattie, Broder, Burnham, Clark (Bruce), Cockshutt, Donnelly, Emmerson, Guthrie, Henderson, Hughes (Kings, P.E.I.), Jameson, Kay, Law, Loggie, Macdonald, Maclean Halifax),

McCraney, McCurdy, Marshall, Nesbitt, Nickle, Northrup, Papineau, Rainville, Rhodes, Robb, Ross, Sexsmith, Sharpe (Ontario), Thomson (Qu'Appelle), Thompson (Yukon), Thornton, Turriff, Warnock, Webster, White (Leeds).

The Committee proceeded to the further consideration of Bill No. 36, An Act respecting Banks and Banking.

Mr. G. T. Clarkson, of Toronto, was called and questioned by members, and thanked by the Committee.

Mr. J. Henderson, of Toronto, was called and questioned by members. At one o'clock Mr. Henderson's examination was discontinued to be resumed this afternoon

Resolved, That a report be made to the House recommending that leave be granted to them to sit to-day while the House is in Session, for the purpose of hearing parties who have been invited to appear before the said Committee in connection with Bill No. 36, An Act respecting Banks and Banking.

The Committee then adjourned until four o'clock p.m., subject to the adoption by the House of the foregoing report.

4 o'clock p.m.

Mr. Henderson's examination was resumed, and continued until six o'clock, to be completed at the next sitting of the Committee.

The Committee then adjourned until Tuesday next, at 10.30 a.m.

HOUSE OF COMMONS,
COMMITTEE ROOM, No. 101,
TUESDAY, April 8, 1913.

Committee met at 10.30 a.m., Mr. Ames, the Chairman, presiding.

PRESENT.—Messrs. Aikins, Ames, Armstrong (Lambton), Ball, Barker, Barnard, Beattie, Burnham, Clark (Bruce), Cockshutt, Donnelly, Emmerson, Henderson, Hughes (Kings, P.E.I.), Kay, Kemp, Loggie, Macdonell, Maclean (Halifax), McCraney, McCurdy, Middlebro, Nesbitt, Nickle, Northrup, Osler (Sir Edmund), Papineau, Pardee, Rainville, Rhodes, Robb, Rose, Sexsmith, Sharpe (Ontario), Sutherland, Thompson (Yukon), Thornton, Turriff, Weichel and White (Leeds).

The Committee again proceeded to the further consideration of Bill No. 36, An Act respecting Banks and Banking.

The examination of Mr. J. Henderson, vice-president of the Bank of Toronto, was resumed.

On motion of Mr. Cockshutt, it was

Resolved, That a report be made to the House recommending that leave be granted to the Committee to sit today while the House is in session, for the purpose of hearing parties who have been invited to appear before them in connection with Bill No. 36, An Act respecting Banks and Banking.

At one o'clock the Committtee rose to sit again at four o'clock, p.m., subject to the adoption by the House of the foregoing report.

(The following should have been printed in conjunction with Mr. Clarkson's examination on page 4, of No. 13, of the Proceedings.)

Mr. G. T. Clarkson's memoranda on the sections hereinafter named:—

Re Section No. 11—

Query, if provisional directors are not to be required to have some qualifications.

APPENDIX No. 2

In the case of the Farmers' Bank of Canada, some of the provisional directors had not subscribed for even $1 of stock previous to the organization meeting, when subscriptions for one share each, par value $100, were put in.

Within my experience several attempts have been made to promote banking institutions by impecunious promoters who were interested, not so much in getting the banks started for the purpose of doing banking business, but to provide opportunities to sell stock so that they might earn commissions, or obtain salaries or positions.

I do not think it wise to hamper the promotion of banks by putting stiff qualifications on the promoters, but at the same time, it appears to me that it would be wise that some qualification should be necessary as a guarantee of bona fide interest on the part of those who obtain charters. As matters are now, if the certificate be not obtained, the promoters, unless they subscribe for stock, stand no share of the expense of promotion which falls entirely upon those whom they have induced to subscribe by arguments insufficient to warrant their risking resources of their own.

Re Section No. 16—

I do not see any provision for an evening up between subscribers in case the bank does not receive its certificate and it becomes necessary to distribute the funds collected.

It is in cases of this kind where the accounts between shareholders have to be levelled that the most abnormal expense occurs, costing as it often does more than the amounts at issue. Unless it is felt that the point is otherwise covered, I would suggest that provision be included requiring the directors, before they distribute the funds, to bring before a Judge of the Superior or County Court a list of subscribers giving their names, addresses, the amounts they have subscribed for and the amounts they have paid upon their subscriptions, and that without undue formalities and delays having to be gone through the Judge be empowered to issue a warrant or order requiring payment by those who have underpaid so as to permit equitable distribution.

This can, of course, be accompanied by liquidation under the Dominion Winding Up Act, but only at an enormous proportionate cost, and, if it is at all possible to get away from such liquidation and permit the levelling up of the accounts to be accomplished in an informal, direct and simple manner, it will save a great deal of money and be most beneficial to the subscribers.

Re Section No. 37—

In the liquidation of the Farmers' Bank of Canada, we are in a quandary as to the meaning of this Section, when taken with Section 125. We have a contributory list of nearly $1,800,000 in respect of $584,500 of capital stock outstanding, and in many cases, we have claims for stock which has been sold and forfeited two or three times over. I submit that the intention of the Section should be made clear as to whether it is intended that once a person subscribes for stock, and the same be forfeited, he is forever liable, in case of insolvency of the bank, to pay, or if it is intended that he shall be liable only under certain restricted conditions, and, if so, for what—payment of subscription only, or double liability also.

Re Section No. 125—

Query as to the meaning of this Section, when taken in conjunction with Section No. 37.

What is the position of a person who subscribes for stock which is forfeited? Is he liable to pay for such stock no matter how long after forfeiture the winding up takes place, and is he also liable to pay double liability, or not?

HOUSE OF COMMONS,
COMMITTEE ROOM No. 101,
WEDNESDAY, April 9, 1913.

Committee met at 10.30 a.m., Mr. Ames, the Chairman, presiding.

PRESENT:—Messrs. Aikins, Ames, Ball, Barker, Barnard, Charlton, Clark (Bruce), Cockshutt, Donnelly, Edwards, Emmerson, Hughes (Kings, P.E.I.), Jameson, Kay, Loggie, Macdonald, Maclean (Halifax), Maclean (York, Ont.), McCraney, McCurdy, Nesbitt, Nickle, Northrup, Osler (Sir Edmund), Rhodes, Robb, Ross, Sexsmith, Sharpe (Ontario), Steele, Sutherland, Thornton, Turriff, White (Leeds).

The Committee proceeded to the further consideration of Bill No. 36, An Act respecting Banks and Banking.

The examination of Mr. Jos. Henderson, vice-president of the Bank of Toronto, was resumed and concluded, after which a vote of thanks was tendered Mr. Henderson by the Chairman.

Mr. H. B. McKenzie, of the Bank of British North America, Montreal, was then called and questioned by members, and thanked by the Committee.

On motion of Mr. Sharpe (Ontario), it was

Resolved, That the memorandum from Mr. George Hague, formerly manager of the Merchants Bank of Canada, and addressed to the Committee on Banking and Commerce, be printed in this day's proceedings.

The Committee then adjourned until to-morrow at 10.30 a.m.

HOUSE OF COMMONS,
COMMITTEE ROOM, No. 101,
THURSDAY, April 10, 1913.

Committee met at 10.30 a.m., Mr Ames, the Chairman, presiding.

PRESENT:—Messrs. Aikins, Ames, Armstrong (Lambton), Baker, Ball, Barker, Beattie, Best, Burnham, Charlton, Clark (Bruce), Cockshutt, Crocket, Emmerson, Foster (Kings, N.S.), Guthrie, Henderson, Hughes (Kings, P.E.I.), Jameson, Kemp, Knowles, Loggie, Macdonell, Maclean (Halifax), Maclean (York, O.), McCraney, McCurdy, Marshall, Middlebro, Nesbitt, Nickle, Northrup, Osler (Sir Edmund), Papineau, Pardee, Rainville, Rhodes, Robb, Ross, Sexsmith, Sharpe (Lisgar), Sharpe (Ontario), Steele, Sutherland, Thomson (Qu'Appelle), Thompson (Yukon), Thornton, Turriff, Warnock, White (Leeds).

The Chairman stated that he had received a letter from Mr. H. C. McLeod calling attention to some matters in his evidence; and it was

Resolved, that the said letter be printed as an appendix to the proceedings of the Committee.

The Committee then proceeded to the further consideration of Bill No. 36, An Act respecting Banks and Banking.

Mr. J. B. Forgan, president of First National Bank of Chicago, was called and questioned by members.

Resolved, That a report be made to the House recommending that leave be granted to them to sit to-day while the House is in Session for the purpose of hearing parties

APPENDIX No. 2

who have been invited to appear before the said Committee in connection with Bill No. 36, An Act respecting Banks and Banking.

The Committee then adjourned until 3.30 o'clock p.m., subject to the adoption by the House of the foregoing report.

3.30 p.m.

Mr. Forgan's examination was resumed, and concluded.

During his examination, Mr. Forgan submitted an address on "Clearing House Bank Examinations," delivered by himself at the 15th annual dinner of the Bankers' Club of Detroit, December 7, 1912. (*Exhibit No. 3.*)

Also, an address on "Should National Bank Deposits be Guaranteed by the Government or by a Deposit with the Government," &c., delivered by himself before the Bankers' Association of Illinois. (*Exhibit No. 4.*)

Also, an address before the American Bankers' Association on "Bank Examination and Management." (*Exhibit No. 5.*)

On motion of Mr. Armstrong (Lambton), it was

Resolved, That the foregoing papers be printed as an appendix to the proceedings of the Committee.

At the conclusion of his examination, the Chairman, in the name of the Committee, tendered Mr. Forgan a hearty vote of thanks for his kind attendance and valuable information.

The Committee then adjourned until to-morrow at 10.30 o'clock a.m.

FRIDAY, April 11, 1913.

Committee met at 10.30 a.m., Mr. Ames, the Chairman, presiding.

PRESENT:—Messrs Aikins, Ames, Baker, Ball, Barker, Barnard, Beattie, Best, Broder, Burnham, Charlton, Clark (Bruce), Clark (Red Deer), Cockshutt, Donnelly, Edwards, Guthrie, Henderson, Hughes (Kings, P.E.I.), Jameson, Kemp, Knowles, Loggie, Macdonell, Maclean (Halifax), McCraney, McCurdy, Marshall, Middlebro, Nesbitt, Northrup, Papineau, Pardee, Perley, Rhodes, Robb, Ross, Sexsmith, Sharpe (Lisgar), Sharpe (Ontario), Steele, Stewart (Hamilton), Sutherland, Thomson (Qu'Appelle), Thompson (Yukon), Thornton, Turriff, Warnock, White (Leeds).

The Committee proceeded to the further consideration of Bill No. 36, An Act respecting Banks and Banking.

Mr. Geo. S. Chipman, editor of *Grain Growers' Guide,* Winnipeg, was called, and questioned by members. After which a vote of thanks was tendered Mr. Chipman by the Chairman in the name of the Committee.

Resolved, That a report be made to the House recommending that leave be granted to the Committee to sit to-day while the House is in session, for the purpose of hearing parties who have been invited to appear before them in connection with Bill No. 36, An Act respecting Banks and Banking.

At one o'clock, the Committee rose to sit again at 3.30 o'clock, p.m., subject to the adoption by the House of the foregoing report.

3.30 p.m.

Mr. Ross, Assistant Deputy Minister of Finance, was called by the chairman to give a brief summary of the Dominion legislation regulating the rate of interest in Canada.

Mr. Edward J. Fream, honorary secretary of the United Farmers of Alberta, &c., was then called, and questioned by the members, and thanked by the chairman in the name of the committee.

Mr. H. O. Powell, general manager of the Weyburn Security Bank, of Weyburn, Sask., was called, and questioned by members, and thanked by the chairman in the name of the committee.

The committee then adjourned until Tuesday next, 15th instant, at 10.30 a.m.

TUESDAY, April 15, 1913.

Committee met at 10.30 a.m., Mr. Ames, the Chairman, presiding.

PRESENT.—Messrs. Aikins, Ames, Armstrong (Lambton), Ball, Barker, Barnard, Beattie, Best, Burnham, Charlton, Clark (Bruce), Cockshutt, Crocket, Donnelly, Emmerson, Fisher, Foster (Kings N.S.), Henderson, Jameson, Kemp, Knowles, Loggie, Macdonell, McCraney, McCurdy, Marshall, Middlebro, Nesbitt, Nickle, Northrup, Osler, (Sir Edmund), Perley, Rainville, Rhodes, Robb, Ross, Sexsmith, Sharpe (Lisgar), Sharpe (Ontario), Sinclair, Thomson (Qu'Appelle), Thompson (Yukon), Thornton, Warnock, White (Leeds).

The Committee proceeded to the further consideration of Bill No. 36, An Act respecting Banks and Banking.

The question of inviting additional persons to appear before the Committee in connection with the above mentioned Bill having been raised, it was agreed to leave the determination of this matter until the meeting of to-morrow (Wednesday).

Mr. R. McKenzie, secretary of the Manitoba Grain Growers' Association, was then called and questioned by members, and thanked by the committee.

Mr. F. W. Green, secretary of the Grain Growers' Association of Saskatchewan, was called and questioned by members. His examination to be resumed at this afternoon sitting.

Resolved, That a report be made to the House recommending that leave be granted to the Committee to sit to-day while the House is in session, for the purpose of hearing parties who have been invited to appear before them in connection with Bill No. 36, An Act respecting Banks and Banking.

At one o'clock the Committee rose to sit again at four o'clock, p.m., subject to the adoption by the House of the foregoing report.

4 o'clock, p.m.

Mr. Green's examination was resumed and concluded. After which he was tendered a vote of thanks by the committee.

The Committee then adjourned until to-morrow at 10.30 a.m.

HOUSE OF COMMONS,
COMMITTEE ROOM, No. 101,
WEDNESDAY, April 16, 1913.

Committee met at 10.30 a.m., Mr. Ames, the Chairman, presiding.

PRESENT:—Messrs. Aikins, Ames, Armstrong (Lambton), Armstrong (York, Ontario), Baker, Ball, Barker, Barnard, Beattie, Best, Boyce, Charlton, Clark (Bruce),

APPENDIX No. 2

Cockshutt, Currie, Donnelly, Emmerson, Henderson, Hughes (Kings, P.E.I.), Jameson, Kemp, Knowles, Loggie, Macdonell, Maclean (Halifax), McCurdy, McLean (Sunbury), Marshall, Middlebro, Nesbitt, Nickle, Northrup, Osler (Sir Edmund), Perley, Power, Rainville, Rhodes, Robb, Ross, Sexsmith, Sharpe (Ontario), Sinclair, Steele, Sutherland, Thompson (Yukon), Thornton, Tobin, Warnock, Webster, White (Leeds).

The Committee proceeded to the further consideration of Bill No. 36, An Act respecting Banks and Banking.

According to Order, the question of determining whether additional persons should be invited to appear before the Committee was taken up.

Mr. Nickle moved, That Mr. Lawrence O. Murray, Superintendent of Currency, Washington, D.C., or some person named by him, be invited to appear before the Committee to explain the American system of bank inspection. Also, Mr. Ed. L. Pease, Manager of the Royal Bank, Montreal.

Mr. Rainville suggested that Mr. G. N. Ducharme, as representative of the Chambre de Commerce of Montreal, be also invited to appear before the Committee.

Mr. Nesbitt moved in amendment to Mr. Nickle's motion, That Mr. Ducharme's name be substituted for that of Mr. Pease.

The question being put on the amendment, it was negatived on division.

The question then being put on Mr. Nickle's motion, as modified by Mr. Rainville's suggestion, it was resolved in the affirmative, and ordered accordingly.

Sir Edmund Walker, president of the Canadian Bank of Commerce, was called and questioned by members.

Resolved, That a report be made to the House recommending that leave be granted to the Committee to sit to-day while the House is in session, for the purpose of hearing parties who have been invited to appear before them in connection with Bill No. 36, An Act respecting Banks and Banking.

At one o'clock, the Committee rose to sit again at 3.30 o'clock, p.m., subject to the adoption by the House of the foregoing report.

3.30 p.m.

Sir Edmund Walker's examination was resumed, and discontinued to be taken up again to-morrow at 10.30 a.m.

On motion of Mr. Nickle, it was

Resolved, That an analytic index to the proceedings of the Committee on the Bank Act be prepared without delay for the use of the Committee.

On motion of Mr. Sharpe (Ontario), it was

Resolved, That Mr. H. C. McLeod's pamphlet on "Bank Inspection: The Necessity for External Examination," be printed as an appendix to the proceedings of the Committee.

At six o'clock, the Committee rose to sit again at 8 p.m.

8 p.m.

Mr. E. L. Pease, Manager of the Royal Bank, Montreal, was called, questioned by members, and tendered a vote of thanks by the Chairman in the name of the Committee.

The Committee then adjourned until to-morrow, at 10.30 a.m.

NOTICE OF MOTION.

By Mr. McCURDY.

Section 54, subsection 6.—The statement shall be accompanied by an appendix containing a full and complete list of bonds, debentures, stocks and other like investments owned by the bank, with details of the original cost and the present book and market value.

MINUTES OF PROCEEDINGS.

THURSDAY, April 17, 1913.

Committee met at 10.30 a.m., Mr. Ames, the Chairman, presiding.

PRESENT.—Messrs. Aikins, Ames, Armstrong (Lambton), Ball, Barker, Barnard, Beattie, Bellemare, Broder, Charlton, Clark (Bruce), Clark (Red Deer), Cockshutt, Crocket, Currie, Donnelly, Emmerson, Fowler, Hughes (King's, P.E.I.), Jameson, Kay, Kemp, Loggie, Macdonell, Maclean (Halifax), McCraney, McCurdy, McLean (Sunbury), Marshall, Middlebro, Nesbitt, Nickle, Northrup, Osler (Sir Edmund), Pardee, Power, Rainville, Rhodes, Robb, Ross, Sharpe (Ontario), Steele, Sutherland, Thompson (Yukon), Thornton, Tobin, Warnock, Weichel, White (Leeds).

The Committee proceeded to the further consideration of Bill No. 36, An Act respecting Banks and Banking.

Sir Edmund Walker's examination was resumed and concluded. After which the Chairman, in the name of the Committee, tendered Sir Edmund a hearty vote of thanks.

The Committee then adjourned until to morrow at 10.30 a.m., to hear Mr. Ducharme, and possibly Mr. J. M. Courtney, ex-Deputy Minister of Finance.

HOUSE OF COMMONS,
COMMITTEE ROOM, No. 101,
FRIDAY, April 18, 1913.

Committee met at 10.30 a.m., Mr. Ames, the Chairman, presiding.

PRESENT:—Messrs. Aikins, Ames, Ball, Barker, Best, Burnham, Charlton, Clark (Bruce), Clark (Red Deer), Cockshutt, Crocket, Demers, Edwards, Jameson, Kemp, Macdonald, Macdonell, Maclean (Halifax), McCraney, McCurdy, McLean (Sunbury), Marshall, Nesbitt, Northrup, Perley, Power, Rainville, Rhodes, Sexsmith, Steele, Sutherland, Thomson (Qu'Appelle), Thompson (Yukon), Thornton, Warnock, White (Leeds).

The Committee proceeded to the further consideration of Bill No. 36, An Act respecting Banks and Banking.

Mr. J. M. Courtney, ex-Deputy Minister of Finance for Canada, was called and examined by the Chairman and others, and thanked by the Committee.

Mr. G. N. Ducharme, of Montreal, called and questioned by members. At one o'clock, Mr. Ducharme's examination was discontinued, to be resumed this afternoon.

APPENDIX No. 2

Resolved, That a report be made to the House recommending that leave be granted to the committee to sit to-day while the House is in session, for the purpose of hearing parties who have been invited to appear before them in connection with Bill No. 36, An Act respecting Banks and Banking.

At one o'clock the Committee rose to sit again at four o'clock, p.m., subject to the adoption by the House of the foregoing report.

4 o'clock, p.m.

Mr. Ducharme's examination was resumed and concluded. After which he was tendered a vote of thanks by the Committee.

Resolved, That the letter of Mr. J. H. Plummer, of Sydney, C.B., to the Chairman of the Committee, being running comments on the main questions on which evidence is desired by members of the Committee, be printed with this day's proceedings.

Resolved, That a résumé of the Canadian Savings Bank system, to be prepared by the Department of Finance, be printed with this day's proceedings of the Committee.

The Committee then adjourned until Tuesday next, the 22nd instant.

HOUSE OF COMMONS,
COMMITTEE ROOM, No. 101,
TUESDAY, April 22, 1913.

Committee met at 10.30 a.m., Mr. Ames, the Chairman, presiding.

PRESENT.—Messrs. Aikins, Ames, Armstrong (Lambton), Barker, Barnard, Beattie, Boyce, Burnham, Clark (Bruce), Cockshutt, Demers, Donnelly, Emmerson, Henderson, Hughes (Kings, P.E.I.), Jameson, Kemp, Loggie, Macdonald, Macdonell, Maclean (Halifax), McCraney, McCurdy, McLean (Sunbury), Marshall, Middlebro, Nesbitt, Nickle, Northrup, Osler (Sir Edmund), Perley, Rainville, Rhodes, Robb, Sharpe (Ontario), Steele, Stewart (Hamilton), Sutherland, Thompson (Yukon), Thornton, Warnock and White (Leeds).

The Finance Department sumbitted resume of Government's Savings Banks system. (To be printed in No. 21 of the Proceedings.)

The Committee proceeded to the further consideration of Bill No. 36, An Act respecting Banks and Banking.

Section 98 again read and adopted.

Section 99, Mr. Aikins gave notice of following amendment: That the words "Where thereunto authorized by Special Act" be inserted at the very beginning of the Section. Section stands for further consideration.

Sections 100 to 112, inclusive, stand over for further consideration.

Section 113, adopted at a previous meeting.

Section 114, read and amended by striking out the words "the value at par of such shares, and" in paragraph (*c*) of sub-section 6, and adopted as amended.

Sections 115 and 116. Adopted at a previous meeting.

Section 117 read and adopted.

Sections 118, 119, 120, 121 and 122 read and adopted.

Section 123 stands over for further consideration.

Section 124 read and adopted.

Sections 125, 126 and 127. Adopted at a previous meeting.

Section 128 stands over for further consideration.

Section 129 and 130 read and adopted.

On motion of Mr. Nickle, Section 130 was reconsidered and allowed to stand over for further consideration.

Section 131 read and adopted.

Sections 131A, 132 and 133. Adopted at a previous meeting.

Section 134 stands over for further consideration.

Section 135 read and adopted.

Sections 136, 137, 138 and 139. Adopted at a previous meeting.

Section 140 read and amended by inserting the word "clerk" after "manager" on line 2. Section 139 to be similarly amended in conformity with Section 138.

Sections 140A, 141, 142, 143, 144 and 145 stand over for further consideration.

Section 146 again read and adopted.

Sections 147, 147A and 148. Adopted at a previous meeting.

Section 149 stands over for further consideration.

Section 150 read and amended by striking out the words "the value at par of such shares, and," in paragraph (*c*), and adopted as amended.

Section 151 again read and stands over for further consideration.

Section 152. Adopted at a previous meeting.

Section 153 read and adopted.

Sections 154 and 155. Adopted at a previous meeting.

Section 156 again read and adopted as previously amended.

Section 157. Adopted at a previous meeting.

Section 158 again stands over for further consideration.

Sections 159 and 160. Adopted at a previous meeting.

Schedule A read and amended by striking out "The Bank of New Brunswick, St. John," and "*Banque Internationale du Canada, Montreal,*" and by inserting "The Soverign Bank, Toronto," after the Imperial Bank of Canada, and by renumbering the banks in consequence of these amendments, and adopted as amended.

Schedules B, C, D, and F again stand over.

Schedule E, adopted at a previous meeting.

On motion of Mr. Maclean (Halifax), it was

Resolved, That Mr. Wilkie, President of the Canadian Bankers' Association, be invited to appear before the Committee. (The date of such invitation to be left over for future consideration.)

The Committee proceeded to the further consideration of deferred Sections.

Section 4. The amendment thereto to substitute the word "twenty" for the word "twenty-three," on line 4, was declared lost.

Section 4 amended by adding to paragraph (*b*) the following: "If the same has not been increased or decreased but if increased or decreased then as increased or decreased before the passing of this Act," and adopted as amended.

Section 6 further amended by substituting for "57" amended to "56" the figures "54."

Section 10 read and adopted.

Section 12 amended by adding thereto new Sub-section 6, as follows:—

"6. In case of the non-payment of any instalment or other sum payable by sub-"scriber on account of his subscription, the provisional directors may, in the cor-"porate name of the bank, sue for, recover, collect and get in any such instalment or "other sum. 53 V., c. 31, s. 12. Am."

Strike out statutory reference at end of subsection 5.

Section 13 amended by inserting "or be complete" after "five" on line 2, of subsection 2, and "and until" after "unless" on line 2 thereof, and by adding to

APPENDIX No. 2

said sub-section 2 the words "and such payment, with the date thereof, shall be entered on the stock books opposite to such subscription."

New paragraph (*c*) inserted in sub-section 3: "provide for the method of filling vacancies in the board of directors until the Annual General Meeting."

Resolved, That a list of the Sections of the Bill not yet passed be appended to the proceedings of this day.

The Committee then adjourned until to-morrow at 10.30 a.m.

HOUSE OF COMMONS,
COMMITTEE ROOM, No. 101,
WEDNESDAY, April 23, 1913.

Committee met at 10.30 a.m., Mr. Ames, the Chairman, presiding.

PRESENT.—Messrs. Aikins, Ames, Barker, Beattie, Best, Broder, Charlton, Clark (Bruce), Cockshutt, Donnelly, Emmerson, Fowler, Graham, Hughes (Kings, P.E.I.), Kay, Kemp, Loggie, Macdonell, Maclean (Halifax), McCurdy, McLean (Sunbury), Martin (Regina), Middlebro, Nesbitt, Nickle, Northrup, Osler (Sir Edmund), Perley, Rhodes, Ross, Sharpe (Ontario), Sinclair, Stewart (Hamilton), Sutherland, Thomson (Qu'Appelle), Thompson (Yukon), Thornton, Warnock, White (Leeds).

The committee proceeded to the further consideration of Bill No. 36, An Act respecting Banks and Banking.

Section 123.—The minister suggested the following amendment thereto:—On line 4, after "Association," insert the words "subject to the approval of a judge of the Superior Court of the province where the chief office of the bank is situate." Amendment to be further considered.

Section 128.—On line 9 thereof, after "bank," insert the words "not exceeding the limit of liability of the shareholders hereinbefore specified." Section adopted as further amended.

Section 130 (*a*).—Following amendment suggested by the Minister:—Line 3, strike out the words "or registered the transfer thereof," and insert in lieu thereof the words "as hereinbefore provided." Amendments to be further considered.

On motion of Mr. Nesbitt, Mr. D. R. Wilkie, general manager of the Imperial Bank of Canada and president of the Canadian Bankers' Association, being present in the room was called to give his views on the provisions of the Bank Act. Mr. Wilkie was then questioned by the Chairman and members, and thanked by the Committee.

At one o'clock, the Committee adjourned until to-morrow at 10.30 a.m.

HOUSE OF COMMONS,
COMMITTEE ROOM No. 101,
THURSDAY, April 24, 1913.

Committee met at 10.30 a.m., Mr. Ames, the Chairman, presiding.

PRESENT.—Messrs. Aikins, Ames, Armstrong (Lambton), Ball, Barker, Beattie, Burnham, Clark (Bruce), Cockshutt, Crocket, Currie, Emmerson, Hughes (Kings, P.E.I.), Kemp, Loggie, Macdonald, Macdonell, Maclean (Halifax), McCurdy, McLean, (Sunbury), Marshall, Middlebro, Nesbitt, Nickle, Northrup, Perley, Power,

Rainville, Rhodes, Robb, Ross, Sexsmith, Sharpe (Ontario), Thomson (Qu'Appelle), Thompson (Yukon), Warnock, White (Leeds).

In the absence of Mr. Ames, Mr. Barker took the Chair.

The Committee proceeded to the further consideration of Bill No. 36, An Act respecting Banks and Banking.

Section 16 reconsidered, and amended by adding thereto the following subsections 6, 7, 8 and 9:—

"*6. In order that the sums paid and payable under the provisions of this section "may be equitably borne by the subscribers, the provisional directors or the directors, "as the case may be, shall, after the amount of such sums is ascertained as herein "provided, fix the proportionate part thereof chargeable to each subscriber at the "ratio of the number of shares in respect of which he is a subscriber to the total "number of shares bona fide subscribed.*

"*7. The respective amounts so fixed shall, before return of the sums paid in to "the subscriber, be deducted therefrom, and if the respective sums paid in are not as "much as the amounts so fixed then the excess in each case shall be payable forthwith "by the subscriber to the provisional directors or the directors, as the case may be.*

"*8. The total of the amounts in excess mentioned in the next preceding sub-"section which the provisional directors or the directors are unable to get in or collect "in what seems to them a reasonable time shall, with any legal costs incurred, be "deducted by them from the sums then remaining in their hands to the credit of the "several subscribers in the ratio heretofore mentioned, the shares in respect of which "no such collections have been made being eliminated from the basis of calculation.*"

"*9. The provisional directors or directors, after payment by them of the sums "payable under this section, shall return to the subscribers with any interim interest "accretions the respective balances of the moneys paid in by the subscribers. 53 V., "c. 31, s. 16. Am.*"

Section 16 adopted as amended.

Section 17 adopted at a previous meeting.

Section 18 again read. Stands over for further consideration, on motion of Mr. Aikins.

Section 29 again read, and amended by adding after the word "Act" in the second line thereof, the following words: "or to any by-law only passed by the shareholders."

Section 29 adopted as amended.

Section 32, subsections 7 and 8 reconsidered. Subsection 7 again read and adopted. Subsection 8, on motion of Mr. Nesbitt, amended by substituting "one" for "two" on line 4 of said subsection 8.

Section 32 adopted as amended.

Section 34 again read, and amended as follows:—

In section 34, line 19, insert the word "at" before "such."

In subsection 2 of section 34, line 34, substitute "ninety days" for the words "sixty days."

Subsection 3: Substitute the following therefor:—

"Any of such allotted stock which is not *accepted* by a shareholder to whom the "allotment has been made, within *the time so fixed,* or which he declines to accept, "*together with such shares as remain unallotted because of the provisions of this sec-*"tion that no fraction of a share can be allotted, may be offered for subscription to "the public in such manner and on such terms as the directors prescribe." 53 V., C. 31, S. 27, Am.

New subsection 4 added as follows:—

"4. Any sums received in excess of the rate per share fixed by the Directors "under this section in respect of fractions of shares offered for subscription to the

APPENDIX No. 2

"public shall be rateably distributed to the respective shareholders from whose shares "the fractions arose." 53 V., C. 31, S. 27, Am.

Section 37 again read and struck out. Subsection 4 of section 36 becoming section 37.

Section 41 again read and adopted as amended at a previous meeting.

Section 43 again read and amended as follows:—

In new subsection 2, line 6, page 18, add after the word "description" the words "*of the transferee.*"

Add new subsections 4 and 5 as follows:—

"4. The shares shall be transferable *at the chief office of the bank, and at such of its branches and such other places as the directors designate,* according to such form and subject to such rules and regulations as the directors prescribe.

"5. The directors may appoint such agents for the purposes of this section as they deem necessary." 53 V., C. 31, SS. 35 and 29. Am.

Section 44 again read, and amended so as to read as follows:—

"44. A list of all transfers of shares registered each day in the books of the "bank at the respective places where transfers are authorized, showing in each case "the parties to such and the number of shares transferred, shall be made up at the "end of each day."

"2. Such lists shall be kept at the said respective places for the inspection of the "shareholders." 53 V., C. 31, S. 36. Am.

Mr. McCurdy moved that section 44 be further amended by adding to subsection 2 thereof the words "and any other person doing business with the bank. The transfer books shall be open at all times during banking hours for their inspection." Which was, on division, resolved in the negative.

On motion of Mr. McCurdy, the principle of the following further amendments to section 44 was adopted by the Committee, viz.:—

"New subsection 3 to section 44: The Bank shall maintain at one of its branches in each province of the Dominion of Canada in which it has branches, a register in which shall be registered all shares of the bank owned by persons domiciled within the province."

The foregoing amendment to be submitted to the Justice Department for legal opinion, and redrafted, if necessary.

Section 46 again read as previously amended, and adopted.

Section 53 again read, and adopted subject to reconsideration.

Section 54 again read and postponed for further consideration.

Committee then adjourned until to-morrow at 10.30 a.m.

NOTICE OF AMENDMENTS.

By Mr. McCURDY.

Section 18—

In line 20 substitute the word "shall" for "may."

In line 41 after the word "the" insert the words "General Manager."

2. No discounts or loans shall be made to a director, or paid employee of the bank until the total amount of discounts or loans which may be made to such directors or paid employees shall have first been authorized by by-law of the shareholders.

3. By-laws may be adopted by shareholders at any regular annual, or special meeting. Notice of any by-law proposed to be adopted, or changes proposed to be made in existing by-laws, shall be given by printed notice mailed to the registered

address of each shareholder at least thirty days before the date on which such regular annual, or special meeting, is to be held. Notwithstanding the provisions of this section, existing by-laws are hereby declared to be in full effect and force until the next regular annual meeting takes place.

4. A copy of the then existing by-laws shall be mailed to each shareholder of the bank on the 31st day of December, 1913, and thereafter a copy of the by-laws corrected to date shall on demand of any shareholder at the chief office of the bank, be delivered to him.

Section 32, subsection 8—

Subsection 8 shall be struck out and the following substituted:—

"A proxy may be given to vote only at one meeting of the shareholders, or an adjournment thereof, and shall not be valid unless it has been made in writing within one month last preceding the time of such meeting."

MINUTES OF PROCEEDINGS.

HOUSE OF COMMONS,
COMMITTEE ROOM No. 101,
FRIDAY, April 25, 1913.

PRESENT.—Messrs. Aikins, Ames, Beattie, Best, Broder, Clark (Bruce), Cockshutt, Edwards, Emmerson, Hughes (Kings, P.E.I.), Jameson, Kemp, Macdonald, Macdonell, Maclean (Halifax), McCraney, McCurdy, McLean (Sunbury), Martin (Regina), Middlebro, Nesbitt, Nickle, Northrup, Papineau, Pardee, Power, Rainville, Rhodes, Sexsmith, Sharpe (Ontario), Sinclair, Thomson (Qu'Appelle), Thompson (Yukon), Thornton, Warnock, White (Leeds).

The Committee proceeded to the further consideration of Bill No. 36, An Act respecting Banks and Banking.

Section 6 reconsidered, and further amended by striking out the words "132 to 140, both inclusive, 141" in line 4. Section 6 adopted as further amended.

Section 18 again read. Mr. McCurdy moved that the word "shall" be substituted for "nay" in line 1. The question being put on the amendment, it was negatived on division. Yeas, 7; nays, 13.

By consent, Mr. McCurdy's further amendment to Section 18, to insert the words "General Manager" after "vice-presidents" in line 1 of paragraph (*g*) was withdrawn.

The following proposed amendment by Mr. McCurdy was also withdrawn.

"No discounts or loans shall be made to a director, or paid employee of the bank until the total amount of discounts or loans which may be made to such directors or paid employees shall have first been authorized by by-law of the shareholders."

Mr. McCurdy moved that the following subsections be added to section 18:—

"By-laws may be adopted by shareholders at any regular annual, or special meeting. Notice of any by-law proposed to be adopted, or changes proposed to be made in existing by-laws, shall be given by printed notice mailed to the registered address of each shareholder at least thirty days before the date on which such regular annual, or special meeting, is to be held. Notwithstanding the provisions of this section, existing by-laws are hereby declared to be in full effect and force until the next regular annual meeting takes place."

"A copy of the then existing by-laws shall be mailed to each shareholder of the bank on the 31st day of December, 1913, and thereafter a copy of the by-laws corrected to date shall on demand of any shareholder at the chief office of the bank, be delivered to him."

APPENDIX No. 2

After debate, the foregoing amendment was allowed to stand over for further consideration.

Section 32.—Mr. McCurdy's proposed amendment, that subsection 8 be struck out and the following substituted therefor: "A proxy may be given to vote only at one meeting of the shareholders, or an adjournment thereof, and shall not be valid unless it has been made in writing within one month last preceding the time of such meeting," was allowed to be withdrawn.

Section 44 allowed to stand over, pending the legal opinion of the Justice Department on Mr. McCurdy's proposed amendment to add a new subsection 3, as follows:—

"The Bank shall maintain at one of its branches in each province of the Dominion of Canada in which it has branches, a register in which shall be registered all shares of the bank owned by persons domiciled within the province."

Section 54 again read, and further amended by inserting the word "a" before "vice-president" in line 10, and the words "neither of whom shall be an officer of the bank" after "directors" in line 10.

Mr. Aikins moved that the words "and cash items in transit" be struck out from paragraph (*d*) of the Assets—which was agreed to.

New paragraph (*g*), (assets) inserted after paragraph (*g*) as follows: "Canadian municipal securities, and British, foreign and colonial public other than Canadian."

Mr. McCurdy moved that paragraph (*i*) of Assets be struck out and the following subtituted therefor:—

"(*i*) Call loans in Canada to brokers on bonds, debentures and stocks."

The question being put on the amendment, it was negatived on division.

Paragraph (*i*) of Assets again read and amended by inserting the words "not exceeding thirty days" after the word "short", line 1 thereof.

Paragraph (*j*) of Assets read and amended by inserting the words "not exceeding thirty days" after the word "short".

Mr. Aikins' proposed amendment to section 54 by adding to paragraph (*j*) of Liabilities the words "and all acceptances," and to paragraph (*d*) of Assets, the words "and the nature of such cash items," was allowed to be withdrawn.

Mr. McCurdy moved that section 54 be further amended by adding thereto the following subsection 6: —

"6. There shall be included in or appended to the statement—

(*a*) A printed memorandum showing the total assessed value of the bank premises owned by the bank;

(*b*) a full and complete list of all bonds, debentures, stocks and other like investments owned by the bank with their book value."

The question being put on the amendment, it was negatived on division.

Mr. McCurdy moved that subsection 4 of section 54 be amended by inserting the work "detailed" before the word "profit" in line 1 of said subsection 4. Further consideration of foregoing amendment postponed until next meeting.

Mr. Rainville laid on the table copy of letter addressed to the Minister of Finance *re* the Bank of St. Hyacinthe.

The Committee then adjourned until Tuesday next, April 29, at 10.30 a.m.

CORRECTED NOTICE OF MOTION.

By Mr. McCRANEY.

To amend section 91 by adding the following subsection thereto:—

"2. No bank shall directly or indirectly charge or receive any sum whatsoever for the keeping of any account unless such charge is made by express agreement between the bank and the customer."

NOTICE OF MOTION.

By Mr. McCURDY.

Section 54, subsection 4. After the word "A", line 1 of said subsection, insert the word "detailed".

Schedule D.

(6) Under liabilities "Deposits elsewhere than in Canada". That said item 6 be struck out and the following substituted:—

"Deposits in Great Britain,
" British Colonies,
" United States,
" other foreign countries.

That under "assets" item No. 14 be altered to read:—"Call loans in Canada to brokers on bonds, debentures and stocks."

That item (15) be struck out and the following substituted:—

"Call loans in Great Britain,
" British Colonies,
" United States,
" other foreign countries."

That item (17) be struck out and the following substituted:—

"Current loans in Great Britain,
" British Colonies,
" United States,
" other foreign countries."

Add Section "Loans to cities, towns, municipalities and school districts."

That after line 24, p. 72, the following be added:—

"Aggregate amount of loans to joint stock companies in which directors of the Bank hold a majority of the shares.

"Aggregate amount of loans to joint stock companies of which a director of the Bank is a director."

MINUTES OF PROCEEDINGS.

HOUSE OF COMMONS,
COMMITTEE ROOM No. 101,
TUESDAY, April 29, 1913.

PRESENT.—Messrs. Aikins, Ames, Barker, Barnard, Beattie, Bellemare, Bennett (Calgary), Best, Boyce, Burnham, Charlton, Clark (Bruce), Cockshutt, Crocket, Currie, Demers, Edwards, Emmerson, Fisher, Gauthier (St. Hyacinthe), Guthrie, Henderson, Hughes (Kings, P.E.I.), Jameson, Kemp, Law, Macdonell, Maclean (Halifax), McCraney, McCurdy, Martin (Regina), Meighen, Middlebro, Nesbitt, Nickle, Northrup, Papineau, Rainville, Rhodes, Robb, Ross, Sexsmith, Sharpe (Ontario), Sinclair, Steele, Stewart (Hamilton), Stewart (Lunenburg), Sutherland, Thomson (Qu'Appelle), Thompson (Yukon), Thornton, Warnock, White (Leeds).

Mr. Rainville again referred to the failure of the Bank of St. Hyacinthe, and to the action of the Canadian Bankers' Association in connection therewith, and suggested the appointment of a subcommittee to look into the matter.—Left over for further consideration pending some information expected by the Minister from above-mentioned Association.

APPENDIX No. 2

The Committee proceeded to the further consideration of Bill No 36. An Act respecting Banks and Banking.

The CHAIRMAN read the following statement prepared by Sir Edmund Walker at the request of the Committee: —

CANADIAN BANK OF COMMERCE.

Statement prepared by Sir Edmund Walker at the request of the Committee.

"The result of an investment of $1,000 in 20 shares of stock of this Bank at its commencement in 1867, would be as follows:

"At the end of 45 years (May, 1912) the shareholder who had taken up his allotments would hold 56 shares of the par value of $2,800 for which he had paid in cash $3,411.25, or an average price of a little over 122%. The book value of these 56 shares would be $5,171.29.

"He would have received, on the actual amount invested, dividends of $7,-068.29, or an average annual dividend of 7.386%. If to this is added the sum of $1,760.04 representing the increase of the book value over the actual cash paid in, the total represents an average annual dividend of 9.225%."

In a letter, Sir Edmund Walker makes the following correction in his evidence:—

"On page 11 of Part No. 20, I said that the Canadian Bank of Commerce paid a ten per cent dividend during part of the first five years it was in existence. This was inaccurate. We did not pay a ten per cent dividend until the eighth year."

Section 18 again read, and Mr. McCurdy's amendment thereto reconsidered, viz.:—

"By-laws may be adopted by shareholders at any regular annual, or special meeting. Notice of any by-law proposed to be adopted, or changes proposed to be made in existing by-laws, shall be given by printed notice, mailed to the registered address of each shareholder at least thirty days before the date on which such regular annual, or special meeting, is to be held. Notwithstanding the provisions of this section, existing by-laws are hereby declared to be in full effect and force until the next regular annual meeting takes place."

"A copy of the then existing by-laws shall be mailed to each shareholder of the Bank on the 31st day of December, 1913, and thereafter a copy of the by-laws corrected to date shall on demand of any shareholder at the chief office of the Bank be delivered to him."

After debate, Section 18 was amended by striking out the first sub-section thereof and substituting the following therefor: —

"18. The shareholders of the Bank may, *at any annual general meeting or at any special general meeting duly called for the purpose,* regulate, by by-law, the following matters incident to the management and administration of the affairs of the Bank, that is to say:—"

Section 18 was further amended by inserting the following new sub-section 2 after Paragraph (h) of sub-section 1:—

"2. A copy of the by-laws in force on the first day of July, 1913, in respect of the several matters hereinbefore in this section set out, together with a copy of this section of the Act, shall, before the thirty-first day of December, 1913, be sent to each shareholder at his last known Post Office Address, as shown by the books of the Bank; and after July the first, 1913, within six months after the end of each successive five year period, a copy of the by-laws, in respect of the said matters, in force at the end of each such period, shall be sent as aforesaid."

On motion of Mr. Cockshutt, it was

Resolved, That no Section, already passed, be reconsidered by the Committee unless notice of a proposed amendment be previously given in writing.

Section 54 again read and further amended by striking out sub-section 5 thereof, and substituting the following therefor:—

"5. A copy of the statement and of the profit and loss account, together with a copy of the minutes of the annual general meeting, shall be sent within four weeks thereafter to each shareholder at his last known post office address, as shown by the books of the bank, and a copy of each of these shall be sent to the minister.

Section 54 adopted as amended.

Section 61 again read.

Mr. Sharpe (Ontario) moved, that the following sub-sections be added thereto:—

"21. The bank shall pay to the Government of Canada an annual tax equal to one-half of one per cent on every one hundred dollars of notes issued under the authority of this Act."

"22. The bank, in addition to this annual tax, shall pay to the Government of Canada a tax equal to.....per cent on every one hundred dollars loaned in foreign countries."

The question being put on the amendment, it was negatived on division: Yeas, 9; nays, 14.

Section 54 further amended by inserting the word "detailed" before "profit" in line of subsection 4.

Section 61 amended by substituting "his" for "their" in line 50 of sub-section 10; by striking out the words "*the members of*" and the words "*in such relative amounts*" in lines 4 and 5 of sub-section 13; by inserting the word 'a' before the word "vice-president" in line 7 of sub-section 18; and by inserting the words "last mentioned" before the word "bank" in line 1 of sub-section 20.

Section 61 adopted as amended.

Section 72 again read.

Mr. Steele moved, that the following sub-sections be added thereto:—

"3. or in Dominion notes or bank notes unless the same have been sterilized, by heating to a temperature of at least 270 degrees or by some other method approved by the minister, before each issue or payment of the same after the first issue.

"4. No payment shall be made in Canada in silver or nickel coinage of any other country, or in bills which are not Dominion notes or Canadian bank notes."

After debate, the foregoing sub-section was allowed to stand for further consideration, and sub-section 4 was withdrawn.

Section 72 again read. Mr. Nesbitt moved that the words "unclean or" be inserted before "torn" in line 2 of subsection 2.

The question being put on the amendment, it was resolved in the affirmative.

Section 76 again read, and postponed for further consideration.

The Committee then adjourned until to-morrow at 10.30 a.m.

NOTICE OF MOTION.

Mr. Rainville gives notice that at the next sitting of the Committee he will move that clause 18 of the Act respecting Banks and Banking be reconsidered and amended by replacing the word "thirty" in the 27th line of page 8 of said Act, by "twenty."

APPENDIX No. 2

MINUTES OF PROCEEDINGS.

HOUSE OF COMMONS,
COMMITTEE ROOM No. 101,
WEDNESDAY, April 30, 1913.

PRESENT.—Messrs. Aikins, Ames, Armstrong (Lambton), Baker, Barker, Barnard, Beattie, Bellemare, Bennett (Calgary), Best, Blondin, Carvell, Charlton, Clark (Bruce), Cockshutt, Currie, Demers, Edwards, Emmerson, Fisher, Fowler, Guthrie, Hughes (Kings, P.E.I.), Jameson, Kemp, Loggie, Macdonald, Macdonell, Maclean (Halifax), McCraney, McCurdy, Middlebro, Nesbitt, Northrup, Papineau, Pardee, Perley, Power, Rainville, Rhodes, Ross, Sexsmith, Sharpe (Ontario), Sinclair, Steele, Stewart (Hamilton), Stewart (Lunenburg), Thomson (Qu'Appelle), Thompson (Yukon), Warnock, Webster, Weichel and White (Leeds.)

Resolved, That a report be made to the House recommending that leave be granted to the Committee to sit while the House is in session.

The Minister submitted a statement of net profits earned, rate of dividend and dividends paid, during first five years of the bank's operations, which was ordered to be printed with the proceedings of the Committee of this Day.

The Committee proceeded to the further consideration of Bill No. 36, An Act respecting Banks and Banking.

Section 76 again read.

Mr. Aikin's new notice of motion to amend Section 76 by adding after the words "the bank may" the following words "within Canada;" and by adding to the said section a sub-section as sub-section (*e*): "(*e*) And may open agencies and offices and carry on the business aforesaid elsewhere than in Canada in so far as the same may be requisite and ancillary to the trade and commerce of Canada," was allowed to be withdrawn.

Section 76 again read.

Mr. Sharpe's (Ontario) proposed amendment that subsection 2 be amended by adding the following paragraphs:—

"(*d*) lend money or make advances to a mining company or mining corporation in which the president, directors, manager or other officer thereof is or are directly or indirectly interested.

"(*e*) lend money or make advances in excess of $ to any company or corporation in which the president, directors, manager or other officers thereof is or are directly or indirectly interested without the unanimous consent of all the directors present at a special board meeting called for the purpose of passing upon such loan or advances. Should all the directors be either directly or indirectly interested in the company or the corporation seeking the loan or advance then the loan or advances shall not be made under any circumstances.

"(*f*) lend money or make advances in excess of ten per cent of its paid up capital to any foreign person, company or corporation, or upon the securities of such foreign person, company or corporation, or in excess of twenty-five per cent of its paid up capital to any person residing in Canada or any company or corporation having its head office in Canada or upon the securities of such person, company or corporation," being read, paragraphs (*d*) and (*e*) were allowed to be withdrawn.

The question being put on paragraph (*f*) it was negatived on division: Yeas, 10; Nays, 23.

Mr. Emmerson moved to amend sub-section 2 of section 76 by adding the following paragraph:—

"Lend money or make advances in excess of ten per cent of its paid up capital to any one individual foreign person or any one company or corporation in connection

with any business or investment in any foreign country upon foreign securities," which was negatived on division: Yeas, 10; Nays, 23.

Section 76 was then adopted as printed in the Bill.

Section 77 again read and amended by inserting the word "a" before the word "vice-president" in line 1 of subsection 3, and the word "the" before the words "general" in line 2 thereof.

Mr. Emmerson moved, That section 77 be struck out of the Bill. The question being put on the amendment, it was negatived on division: Yeas, 11; Nays, 15.

Section 77 was then adopted as amended.

Section 79 again read.

Mr. Emmerson moved, that the following paragraph be added thereto:—

"(*a*) The bank shall not expend more than five per cent of its combined capital and reserve in real and immovable property.

"(*b*) The bank shall show in its monthly and annual statements the real value of its real and immovable property giving detailed particulars."

The question being put on the amendment, it was negatived on division: Yeas, 14; Nays, 16.

Section 82 reconsidered and amended by inserting after "barred" in line 7 the words "or a transfer of title to real or immovable property can, by law, be effected." Section 82 adopted as amended.

Section 83 again read and adopted.

Section 86 again read and amended by striking out the words "*right and title,*" in line 3 of paragraph (*b*) of subsection 2, and by substituting therefor the words "goods, wares and merchandise."

Section 2 (Interpretation clause) was read and amended by inserting in subsection 1 immediately after paragraph (*f*)

"(*g*) "farmer" includes the owner, occupier, landlord and tenant of a farm"; and by adding to paragraph (*d*) the words "horses and sheep," and by substituting for paragraph (*g*), the following:—

"(*g*) goods, wares and merchandise," includes in addition to the things usually understood thereby, *products of agriculture, products of the forest, quarry and mine, products of the sea, lakes and rivers,* petroleum and crude oil, and other articles of commerce."

And by substituting for paragraph (*k*), the following:

(*k*) "products of agriculture" in addition to the direct products of the soil such as hay, grain, roots, vegetables, fruits and other crops includes milk, cream, butter, cheese, honey, poultry (dead), and eggs, *hides, skins, and wool, and dried, canned and preserved vegetables and fruits.*

Section 87 again read and adopted.

Section 88 again read and amended by substituting "or" for "and" in lines 5 and 6 of subsection 1 and by striking out the words "*of any kind*" in line 2 of subsection 2, and by striking out subsections 5, 6, 7 and 8 and substituting therefor the following:—

"5. *If, with the consent of the bank,* the goods, wares and merchandise, *live stock or dead stock or the products thereof, upon the security of which money has been loaned under the authority of this section, are* removed and other goods, wares and merchandise, *live stock or dead stock or the products thereof* of substantially the same character *are respectively* substituted therefor, *then to the extent of the value of the goods, wares and merchandise, or live stock or dead stock or the products thereof* so removed the goods, wares and merchandise, *live stock or dead stock or the products thereof* so substituted shall be covered by such security as if originally covered thereby; *but failure to obtain the consent of the bank to any such substitution shall not affect the validity of the security either as respects any goods, wares and merchandise, or live stock or dead stock or the products thereof actually substituted as aforesaid or in any other particular*"

APPENDIX No. 2

"6. Any such security, as mentioned in the foregoing provisions of this section, may be given by the owner of the said goods, wares and merchandise, *stock or products thereof, grain or cattle.*"

"7. The security may be taken in the form set forth in Schedule 'C' to this Act or to the like effect."

"8. The bank shall by virtue of such security acquire the same rights and powers in respect of the goods, wares and merchandise, *stock or products thereof, grain or cattle* covered thereby as if it had acquired the same by virtue of a warehouse receipt; *provided, however, that the wages, salaries or other remuneration of persons employed by any wholesale purchaser, shipper or dealer, by any wholesale manufacturer, by any farmer or rancher, in connection with any of the several wholesale businesses referred to, or in connection with the farm or ranch respectively, owing in respect of a period not exceeding three months, shall be a charge upon the property covered by the said security in priority to the claim of the bank thereunder and such wages, salaries or other remuneration shall be paid by the bank if the bank takes possession or in any way disposes of the said security or of the goods, wares and merchandise, stock or products, grain or cattle covered thereby.*"

Mr. Aikin's proposed amendment to substitute for sub-section 2 of section 88 the following:—

"The bank may lend money to a person engaged in farming upon the security of threshed grain," was allowed to be withdrawn.

Mr. Sharpe's proposed amendment to section 88, as follows:—

Sub-section 2, add these words:—

"And provided further that such preference shall not be given over the claims of any mechanic or workman for four weeks' wages earned in respect to the goods, wares and merchandise on which the bank holds the security aforesaid," was allowed to be withdrawn.

Mr. Sharpe (Ontario) moved that the following subsection 9 be added to Section 88:—

"Such security as is referred to in the two preceding subsections or a copy thereof shall be mailed by registered letter to the offices to be filed therein in the various provinces of the Dominion where bills of sale and chattel mortgages are required now to be filed within twenty-four hours of the giving of such security."

The question being put on the amendment, it was resolved in the affirmative.

Mr. Sharpe again moved that subsection 3 of section 88 be struck out and the following substituted therefor:—

"The bank may lend money to a *farmer* upon the security of his *live stock.*"

The question being put on this amendment, it was negatived on division.

Section 88 was then adopted as amended.

Section 89 again read and amended as follows:—

Line 1, page 43, by inserting the words "*products or stock,*" after the word "the"; by inserting the words "*products or stock,*" after the word "the" in the 5th line, same page; by inserting the words "*products or stock,*" after the word "the" in the 13th line, same page; by inserting the words "*grain or cattle*" after the word "merchandise" in the 14th line, same page; by inserting after the word "the" in the 18th line the words "*products or stock,*" and also inserting after the word "merchandise" in the same line the words "*or grain or cattle.*"

Substitute for subdivisions (*a*) and (*b*) of subsection 3 of section 89 the following:—

"(*a*) No sale, without the consent in writing of the owner, of any *products of "the forest* shall be made under this Act until notice of the time and place of "such sale has been given by a registered letter, mailed in the post office, post "paid to the last known address of the pledger thereof, at least thirty days prior "to the sale thereof; (*b*) No *such products or stock* other than *products of the "forest and no* goods, wares and merchandise, *and no grain or cattle* shall be sold "by the bank under this Act without the consent of the owner, until notice of the "time and place of sale has been given by a registered letter, mailed in the post "office, post paid, to the last known address of the pledger thereof, at least ten "days prior to the sale thereof."

Mr. Graham's proposed amendment was withdrawn, and Section 89 was adopted as amended.

Section 90 again read and amended by inserting *"products or stock"* after "any" and *"grain or cattle"* after "merchandise" in line 1 of paragraph (*a*) of sub-section 2; and by inserting *"products or stock"* after "any" and *"grain or cattle"* after "merchandise" in line 1 of paragraph (*b*) of said sub-section 2; and by inserting *"products of stock"* after "the" in line 4 and 5 of said paragraph (*b*) and *"or grain or cattle"* after "merchandise" in line 4 and 7 of same paragraph (*b*).

Section 90 was then adopted as amended.

Mr. McCurdy moved that Section 20 be reconsidered at the next sitting of the Committee, which was agreed to on division.

At one o'clock the Committee rose to sit again at four o'clock, p.m., subject to the sanction of the House.

NOTICES OF MOTIONS.

By Mr. McCURDY.

Section 20—That a new subsection 4 be added as follows:—

"No paid executive official of a bank may be elected a director."

By Mr. ROSS.

That clause 94 be amended by striking out all the words after the word "thereon" in the 14th line and adding the following:

"A sum not exceeding $\frac{1}{8}$ of one per cent on any sum not exceeding $100, a sum not exceeding $\frac{1}{12}$ of one per cent on any sum exceeding $100 but not exceeding $500, a sum not exceeding $\frac{1}{16}$ of one per cent on any sum exceeding $500, to defray the expenses of agency and charges in collecting the same.

APPENDIX No. 2

STATEMENT of net profits earned, rate of dividend and dividends paid, during first five years of the bank's operation.

Name of Bank.	Year.	Net profits	Rate of Dividend.	Amount of Dividend.
Bank of Montreal	1818		6 mos. 3% 6 mos. 4½	£ 6,562-10-0
	1819		3½% & 3%	11,312-10-0
	1820		3½% & 3%	12,187-10-0
	1821		3%	11,250- 0-0
	1822		3%	11,250- 0-0
Owing to remote date, unable to find records and therefore cannot furnish more complete information.				
Quebec Bank	1819		6%	
	1820		7½%	
	1821		7%	
	1822		6½%	
	1823		6%	
The capital in 1819 was £37,500, in 1820, £52,500. The accumulated profits over dividends is reported as follows—1819, £2,412; 1820, £2,028; 1821, £1,795; 1822, £2,234; 1823, £2,132. (All amounts kept in pounds Canadian). In 1826, it is reported all accumulated profits were entirely wiped out, although a dividend of 4½% was paid for that year.				
Bank of Nova Scotia	1832		none.	$ 6,000 00
	1833		3%	15,000 00
	1834		6%	15,000 00
	1835		6%	15,000 00
	1836		6%	15,000 00
Books destroyed and amount of net profits not available.				
Bank of British North America	"All records as to early operations kept in England, and it will take considerable time to get them and report answer to this question."			
Bank of Toronto	1857*	£ 10,299-18-3	10%	†£ 5,169
	1858	$ 42,529 19	8%	$ 32,191 90
	1859	55,730 52	8%	37,417 66
	1860	70,339 98	8%	48,297 34
	1861	89,235 90	8%	62,790 77
*To 30th June. †(Halifax. Currency).				
Molsons Bank	1856	£ 7,459-13-0	8%	
	1857	13,963- 7-9	8%	
	1858	$ 74,778 96	8%	
	1859	89,389 86	8%	
	1860	112,021 22	8%	
This Bank started business in 1855, succeeding a private bank with an established business a few years old.				

STATEMENT of net profits earned, rate of dividend and dividends paid, during first five years of the bank's operation.—*Continued.*

Name of Bank.	Year.	Net profits	Rate of Dividend.	Amount of Dividend.
Banque Nationale	1860–1	$ 32,030 88	8%	$ 21,934 20
	1861–2	67,759 55	8%	49,559 61
	1862–3	69,861 49	8%	57,983 70
	1863–4	85,178 77	8%	72,479 68
	1864–5	90,368 83	8%	78,024 97
Merchants Bank of Canada. "Data covering first five years of banks operations not available."				
Banque Provinciale	1900*	$ 19,735 50	None.	Nil.
	1901	46,047 04	3%	$ 24,515 64
	1902	47,056 45	3%	24,561 91
	1903	62,950 14	3%	24,689 08
	1904	80,227 85	3%	24,699 17
	1905	64,556 60	3%	24,699 62
*5 mos.				
Union Bank of Canada	1866*	$ 9,700 6	7%	$ 7,609 86
	1867	67,344 0	8%	47,309 32
	1868	104,593 0	8%	65,673 51
	1869	105,445 0	8%	80,390 22
	1870	124,667 6	8%	89,957 20
	1871	122,730 2	8%	108,372 87
*9 mos. "Then known as Union Bank of Lower Canada."				
Canadian Bank of Commerce	1868	$ 97,783 30	8%	$ 57,421 19
	1869	141,236 07	8%	78,122 37
	1870	336,536 89	8%	141,294 17
	1871	390,268 17	8%	220,111 10
	1872	550,923 06	8%	353,532 96
Royal Bank of Canada	1870*	$ 28,367 00	9 mos. at 4½% 6 mos at 6%	$ 23,500 00
	1871	42,053 00	7%	28,000 00
	1872	83,270 00	8%	44,000 00
	1873	110,089 00	8%	52,000 00
	1874	107,409 00	8%	64,000 00
*15 mos. Formerly Merchants Bank of Halifax. A private concern known as the "Merchants Bank" was in operation for some 5 years previous to these dates and such concern was purchased as a going business by the Merchants Bank of Halifax. It is understood that the private concern yielded a return to the proprietors of 9% per annum.				
Dominion Bank	1872	$ 107,488 80	8%	$ 57,075 03
	1873	123,813 05	8%	68,532 79
	1874	129,252 98	8%	74,442 64
	1875	138,310 83	8%	77,183 66
	1876	123,226 94	8%	77,620 00
Bank of Hamilton	1873*	$ 23,951 27	8%	
	1874	46,563 79	8%	
	1875	58,542 93	8%	
	1876	69,664 34	8%	
	1877	65,632 86	8%	
*3 mos.				

APPENDIX No. 2

STATEMENT of net profits earned, rate of dividend and dividends paid, during first five years of the bank's operation.—*Continued.*

Nane of Bank	Year	Net profits.	Rate of Dividend.	Amount of Dividend.
Standard Bank	1876	$ 15,087 50	6%	$ 15,087 50
	1877	30,270 00	6%	30,270 00
	1878	30,528 00	6%	30,528 00
	1879	30,585 00	6%	30,585 00
	1880	38,485 46	6%	30,585 00
Banque d'Hochelaga	1874	$ 36,371 44	8%	$ 18,147 16
	1875	49,374 69	7½%	37,622 30
	1876	53,455 91	7%	41,741 27
	1877	47,904 76	6%	37,777 60
	1878	47,062 19	5%	31,782 82
Bank of Ottawa	1875	$ 21,346 95	7%	$ 15,827 85
	1876	34,694 04	7%	30,934 66
	1877	47,332 82	7%	37,161 37
	1878	43,515 05	7%	38,940 36
	1879	51,613 94	3½%	19,769 89
Imperial Bank	1875–6	$ 103,637 00	8%	$ 60,614 00
	1876–7	92,827 00	8%	67,863 00
	1877–8	99,963 00	8%	69,809 00
	1878–9	88,186 00	7½%	66,323 00
	1879–0	83,747 00	7%	61,997 00
Metropolitan Bank	1903	$ 26,535 65	none	nil.
	1904	84,815 48	"	"
	1905	120,085 55	8%	$ 80,000 00
	1906	140,579 89	8%	80,000 00
	1907	147,819 03	8%	80,000 00
Home Bank of Canada	1906*	$ 25,171 14	6%	$ 15,331 34
	1907	78,030 65	6%	48,109 91
	1908	95,411 31	6%	51,141 22
	1909	83,957 98	6%	55,411 55
	1910	95,832 24	6%	63,670 45
	1911	121,941 23	6%	70,980 04

*5 mos.

Crown Bank	1905*	$ 33,198 60		Nil.
	1906	41,930 66		$ 32,917 04
	1907	48,463 00		38,204 78
Northern Bank	1906†	50,502 83		6,685 49
	1907	63,726 71		59,910 70

*18 mos. †13 mos.
Crown & Northern Banks amalgamated January, 1908.

Northern Crown Bank	1908	$ 130,324 15		$ 86,378 75
	1909	193,464 22		110,114 51
	1910	258,144 45		110,170 22
	1911	285,694 49		121,410 88
	1912*	291,094 04		127,836 48

*11 mos.

STATEMENT of net profits earned, rate of dividend and dividends paid, during first five years of the bank's operation.—*Concluded.*

Nane of Bank	Year	Net profits.	Rate of Dividend.	Amount of Dividend.
Sterling Bank	1907	$ 27,206 17		$ 9,683 32
	1908	50,091 47		39,967 49
	1908	64,146 12		40,710 98
	1910	92,832 04		44,101 98
	1911	96,825 69		47,025 27
Bank of Vancouver	1911*	$ 26,304 06	None.	Nil.
	1912	40,395 45	"	"
*16 mos.				
Weyburn Security Bank	1911*	Not given.	5%	$ 7,532 50
	1912	"	5%	15,625 00
*6 mos.				

MINUTES OF PROCEEDINGS.

HOUSE OF COMMONS,
COMMITTEE ROOM No. 101,
TUESDAY, May 6, 1913.

PRESENT.—Messrs. Ames, Armstrong (Lambton), Baker, Ball, Barker, Barnard, Beattie, Buchanan, Burnham, Carvell, Clark (Bruce), Cockshutt, Currie, Demers, Emmerson, Fisher, Foster (Kings, P.E.I.), Guthrie, Hughes (Kings, P.E.I.), Jameson, Kemp, Knowles, Macdonnell, Maclean (Halifax), Maclean (York, O.), McCraney, McCurdy, Meighen, Nesbitt, Nickle, Northrup, Osler (Sir Edmund), Perley, Rainville, Rhodes, Robb, Ross, Sexsmith, Sharpe (Ontario), Steele, Stewart (Hamilton), Thompson (Yukon), Thornton, Warnock, Webster, Weichel, White (Leeds).

The Chairman read letter from Mr. J. Henderson, vice-president of the Bank of Toronto, re Bank Audit. *(Ordered to be printed in No. 28A.)*

The Chairman read letters from the president and secretary of the Canadian Bankers' Association re La Banque de St. Hyacinthe. *(Ordered to be printed in No. 28A together with Mr. Rainville's petition to the Minister in connection therewith.)*

The Committee proceeded to the further consideration of Bill No 36, an Act respecting Banks and Banking.

Section 91 again read.

The following proposed amendment thereto was withdrawn:

"2. No bank shall, directly or indirectly, charge or receive any sum whatsoever for the keeping of any account unless such charge is made by express agreement between the bank and the customer."

Mr. Emmerson moved to amend section 91 by adding thereto the following:

"And all payments made by or on behalf of any borrower, whether paid voluntarily "or otherwise, and all monies accepted or retained by or on behalf of any bank under

APPENDIX No. 2

"the provisions of this section for interest or discount charges in excess of said rate "of seven per cent, shall be recoverable by the person or corporation so making such "payment or from whom such interest or discount charge in excess of the said rate "of seven per cent, is exacted or retained, in an action therefor in any court of com- "petent jurisdiction."

Which was negatived on division.

Mr. Emmerson moved a further amendment to section 91 by adding the following as subsection 2:

"2. All banks shall furnish a statement monthly to the Minister showing the "maximum rate of interest or discount paid to, charged or retained by such bank at "its head office or at any of its branch offices."

The question being put on the amendment, it was negatived on division.

Mr. White moved that subsection 1 of section 91 be struck out and the following be substituted therefor:

"91. The Bank may stipulate for, take, reserve or exact such rate of interest or discount per annum as may be agreed upon and may reserve and take in advance any such rate but no higher rate of interest than seven per cent shall be recoverable by the bank."

Mr. Sharpe (Ontario) gave notice of the following further amendment to section 91:

"The rate of interest charged by the Bank shall appear on the face of the note."

Section 91 allowed to stand over for further consideration.

Section 92 again read and adopted without amendment.

Section 93 again read.

Mr. Ross moved that all the words after the words "not exceeding" in line 10 thereof be struck out and the following be substituted therefor: "one-sixteenth of one per cent."

The question being put on the said amendment, it was carried on division.

Mr. Emmerson moved in amendment to section 93 that all the words after the words "not exceeding" in line 10 thereof be struck out and the following be substituted therefor: "one-eighth of one per cent."

The question being put on the amendment, it was negatived on division.

Mr. McCurdy moved that section 91 be amended by striking out all the words after the words "not exceeding" in line 10 thereof, and the following be substituted therefor: "one-eight of one per cent, provided that a bank in no case need charge less than fifteen cents."

The question being put on the amendment, it was resolved in the affirmative on division:—Yeas, 22; Nays, 15.

Section 93 was then adopted as amended.

Section 94 again read:

Mr. McCurdy moved that the words "one-half of one per cent" in line 7 thereof be struck out and the following be substituted therefor: "one-fourth of one per cent, provided that a bank in no case need charge less than twenty-five cents," and that the words "to defray the expenses of agency and charges in collecting the same" in lines 8 and 9 of Section 94 be struck out.

The question being put on the amendment, it was resolved in the affirmative.

Section 94 was then adopted as amended.

Mr. Macdonnell gave notice of the reconsideration of section 93 as amended at the next meeting of the Committee.

Section 97 again read and amended by striking out "and deposit with it" in line 3, and by adding new subsection 2 as follows:

"*2. When the authenticated copy or other document of like import is produced "to the bank under the next preceding Sub-section, there shall be deposited with the "bank a true copy thereof.*"

Section 97 adopted as amended.

New Section 97A (proposed by Mr. Currie) being read: The Minister read the opinion of the Deputy Minister of Justice thereon. The proposed new section 97A was then declared lost.

Section 99 being read:

Mr. Sharpe (Ontario) moved that said section be struck out.—Which was negatived on division.

Section 99 was then adopted as printed in the bill.

Sections 100, 101, 102, 103, 104 and 105 were again read and adopted.

Section 106 again read and amended by inserting '*after the approval by the shareholders of the selling bank*" after the word "that" in line 14, and adopted as amended.

Section 107 again read and amended by striking out "*such bank*" in line 14 and by substituting therefor the words "*both of the said banks.*"; and by striking out Sub-section 2 and by substituting the following therefor:

"2. The amount so deposited *under paragraph (c) of the next preceding Sub-section* "shall be held by the Minister as security for the redemption of the said excess of "notes; *and when the amount of the notes of the two banks outstanding and in cir-* "*culation is less than the aggregate of the paid-up capital of the purchasing bank, the* "*amount aforesaid (if any) held in the central gold reserves, together with the amount* "*so deposited, the difference shall, from time to time, be repaid by the Minister out of* "*the deposit, to the extent thereof,* to the purchasing bank, but without interest, on "the application of such bank, and on the production of such evidence as the Minister "may require to show *the amount of the notes of the two banks then outstanding and* "*in circulation.*" 63-64 V., c. 27, s. 1. Am.

Section 107 adopted as amended.

Section 108 again read and amended by inserting the following new Sub-section 2A:—

"*The trustees shall not permit any part of the deposit (if any) of the selling* "*bank in the central gold reserves to be withdrawn under the provisions of this Act* "*after the last juridical day of the month in which notice of intention to apply to the* "*Governor in Council for approval of the agreement has been given and pending such* "*approval, unless and until the trustees are notified in writing by the Minister of his* "*consent thereto; and on the approval of the agreement the trustees shall hold the* "*deposit (if any) for and as if such deposit had been originally made by the purchasing* "*bank.*"

Section 108 adopted as amended.

Sections 109, 110 and 111 read and adopted.

Section 112 again read, and amended by striking out Sub-section 3 and by substituting the following therefor:

"3. *Notwithstanding anything in this section, whenever, in the usual course of* "*the post, the return of a branch or agency for the last juridical day of the month,*

APPENDIX No. 2

"mailed at the branch or agency on or before the second day of the following month, "does not reach

"(a) the chief office of the bank on or before the eighteenth day of the month, "or

"(b) the office of the general manager, if the office of the general manager is "at a place other than the chief office of the bank, on or before the fifteenth day "of the month,

"the return last received from any such branch, exhibiting so far as that branch is "concerned the condition of the bank at the date for which it purports to be made, "may be used in the compilation of the monthly return called for by this section."

Section 112 further amended by inserting "*or by acting chief accountant*" after "chief accountant" in lines 1 and 2 of sub-section 4 and inserting "*a*" before "vice-president" in line 2 thereof, and by adding "*s*" to "vice-president" in line 3 of Sub-section 5.

Section 112 further amended by striking out "*general manager's clerk*" in line 3 of sub-section 7 and by substituting therefor the words "*assistant secretary.*"

Section 112 adopted as amended.

Section 114 again read and amended by inserting the words "*certified cheques*" before the word "drafts" in lines 26, 31, 33, 35, 37 and 40 of page 52 of the bill, and the words "*certified cheque*" before "draft" in line 44 of said page; and by inserting "*a*" before "vice-president" in line 5 of sub-section 5; and by striking out "the value at par of such shares, and" in line 1 of paragraph (*c*) of sub-section 6.

Mr. Sharpe (Ontario) moved that section 114 be further amended by adding the following as sub-section 8:—

"The bank shall transfer and pay over to the Minister notwithstanding any statute of limitation or other Act relating to prescription,—

'(*a*) all stock, no dividend whereon is claimed for six years before the last day on which a dividend thereon becomes payable (except where payment of dividend has been restrained by order of a court);

'(*b*) all dividends and all amounts of drafts or bills of exchange issued by the bank which have remained unpaid for more than six years after they became payable;

'(*c*) all sums of money, deposits or balances in respect of which no transactions have taken place, or upon which no interest has been paid, or no acknowledgment has been made by the bank, or to which no claim has been made by any person entitled thereto, during the six years prior to the date of the last annual return of the bank.

"2. If a claim to any stock so transferred or money so paid is thereafter established to the satisfaction of the Treasury Board, the Governor in Council shall, on the report of the Treasury Board, direct the retransfer or payment thereof to be made to the person entitled thereto.

"3. Upon transfer or payment to the Minister as herein provided, the bank and its assets shall be held to be discharged from further liability for the stock so transferred and the amounts so paid."

The question being put on the foregoing amendment, it was negatived on division: Yeas, 10; nays, 15.

Section 114 was then adopted as amended.

Mr. McCraney moved, that section 114 be reconsidered.—Which was negatived on division.

Section 123 again read, and amended by striking out the words "the Association" and substituting therefor the following:—

"a judge of a superior court in the province where the chief office of the bank is "situate,"

in line 4 thereof.

Section 123 adopted as amended.

Section 125 reconsidered and amended by adding the following as sub-section 2:—

"Shareholder" within the meaning of this section shall include an undisclosed principal and, to the extent of his interest, a *cestui qui trust,* on whose behalf or for whose benefit shares in the capital stock of the bank are held.

Section 125 adopted as amended.

Section 128 again read and amended by inserting "*not exceeding the limit of liability of the shareholders hereinbefore specified*" after "bank" in line 9 thereof, and by striking out "made" in line 12 and by substituting therefor the word "payable"; and by striking out "any' in line 13 and by adding letter "*s*" to "call."

Section 128 adopted as amended.

Section 130 again read and amended by striking out "or registered the transfer thereof," in line 3 and by substituting therefor the words *"as hereinbefore provided";* and by striking out "cancelled" in line 2 of paragraph (*b*) and by substituting therefor the word "forfeited."

Section 130 adopted as amended.

The Committee then adjourned until to-morrow at 10.30 a.m.

NOTICES OF MOTIONS.

By Mr. MACDONELL.

That section 93 as amended be reconsidered.

By Hon. Mr. WHITE.

New Section 91. The Bank may stipulate for, take, reserve or exact such rate of interest or discount per annum as may be agreed upon and may reserve and take in advance any such rate but no higher rate of interest than seven per cent shall be recoverable by the Bank.

By Mr. EMMERSON.

Section 91. "2. All Banks shall furnish a statement monthly to the Minister showing the maximum rate of interest or discount paid to, charged or retained by such bank at its head office or at any of its branch offices."

By Mr. SHARPE (Ontario).

Section 91. The rate of interest charged by the Bank shall appear on the face of the note.

By Mr. CARVELL.

Amend Section 146 by adding thereto the following sub-section, namely:—

2. No manager or agent of any Bank or Branch thereof, shall be allowed, either directly or indirectly to engage in the business of fire, plate-glass, hail or marine

insurance, and any such manager or agent so engaging in Insurance business contrary to the provisions hereof, shall for each offence incur a penalty not exceeding one hundred dollars.

By Mr. STEELE.

Section 72, new subsection 3:—

3. The Treasury Board shall make regulations providing for the disinfection and sterilization by the several banks of all bank notes and Dominion notes which have come into the bank's possession before a re-issue thereof to the public; and the bank, its officers, clerks and servants, shall carry out and execute the regulations made under the authority of this section.

LETTER OF MR. HENDERSON *RE* BANK AUDIT.

HOT SPRINGS, VA.,
26th April, 1913.

DEAR MR. AMES,—

Your note of 23rd inst. was forwarded to me here.

I did not submit a plan for external audit, because I was not satisfied that I could improve upon the provisions of the Bill as it has been amended by the Minister.

I had thought it might be possible for a plan to be worked out by which the nomination by shareholders should be subject to the approval of the Minister after consultation with the Bankers' Association.

On thinking this over more carefully the objections to the Minister and the Bankers' Association involving themselves in these appointments in such a way as to require legislative enactments as to the way of doing so—seemed to me so great that I did not think I should submit any plan that would involve this. I am also now inclined to think that it is not necessary..

The powers that the Minister has taken to secure a special audit in cases where to him it seems desirable is, I consider, one of the most useful provisions in the Bill.

The knowledge that this power can and will be exercised will have a most beneficial effect.

Shareholders will endeavour in their own interests to appoint only first class men and they must do so if their selection is to stand the test. If it is found that they have failed in doing so the powers that are vested in the Minister can be brought into action, and now that he is to be given the power, there will be found amongst the many interests that are involved in securing an effective audit some method of bringing the matter before the Minister and securing action. I think, therefore, everything that should be secured is provided for under the provision of the Bill.

Yours truly,

J. HENDERSON.

Herbert B. Ames, Esq.,
Chairman,
Banking and Commerce Committee,
House of Commons,
Ottawa.

CORRESPONDENCE *RE* BANK OF ST. HYACINTHE.

Honourable Mr. White,
Minister of Finance,
Ottawa.

Re St. Hyacinthe Bank.

DEAR SIR,—

I am creditably informed and believe that, on June the 22nd, 1908, one of the officers of the Bankers' Association, viz. Mr. Knight, arrived at St. Hyacinthe about 9 o'clock in the evening and convened a special session of the Directors of the St. Hyacinthe Bank. At that meeting he disclosed the object of his visit and made known the will of the Bankers' Association which was that they, the Directors of the St. Hyacinthe Bank, should vote immediately a resolution for the immediate suspension of their payments. The Directors being opposed to this drastic and high-handed precedure, discussed the attitude assumed by the Bankers' Association and revolted against the ultimatum of the Association. In reply, the agent of the Bankers' Association said in effect—"Very well, gentlemen, you will have to close your doors, anyway, and unless this be done to-night, your paper will be refused to-morrow by all the Banks"

The Directors, in view of this pressure, and in order to avoid the possibility of a run on the Bank and its consequences, did not open the doors of the Bank next morning and the Bank was thus forced into liquidation.

This was on 23rd June, 1908. Two days afterwards the Bank of Montreal had its signs on the door and its paper printed "Bank of Montreal, St Hyacinthe."

This is an instance where the Bankers' Association through its officers compelled a solvent Bank to liquidate and go out of business in the interest of the larger Banks.

Respectfully submitted,

(Signed.)

CANADIAN BANKERS' ASSOCIATION.

TORONTO, May 3, 1913.

DEAR MR. WHITE,—

In continuation of my letters of 28th and 29th April, I beg to state that I have had a thorough examination made of the condition of affairs at the time of the suspension of the Banque de St. Hyacinthe, and enclose, herewith, Mr. Knight's statement, which appears to me to be thorough and full, and I would further beg to draw your attention to the following facts:

(*a*) Mr. Knight only acted in this matter under the directions of Sir Edward Clouston, as President of the Canadian Bankers' Association.

(*b*) The statement made by Mr. Rainville, M.P., appears to have been founded upon a misapprehension of the facts.

(*c*) It is true that the creditors of the Banque eventually were paid in full, but this was only owing to a realization of assets that at the time of the suspension were not available or collectable, in fact their very existence was in dispute; but also it became necessary, later on, to call up the unpaid capital of the Banque, as well as to call upon the shareholders for their double liability. The sums collected from the claims in dispute, some four or five years after the suspension, amounted to $390,000; the amount paid in on account of the unpaid capital was $66,795.52; the amount paid in on the double liability was $156,051.10; the total liabilities of the Banque at

APPENDIX No. 2

the time of the suspension amounted to $1,182,362.74; and from the schedule it would appear that Sir Edward Clouston's judgment was absolutely sound, that it was hopeless for the Banque to attempt to go on, and his action probably saved a loss to the creditors.

It is perfectly apparent that at the time of Sir Edward Clouston's action the capital of the Banque was wholly gone, and apparently this was admitted by all parties interested.

(*d*) The Bankers' Association were not interested in the action of the Bank of Montreal, and it is also apparent that that was done not for the benefit of the Bank of Montreal, but at the solicitation of residents of St. Hyacinthe.

Sincerely yours,

(Signed) D. R. WILKIE,
President Bankers' Association.

The Honourable W. T. WHITE, M.P.,
Minister of Finance,
Ottawa.

CANADIAN BANKERS' ASSOCIATION.

Secretary-Treasurer's Office.
Bank of Montreal Building.
MONTREAL, 3rd May, 1913.

La Banque de St. Hyacinthe.

SIR,—

I have the honour to acknowledge the receipt of a copy of a letter from Mr. J. H. Rainville, M.P., in reference to the action of the Association in connection with the suspension of the Banque de St. Hyacinthe, and I make the following statement of fact in connection therewith:

The Banque de St. Jean suspended on the 20th April, 1908, and the Banque de St. Hyacinthe, which was not strong in liquid assets, began to suffer from the disastrous failure of that Bank. This was known to all bankers.

The subscribed capital stock of the Bank was $504,600, of which $331,235 was paid up. The total deposits at the end of the month of May, 1908, as compared with the preceding month, showed a decline, as stated in the Government returns, of some $75,000.

By reason of the knowledge that the President of the Canadian Bankers' Association, the late Sir Edward Clouston, had as to the situation, I was asked to request the cashier of the Bank to come to Montreal. Mr. L. F. Philie, the cashier, accordingly came to Montreal on the 22nd June, 1908. After a conversation with him, I came to the conclusion that it was necessary to have a further examination of the condition of the Bank, and so reported to the President of the Association. Mr. Philie was of opinion that the financial condition of the Bank was serious.

At my request, Mr. Philie returned to St. Hyacinthe to make up, as accurately as possible, a valuation of the assets, and report the result to me as soon as possible. I explained to him that this was necessary because, if the Canadian Bankers' Association could render any assistance to the Bank, it would gladly do so, but that it would be necessary to have a statement of its assets.

Mr. Philie, the next day, brought back the statement, which is shown as Exhibit A.

I discussed with him the various items in this statement, as, on its face, it showed that the whole of the paid up capital of the Bank was gone. The chief asset was a

doubtful claim against the Quebec Southern Railway, which was then being wound up as insolvent, by proceedings in the Exchequer Court, at the instance of the Minister of Raiways and Canals. The total claim of the Bank, which was filed in 1906, was $612,000. The total assets at the time, as represented in the Government returns, was $1,580,097.84. I did not place as high a valuation upon the claim against the Quebec Southern Railway as did Mr. Philie, and my judgment in this regard is justified by the result, as, after four and a half years' litigation, at heavy expense to the Bank, the amount realized was $381,000, which sum was paid to the Liquidator of the Bank in two amounts, on 13th October, 1911, and 2nd January, 1913.

May I refer to the report of the action the Minister of Railways and Canals against the Quebec Southern Railway, in *re* Banque de St. Hyacinthe (claimant) in Vol. 12, Canada, Exchequer reports, p. 61, for a fuller disclosure of the difficulties surrounding the collection of this large claim of the Bank.

Another asset I criticised was the item marked "Debentures." These were issued on the security of a viaduct in St. Hyacinthe, and were valued at $33,000, but realized only $9,000.

Mr. Philie also advised me that a claim by L. F. Morrison against the Bank for $93,146 was then in litigation.

The criticism of the assets was accurate, as shown by the following:

L. F. Philie's (the cashier) valuation	$1,190,556 00
Total collected by the Liquidator.	1,043,435 30

Further, I was advised by Mr. Philie, at our first interview, that the Eastern Townships Bank, the Agent for Clearing House purpose in Montreal, then had over $15,000 of the Bank's notes on hand. They were holding these over to give the Bank a chance to secure funds to redeem them, and, in addition, Mr. Philie advised me that, in order to secure money to pay the demands upon the Bank, he was forced to rediscount the best paper in his portfolio, and had at that time rediscounted with the Eastern Townships Bank $26,493 of current paper.

As soon as I ascertained these facts, and examined the statement, Exhibit A, I consulted with the President of the Association, and the conclusion arrived at was that, in the interests of the creditors, the only honest thing to do was to recommend the Bank to suspend payment.

I accompanied Mr. Philie to St. Hyacinthe the night of the 23rd June, and a meeting of the Board was called, at which five of the Directors were present. Two of the Directors were not available, as they lived outside of St. Hyacinthe. Mr. Philie was present during the conference. I pointed out to the Board that the statement of affairs as exhibited, which had their approval before it was submitted to the Association, showed that the entire capital of the Bank was lost and that possibly their deposits were impaired. The statement of the assets was conceded to be correct by everyone present, and the only objection that the Board made to my criticism was that I was placing a lower valuation upon the claim against the Quebec Southern than the Board was disposed to do.

At no time during this conference did I say—

"It was the will of the Bankers' Association that they, the Directors of the "Banque de St. Hyacinthe, should vote immediately a resolution for the im- "mediate suspension of their payments."

I never used any language to the effect—

"Very well, gentlemen, you will have to close your doors anyway, and unless "this be done to-night, your paper will be refused to-morrow by all the Banks."

During the discussion, two of the Directors were anxious that the Bank should not suspend payment until they had an opportunity to go to Ottawa and lay the

APPENDIX No. 2

position of the Bank before the Government and seek its assistance. These two Directors suggested delay in taking action.

There was a large gathering of citizens outside the Bank building while the conference was going on, and it was quite apparent that there was knowledge in the town that the Bank was in difficulties and there would be a run on the Bank the next morning.

I explained to the Directors that the Association had no power to order the suspension of the Bank, but, if they did not suspend, I would report to the Minister in the morning that the Bank was insolvent, and I explained to them that, in my judgment, it would not be honest to the depositors to open in the morning.

After the fullest possible discussion, a unanimous resolution of the Directors, copy of which is marked Exhibit B, was passed, and Mr. Philie, the cashier, was left in charge and was instructed to advise the branches of the Bank that it had suspended payment.

I beg to append herewith a statement, Exhibit C, being the return made by the Bank to the Association, on the 23rd June, the day it suspended.

Mr. Philie was appointed Curator by the Canadian Bankers' Association on 24th day of June, 1908, and later was appointed Liquidator, and had the carriage of the winding up proceedings.

For your information, I beg leave to submit, as Exhibit D, a statement of the Receipts and Disbursements of the Liquidator, up to the 7th February, 1913.

Since the 7th February, 1913, a final dividend has been paid to the creditors of the Bank with 2 1/10 per cent interest on their respective claims.

With reference to the paragraph in Mr. Rainville's statement that two days afterwards, the Bank of Montreal opened a branch at St. Hyacinthe, may I add that three of the Directors of the Bank of St. Hyacinthe came with me to the President of the Canadian Bankers' Association when I made my report to him the day the Bank suspended? After full discussion with the President, he approved of the course that had been taken by the Directors on my recommendation that the Bank suspend payment.

The President of the Banque de St. Hyacinthe expressed the greatest possible concern for the depositors of the Banque de St. Hyacinthe, and told Sir Edward Clouston that very many of them would be seriously inconvenienced by the Bank suspending payment and was anxious that something be done to relieve the hardship of their situation. Sir Edward said that the Bank of Montreal would immediately open a branch and that whoever was placed in charge would be instructed to do everything possible to help out depositors and others who would be embarrassed by the suspension of the Bank.

In a formal report as to the reasons of the Association for recommending the Directors of the Banque de St. Hyacinthe to suspend payment, the fact that the Bank of Montreal opened immediately after may not be any concern of the Association; but, as the matter is dealt with by Mr. Rainville in his letter, I wish to add that, in my opinion, Sir Edward Clouston opened a branch of the Bank of Montreal in St. Hyacinthe for the purpose of doing what he could to mitigate, in some measure, the hardship that would inevitably follow from the suspension of the Bank.

You will allow me to say in conclusion—

1. That at the time the Bankers' Association began its investigation into the affairs of the Banque de St. Hyacinthe, there were well founded rumours as to its condition to warrant them in making enquiries.

2. That the statement as discussed by the Bank showed that its capital was lost and that this was admitted by the Directors.

3. That the Associations' recommendation to the Directors to suspend payment was the proper one to make.

4. That the result justifies that recommendation and that the creditors have been paid their claims, without the full amount for interest, only after the Liquidator called up the unpaid capital and had recourse to the full amount of the double liability.

If I can furnish any further information in reference to the matter, I will be pleased to do so.

I have, etc.,

(Signed) JOHN KNIGHT,
Secretary.

Hon. W. T. White.

EXHIBIT A.

LA BANQUE DE ST-HYACINTHE.

Statement of Affairs, as on May 30, 1908.

LIABILITIES.

Due to Note Holders (circulation)	$253,860
Due to Public	853,556
Due to Provincial Government	46,667
	$1,154,083

VALUATION OF ASSETS.

Legals and Specie	$ 23,061
Deposit with Dominion Government	16,500
Due by other Banks	45,510
Notes and cheques on other Banks	26,493
Railway Claim	485,000
Debentures	33,000
Current Loans collectible	490,000
Overdue Debts collectible	20,000
Other Assets collectible	14,000
Mortgages on Real Estate sold by the Bank	7,992
Bank Premises, including safes, etc	29,000
	$1,190,556

EXHIBIT B.

At a special meeting of the Directors of La Banque de St. Hyacinthe, held Tuesday, the 23rd June, 1908, at eleven o'clock in the evening, were present:—Honourable G. C. Dessaulles, President; Messrs. Joseph Morin, L. P. Morin, E. Ostiguay, V. B. Sicotte.

It was resolved:—

Upon the recommendation actually made by the Canadian Bankers' Association, through Mr. John T. P. Knight, the Secretary of the said Association, present at this

APPENDIX No. 2

meeting, that this Bank suspend payments immediately for ninety days, in conformity with the disposition of Article 127 of the Bank Act.

(Signed) G. C DESSAULLES, *President.*
L. F. PHILIE, *Cashier.*

True Copy
L. F. PHILLIE,
Liquidator of La Banque de St. Hyacinthe.

A une assemblée spéciale des Directeurs de La Banque de St-Hyacinthe tenue Mardi, le Vingt-Trois Juin Mil Neuf Cent Huit, a onze heures du soir, sont présents—L'Honorable G. C. Dessaulles, Président; Messieurs Joseph Morin, L. P. Morin, E. Ostiguay, V. B. Sicotte .

Il est résolu:—

Vu la recommandation présentement faite par L'Association des Banquiers Canadiens par l'entremise de Mr. John T. P. Knight, le Secrétaire de la dite Association présent à cette assemblée, que cette Banque suspende immédiatement ses paiements pour quatre-vingt-dix jours en conformité des dispositions de l'article 127 de l'Acte des Banques.

(Signé) G. C. DESSAULLES, *Président.*
L. F. PHILIE, *Caissier.*

Vraie copie
L. F. PHILIE,
Liquidateur de la Banque de St. Hyacinthe.

EXHIBIT C.

RETURN OF THE AMOUNT OF LIABILITIES AND ASSETS OF LA BANQUE DE ST. HYACINTHE ON THE TWENTY-THIRD DAY OF JUNE, 1912.

CAPITAL AUTHORIZED $1,000,000. CAPITAL SUBSCRIBED $504,600. CAPITAL PAID UP $331,235. RESERVE FUND $75,000

LIABILITIES.

1. Notes in Circulation	$	267,365 00
2. Balance due to Dominion Government after deducting advances for credits, pay-lists, etc.		
3. Balance due to Provincial Governments		52,659 62
4. Deposits by the public, payable on demand, in Canada		73,942 37
5. Deposits by the public, payable after notice or on a fixed day, in Canada		761,955 86
6. Deposits elsewhere than in Canada		
7. Loans from other Banks in Canada, secured, including bills re-discounted		26,439 80
8. Deposits made by, and balances due to, other Banks in Canada		
9. Balances due to agencies of the Bank, or to other Banks or agencies, in the United Kingdom		
10. Balances due to agencies of the Bank, or to other Banks or agencies, elsewhere than in Canada and the United Kingdom		
11. Liabilities not included under foregoing heads		
	$	1,182,362 74

ASSETS.

1. Specie	$	11,384 03
2. Dominion Notes		14,323 00
3. Deposits with Dominion Government for Security of note circulation		16,500 00
4. Notes of and cheques on other Banks		14,726 09
5. Loans to other Banks in Canada, secured, including bills re-discounted		
6. Deposits made with, and balances due from, other Banks in Canada		41,813 81
7. Balances due from agencies of the Bank, or from other Banks or agencies, in the United Kingdom		
8. Balances due from agencies of the Bank, or from other Banks or agencies, elsewhere than in Canada and the United Kingdom		16,302 01
9. Dominion and Provincial Government securities		
10. Canadian municipal securities, and British, or Foreign, or colonial public securities other than Canadian		
11. Railway and other bonds, debentures and stocks		33,000 00
12. Call and short loans on stocks and bonds, in Canada		
13. Call and short loans elsewhere than in Canada		
14. Current loans in Canada		461,951 11
15. Current loans elsewhere than in Canada		
16. Loans to the Government of Canada		
17. Loans to Provincial Governments		
18. Overdue Debts		901,222 41
19. Real estate other than Bank premises		
20. Mortgages on real estate sold by the Bank		7,825 20
21. Bank premises		30,718 96
22. Other assets not included under the foregoing heads		30,331 22
	$	1,580,097 84

APPENDIX No. 2

EXHIBIT D.

LA BANQUE DE ST. HYACINTHE.

Statement of Receipts and Disbursements, 7th February, 1913.

RECEIPTS.

Money collected from promissory notes, current account advances, other assets and from other sources, including sale of Bank premises	$1,043,435 30	
From shareholders on unpaid portion capital subscribed.	66,795 52	
From shareholders for double liability call	156,051 10	
		$1,266,281 92

DISBURSEMENTS.

Paid for redemption of circulation	$ 260,645 00	
" " Provincial Government deposits and accrued interest	55,923 67	
" " Sheriff's deposits	729 10	
		317,297 77
" " premiums on life insurance assigned to the bank and in settlement of other claims		28,835 47
legal costs, comprising—		
" " court and lawyers' fees	$ 17,972 72	
" " salaries to employees (Head Office)	6,344 04	
(and 5 branches)	285 50	
" acct. inspector's remuneration	1,000 00	
" " Curator-Liquidator's remuneration	4,830 00	
" " Collections of Bills, Exchange and Commission on cheques and protest fees	219 42	
" " sundry expenses, comprising rent, maintenance of offices, lighting, impressions, advertisement, messages, telephones, telegrams, travelling expenses, stationery and postal stamps	4,301 96	34,953 64
		$ 381,086 88
Paid account 1st Dividend 25%	$ 210,187 54	
" " 2nd " 45%	370,789 83	
" " 3rd " 20%	160,972 78	741,950 15
Unpaid dividends		10,907 36
		$1,133,944 39
Balance in bank on the 7th February, 1913		132,337 53
		$1.266,281 92

MINUTES OF PROCEEDINGS.

HOUSE OF COMMONS,
COMMITTEE ROOM No. 101,
WEDNESDAY, May 7, 1913.

PRESENT:—Messrs. Ames, Armstrong (Lambton), Ball, Barker, Barnard, Beattie, Buchanan, Burnham, Carvell, Clark (Bruce), Clark (Red Deer), Cockshutt, Currie, Emmerson, Fisher, Hughes (Kings, P.E.I.), Jameson, Kemp, Knowles, Loggie, Macdonald, Macdonell, Maclean (Halifax), Maclean (York, O.), McCraney, McCurdy, McLean (Sunbury), Middlebro, Nesbitt, Nickle, Northrup, Osler (Sir Edmund), Papineau, Perley, Rainville, Rhodes, Sexsmith, Sharpe (Ontario), Sinclair, Sutherland, Thomson (Qu'Appelle), Thompson (Yukon), Thornton, Tobin, Warnock, Weichel and White (Leeds).

The Committee proceeded to the further consideration of Bill No. 36, an Act respecting Banks and Banking.

Section 72 again read, and further amended by adding the following sub-section 3 thereto:—

"3. The Treasury Board shall make regulations providing for the disinfection and sterilization by the several banks of all bank notes and Dominion notes which have come into the bank's possession before a re-issue thereof to the public; and the bank, its officers, clerks and servants, shall carry out and execute the regulations made under the authority of this section."

Section 72 adopted as further amended.

Section 91 again read:

Mr. White moved that the section as printed in the Bill be struck out and the following substituted therefor:—

The Bank may stipulate for, take, reserve or exact such rate of interest or discount per annum as may be agreed upon and may receive and take in advance any such rate, but no higher rate of interest than seven per cent shall be recoverable by the Bank.

The question being put on the amendment, it was carried on division.

Mr. Sharpe (Ontario) moved as a further amendment that the following be added to the section as amended:

"That the rate of interest charged by the Bank shall appear on the face of the note.

The question being put on the further amendment, it was negatived on division: Yeas, 14; nays, 17.

Mr. Emmerson moved as a further amendment that the following subsection be added to the section as amended:

"2. All Banks shall furnish a statement monthly to the Minister showing the maximum rate of interest or discount paid to, charged or retained by such bank at its head office or at any of its branch offices."

The question being put on the further amendment, it was negatived on division: Yeas, 11; Nays, 16.

Section 91 was then adopted as amended.

Mr. Macdonell moved that section 93 as amended be reconsidered—which was negatived on division

APPENDIX No. 2

Secton 131A again read:

Mr. McCurdy moved that the following be added as subsection 4 thereto:

"4. Any person who, being a director, officer, clerk, or servant of a bank, accepts, directly or indirectly, a gift, payment or other consideration or receives a promise of consideration from any person who is seeking or has obtained, on his own or any other account, a loan or discount or other advantage from the bank, shall be guilty of an offence against this Act."

The question being put on the principle of the Amendment, it was carried on division. *(Stands over for redrafting as section 131B.)*

Section 134 again read and adopted (Mr. Aikins' amendment thereto being withdrawn.)

Section 137 again read, and amended by adding thereto the following subsections:—

"2. Every officer, clerk and servant of a bank who, for the bank, re-issues "to the public any bank notes or Dominion notes which have not been dis- "infected or sterilized in accordance with the regulations made by the Treasury "Board under the authority of this Act shall, on the information of any person, "on summary conviction, be liable to a penalty not exceeding twenty dollars.

"3. In the event of the conviction of any officer, clerk or servant of a bank "under this section, the bank shall thereby incur a penalty of fifty dollars."

Section 137 adopted as amended.

Section 138 again read and adopted. (Mr. Sharpe's amendment thereto being withdrawn.)

Section 140A again read, and amended by inserting *"or of the profit and loss account"* after *"statement"* in line 1.

Section 140A adopted as amended.

Mr. Sharpe (Ontario) moved that the following be inserted as section 140B:

"Every person who, being the president, vice-president, director, general manager, manager or other officer of a bank, enters into an agreement with any other president, vice-president, director, general manager, manager, or other officer of any other bank, or is a party to any agreement to which a bank is a party to control, regulate, raise or lower the rates of interest on deposits or loans, discounts, or exchange, or limit competition in establishing branch banks, shall be guilty of an indictable offence and liable to imprisonment for a term not exceeding five years, or to a fine not exceeding $2,000, or to both."

The question being put on the amendment, it was negatived on division: Yeas, 8; Nays, 16.

Section 141 again read, and amended by striking out the last "or" in line 7 of sub-paragraph (*i*); and by inserting the following after sub-paragraph (*ii*):

"(iii) to any farmer on the security of threshed grain; or,

"(iv) to any rancher upon the security of cattle;"

Section 141 adopted as amended.

Section 142 again read, and amended by inserting *"products or stock"* before "good" in line 7; and by striking out "or products" and substituting therefor the words *"or grain or cattle"* in same line.

Section 142 adopted as amended.

Section 143 again read and amended by substituting *"or"* for *"and"* in line 12; and by striking out *"(of any kind)"* in line 25 thereof.

Section 143 adopted as amended.

Section 144 again read and amended by inserting *"products or stock"* after "any" in line 2; by inserting *"grain or cattle"* after "merchandise" in line 2; by

inserting "products or stock" after "such" in line 8; by inserting *"grain or cattle"* after "merchandise" in line 9; by inserting "*products of stock,*" after "such" on line 11; and by inserting "*grain or cattle,*" after "merchandise" in line 11; and by substituting "two" for "three" in line 14.

Section 144 adopted as amended.

Section 146 again read:

Mr. Carvell moved, that the following subsection be added thereto:—

2. No manager or agent of any Bank or Branch thereof, shall be allowed, either directly or indirectly to engage in the business of life, fire, plate-glass or marine insurance, or any such manager or agent so engaging in Insurance business contrary to the provisions hereof, shall for each offence incur a penalty not exceeding one hundred dollars.

The question being put on the amendment, it was resolved in the affirmative.

Section 146 adopted as amended.

The following new sections were inserted:—

146A. It shall be an offence against this Act for any director, officer, clerk "or servant of the bank to pledge, assign or hypothecate the notes of the bank "on behalf of the bank"

146B. If a bank suspends payment in specie or Dominion notes of any of "its liabilities as they accrue, then so long as such suspension continues it shall "be an offence against this Act for any director, officer, clerk or servant of the "bank who has knowledge of such suspension to pay or cause to be paid to any "person any debt or liability of the bank unless with the consent of a curator or "liquidator duly appointed."

Section 149 again read and amended by inserting "certified cheques" before "drafts" in line 5.

Section 149 adopted as amended.

Section 151 again read and amended by inserting *"certified cheques"* after *"all"* in line 8.—Section adopted as amended.

Section 158 again read:

Mr. Sharpe (Ontario) moved, that the following be added as subsection 3:

"In case any violation of this Act be brought to the attention of the Minister, and on request the latter refuses to sue for the amount of the penalties as provided by this Act, and neglects to sue for a period of three months after such notice, then such person so notifying the Minister may bring suit in his own name for the recovery of the penalties and such penalties shall belong to such person so suing"

The question being put on the amendment, it was negatived on division.

Section 158 was then adopted without amendment.

Schedule B again read and adopted without amendment.

Schedule C again read and amended as follows:—

Page 70, in the 6th line thereof, immediately after the bracket and before the words "the goods," by inserting the following:—

"the products of agriculture, the forest, quarry and mine, or the sea, lakes and "rivers, the live stock or dead stock, or."

Insert after the word "merchandise" in the next line the words:—

"or the grain or cattle (as the case may be)."

Page 71, items 1 and 2 of Assets, amend in the following form:—

APPENDIX No. 2

"*1. Current gold and subsidiary coin..*	*In Canada* $	$
	Elsewhere $	
"*2. Dominion notes.. .. ..*	*In Canada* $	$
	Elsewhere $	

Item 6, amend by striking out "*and cash items in transit.*"

Schedule C adopted as amended.

Schedule D again read as previously amended:

Mr. McCurdy moved to strike out item 6 of *Liabilities* and to substitute therefor:

"Deposits in Great Britain,
" British Colonies,
" United States,
" other foreign countries."

The question being put on the amendment, it was negatived on division: Yeas, 9; Nays, 15.

Mr. McCurdy moved that schedule D be amended so as to provide for the inclusion in the schedule of the amount on deposit and on loan in each Province of the Dominion.—Which was negatived on division.

Mr. McCurdy moved to strike out item 15 of the *Assets* and to substitute therefor:

"Call loans in Great Britain,
" British Colonies,
" United States,
" other foreign countries."

Which amendment was negatived on division: Yeas, 9; Nays, 12.

Mr. McCurdy moved to strike out item 17 of the *Assets* and to substitute therefor:

"Current loans in Great Britain,
" " British Colonies,
" " United States,
" " other foreign countries."

Which amendment was negatived on division: Yeas, 9; Nays, 13.

On motion of Mr. McCurdy, the following was inserted as item 19*a* in the *Assets:*

"Loans to cities, towns, municipalities and school districts."

Mr. McCurdy moved that the following be inserted after line 24 of page 72 of the Bill:

"Aggregate amount of loans to joint stock companies in which directors of the bank hold a majority of the shares."

"Aggregate amount of loans to joint stock companies of which a director of the bank is a director."

The question being put on the amendment, it was negatived on division: Yeas, 7; Nays, 16.

Schedule D was then adopted as previously amended.

Schedule F again read and amended by inserting *certified cheques* after *amounts* in line 1. Schedule F adopted as amended.

The Committee then adjourned until to-morrow at 10.30 A.M., to consider the remaining undisposed sections of the bill, viz.:—2, 18, 20, 44, 56, 56A, 56B, and 131A.

HOUSE OF COMMONS,
COMMITTEE ROOM No. 101,
THURSDAY, May 8, 1913.

PRESENT:—Messrs. Ames, Armstrong (Lambton), Armstrong, (York, O.), Baker, Ball, Barker, Beattie, Bellemare, Blondin, Boyce, Buchanan, Carvell, Clark (Bruce), Cockshutt, Crocket, Emmerson, Fisher, Fortier, Foster (Kings, N.S.), Hughes (Kings, P.E.I.), Hughes, (Victoria), Kay, Kemp, Knowles, Lemieux, Loggie, Macdonald, Macdonell, Maclean (Halifax), McCraney, McCurdy, McLean (Sunbury), McMillan, Marshall, Middlebro, Nesbitt, Nickle, Northrup, Osler (Sir Edmund), Papineau, Pardee, Rainville, Rhodes, Ross, Sexsmith, Sharpe (Ontario), Sinclair, Steele, Thomson (Qu'Appelle), Thornton, Warnock, White (Leeds).

The Committee proceeded to the further consideration of Bill No. 36, an Act respecting Banks and Banking.

Section 2 again read and further amended by inserting "and members of the Association means the general managers of the banks," after "*Association*" in line 5; and by inserting the following new paragraph: "(i) '*grain*' *means wheat, oats, barley, rye and flax*," and by striking out the words "*all other marine and fresh water animal life, inclusive of*" in lines 4 and 5 of paragraph (*m*) of the said section.

Section 2 adopted as further amended.

Section 18 reconsidered and further amended by substituting "twenty" for "thirty" in line 2 of paragraph (*b*). Section 18 adopted as further amended.

Section 20 again read:

Mr. McCurdy moved that the following be added thereto as subsection 4: "No paid executive official of a bank shall be elected a director."

The question being put on the amendment, it was negatived on division: Yeas, 5; Nays, 20.

Section 43 again read and reconsidered.

Mr. White (*Leeds*) moved that the new subsections 4 and 5 (Mr. Sharpe's amendment) be struck out and that the following new subsections 4, 5, 6, 7 and 8 be substituted therefor:—

4. The bank shall open and maintain in each province in Canada in which it has resident shareholders and in which it has one or more branches or agencies a share-registry office, to be designated by the directors, at which the shares of the shareholders, resident within the province, shall be registered and at which, and not elsewhere, except as hereinafter provided, such shares may be validly transferred.

5. Shares of persons who are not resident in Canada or in any province in which there is a branch or agency of the bank may be registered and shall be transferable at the chief office of the bank or elsewhere, as the directors may designate.

6. Whenever there is a change in the ownership of shares, and the new shareholder resides in a province other than that in which the former shareholder resided, and whenever there is a change in the residence of a shareholder from one province to another, or whenever a shareholder residing outside of Canada becomes a resident of a province in Canada, the registration of the shares shall be changed to the registry of the province in which the shareholder has his residence, if there is a branch or agency of the bank in that province, and the shares of such shareholder shall thereafter be transferable at such registry and not elsewhere, except as herein provided.

7. For the purposes of this section, a shareholder shall be deemed to be resident in the province in which he has, according to the books of the bank, his post office address.

APPENDIX No. 2

8. The directors shall appoint such agents for the purposes of this section as they deem necessary, 53 V., c. 31, ss. 29 and 35, Am.

The question being put on Mr. White's amendment, it was resolved in the affirmative on division: Yeas, 16; Nays, 9.

Section 43 was then adopted as further amended.

Section 44—Mr. McCurdy's amendment thereto was withdrawn, in consequence of the adoption of the foregoing amendment to section 43.

Section 88 as previously amended reconsidered.

Mr. White (*Leeds*) moved that the following subsections 9 and 10 be added:—

9. *Any security given under the authority of this section in respect of money lent by a bank to a farmer or rancher shall, so long as the grain or cattle covered thereby remains in the possession or control of the farmer or rancher, be absolutely null and void as against the execution creditors of the farmer or rancher and as against other persons levying on or seizing under process of law the grain or cattle assigned thereby, and as against subsequent purchasers or mortgagees in good faith, unless a duplicate original of such security is filed, registered or deposited in the particular office or place in which, under the laws of the province where the property is situate, bills of sale, chattel mortgages or mortgages of personal property must be filed, registered or deposited in order to be valid and effective as against the classes of persons referred to in this sub-section or any of them: Provided that this sub-section shall not apply in the Province of Quebec.*

10. *The same fees shall be payable for filing, registering or depositing a security under the last preceding sub-section as are payable under the respective provincial statutes for like service.*

The question being put on this further amendment, it was resolved in the affirmative.

Section 88 adopted as further amended.

Section 131A:—

Mr. McCurdy's proposed amendment thereto was withdrawn, and the following substituted therefor as Section 131B (Mr. Emmerson dissenting):—

131B. Every one is guilty of an offence and liable, upon conviction on indictment, to two years' imprisonment, or to a fine not exceeding two thousand five hundred dollars, or to both, and, upon summary conviction, to imprisonment for six months, with or without hard labour, or to a fine not exceeding one hundred dollars, or both, who,—

(*a*) being a director, general manager, manager, or other executive officer of a bank, corruptly accepts or obtains, or agrees to accept or attempts to obtain, from any person, for himself or for any other person, any gift or consideration as an inducement or reward for doing or forbearing to do, or for having after this Act comes into force done or forborne to do, any act relating to the bank's business or affairs, or for showing or forbearing to show favour or disfavour to any person with relation to the bank's business or affairs; or

(*b*) corruptly gives or agrees to give or offers any gift or consideration to any director, general manager, manager, or other executive officer of a bank as an inducement or reward or consideration to such director, general manager, manager or other executive officer of the bank, for doing or forbearing to do, or for having after this Act comes into force done or forborne to do any act relating to the bank's business or affairs, or for showing or forbearing to show favour or disfavour to any person with relation to the bank's business or affairs.

2. In this section, "consideration" includes valuable consideration of any kind.

Sections 56 and 56A read and struck out and the following substituted therefor:

SHAREHOLDERS' AUDIT.

56. *The members of the Association shall, at a meeting duly called for the purpose, before the thirtieth day of September, 1913, and thereafter before the thirtieth day of June in each year, select by ballot persons deemed by them to be competent (no one of whom shall be a body corporate) not less than forty in number, any one of whom shall, subject to the provisions hereinafter contained, be eligible to be appointed an auditor under the provisions of this Act.*

2. *A list of persons so selected, together with their post office addresses and occupations, shall forthwith be delivered or sent by registered post to the Minister, and the Minister may in the case of the first selection by the members of the Association within ten days after the receipt of the list, and thereafter each year within sixty days after the receipt thereof, disapprove, as to eligibility to be appointed auditor of a particular bank or banks, or wholly disapprove, of the selection of any person named in the list, and such person shall not, to the extent of such disapproval, be qualified to be appointed an auditor under this section.*

3. *The Minister shall communicate his disapproval, if any, to the Association.*

4. *The Association shall, as soon as may be after the expiry of the time given to the Minister for disapproval, cause the list of persons qualified as hereinbefore provided, with their respective post office addresses and occupations, to be published in two successive issues of the Canada Gazette, and any limitations as to eligibility for the auditorship of a particular bank or banks of the persons named in the list shall be stated in the advertisement.*

5. *No person shall be qualified to act as an auditor of a bank under this Act unless his name appears in the published list for the year, but this subsection shall not apply to an appointment of an auditor made by the Minister in pursuance of the provisions of this Act.*

6. *The shareholders shall, at each annual general meeting, appoint an auditor or auditors, from the last published list of persons qualified, to hold office until the next annual general meeting.*

7. *After the appointment of an auditor or auditors under the next preceding subsection of this section, shareholders the aggregate of whose paid-up capital stock is equal to at least one-third of the paid-up capital stock of the bank, who in writing under their respective hands allege that they are dissatisfied with the appointment so made, may, in and by the same writing, make application to the Minister to have the person or persons so appointed superseded, and the Minister may, after such inquiry as he may deem necessary, select an auditor or auditors instead of the auditor or auditors appointed at the annual general meeting, and the auditors so appointed shall thereupon cease to be the auditors of the bank and the auditors so selected shall be the auditors of the bank until the next annual general meeting.*

8. *If an appointment of auditors is not made at an annual general meeting, the Minister shall, on the written application of a shareholder, appoint an auditor or auditors of the bank to hold office until the next annual general meeting, and the Governor in Council shall fix the remuneration to be paid by the bank for the services of the auditor or auditors so appointed.*

9. *A director or officer of the bank shall not be capable of being appointed auditor of the bank.*

10. *A person, other than a retiring auditor, shall not be capable of being appointed auditor at an annual general meeting unless written notice of an intention to nominate that person to the office of auditor has been given by a shareholder to the bank at its chief office, not less than twenty-one days before the annual general meeting, and the bank shall deliver a copy of any such notice to the retiring auditor, if any, and shall give notice of the names of the persons eligible for nomination at said meeting, and by whom such persons are respectively intended to be nominated, to every shareholder of the bank by mailing the notice in the post office, post paid, to the*

APPENDIX No. 2

last known post office address of the shareholder as shown by the records of the bank, at least fourteen days prior to the annual general meeting.

11. *If any casual vacancy occurs in the office of auditor the surviving or continuing auditor or auditors, if any, may act, but if there is no surviving or continuing auditor, and such vacancy has occurred more than three months before the annual general meeting, the directors shall, as hereafter in this section provides, call a special general meeting of the shareholders for the purpose of filling the vacancy.*

12. *Before calling such special general meeting the directors shall, as soon as may be after the vacancy occurs, give public notice by advertisement in six consecutive issues of one or more daily newspapers published in the place where the chief office of the bank is situate, and if no daily newspaper is published at that place, then by advertisement in two consecutive issues of a newspaper published weekly in that place, of the vacancy in the office of auditor, and that the vacancy will be filled in the manner provided by this Act.*

13. *A person shall not be capable of being appointed auditor to fill such vacancy unless notice of an intention to nominate that person to the office of auditor has been given by a shareholder to the bank at its chief office within ten days after the last publication of the notice called for by the next preceding subsection.*

14. *The directors shall, as soon as may be after the expiry of the ten days mentioned in the next preceding subsection, call a special general meeting of the shareholders for the purpose of filling the vacancy, and notice of such meeting specifying the object, and stating the names of the persons eligible for nomination, and by whom such persons are respectively intended to be nominated, shall be given to every shareholder of the bank by mailing the notice in the post office, post paid, to the last known post office address of the shareholder as shown by the records of the bank, at least fourteen days prior to the date fixed for the meeting.*

15. *If the vacancy contemplated by subsection 13 of this section is not filled in the manner provided, or if a casual vacancy occurs in the office of auditor less than three months before the annual general meeting, the Minister in the former case shall, and in the latter case may, on the written application of a shareholder, appoint an auditor or auditors to hold office until the next annual general meeting, and the Governor in Council shall fix the remuneration to be paid by the bank for the services of the auditor or auditors so appointed.*

16. *The remuneration of auditors appointed by the shareholders shall be fixed by the shareholders at the time of their appointment, and in the event of such appointees being superseded and other auditors selected, as provided by subsection 7 of this section, the remuneration so fixed shall be divided between them according to the length of time they respectively are auditors of the bank.*

17. *Every auditor of a bank shall have a right of access to the books and accounts, cash, securities, documents and vouchers of the bank, and shall be entitled to require from the directors and officers of the bank such information and explanation as may be necessary for the performance of the duties of the auditors.*

18. *If the bank has branches or agencies it shall be sufficient for all the purposes of this section if the auditors are allowed access to the returns, reports and statements and to such copies of extracts from the books and acounts of any such branch or agency as have been transmitted to the chief office, but the auditors may in their discretion visit any branch or agency for the purpose of examining the books and accounts, cash, securities, documents and vouchers at the branch or agency.*

19. *It shall be the duty of the auditors once at least during their term of office, in addition to such checking and verification as may be necessary for their report upon the statement submitted to the shareholders under section 54 of this Act and at different times, to check the cash and verify the securities of the bank at the chief office of the bank against the entries in regard thereto in the books of the bank, and, should*

they deem it advisable, to check and verify in the same manner the cash and securities at any branch or agency.

20. *The auditors shall make a report to the shareholders on the accounts examined by them, on the checking of cash and verification of securities referred to in the next preceding subsection, and on the statement of the affairs of the bank submitted by the directors to the shareholders under section 54 of this Act during their tenure of office, and the report shall state,—*

(a) whether or not they have obtained all the information and explanation they have required;

(b) whether, in their opinion, the transactions of the bank which have come under their notice have been within the powers of the bank;

(c) whether their checking of cash and verification of securities required by subsection 19 of this section agreed with the entries in the books of the bank with regard thereto; and,

(d) whether, in their opinion, the statement referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the bank's affairs according to the best of their information and the explanations given to them and as shown by the books of the bank.

21. *The auditors' report shall be attached to the statement submitted by the directors to the shareholders under section 54 of this Act, and the report shall be read before the shareholders in the annual general meeting.*

22. *Any further statement of the affairs of the bank submitted by the directors to the shareholders under section 55 of this Act shall be subject to audit and report, and the report of the auditors thereon shall state,—*

(a) whether or not they have obtained the information and explanation they have required;

(b) whether, in their opinion such further statement is properly drawn up so as to exhibit a true and correct view of the affairs of the bank in so far as the by-law requires a statement thereof, according to the best of their information and the explanations given to them, and as shown by the books of the bank.

23. *The report shall be attached to the further statement referred to in the next preceding subsection, and shall be read before the shareholders at the meeting to which such further statement is submitted, and a copy of the statement and report shall be sent by the directors at and after the meeting to any shareholder applying therefor.*

AUDITORS' REPORT TO THE MINISTER.

56A. *The Minister may direct and require any auditor appointed under the next preceding section of this Act, or any other auditor whom he may select, to examine and inquire specially into any of the affairs or business of the bank and the auditor so appointed or selected, as the case may be, shall, at the conclusion of his examination and inquiry, report fully to the Minister the results thereof.*

2. *For the purposes of this section the auditor appointed or selected as aforesaid shall have all the rights and powers given to an auditor under the next preceding section.*

3. *For the performance of the duties imposed by this section, the auditor shall be paid as remuneration out of the Consolidated Revenue Fund such sum as the Governor in Council may direct.*

4. *The person selected by the Minister under this section shall, for the purposes of section 153 of this Act, be deemed to be an auditor of the bank.*

Mr. Sharpe's (*Ontario*) proposed amendment to Section 56 was withdrawn.

APPENDIX No. 2

Mr. Middlebro's proposed amendments to Section 56, were also withdrawn in committee.

Ordered, that the Bill be reprinted as amended by the Committee, and reported to the House.

The Committee then adjourned until to-morrow at 11 o'clock a.m., for the consideration of Private Bills.

INDEX TO WITNESSES *RE* EVIDENCE.

	Page.
Albright, W. D.	209–213
Bunnell, A. K.	194–201
Chipman, G. F.	363–389
Clarkson, G. T.	213–228
Courtney, J. M.	585–589
Ducharme, G. N.	589–631
Forgan, J. B.	315–363
Fream, E. J.	406–424
Green, F. W.	454–477
Henderson, Joseph	228–293
McArthur, Peter	201–209
McKenzie, H. B.	293–312
McKenzie, Roderick	438–454
McLeod, H. C.	107–178
Pease, Edson L.	535–550
Powell, Harvey O.	424–436
Waldron, Gordon	178–194
Walker, Sir Edmund	478–535
Walker, Sir Edmund (resumed)	551–585
Wilkie, D. R.	639–666

MEMORANDA, TABULATED STATEMENTS, &c.

Assets and Profits, Capital and Reserve of certain Banks, 1907-1912—by Mr. H. C. McLeod	150
Audit, Outside Inspection, Deposits, &c.—by Mr. George Hague	312
Audit, Government Inspection, Deposits, &c.—by Mr. J. H. Plummer	634
Banks, Insolvent and Liquidated, since Confederation—by permission	632
Banks' Funds, Profits earned, &c.—by Mr. J. Henderson	268
Banks whose Paid-up Capital exceeds £3,000,000—by Sir Edmund Walker	582
Canadian Banks' Assets and Liabilities, Losses by Creditors, &c., since Confederation,—by Sir Edmund Walker	502
Cost of Deposits in Savings Banks,—by Mr. J. E. Rourke, Comptroller of Dominion Currency	638
Earnings of Banks, &c.,—by Sir Edmund Walker	553
Great Britain's Leading Banks,—by Sir Edmund Walker	570
Information *re* Deposit Business,—by Sir Edmund Walker	577
List of Towns and Manufacturers served by Banks,—by Sir Edmund Walker	481
Mortgage Loans, Cancelled Notes, &c.,—by Mr. G. F. Chipman	391
Promissory Notes, &c.,—by Mr. Chipman	391
Shares, &c., of Canadian Bank of Commerce, how distributed,—by Sir Edmund Walker	558

EVIDENCE

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
ROOM 101,
WEDNESDAY, April 2, 1913.

The Select Standing Committee on Banking and Commerce met at 11 o'clock, a.m., the Chairman, Mr. Ames, presiding, for the purpose of hearing the views of certain gentlemen, present by invitation, on Bill No. 36, an Act respecting Banks and Banking.

The CHAIRMAN.—By agreement we are to-day, to-morrow and on Friday, to devote ourselves to the examination of certain voluntary witnesses who have consented to come before the Committee and give them the benefit of their views on various phases of the Banking question. Our first witness is Mr. H. C. McLeod, formerly General Manager of the Bank of Nova Scotia at Halifax. Mr. McLeod, I think, has placed the Committee under a very great obligation to him inasmuch as in response to a cablegram he came here from Italy in order to be present before them. If the Committee will allow me, I may say that there will be no effort whatever to prevent the fullest possible discussion. I would like it if the members of the Committee will to some extent guide the order in which the various questions shall be dealt with. We are expecting to examine altogether a dozen or fifteen witnesses, and we would like, if possible, to have their testimony go into the record in such a shape that if you wished to find out what these ten or fifteen gentlemen said on a particular subject, you will easily know in what part of their evidence to look for it. Therefore we thought of following with our several witnesses as near as possible the order that is set down in the printed memorandum which has been distributed and which follows the numerical order of the clauses in the Bill. This, of course, is subject to any general statement that any of the witnesses may wish to make. Mr. McLeod tells me that he has, in anticipation of the wishes of the Committee, prepared a short printed statement which he would like to present first. After that members of the Committee would be at liberty to question him, not only on the points which he himself raises, but on any other points they see fit.

Mr. SHARPE (Ontario).—It will not be possible to confine ourselves strictly to the order laid down in the printed agenda.

The CHAIRMAN.—That is quite true, but I would like the members of the Committee to adhere to that order as nearly as possible.

Mr. H. C. MCLEOD called and examined:

By the Chairman:

Q. Will you please give your full name?—A. Henry Collingwood McLeod.

Q. And your Canadian domicile is where?—A. In Toronto.

Q. State briefly what your experience has been in connection with banking matters.—A. I have been in banking since 1873. During that time I have been in two banks.

Q. You are at present a retired banker?—A. A retired banker.

Q. What has been your experience with banks?—A. I have been connected with the Merchant's Bank of Prince Edward Island, and the Bank of Nova Scotia. I was with the Merchant's Bank of Prince Edward Island from 1873 to 1882.

Q. Yes?—A. And from that time with the Bank of Nova Scotia until three years ago, when I retired.

Q. What positions did you occupy with the Bank of Nova Scotia?—A. I occupied the position of Manager of a number of Branches—two branches in the United States and two in Canada. I was Inspector and later General Manager.

Q. You have taken cognizance of the Banking Act which has been introduced in Parliament, and of some of the amendments which have been suggested thereto, and I understand have prepared a statement which you would like to submit to the Committee. Are you ready to do so?—A. Yes.

The CHAIRMAN.—Is it the pleasure of the Committee to hear the statement which Mr. McLeod has prepared? After he has read it, he will be ready to answer questions in the order in which they occur in the printed memorandum.

Permission to read the statement granted by Committee.

Mr. MCLEOD then read the following printed statement.

'Mr. CHAIRMAN:

'1. The Bank Act 1913 is a marked improvement over its predecessors. Some desirable features have been introduced. To contend for external examination is no longer necessary; only the method and the thoroughness of inspection require to be considered. The privilege of enlarging the powers of circulation by the deposit of gold in a proposed Central Reserve, and the clarifying of the Government statement are two more features that should prove beneficial. There are some features that should be introduced, and some that should be improved.

'2. I am not in accord with the prevailing idea that banking profits are excessive, an idea voiced by the press as well as by suggestions before this Committee. One of the difficulties that confront Canada pertains to the procurement of sufficient banking capital to keep pace with the expansion of trade and the development of the country. The difficulty would not exist if banking held out the prospect of good profits, but from the capital of new banks there is no return; indeed, an investment in the capital of a new bank is as likely to result in loss as in profit. This would not be so were banking profits excessive, or even sufficient. Yet the tendency to legislate for the curtailment of bank profits or for the imposition of penalties is apparent. Bank capital and reserve profits now have a ratio of 14·08 per cent to gross assets, a percentage that should not be reduced. How is this ratio to be maintained? The return from bank capital is moderate, when the double liability is taken into account. The profits of the older banks are made possible by long organization, and this increment should not be destroyed or impaired by adverse legislation. Furthermore, the good banking profits of the last few years were in most cases the result of loaning beyond the limits of prudence, as we shall presently see.

'3. The Machinery of the Canadian Banking System is excellent, but in many individual cases it has been used without skill, or recklessly used. From the outset the Finance Department has failed to exercise effective control over the banks. We are told the Government is afraid to seem to assume any responsibility, lest attempts to conserve the interest of bank depositors should be construed as an obligation. It is not so in other countries. The inferred responsibility for sins of omission can hardly be accounted less than for those of commission. I have said that the banking machinery of the country is excellent, but the management thereof needs regulation and supervision. If efficient supervision cannot be provided in any other way the Department of Finance should organize a bureau for the purpose. In case it is found inexpedient to bring such inspection directly under the departmental control, I would solicit your attention to the plan of which I shall speak later on.—(Par. 7.)

'4. Like its predecessors, the Act has few provisions for the protection of depositors, of whom the majority are savings depositors. In most countries savings depositors are the special wards of legislators. Borrowers are essential to the business of banking,

APPENDIX No. 2

but the borrower is generally able to take care of himself. When his bank fails, if he does not profit thereby, his loss is limited to impaired borrowing facilities. In times of stress he makes much noise and sometimes succeeds in impressing the public with the idea that the banks are failing in their duty. Frequently there are cases of individual hardship, but in the aggregate the borrower is given far too large a proportion of Canadian bank assets, there would appear to be an impression within this Committee that the banks should further expand their loans, for in the list of main questions on which evidence is desired we find, under section 61*C* a proposal to tax moneys loaned in foreign countries. Money loaned in foreign financial centres is almost always a portion of a bank's resources that the management desires to keep readily available, and to say to a banker that he shall not, without penalty, thus employ his funds, is equivalent to saying "You must reduce your readily available resources and give more to the Canadian borrower.' If Parliament yields to any such suggestion, the effect will surely be detrimental to depositors, and it will as surely be disastrous to borrowers in every time of stress. I may mention that Canadian banks contracted their foreign loans by $22,515,276 between September and the end of 1907, to the great relief of the country. If this money had not been kept in reserve outside of Canada what would have been the result to Canadian borrowers?

'5. Permit me to suggest to the members of this Committee that, in the course of their study of the subject, they look into statistics to ascertain the extent to which banking prudence may go in making loans. They will find that in the world's practice the limit of safe load is far more clearly defined in banking than is the safe load in bridge engineering. They will also find that this limit has been persistently exceeded in Canadian banking. At the end of February, the total assets of Canadian Banks were $1,491,553,448; and the loans $1,094,304,485, or 73⅓ per cent, which is not far from the average percentage of some years past. Business conditions in Canada closely aproach those in the United States; there the percentage of loans of all banks to total assets is 55⅓ per cent. The national banks loan about 53 per cent of their assets, and from the percentage given for all banks it appears that there is an agreement of practice within that country as to the limit which prudence will not exceed. The banks in Great Britain (excepting the Bank of England) loan about 55 per cent of their total funds; for the last thirty years there has been a fairly steady decrease in this percentage, and this increased conservatism is general throughout the British Isles. You will find that a close approximation to the British percentage pertains throughout the world, and I believe you will not find an important bank outside of Canada that permits that limit to be greatly exceeded.

'6. We are told that in new countries loans may be considerably extended beyond the limits set by the combined experience of all countries, but it is manifest that what is unsafe banking in an old community cannot easily be justified in a new one. After finding the "yield point" in 1893 the bankers of Australasia abandoned the idea that in a new country loans may be extended to nearly eighty per cent of a bank's total resources; and they now so far comply with the world's banking practice that for the three years ending with 1911 their ratio of loans to resources averaged 58 per cent. The First Bank of the United States was a well managed institution; that country was new at the time, yet that bank's ratio of loans accorded with the best practice of to-day. The relation of combined capital and surplus to assets has an effect, but only a moderate one, on the proportions given. In Canada the percentage of capital and surplus to assets is 14·98 per cent; in the United States 16·60 per cent. In other words, the before-mentioned comparison of the percentage of loans to assets indicates that the Canadian Banks, yielding to the importunities of the borrower, or to the desire for profit, are largely over-loaned. The mere statement of this fact disposes of the contention that the banks are not granting sufficient borrowing facilities. But does it not also suggest a lack of consideration for the depositors?

'7. Among the provisions that should be introduced for the protection of depositors there ought to be included a most rigid and thorough external inspection of the

general management of each bank. A less efficient inspection, or one where the smaller banks are inspected and the larger ones, through influence, go free, would be a mockery of the depositors' rights. The system proposed in the Bank Act is an acknowledgement that external inspection is necessary, but only by the utmost activity of the Department of Finance can this plan be made effective. No stipulation is made as to the proper qualifications required of the auditors, and it is open to any bank to have its balance sheets duly signed by auditors that are nothing more than " dummies " of the General Manager. I am glad to observe, in the list of main questions, a suggestion that a more rigid system be introduced (see Exhibit A of main questions.) Having given very great attention to this subject, I believe the appointment of members to the Board of Bank Inspectors therein proposed should be by vote of the General Managers of all the banks, I will quote one paragraph from the suggestion made to the Canadian Bankers' Association in November, 1909:—

> 'The Board shall consist of not less than seven full members, of whom four shall form a quorum, and of not less than seven associate members, all of whom shall be elected by vote of the General Managers of all the banks, and one-tenth of such vote being recorded against a candidate for either full or associate membership shall exclude him from election. The Chairman of the Board shall be appointed from the members of the Board by a vote of the General Managers of the Banks.' (See Exhibit No. 2.)

'This method of electing auditors would eliminate political influence, and would also avoid the objection that has obtained in the Canadian Bankers' Association, viz: that the Association is sometimes controlled by one or other of the large banks.

'8. External inspection will clear away false accounting and have a salutary influence, but there are causes of failure that it may not obviate. It may not save a bank from over-expansion of loans, nor prevent the inevitable consequences of running without sufficient cash reserves and liquid resources. The banks should be required to keep a fixed cash reserve in gold and legal tender. Some years ago I advocated 10 per cent of a bank's liabilities to the public; I now advocate 15 per cent, as present conditions show the need of a large reserve. There should be a provision that in case the percentage is impaired the banks should pay to the government a tax equal to 7 per cent. per annum on the deficiency .

'9. The new form of monthly return will be a great improvement; but loans should be so classified that a bad or deferred debt cannot be included under a misleading heading without sheer falsification. To comply with these suggestions the words " and cash items in transit " under assets heading No. 6, and the words " and short " under Nos. 14 and 15 need to be eliminated. " Cash items " may mean anything from a kiting draft to a bad debt transferred from one branch to another, and in Canadian banking the term " short loan " has vague meaning and cannot be defined.

'10. Banks should be prohibited from underwriting flotation schemes or investing in any security with which a stock bonus is either directly or indirectly given. They should be prohibited from including in their assets any shares of the stock of any corporation, unless such stock be acquired in the liquidation of an existing debt.

'11. Every bank should be required to annually publish a list of its so-called investments, and this list should bear the verification of the auditor.

'12. Some inflationists have suggested that banks convert their reserve into capital by making stock dividends; they have even proposed that this course should be made compulsory by legislation. They wish to further inflate by substituting the double liability of shareholders for the reserve fund, thereby decreasing the liability through the note circulation. This is clearly opposed to the interests of the depositor as well as to the shareholder, for, other things being equal, the larger a bank's reserve fund is in proportion to its capital, the greater the protection afforded.

'13. In the list of main questions, section 99, it is proposed in amendment that the amalgamation of banks be rendered possible only through Act of Parliament, and

APPENDIX No. 2

with this proposal I am in accord. At the passage of the Bank Act, 1900, there were 36 banks, the average capital of which was $1,863,000; there are now 24 banks, the average capital being $4,700,000. By the same progression there is due to be 17 banks in 1923, with average capital of $10,398,000. By a goodly number of banks of moderate size the interests of the public are best served; such banks are often the strongest in times of stress, and their actions are not as likely to raise public resentment as are those of the gigantic corporation. The number of banks should not be futher reduced, particularly as it is becoming almost impossible to establish new banks in face of the competition of old and widely established institutions; in fact the placing of a limit on the size of any one bank may be worthy of attention.

'14. The emergency circulation clauses of the Bank Act should be eliminated. They should not be required, their introduction having been brought about through necessity caused by over-inflation, and their existence in the Act tends towards inflation. A bank should be prohibited from circulating another bank's notes, which prohibition would restore daily redemption, without which the elasticity of bank note circulation is impaired.

'15. The Bank Act should prohibit the loaning to any one customer more than a reasonable percentage of a bank's capital, to avoid a rock on which so many banks have met shipwreck. A limit of 25 per cent of capital would be liberal; in the case of the United States National Banks it is fixed by law at 10 per cent.

'16. Mr. Chairman, three years ago I ceased to take more than a passing interest in the statistics of Canadian Banking; consequently I am not as well versed in the matter as I then was, but I am at the disposal of your Committee to answer questions on which I can afford information.'

The CHAIRMAN.—Mr. McLeod also intimated to me that he would be very glad to give his views on a number of other questions not touched on in his pamphlet, and inasmuch as his pamphlet has also dealt with many questions that are on our list here, we will ask Mr. McLeod now to take these up in order, and the Committee will be at liberty to ask him any questions that they desire.

Mr. TURRIFF.—I suppose Mr. McLeod's paper will be printed for our information?

The CHAIRMAN.—Mr. McLeod's paper is already printed and will now be distributed. We will now take up the questions on which evidence is desired.

Section 4. 'As to whether bank charters should be continued in force for a longer or shorter period than ten years.' Do you wish to say anything on that, Mr. McLeod?

Mr. MCLEOD.—I think it is a matter of indifference, it is a question of convenience for Parliament and the banks.

By Mr. Thornton:

Q. I would like to ask Mr. McLeod why there should be a limit of ten years, why the term should not be longer. Why the charters of other monetary institutions should be indefinite in length——

The CHAIRMAN.—Perpetual.

Q. While the bank charters should be limited to ten years?—A. I think there is no reason why they should be limited. There has been a feeling that the question should come up every ten years, but inasmuch as the legislation can be amended at any time I see no objection or reason why the charter should not be longer. As I said before I think it is a matter of practical indifference.

The CHAIRMAN.—Section 10 and 13, 'Whether a further system of local banks with smaller capital is desirable.' The members of the Committee will remember that an amendment has been suggested to make it possible to have provincial banks, with branches, within the province, county banks and city banks with smaller capitalization than $500,000.

Mr. SHARPE (Ontario).—And no branches.

The CHAIRMAN.—We will be glad to hear what Mr. McLeod has to say on that.

Mr. MCLEOD.—The experience of the country with such banks has been rather disastrous, they cannot compete with the branch banking system. A branch of a bank will serve a community far better than any local bank can. In your local bank you have local directors, there are jealousies in every community, and borrowers will usually select the branch bank that has come in from outside in preference to going to the local bank, unless, of course, they have personal interests in the local bank. The local bank cannot compete in the matter of profit, and with the way banking is run to-day I do not think the local bank would exist at all.

Mr. NESBITT.—It could not compete in exchange.

Mr. MCLEOD.—Because it has not the facilities.

By Mr. Maclean (Halifax):

Q. Would there be difficulty in getting competent managers?—A. There are always difficulties in getting competent managers. That is one of the greatest difficulties which the large banks have, to get competent managers for branches.

By Mr. Nesbitt:

Q. That also refers to some suggestions that have been made that we reduce the capital amount necessary to start a bank which is now $500,000, $250,000 of which is subscribed. Would you give your view as to whether that should be reduced or not?—A. $500,000 is a very small sum to start a bank with. A bank to-day must have branches in order to succeed; furthermore it must be prepared to run for several years without profit, and indeed it must run at a loss. There are provisional expenses to be considered, sometimes there are commissions, I understand, paid, but these should not be allowed. In banking I believe it takes between 4 and 5 years on the average for a branch to become profitable or self-sustaining.

Q. You would not recommend a smaller amount of capital?—A. No, I would not recommend that, it is small enough.

By Mr. Turriff:

Q. I would like just to point out that one experience that I had was the very opposite to what Mr. McLeod says. Taking the case of what is now the Weyburn Security Bank in Saskatchewan, in 1907, it was a private bank, with about, I think, six or seven or eight branches. When the difficulty, the financial stringency, arose in 1907 in the town of Weyburn there were about three or four chartered banks, the Bank of Montreal was there and the Bank of Commerce, two of the largest banks in Canada, and this Weyburn Security Bank, which was not then chartered, but which is now with a capital of $350,000 paid up, did more to relieve the needs of the business community during that particular time of stress than all the chartered banks in Weyburn put together. That is the consensus of opinion of the business men there. I am not advocating particularly the establishment of small banks, but I just wish to point out to the Committee that in that one case, which I know pretty well, it is in my own constituency, the result was, as I have it from outside business men that they got more relief from this one bank at that time than they did from all the chartered banks put together.—A. That would be a case of exceptional management.

Mr. THORNTON.—The Western Bank, with its headquarters in the town of Oshawa, was a comparatively small bank; that is a town which has been wonderfully successful in business for a number of years, being according to its population proportionately the best manufacturing town probably in Canada, and it owes its prosperity more than anything else to the fact that the headquarters of the Western Bank are located in the town. That bank has since been merged with the Standard Bank, but I am safe in saying that the present standing of the town of Oshawa, as a manufacturing town and the centre of capital is due more largely than anything else to the fact that the headquarters of the Western Bank are there. In this particular case the small bank was of very great use.

APPENDIX No. 2

The CHAIRMAN.—The Committee will be glad to know that Mr. H. O. Powell, Manager of the Weyburn Bank, who has brought that institution to its present successful position, will be here next week and will give us the benefit of his experience there.

By Mr. Sharpe (Ontario):

Q. Do you not think that local banks, with small capitalization, would build up local centres rather than to concentrate capital in the large cities such as Montreal and Toronto?—A. A local bank, under good management, will succeed in some communities but there are some communities where a bank has to serve depositors almost altogether; there is no demand for money. There are other branches where the bank has to serve borrowers, there being practically no depositors. The benefit of the branch system is that it equalizes the whole and gets the utmost profit out of the banking business, and in so doing best serves the country.

Q. Your opinion coincides with what you said in your pamphlet, that a bank of $200,000 capital is no more liable to disaster than a $2,000,000 bank. It depends entirely on the management?—A. Yes, entirely on the management.

Q. That was also the opinion of the Minister of Finance. He said it depended on the capacity and integrity of the management.—A. The management is far more important than the capital.

Q. So that you have no inherent objection to the small banks starting up in the provinces.—A. Not if they can procure good management.

Q. You would not contend that all good bank managers reside in two cities—Montreal and Toronto, for instance?—A. I have seen as good bank management in banks of $100,000 capital as anywhere.

Q. There is nothing to prevent a bank with $100,000 capital having a good management. Cognate to that subject is the limitation of capital of the older banks. What are your opinions on that?—A. I think banks should not be allowed to extend beyond their present limits.

Q. That is, the bank with the largest capitalization now should be the outside figure for any bank?—A. I think so.

Q. Would you limit the branches in the Dominion? Should they be allowed to extend their branches further?—A. I think there should be no limitation on the establishment of branches.

Q. Should banks be allowed to agree together in any way to prevent the establishment of branches in certain communities?—A. If there are too many branches going into one place it tends towards economy to prevent overlapping.

Q. Do you think the banks should be allowed to make an agreement in respect to that—limit competition, in other words?—A. I do not know how the branches could be limited without an agreement. Suppose there are two points that are over-banked, that is, there are three or four branches where only two are required, and one bank says to the other. "You withdraw from one point and we from another." The agreement is surely not opposed to the public interest.

Q. Just one more question on this point. You say that $500,000 is sufficient capital for a Dominion bank to establish branches in every province——? A. I do not think I stated that $500,000 capital is sufficient for a bank with branches in every province. A bank with that capital could have only a limited number of branches.

Q. Quoting from your pamphlet, you make the statement that a bank with $200,000 capital is no more liable to disaster than a bank with $2,000,000. You are there contemplating the establishment of a branch with $200,000 capital. What would you say would be the scope of its operation?—A. It is a long time since I read what is in that pamphlet, but I think I was endeavouring to point out that a small bank is just as safe as a large one under special conditions and good management.

Q. If the bank had no branches at all it would not be out of the way if they only had $200,000 capital?—A. Not at all. If you can find a point where the deposits and

loans are fairly well balanced, and provided you can get as capable management as in a large bank, then the small bank will succeed; but the difficulty is in the management.

By Mr. Cockshutt:

Q. I ask if it is likely that a small bank would attract the same class of management as a large bank?—A. No.

Q. Could it afford to pay the same salary?—A. It could not.

By Hon. Mr. White:

Q. I think I understood you to say that in certain places a bank with $200,000 capital might succeed. I rather understood you to say at the outset that you are not in favour of a system of local banks with a capital less than $500,000.—A. I am not in favour of a system of local banks at all.

Q. And I understood you to say at the outset that that being so—in other words, your being in favour of banks with branches—you were of the opinion that $500,000 was the lowest capital they should have?—A. Yes.

Q. So while you admit that a local bank in a particular place might succeed under favourable conditions, you are opposed to anything like a general system of local banks with less than $500,000 capital?—A. The conditions under which a local bank can succeed are exceptional.

By Mr. Northrup:

Q. You spoke about the smaller banks not being able to pay as large a salary as the larger banks, and therefore prima facie they would not attract as good management. I suppose small banks would require deposits to carry on their business just the same as the larger banks, and therefore the smaller banks, for the reason that they could not afford to pay for good management, would be increasing the risk to the depositors. Is that the case?—A. Yes, it might be.

Q. Inasmuch as the security of the deposits depends on the management, the small bank would not be as safe for depositors as the larger bank?—A. Ordinarily the small bank is not well equipped for profit making, and sometimes the banker endeavours to increase his profits by going into more risky business and business that seems to be more profitable, with unfavourable results.

By Mr. Turriff:

Q. You say that a bank with $5,000,000 capital would naturally attract better management than a bank of $500,000 capital. But many of our $5,000,000 banks have fifty to a hundred branches scattered all over the country from the Atlantic to the Pacific. Many of these branches would be just about on a par with a bank that had, say, $500,000 capital. Now the success of the big bank depends on the success of the branches as well as the head office. Would not a bank with $500,000 capital be able to pay for and get just as good management as the various branches of the $5,000,000 bank?—A. The general manager of a small bank will be supervised by the head office of the bank, and at that head office there should be an expert banker, and he should have on his desk all the time the particulars of each of his branches. Consequently the bank is run according to his views of banking and the staff is educated so that in time each manager gets to act almost without instructions within the desires of the general manager..

Q. We know of many cases where they do not, where heavy losses have been incurred through the policy of the branch bank being diametrically opposed to the policy of the head office and the instructions of the general manager.—A. We all know that.

By Mr. Maclean (Halifax):

Q. If the capital of a local bank were controlled largely by two or three shareholders, it would be more likely to succeed than with a greater number of shareholders. Would not that be the tendency?—A. I do not think it is desirable to have any banking institution controlled by a few shareholders.

APPENDIX No. 2

Q. I mean the local banks with branches, the control being in a few shareholders. Would it not be more likely to succeed than a local bank with a great number of shareholders?—A. I do not think the number of shareholders would make any difference.

Q. Would not that be likely to secure better management? I would think the success of the Weyburn bank is largely due to that?—A. If the money that went to make up the capital of the bank was made up by those parties that invested in it, there would be an inference that these people were capable of managing the bank. Otherwise I should think a limited number of shareholders would be detrimental.

Q. Is there any objection to the word 'Private' bank by bankers? Such an amendment is being suggested.—A. I think the word bank should not be used unless the bank is under some proper supervision.

By Mr. McCurdy:

Q. In reference to the point raised by Mr. Thornton alluding to the facilities afforded by the Western Bank of Canada in the town of Oshawa, and their curtailment after that bank was merged with a larger one with head office elsewhere, I think similar conditions have been met with in other cities from which head offices of banks have been removed. I am speaking more particularly from the standpoint of Nova Scotia, because I am familiar, to a certain extent, with the experience there. There is supposed to have been a surplus of deposits over the applications for loans in that province and the experience of borrowers there, when Halifax was an important banking centre, was that money could be obtained at lower rates, or at least as low as could be obtained in other parts of the country. Since the removal of head offices from that province, we find from practical experience, that a loan commands a higher rate of interest in Halifax, for instance, than does a similar loan in larger financial centres. Could you suggest any way, outside of an appeal to the general management of the bank, whereby the natural accumulation of savings in one province would be loaned to a certain extent in that province, at least at equal rates as elsewhere, or possibly lower? For instance, it is the experience that at the head office of a bank you can borrow money with more facility than you can at a branch of the same bank, supposing you have the same class of collateral, which, it seems to me, is undesirable, and is affording some ground for complaint that the very large centres are favoured over smaller places. I am speaking with knowledge. With the same class of collateral, the same borrowers have been asked to pay higher rates of interest at the city of Halifax, for instance, than they have at the head office of the same bank. It would seem to me proper that general managers should dissolve such a situation themselves. But, apart from that, could you suggest any method by which that difficulty could be overcome and the objection that is urged be removed, viz., that large financial centres do, under our branch banking system enjoy, by reason of the concentration of capital in these cities, better borrowing facilities than do borrowers at other small cities?—A. I am sure, Mr. McCurdy, your experience enables you to speak of the facts, but I was not aware that a material difference existed.

Q. Yes. I speak feelingly, but my experience is not of importance or interest to this committee, excepting inasmuch as it confirms the rather widespread opinion that large financial centres enjoy an advantage in this regard, and I do not think they should. —A. I was not aware that that existed. I supposed that you could borrow money at Halifax as cheaply as you could at almost any other point.

Q. If there is an accumulation of savings in any one part of the country that part should enjoy lower rates. In some parts of the United States, say in Massachusetts, you have for years been able to borrow money much more cheaply than in many other parts of that country. In the prosecution of manufacturing and other business one of the essentials is a reasonable rate of interest for money, and if the Massachusetts borrower is situated at a long distance from the consuming markets he has a corresponding advantage in the cheaper money obtainable there, which goes to offset the drawbacks on account of his long distance from the consuming market. The branch bank-

ing system might possibly rob one community of part of the advantage that is its own on account of accumulated capital. I have thought that Nova Scotia might properly occupy in manufacturing a similar position towards the rest of the Dominion as does Massachusetts towards the rest of the American Union?—A. You could hardly introduce sectionalism in banking.

Q. You consider it objectionable, then, I gather from the remark you have just made, that banks should make returns showing the extent or ramification of their business in the different provinces?—A. If not objectionable, it would be expensive and require a lot of accounting to do it, and I do not see any benefit that would be derived from it.

Q. If those particulars were available to the public, they would be able to judge themselves whether 'Codlin' was their friend or 'Short,' and the patronage of the public would naturally be diverted to the bank that was caring best for the business of that province—A. It all goes back to whether the banks are doing their duty.

By Mr. Macdonald:

Q. Have you in mind any locality or any particular business conditions in Canada, in any province, where you think a smaller bank would work with advantage to the business community?—A. With good management there are a number of cities where smaller banks could succeed; but, as I said before, it is only in rare exceptions that you get good management for a bank of that description.

Q. Does your view apply to any particular locality?—A. Not at the moment, but I know there are a number of such localities.

By an Hon. Member:

Q. Would it serve the public better in the locality?—A. Not as well.

By Mr. Sinclair:

Q. The witness hinted that it might be possible to limit the expansion or size of the banks. I presume he does not mean to limit the natural expansion that takes place every year. Most of the large banks put aside a considerable amount each year which they call their rest, and the capital of the bank naturally grows. I presume he would not place any limit on that natural growth, but the idea is to limit the acquisition of other small banks?—A. I have thought that we should prevent the growth of gigantic institutions that will in time become practically controllers of the whole country, through political influence and otherwise. A bank may grow so large that all the other banks are controlled by that one bank, and you may have your Bankers' Association practically voicing the sentiments and interests of that one bank.

Q. Would you say then that a certain limit should be placed on the capital of a bank?—A. I think that idea is well worthy of serious consideration.

Q. The idea has been thrown out by some members of the committee that it might be advisable to limit the amount of deposits to be taken by any particular bank and require that they should bear some proportion to the capital of the bank. I would like to have your views as to that?—A. Such limitation would lead to a reduction in the rate of interest on deposits in some localities at least, as the limit would make deposits less desirable.

By Mr. Macdonald:

Q. As the amount of bank circulation depends on the capitalization, and as there is great complaint as to the scarcity of money, is it your idea that the capital should be limited and that the bank should be permitted to go on making reserves without some power on the part of the government, or some power vested in themselves being given, by which reserves should be to a certain extent grouped in order that circulation may be obtained? Suppose you have the number of banks decreasing, and their circulation limited, the currency naturally declines and their reserves would be

decreased. The difficulty would be greater, would it not?—A. Unless the conditions would permit the establishment of new banks or the expansion and increase in size of the moderate sized bank now in existence.

Q. You are aware that it has been said in financial circles that instead of banks increasing their capital by reserves they should have increased stock so that the stockholders might take advantage of the reserves at a lower rate of issue. But do not let us have circulation impaired by increased reserves?—A. I take the opposite view. I think the capital should be limited, and the only method of increase would be increasing reserves. You can provide the circulation in that way; the circulation might be limited to a percentage of total assets, a plan that has some advantages over the limitation to capital.

The CHAIRMAN.—I would ask you to keep as closely as possible to the section we are discussing. The question of local banks is before us just now.

By Mr. Emmerson:

Q. I understand your answer to be, Mr. McLeod, or your position in a word, that you think there is greater safety generally in the greater number of banks?—A. Precisely.

By Mr. Thompson (Yukon):

Q. This is a very important question and one that is engaging the attention of the whole country. Two systems are very well exemplified as between the United States and Canada, and I wish to elicit some information with regard to the development of what I might call the non-branch system in the United States, having regard to their phenomenal industrial and economic development in the last fifty years, particularly since the Civil war. I notice in Mr. McLeod's very illuminating document he refers to the fact that in 1900 we had 36 banks, with an average capital of $1,863,000; and that there are now 24 banks, with an average capital of $4,700,000; that is to say, we have lost 12 banks in thirteen years. Now, is not this process of elimination or absorption, carried to its logical conclusion, going to create in this country a money trust?

The CHAIRMAN.—Might I ask, Dr. Thompson, if we could take that up when we reach section 99, which deals with the amalgamation of banks?

Mr. THOMPSON.—Very well.

By Mr. Thompson (Yukon):

Q. In the United States is it a fact that there are very few branches to a bank?—A. Practcally no branches to the banks, sometimes there is a subsidiary bank under another name owned by the same shareholders as the principal bank

Q. The branch system in Canada as compared with the non-branch system in the United States might be taken as a fair comparison as to the working out of the two systems, because I noticed in your report you say business conditions are very much the same in both countries. If the non-branch system has been a success in the United States, why could it not be as successful here?—A. A non-branch system established in Canada as banking has been done for the last twenty years would have resulted in general disaster; but they have developed a non-branch banking system in the United States; they have perfected their systems of inspection; and the loans of the banks in the United States are better administered than they are in any comparatively new country that I know of.

Q. Would it be possible to duplicate that system of administration in another country?—A. After a great many years had elapsed.

Q. What is the minimum amount with which a man, or a syndicate may establish a bank in the United States?—A. At the moment I cannot answer that question, but the minimum is a very small sum.

The CHAIRMAN.—I might say, Doctor Thompson, that Mr. J. B. Forgan, of Chicago, is coming here next week to tell us more especially about the American banking system and we can then get from him all information of that character.

By Mr. Thompson (Yukon):

Q. I think the amount is $25,000.—A. It is either $10,000 or $25,000.

The CHAIRMAN.—Now may we proceed to the consideration of Section 34. We are anxious to make progress.

By Mr. Middlebro:

Q. With reference to the local bank with limited capital. I suppose the Directors of that Bank would in all probability be living in the same town, or the same community, where they did their business. Suppose a man applied for a line of credit and got up to that line of credit, and then found it was necessary for him to have more credit in order to carry on his business. Would there not be danger of the man getting more money than his financial condition would warrant by reason of the fact that the Directors of the Bank were his own personal friends in the same community?—A. There would be danger.

Q. Now take the case of another man having a line of credit say for about one-fourth of the amount he was worth, who found in the course of his business that he required an additional line of credit which from financial reasons he was justified in getting, but which, because of the limited capital of the Bank it was unable to grant. That man is placed in the position of having to apply to some other Bank for financial assistance to which he was properly entitled. Would there not be danger of his being turned down by the second bank because he had been refused credit by his own bank?—A. All these things happen.

Mr. SHARPE (Ontario).—I do not think we should hurry with Mr. McLeod's examination, we are getting very important information from him.

The CHAIRMAN.—There are a great many other points we would like to have Mr. McLeod speak on.

Mr. SHARPE (Ontario).—Yes, but we are getting very valuable information. I think we are all interested in Mr. McLeod's evidence.

The CHAIRMAN.—There are many other topics on which he has to speak.

By Mr. Sharp (Ontario):

Q. Mr. Middlebro asked a question as to a business man being able to secure a loan to which he was not entitled because of the bank directors being friends of his. Now a general manager in Montreal or Toronto might assist a man who was a friend of his with a loan of money?—A. That has happened.

Q. That has happened frequently. That is the experience wherever banks are established, whether they are large or small institutions?—A. Yes, in a few cases.

Q. In connection with the question of the capitalization of banks, I have here a copy of a letter written by you to the *Chronicle* of Montreal, dated February 23, 1910, from which I will quote one extract:—

> 'Referring to the article in your issue of the 11th instant, my claim that failures occur in large and small banks in about equal proportions, is supported by the experience of other countries, as is also the conclusion that in safety large banks have no pre-eminence over small ones.'

Have you any reason to change your opinion in regard to that point?—A. No. It is all a question of management.

Q. It is a question of management?—A. Yes.

APPENDIX No. 2

By Mr. Clarke (Bruce):

Q. Under the present system when a branch bank is established in a small town or village, is it not more to receive deposits than to loan money in the local community, and has it not the effect of retarding the local development?—A. I think that banks are as anxious in ordinary times to get loans as they are to get deposits, perhaps more anxious. In some cases a bank will establish a branch because it can get a considerable amount of deposits in one section, and it will establish a branch in another locality because it can get loans. The bank with branches benefits each locality by giving the needed service. That, in our experience, has occurred time and time again. I have a number of cases in my mind.

By Mr. Ross:

Q. Mr. Northrup tried to make a point in regard to the small bank as against the large one in connection with deposits. The point he tried to make was deposits are not as safe in small banks as in large banks. I did not catch your answer at the time and I would like to know what you think of that point?—A. With equally good management, the small bank is just as safe as the large one.

Q. Is that entirely fair? In the small bank will the manager not take more care and know more about local conditions than will the manager in the large bank, and will not this neutralize the results of better management in the large banks?—A. In any bank with bad management nothing is safe, I do not care how large the capital is, but you are more likely to get poor management in the small bank than in the large one. A knowledge of local conditions is not as essential as is the capacity of judging whether a loan is a good banking transaction.

Q. I should think that in the small bank you would not need a man as eminent and clever as manager as you would in a large bank doing business all over the world, you would not expect or require the same standard of ability in the manager?—A. You would need a man of the same conservative ideas.

Q. Exactly, but such a man might be got in the small town just as much as in the large city?—A. The necessary qualifications cannot be got without training, or if so, rarely.

By Mr. Sharpe (Ontario):

Q. Is the percentage of large banks that fail greater in Canada than in any other country?—A. It is greater than in any other country I know of.

By Mr. Broder:

Q. The question seems to be that the general commercial business of the country is suffering from a lack of small banks throughout Canada. Could you give us any idea as to the percentage of loans that are granted to the general business of the country? I understand that an average of 51 per cent of the loans of the banks are in the hands of what you might call the general business of the country. Do you know anything about that?—A. I cannot give you the figures, but I can say, as I have said in the paper which I read to you, that the banks have strained their resources to meet the demands of the Canadian borrowers. I do not believe that so large a percentage of loans are strictly commercial.

By Mr. Turriff:

Q. In view of this question of the capitalization of banks. You expressed an opinion that the capitalization of the biggest bank is now as high as it ought to be, and that it should be the limit to which any banks might advance. Is it not possible that during the last two or three years, by means of mergers the capital of the largest bank is larger now than it is advisable to set as a maximum for other banks?—A. I think it is larger than it is advisable for other banks to come up to.

Q. What, in your opinion, should be the maximum limit? The present capitalization now I think is something like fourteen millions?—A. About fourteen or fifteen millions.

The CHAIRMAN.—The capitalization of the Bank of Montreal is twelve millions authorized and twelve millions subscribed.

By Mr. Turriff:

Q. What I want to get from you is this: At present we have twenty odd banks. In my judgment the country would be far better off if there were forty banks. What, in your opinion, would be an ideal capitalization if we had not any such large capitalization as exists to-day?—A. I quite agree with you that Canada would be better off with forty or fifty banks, and I should prefer to see them with a capital not exceeding $5,000,000.

Q. And a reserve of equal amount?—A. I would let them build their reserve as high as they liked, the higher the better.

Q. In your opinion would it be advisable, instead of piling up the reserve and increasing the capital, that these profits, after the reserve is equal to the capital, should be paid out in cash dividends to the shareholders?—A. No, they should not be paid out in cash dividends. A reasonable amount should be paid to the shareholders and no more.

Q. What would you do with the extra profits?—A. I would keep the extra profits as protection to the depositor.

By Mr. Emmerson:

Q. In your conclusions with respect to the capitalization of the banks have you taken into consideration, or have you borne in mind at all, the practice which has grown up in Canada of having allied institutions associated with banks?—A. I think the allied institutions are a menace to the country. At least that was the experience in Australia in 1893 with affiliated companies.

By Mr. Maclean (Halifax):

Q. Would you be prepared at the next sitting to give a more reasoned statement as to why you think there should be a limitation to the capital of a bank? We can hardly go into that question to-day, and perhaps you are not ready to do so?—A. I have no objection to doing that, but in short I may say that I hold that view on the principle of not putting too many eggs in the one basket.

Mr. MACLEAN (Halifax).—I do not think that would be an answer.

The CHAIRMAN.—May we now take Section 34? Mr. McLeod does not desire to say anything on Sections 18 and 29. As you are all aware, the following amendment has been given notice of by Mr. Sharpe (North-Ontario):

> 'Any of the original unsubscribed capital stock, or of the increased stock of the bank shall, at such time as the directors determine, be allotted to the then shareholders of the bank pro rata, at such rate and on such terms as are fixed by ..... some competent court or commission designated by Order in Council upon application by the directors, and until such court or commission be created or designated, on such terms as are fixed by the Treasury Board.'

By the Chairman:

Q. Have you any views to state on that proposal?—A. I have no preference as to how that shall be fixed. I think the rate should never be very much below the percentage that capital and surplus bears to capital, for the reason that in issuing stock there are many shareholders that are not able to take up their stock. They have invested a certain amount of their savings in the stock of a bank, and when a new

issue comes out at even a very advantageous rate these investors are not able to take up their stock and they are liable to lose through what I might call the watering of the stock. A bank, perhaps with a reserve of 100 per cent of capital, will issue its stock at 150. The small stockholder may not be able to take up at 150, consequently he loses the other fifty dollars per share.

By Mr. Nesbitt:

Q. Would you propose to sell the stock at par then?—A. No, I would propose to sell at its value.

By Mr. Rhodes:

Q. Would not the small shareholder to whom you have just referred be protected by being able to dispose of his rights in the open market?—A. He might be protected by being able to dispose of his rights, or he might not.

By Mr. Nesbitt:

Q. Why?—A. The man who buys the rights generally makes a profit on them.

Mr. NESBITT.—There would be mighty little profit if it was a good institution.

The CHAIRMAN.—We will now go back to section 18 at Mr. McCurdy's request. "Internal Regulations." That is, regulations that are made by by-law by the shareholders.

Mr. MCCURDY.—As you, Mr. Chairman, have stated, Mr. McLeod has placed this committee under a great obligation, in having come such a long distance to give us the benefit of his experience, and I consider his evidence all the more important because he is not actively connected at the present time with the management of any bank, and is therefore more or less free to express his opinions which are mature and are based on a very successful experience.

Q. Section 18, Paragraph *(h)*, of the Act, provides as follows, under the heading "Internal Regulations":—

> (*h*) The amount of discounts or loans which may be made to directors, either jointly or severally, or to any one firm or person, or to any shareholder, or to corporations.

Mr. MCCURDY.—The old Act and the draft of the new, provided that the shareholders "may" make that regulation. I have moved an amendment that instead of the words "may" regulate the Act shall read "the shareholders shall regulate."

THE CHAIRMAN.—And Major Sharpe is proposing that it be struck out altogether.

Mr. MCCURDY.—I also intend although my intention has not taken formal shape yet. I did not wish to make the motion formally if there is serious objection to it, or if it is going to restrain or interfere with the prosecution of business or the proper business of the Banks in any way; I would like to have Mr. McLeod's opinion in the matter. The amended paragraph (*h*) section 18 would read "the shareholders of the bank *shall* regulate, by by-law, &c." (*h*) "the amount of discounts or loans which may be made to any director or directors, or to any one firm in which a director is a partner, or to any corporation in which a director holds a preponderating proportion of stock or to any corporation of which the directors of the bank is also a director."

THE CHAIRMAN.—It is pretty well covered in 76, Mr. McCurdy, and it is directly covered in Section 18, subsection (*h*).

Mr. MCCURDY.—Another sub-section which I may move to add to the same section is:

'(2) No discounts or loans shall be made to a director, or paid employee of a bank until the total amount of discounts or loans which may be made to such directors or paid employees shall have first been authorized by by-law of the shareholders.'

and following that, under the same section:

'(3) By-laws may be adopted by shareholders at any regular annual, or special meeting. Notice of any by-law proposed to be adopted, or changes proposed to be made in existing by-laws, shall be given by printed notice mailde to the registered address of each shareholder at least thirty days before the date on which such regular annual, or special meeting is to be held. Notwithstanding the provisions of this section, existing by-laws are hereby declared to be in full effect and force until the next regular annual meeting takes place.

'(4) A copy of the then existing by-laws shall be mailed to each shareholder of the bank on the 31st day of December, 1913, and thereafter a copy of the by-laws corrected to date shall on demand of any shareholder at the chief office of the bank, be delivered to him.'

The CHAIRMAN.—Have you yet given notice of that, Mr. McCurdy?

Mr. MCCURDY.—No, I do not intend giving notice until I have found out whether there is any valid objection to it, and I would like to take advantage of the present opportunity to ask, if Mr. McLeod feels at liberty to answer, whether or not he thinks there is any objection to such by-laws being made.

Mr. MCLEOD.—Some points are covered by by-laws that are desirable. There should be some way of limiting loans to officers, or controlling them.

By Mr. McCurdy:

Q. You understand, Mr. McLeod, that the change proposed is that the shareholders of the bank who at present "may" regulate by by-law loans to directors or employees in future 'shall' regulate such loans. This proposes to make it compulsory, in other words, no loans shall be made to the directors or servants without being properly authorized by the proprietor.—A. The by-laws and regulations of a bank are not very important, in fact, as a rule, the by-laws generally get covered over with dust and you may have to hunt up to find out what the by-laws actually are; they generally refer to matters that are dealt with in a correct way, even without by-laws, and I think the plain statement that the directors, or the shareholders, whichever you prefer, "may make by-laws" is sufficient.

By Mr. Emmerson:

Q. Do you think if we made by-laws governing the general manager that would effect the same result?—A. Personally I think the general manager should be controlled by the Finance Minister, or by some department within his jurisdiction.

By Mr. McCurdy:

Q. Would you agree with the proposition that the shareholders should be acquainted with these loans to interested parties, that is, the directors who are making the loans? Do you see any objection to the shareholders passing on loans required by their own directors?—A. The limit of loans to a director should be the same as to any other customer of the bank.

Q. Yes?—A. None whatever, it will even be desirable.

By Mr. Sharpe (Ontario):

Q. As a business proposition, and on the ground of principle, should it not be against loans to officers and directors of the bank? For instance, the annual meetings of the banks are not very well attended, as a rule. The directors usually control the situation, they can pass any by-law they think desirable in regard to this or any other matter, that is the case, is it not?—A. Yes.

Q. Well, do you think it is good banking to allow the directors to loan to themselves under any circumstances?—A. A director should be treated the same as any other customer.

Q. Of course if you admit the principle is bad for the large amount it would be just as bad in principle for the small amount. Would it not be better to eliminate borrowings altogether by their own officers, loans to their own officers?—A. To their own officers?

Q. Yes, to directors and managers.—A. Well, the directors, it very often happens, are the best and most active supporters of the bank.

Q. They are all the more dangerous for that reason.

By the Chairman:

I would suggest that the members of the committee allow Mr. McLeod to give his opinion and not try to put words in his mouth to secure approval of some suggestion of their own. I am not finding fault, but merely throw out the suggestion.

A. It is very often difficult to get good directors; that is one of the most difficult things that a bank has to contend with, to get suitable directors.

Q. The *Evening Post* of New York City, commenting upon the Pujo report, deals with that question, as follows:—

> 'That officers of a bank should be forbidden to borrow from their own banks is, we believe, a principle which ought to be enforced. To forbid officers and directors to participate in underwritings to which their banks are committed, raises exactly the principle brought out by some of the recognized abuses of life insurance company finance before the new insurance law of 1905.'

Condemning the principle of loans to their own officers?—A. Quite sound.

Q. Just one question there. There is an essential difference between an officer and a director of a bank. I understand Mr. McLeod to say that in principle the loaning to officers of the bank, managers, general managers and others, is bad, but the question as to loans to the directors of the bank does not necessarily come under the same condemnation?—A. No.

By Mr. Sharpe (Ontario):

Q. Seeing that the officers are appointed by the directors, wouldn't there be the same objection to loaning to those who direct and appoint the officers as to loaning to the officers themselves?—A. No, provided that the directors sanction all loans to officers, and that no loans are made to officers except those sanctioned by the directors and that the amounts are moderate and fitting.

Q. I am speaking now about loans to directors, are they objectionable?—A. If you will allow me, you sometimes use the word 'officers' and sometimes 'directors.'

By the Chairman:

Q. As to loans to directors should they be allowed?—A. They should not be prohibited, they should be limited the same as other borrowers.

By Mr. Sharpe (Ontario):

Q. Then should that amount be limited by the provisions of the Bank Act or by by-law of the shareholders?—A. I have made the suggestion that all loans be limited by the Bank Act and that the limit should apply to the directors as well as to other customers.

The CHAIRMAN.—Will you permit me to make one suggestion to the committee? When a man is intensely interested in the subject it is hard to limit his questions to points upon which we want to get the views of the witnesses before the committee. We are desirous of getting the unbiased opinion of those gentlemen appearing before us of what is the most desirable thing to do, and I would appeal to the members to kindly refrain from asking leading questions intended to secure from the witness endorsement of their own particular views.

By Mr. McCurdy:

Q. Before leaving this section I would like to suggest another question. Mr. McLeod, very properly, I think, recognized the danger of loans to servants of the bank. He suggests that loans to directors should be limited. Can you, Mr. McLeod, suggest any way to overcome the following condition: you know in the development of joint stock trading a large number of private enterprises are organized in the form of limited liability companies, and while under the present Bank Act we have a column provided in returns to show the total loans to directors and firms in which they are partners. That does not necessarily show loans to an incorporated company in which a director is practically the sole shareholder. Can you suggest any way whereby that might be covered by the returns?—A. It could be covered by the statement in the return. If I may I would like to make a further statement with regard to loans to bank officers. I have said that these loans should never be made without the authority of the directors. The directors are the employers of the officers and they are not likely to loan them beyond what they should receive. It is often desirable to make a loan to an officer, he may be a desirable officer, one that the bank cannot very well afford to lose, he may have got a little into debt, perhaps the bank may have been paying him too small salary, and it will not do to leave a bank officer in debt, his debts should be liquidated; if you leave him in debt you leave temptation for him to go astray, and in these cases the directors should be allowed to make loans to the officers of the bank to a moderate extent.

The CHAIRMAN.—We will now take up sections 43*b* and 77. These clauses relate to the bank's prior claim on its own stock when that stock is owned by a borrower from the bank. At present before that stock can be transferred the bank satisfies its claim against it; it is proposed by Mr. McCurdy that sections 43*b* and 77 be struck out of the Bill so that the bank shall hereafter have no prior claim on its own stock when the transfer takes place. The committee would like to hear what Mr. McLeod has to say on that?—A. I think it is not very important. In my whole experience in the Bank of Nova Scotia, which goes back thirty years, I cannot recall a single instance in which we realized on the bank stock of the debtor.

By Mr. Sharpe (Ontario):

Q. Is it a good principle, though, to give the bank a privilege which no other stock company enjoys?—A. Well, it may limit the expansion of business by striking it out. A bank never lends to a stockholder unless it is on his own credit, or a bank that is well managed should not lend to a stockholder unless the man is worthy of credit. I do not think there is any objection to striking it out.

The CHAIRMAN.—Section 54 deals with the annual statement, and several resolutions have been proposed calling for fuller details, among others that under bills payable "and all acceptances" shall be include din the statement of labilities. We would like to hear what Mr. McLeod's suggestion is as to how these fuller statements of liabilities and assets may be made more comprehensive and more valuable to the public?—A. I think every liability of a bank, whether direct or indirect, should be expressed on the statement. The amount of sterling bills of exchange and all acceptances should be shown.

The CHAIRMAN.—Have the committee any questions to ask Mr. McLeod on that?

By Mr. McCurdy:

Q. In your opinion, would there be any objection to add a memorandum to the form issued by the bank of Nova Scotia (giving a detailed list of securities owned by the bank), showing the cost of the securities, so as to enable a shareholder to determine what his property is really worth?—A. I think there would be an objection to that. The shareholder is able to ascertain what his property is really worth by the listed quotations for the securities.

APPENDIX No. 2

By Mr. Sharpe (Ontario):

Q. Should these returns be fortified by an affidavit?—A. I do not think an affidavit adds any value.

Q. Should 'cash in transit' appear in statement?—A. It should be striken out.

By Mr. Maclean (Halifax):

Q. On what grounds?—A. It is a statement under which almost anything can be included. There may be a draft drawn between Montreal and Winnipeg, a sight draft or three days' sight draft, that might be called cash in transit, it may go to Winnipeg, be refused, come back to Montreal, go back again, and so on, and all the time it will be called cash in transit. The term would also cover past due bills sent to be collected at another point. It is an item under which things may be included that should not there appear.

By Mr. Emmerson:

Q. Would there be any objection to having in each statement furnished, details as to the maximum of interest paid by the bank and the average rate of interest paid on deposit?—A. You mean the average interest rate paid on deposit, on savings accounts and deposits on interest? I don't think there would be any objection to that. It only multiplies the detail, that is all, and useless expense is not desirable.

Q. I am referring to the bank statement furnished to the Minister of Finance under this Act. Would it not be desirable to have in those statements detail of the value of the bank premises?—A. That is not shown or known by the statements to-day. Even shareholders have not that information. Would it not be desirable?

The CHAIRMAN.—That is provided for on page 23, line 5: "bank premises, at not more than cost, less amounts (if any) written off."

By the Chairman:

Q. I would like to ask whether it would not be desirable, when valuing bank premises and publishing their valuation, to give the assessed valuation as well. Is it not a practice among banks, very frequently, to take their bank premises at a valuation very much lower than their assessment?—A. I think the practice should be to show them at practically a nominal figure.

Q. Why should banks own their real estate at less than what it is really worth?—A. It is often almost a liability instead of an asset.

By Mr. Nesbitt:

Q. Who is to judge what it is really worth?—A. The general management and the auditor might certify to it.

By Mr. McCurdy:

Q Under section (*p*), Mr. Ames referred to the provision for the new return. It reads "bank premises, at not more than cost, less amounts (if any) written o." That is very general. Would there be any objection to having it read "bank premises at cost," and then provide another line, "less amounts written off"?—A. An unenecessary detail, I should think.

By the Chairman:

Q. Supposing the Bank of Montreal had purchased a corner on St. Catherine street at $1.50 a foot, twenty years ago. To-day it is worth $30 a foot. Would you advise them to put it in at cost?—A. At not more than cost.

By Mr. Turriff:

Q. What is the objection to a bank return showing the real value of its property?

Hon. Mr. WHITE.—What is its value?

Mr. TURRIFF.—Its actual selling value. How do you know the value of any property? The Canadian Pacific Railway Express Company have a corner in Mont real where the old St. Lawrence Hotel used to stand. I was told yesterday in Montreal that the lot alone, without any building on it at all, would sell for $1,000,000. The Bank of Montreal is a hundred yards away, if that, and consequently must be worth a good figure. Why should a bank not make a true statement as to its assets as well as to its liabilities?—A. The main objection in the case of bank premises is that you cannot pay debts with bank premises.

Q. You could if you sold them?—A. But a bank never sells its premises. When you come to look at a bank statement you want to consider what banking resources it has. It is only clouding the statement to put in the actual value of bank premises, bad debts and other unrealizable things.

By the Chairman:

Q. Your idea is that a bank should underestimate its premises rather than overestimate them?—A. In the ordinary cases, yes.

Hon. Mr. WHITE.—There is another thought there which I think should be considered. It comes down to the question of value. I have had a good deal to do with the valuation of property. I do not know that there is anything much more difficult than that or about which men's opinions differ more widely. You may be able to ascertain the value of land. You buy a lot and erect on it a building suitable only for bank purposes. Let us say in Montreal, for example, that there is one lot of a hundred feet frontage with a building on it that cost three or four hundred thousand dollars and useful only for bank purposes. Supposing you desire to realize on that, what price could be obtained for it?

Mr. SHARPE (*Ontario*).—Some other bank would buy it.

Hon. Mr. WHITE.—Other banks are supplied with their own offices. I have had a great deal to do with the valuation of property, and after you have sunk a great deal of money in a building you have to consider, when you come to value it, what it would sell for. I think myself that substantial sums should be written off for bank premises because they do not represent realizable value or anything like the amount spent in them.

Mr. MCCURDY.—We should surely be justified in assuming that if a bank pays $100,000 for its premises they are worth $100,000 to that bank. The only point I wish to make is this, that the shareholder is entitled to know what is done with his money, and if your suggestion is followed and the total amount of bank premises written off, he has no guide by which to make a valuation of his shares.

Hon. Mr. WHITE.—I don't say it should all be written off. If you include the buildings of the banks throughout the country in bank assets there would be a great over-statement of value.

Mr. MCCURDY.—The shareholder is certainly entitled to know the assets possessed by his bank and what has been spent on the property. The cost or value of the property should, I think, be shown somewhere, if only in the shape of a memorandum. My idea is that there should be some value placed on the premises. We had a case in Canada, of one bank returning its premises at $600,000, and then they suddenly swelled to $4,000,000 or $5,000,000. Now, in that case there was an opportunity of a grave injustice being done to shareholders of that bank and especially to him who sold or bought shares before the new valuation was shown in the Government return. He

The CHAIRMAN.—Would not that come out in a shareholders' audit?

The CHAIRMAN.—Would not that come out in a Shareholders' Audit?

Mr. MCCURDY.—I do not care how it is brought out, so long as the proper safeguards are introduced to cover the case.

APPENDIX No. 2

By Mr. Rhodes:

Q. I would like to ask for your opinion of the policy which has been pursued by most banks, during past years, in building unduly expensive bank buildings?—A. I think banks have gone too far in the line of extravagance.

Q. The suggestion has been made by men of some experience, that it would be wise to insert a provision in The Bank Act, limiting the amount which banks could lock up in bank premises to a certain percentage of their capital and reserve. Would such a course commend itself to your good judgment?—A. It has some features that commend themselves, but then it might retard the development of the country to some extent.

Q. I want to put this purely in the form of a question. In your judgment, has the policy of locking up too much money in expensive bank premises been brought about by competition among the banks; that is, one bank vieing with another in the construction of expensive premises?—A. I do not think there has been any competition of that kind. Some of them are building for the future rather than for the present, and perhaps go a little further than I would feel like justifying.

Q. You have stated that you think they have gone too far. Do you not think it is the result of undue competition?—A. I do not think so.

Q. Do I understand that you would attach no importance to a provision in The Bank Act, limiting the money to be spent on bank premises to a certain percentage of capital and reserve?—A. The limitation if made at all, I think, should be the amount that they should show on their balance sheet as representing bank premiums.

Q. This is quite true from the standpoint of the bank, but speaking from the standpoint of the shareholder should not he be protected by having the bank prevented from putting into bank buildings such large amounts of money?—A. It might retard development. Some banks, in deciding that they will open a branch, will build for the future rather than for the present. They will not be satisfied with a temporary structure, and rather than go into new places without suitable premises they may stay out altogether.

By Mr. Turriff:

Q. Do you think that the practice that has been in vogue in the past of undervaluing properties has a tendency to deceive the public in a sense. For instance, take the case of the Bank of Montreal which for years carried its property at $600,000 in its statement when it was well-known that it would sell for over $6,000,000. Then, suddenly, their valuations were raised two or three millions dollars. Does not that lend itself to cover losses made in other directions altogether and thereby the shareholders, and specially the public are deceived in the matter? Does it not lend itself to that?—A. If it covered losses made elsewhere, the statement of the full value of the property would deceive the public. But if there is an allowance made in the bank premises to cover the probable losses elsewhere, then the statement is practically a true one.

Q. But supposing a bank makes a loss of $5,000,000 in the ordinary line of business, and it can cover that up by revaluing its property, and the public does not know anything about its methods, it seems to me such a practice enables the bank to deceive?—A. That would be a very exceptional case.

Mr. SHARPE *(Ontario)*.—Would that not be obviated by having the assessed value of bank premises put in the statement?

By the Chairman:

Q. What would be your opinion, Mr. McLeod, of having paragraph (*p*), of section 54, give not only the bank premises as they were valued, but as the assessed civic or municipal valuations set them forth?—A. My idea on this valuation of bank premises is a very limited one. I think they should be written down to practically a nominal value, and I am not in favour of any other course. If you take your loans, no matter

how careful you value, the value is almost always in excess of the actual value. Your bank premises can never be used for the payments of the bank until it is in liquidation, therefore they should not be put down anywhere where they are liable to deceive.

Mr. SHARPE *(Ontario)*.—What is the penalty for making false returns to the Government?

Hon. Mr. WHITE.—Five years, according to section 157.

By Mr. Sharpe (Ontario):

Q. In your letter to the *Chronicle,* dated February 23, 1910, you made reference to a number of banks that were sending in incorrect returns as follows:—

"Of thirty-four banks reporting to the Government in January, 1905, at least nine were sending in incorrec returns."

Would you be in favour of increasing the penalty?—A. I do not think penalties have any effect at all.

Q. Because they are not enforced at all?—A. They are never enforced, and it is only necessary to move outside the boundaries of Canada to be safe in the matter.

By the Chairman:

Q. In section 91, it is stipulated that 7 per cent is the legal rate of interest, could a bank without very great trouble prepare a statement showing how much of its loans or discounts are carried at a rate of interest exceeding 7 per cent?—A. It would not be a difficult matter.

Q. Could a statement of that kind be furnished without very great difficulty?—A. I think so.

Q. Could deposits be so classified, without entailing a great amount of figuring on the part of a bank, as to show what portion were in the savings bank?—A. It is difficult to say what deposits are in the savings bank. Some deposits may be on ordinary current account and bear interest. The best method would be to classify deposits as "deposits bearing interest" and "deposits not bearing interest."

Q. Supposing it was thought desirable to ascertain what is popularly known as the savings of the people as distinguished from money placed by commercial institutions, would it entail a great amount of labour on the part of the bank to make this distinction?—A. It would entail a great amount of labour.

Mr. TURRIFF.—I would like to ask the Finance Minister if he has taken cognizance of the statement made by Mr. McLeod a couple of years ago that out of a total of thirty-four banks at least nine were sending in incorrect returns.

Hon. Mr. WHITE.—The chances are that my predecessor took cognizance of it.

Mr. TURRIFF.—I am not going to ask him now about his predecessor.

Hon. Mr. WHITE.—If I had such knowledge, you would know what I would do. I would act promptly—I always act promptly. The difficulties of two years ago were all cleared up before I came to office.

By Mr. Turriff:

Q. Has Mr. McLeod any reason to think that all these things have been cleared up?—A. The statement I made was true. The statement was conservative and was justified by the facts existing at that time. It was made to enforce an argument, and for a beneficial purpose. I think no good purpose will be served by going further into the details with regard to these falsifications.

By Mr. Sharpe (Ontario):

Q. You were making an argument for external inspection at that time?—A. Yes.

Committee adjourned.

APPENDIX No. 2

MINUTES OF PROCEEDINGS.

HOUSE OF COMMONS, ROOM 101,
THURSDAY, April 3, 1913.

The Committee resumed at 10.30 a.m., the Chairman Mr. H. B. Ames, presiding.

The examination of Mr. H. C. McLEOD, resumed.

Mr. HUGHES (Kings, P.E.I.).—I would like to ask Mr. McLeod a couple of questions in connection with the paper which he read before this Committee yesterday, and perhaps this will be the best time to do it.

The CHAIRMAN.—Will the questions fall naturally under some of the other points which we are about to discuss?

Mr. HUGHES.—I am not sure of that.

The CHAIRMAN.—Because if they are with reference to the first fifty sections we can naturally deal with them now, but if they refer to some matters which are to come up later I think it will be far better to leave them until the time when those subjects will be under discussion.

Mr. HUGHES.—It is with regard to the excessive loans by Canadian banks, the loans are 73 per cent of the total assets, while the banks of other countries loan 55 per cent of their total assets. That is the point I wish to ask about.

The CHAIRMAN.—That comes naturally under clause 56, shareholders audit. We will take that up if you like after Mr. McLeod finishes with the audit. We dealt with the first six paragraphs on our memorandum yesterday, and Mr. McLeod was this morning to give us his views on the matter of the system of audit and inspection which is covered by Section 56 of the Act, and which as you know it is proposed to amend as shown in Exhibit A of main Questions. Now we would be glad to have Mr. McLeod's views as to the system of bank audit.—A. My views are very fully expressed in a pamphlet that I have issued, and which I would be glad to furnish to any member of the Committee. The pamphlet was issued in the fall of 1909; my views have not undergone any change or modification, and I do not think there is anything I could add to the subject matter in that pamphlet. (See Exhibit No. 2.)

By Mr. Nesbitt:

Q. Do I understand that in that you recommend government inspection?—A. Not necessarily government inspection, there are two or three forms of inspection. I took the ground that there should be some form of inspection and that it should be an efficient form. If you wish to ask me about this form of inspection that is proposed by the Government I shall be glad to give you my views.

By Hon. Mr. White:

Q. I would like to ask Mr. McLeod a few questions with regard to that subject as his experience is very valuable. As I understood you yesterday, Mr. McLeod, your view is that there should be a Board of Inspectors nominated not by the Canadian Bankers Association, but by the general managers of the Canadian banks, is that right?—A. Yes, Sir, that is correct.

Q. I have understood, whether correctly or incorrectly, that in your view that would be probably the ideal system, is that right?—A. I think it the best system that has ever been proposed.

Q. Am I right in this statement that in the United States the clearing house associations of the banks have inaugurated a system of bank inspection which has proved fairly satisfactory say in Chicago, New York and other large centres?—A. The clearing houses have in several places inaugurated an inspection that is most beneficial, complete and effective.

Q. I understand that the Canadian Bankers' Association had under consideration some time ago a plan whereby the Association would inaugurate an inspection system of the Canadian banks. Afterwards there was some dissent among some of their members as to that, at all events there was not unanimity. I understand you think that would not be advisable, am I right in that or not?—A. To inaugurate the system proposed by the Association to which you refer would be very inadvisable.

Q. Inadvisable?—A. Under that system the banks with influence might go free of inspection altogether, the banks with little influence would be inspected, the influential might not be inspected.

Q. You think that if the general managers of the several banks were to nominate the Board of Inspectors that board would be a very useful organization?—A. Very.

Q. Or board?—A. Very.

Q. And that would be, as I gather, in your view an ideal system, or the best system?—A. I hold that view very strongly.

Q. Now let us get back to the other form, including what I have inserted in the Bank Act. As I understand it you established a system of audit in connection with your bank, you are the pioneer of that?—A. I borrowed the system adopted by the Scotch banks, and imported, if I may use the term, two Scotch auditors to audit the Bank of Nova Scotia.

Q. So that the system you instituted in connection with the Bank of Nova Scotia is the system that is in vogue in Great Britain?—A. Exactly.

Q. As I understand the system you inaugurated, your shareholders appointed auditors at their annual meeting, is that correct?—A. No, that is not correct. The auditors were brought out by me, with the consent of the Board of Directors, the shareholders had nothing to do with it.

Q. I see, so that what you did was a voluntary act on your part, and on the part of your Board because, of course, the Board had consented?—A. Yes.

Q. So that the auditors that you brought out or appointed were really appointed by yourself in a sense, and with the authority of your Board of Directors?—A. Exactly.

Q. Was it possible for that firm of auditors to inspect all the branches of the Bank of Nova Scotia?—A. No, it was not necessary.

Q. It was not necessary—was it possible?—A. No.

Q. On account of the number of branches?—A. On account of the number of branches.

Q. And that firm of auditors inspected at the head office of the Bank of Nova Scotia and its principal branches?—A. Yes, three or four of the principal branches.

Q. Was it your idea that by doing that you got a satisfactory report as to the regularity of all transactions in connection with that bank?—A. There can be no doubt, that in any bank that is well managed, that has a good system of accounting, there is absolutely no difficulty for an intelligent auditor, a man who is accustomed to credits, to ascertain in a very short time whether a bank is sound or unsound. Not only that, but he should be able to ascertain within a very short time almost the exact value of the stock of that bank.

Q. So that when you appointed a reputable firm of auditors to check up the transactions and audit the business of the bank for the purpose do you or do you not feel that would be a valuable safeguard to the depositors?—A. I knew it was not necessary in the case of the Bank of Nova Scotia.

Q. Quite so.—A. But I was carrying on a campaign at that time for outside bank inspection, and I thought it would be an object lesson, and possibly induce the other banks to follow in the same course, and thereby benefit the banking business of the country.

Q. I might say that, subject to what I shall say a little later as to the qualifications of auditors, it was the plan that you inaugurated that we have introduced into the new Bank Act, as you are probably aware. Now, I want to ask you, Mr. McLeod, as to how you differentiate audit and inspection. You used the words "external inspection" and the word "audit" has also been used. What, in your opinion, if any, is the distinction between the two words?—A. I have used the two words as synonomous terms and they practically mean the same thing.

Q. I had the idea, probably because it is very important you know to define terms, that "audit" in the general acceptance of the terms is a verification of account, checking of securities, and not necessarily a passing upon the value of the accounts, and the assets of a bank consisting of personal obligations. That has been my view with regard to audit. I just want to explain that before I go any farther. Inspection, on the other hand, has implied to me that the inspector would pronounce upon the character of the assets, that is to say for example it may be a timber cutting company in British Columbia had a credit with the bank of a million dollars and had used it; with a thorough inspection the inspector would have to pronounce upon the character of that loan with many others. When I used the word "inspection" I mean more than audit which usually means—of course I have had it in mind that an audit would go this far—attention of the auditor was drawn to any account or asset that appeared to him to be of doubtful value, he should call attention to it and look into it, but subject to that I had the opinion that "audit" and "inspection" were two different words. I want to ask you with regard, I understand you have some experience——A. Pardon me, might I answer that before you go further.

Q. Yes, by all means.—A. It is the custom of the Scotch auditors to look very carefully into the value of assets, particularly large credits.

Q. Under the audit system that you established?—A. Yes.

By Mr. Nesbitt:

Q. They looked into the value of the assets?—A. Into the value of the assets.

By Mr. McLean (Halifax):

Q. That meant current loans charged?—A. Yes, current loans, and I may say that if there was an account in the bank we were not proud of that was the account they asked about. I do not think they missed one of them, the audit made by these gentlemen was what you would term "inspection."

By Hon. Mr. White:

Q. Let me ask you then, supposing the system provided for in the Bank Act was precisely the system or was made so as to be in effect the system that you established in connection with the Bank of Nova Scotia, with the explanation you have given as to the duties of the auditors, would you say it would be reasonably effective or not?—A. It would be an improvement, the Act under consideration is an improvement, but neither would be sufficient.

Q. Neither would be as good as a board nominated by the bank managers such as you have mentioned?—A. No.

Hon Mr. WHITE.—I am disposed to agree with you.

By Mr. Nesbitt:

Q. With respect to those bank managers appointing the auditors or inspectors would you give each general manager a voice, and equal voice, on that board, no matter what the size of his bank would be?—A. The vote of the general manager of

the Bank of Weyburn would have as much force in appointing an auditor as the vote of the general manager of the Bank of Montreal.

Hon. Mr. WHITE.—Now I want to ask you, you have had some experience in the United States——

By Mr. Nickle:

Q. Before passing from this point, if you will permit me, Mr. Minister, I would like to ask Mr. McLeod if the Bank of Nova Scotia audit was not wider than provided for under this Section 56, which declares that the duty of the auditor shall be "to check the cash and verify the securities of the bank at the chief office of the bank against the entries "in regard thereto in the books of the bank."

Hon. Mr. WHITE.—And further they may investigate the other branches—look on further in the Act.

Mr. NICKLE.—But only as against the entries in the books, not as to the valuation. The Bank Act, as I understand it, does not go as far as you have gone.—A. No.

By Hon. Mr. White:

Q. (Reads) "The auditors shall make a report to the shareholders on the accounts examined by them, on the checking of cash and verification of securities referred to in the next preceding sub-section, and on the statement of the affairs of the bank submitted by the directors to the shareholders under Section 54 of this Act during their tenure of office, and the report shall state,—

(*a*) Whether or not they have obtained all the information and explanation they have required;

(*b*) Whether their checking of cash and verification of securities required by sub-section 13 of this section agreed with the entries in the books of the bank with regard thereto;

And further—and this is very important—"whether in their opinion the statement referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the bank's affairs according to the best of their information and the explanations given to them and as shown by the books of the bank."

Mr. NICKLE.—Sub-section 14 refers to sub-section 13, and the verification in reference to the entries in the books, and stops inquiry into the value of the assets.

Hon. Mr. WHITE.—If, by any chance, when we come to that, verification has not been covered, we shall see that it is covered.

By Hon. Mr. White:

Q. I want to ask you—you are familiar with the system of inspection in the United States—a question regarding that. I find that Mr. Murray, in a recent investigation of financial and monetary conditions in the United States, before the Pujo Committee, said: "The whole question of bank examination is illogical and unscientific and simply impossible under the present law." Mr. Untermyer, who was counsel, I think, for the Committee, says: "It is superficial under the present law." Mr. Murray replies: "Yes, no one has denounced that any harder than I have." Of course, this is just an extract of a few questions and answers from the report; but I would like to have, for the benefit of the Committee and myself, your view as to that examination in the United States, and as to whether you agree with what Mr. Murray has said as to its being unscientific and impossible. That is the government inspection they have over there.

Mr. SHARPE (Ontario).—Are the particulars given?

Hon. Mr. WHITE.—No, it seems to be a general statement.

APPENDIX No. 2

Mr. McLeod.—I have said in my writings on the subject that the system of the United States is very imperfect, and in that I agree with the statement of the Comptroller of the Currency. They have a small number of inspectors to an enormous number of banks, and it is impossible for the inspectors to do satisfactory work in the time allotted to each bank. At least, that was the condition at the time I studied the subject closely. In addition to the national system, each state has an inspection of its own state banks. Some States have better systems than the national system. The method of inspection may be unscientific and imperfect, yet the benefit derived from that inspection has been very great. As I have not a copy of my pamphlet here, I cannot give you figures; but I showed in that pamphlet that the number of national banks failing in the United States since the esablishment of the National Bank System, was very small as compared with the percentage of failures in Canada.

By Hon. Mr. White:

Q. That is as to number?—A. Yes, but the comparison may be made in any way you like, capital involved or otherwise, and the disparity is always very great. Before the National Banking Act was established there were, as you all know, a great many failures, and I believe that this unscientific and imperfect method of inspection in the United States has saved that country almost from financial ruin. In fact, the banks could not exist at the present time without a form of inspection.

By Mr. Thompson (Yukon):

Q. I understand, from what you have said, that there are two classes of inspectors as there are two classes of banks, that is, the national bank and the state bank. Am I right in thinking that there are national inspectors as well as State inspectors?—A. The national inspectors inspect the national banks, the State inspectors inspect the State banks doing business under State laws.

Q. Recently I was in the Wells Fargo Nevada National Bank in San Francisco. Do you know if that bank is a State or national bank?—A. A national bank, I think.

Q. I happened to be there when the inspection was taking place and the cashier introduced me to the inspectors. Two men were seated at the table, government officials, who were passing in review the assets of that bank, in order to make up their report. I just was wondering if the two classes of inspectors acted in harmony or whether they moved in different spheres?—A. They rarely act in harmony unless in time of crisis.

By Mr. Hughes (Kings, P.E.I.):

Q. You say the percentage of failures is much greater in Canada than in the United States. In making that comparison, did you take into consideration the different systems; that is, the banks in Canada have a great many branches, while there are no branches in the United States? Would it not therefore be a fair comparison to include the branches of banks? There are twenty-six banks in Canada and if two failures occurred in a year the percentage would be thirteen per cent. Now, a great number of banks would have to fail in the United States to make up that percentage?—A. The better comparison would be by capital involved.

By Hon. Mr. White:

Q. I would like to ask at a little greater length about the system of government inspection in the United States. From what I have read on the subject, I understand that the government inspector goes into a bank to inspect the cash and securities, and I presume he has acquired knowledge, or some knowledge, as to the value of commercial paper at that particular point. Perhaps you can tell me whether that is so. Is the government inspector supposed to be familiar with the quality of the paper in that particular office? Should he have a general knowledge about it?—A. One of the unscientific features of the American system is that the appointment of an examiner is usually a political appointment.

Q. We might be able to avoid that here, but in the United States, you say, it is a political appointment.—A. Yes. The inspector is appointed for a certain section, and in that section he acquires, after a time, a very considerable local knowledge and is able to judge fairly of the value of paper. In the large cities he is accustomed to consult with the clearing house, particularly if there is any sign of trouble.

Q. Let me go one step further. Supposing that instead of a single bank system (that is to say, one office system, because they have no branches in the United States, speaking generally) that those government inspectors had to pronounce upon the character of the paper (which of course is a very large percentage of the entire assets of any bank) of a bank whose head office was in New York, say, with branches, hundreds of them, scattered all over the Union, in Canada, in the West Indies, and say an office in London. What would be your opinion as to the value of the judgment pronounced by a bank examiner, appointed as you have indicated, with respect to the paper of that bank having branches geographically located as I have indicated and to the number I have mentioned?—A. I do not think the judgment of a local inspector, with a limited horizon would be as valuable as that of an inspector of the whole bank viewing conditions from the head office. It is not necessary to go outside the walls of the head office in order to get all the information necessary.

Q. The clearing houses in Chicago and New York have established an inspection system of their own, as it is in their interests to know the financial standing of each bank in the clearing house. Would that indicate that they are satisfied with the system of government inspection? If they had been content to rely upon the government inspection, would they have taken this step? Did they not take this step with the idea that it gave them greater security?—A. The reason, I believe, is that they know the imperfections of the general system, that is, the national system. They want to go further to protect themselves; particularly as in times of stress each bank may be called on to guarantee the others, when it becomes necessary to issue clearing house certificates. There is a clearing house inspection in almost all the principal cities of the United States. Further, the bank directors employ an expert to make an inspection on behalf of the directors. The directors' inspection and the clearing house inspection are more thorough than the national inspection.

Q. The clearing house inspection is the most thorough?—A. Yes, and next comes the directors' inspection.

Q. If the objections were removed—I am not suggesting at all that they can be—the Canadian Bankers' Association could act in some way as the clearing house. The inspection would be analagous if it could be done fairly, and I suppose it could not?—A. I am sure it could not.

Q. Therefore, as I understand it, you suggest as the best system as an alternative to that, it should be a board nominated by the bank managers?—A. I do.

By the Chairman:

Q. Do I understand that your idea would be that the bank managers from the twenty-six banks in Canada should select a board either from among their number or outside, and that that board should determine the names of competent auditors to carry on bank inspection?

MR. SHARPE (Ontario).—The witness did not say that.

MR. MCLEOD.—I suggested that the bank managers should appoint a board of inspectors.

By the Chairman:

Q. To appoint a board of inspectors direct?—A. That that board should have a chairman; that there should be quite a number of inspectors.

Q. Named by the board?—A. Named by the general managers on the part of that board. These inspectors would do the work of inspection; they would report to the

chairman of that board. The information acquired by that board, and by its chairman would never be communicated to the Canadian Bankers' Association unless it became absolutely necessary; and then it would be communicated, I should suggest, by the chairman of the board to the Finance Minister; and the Finance Minister should take it up with the banks.

By Hon. Mr. White:

Q. Would the banks pay for the expense of that?—A. Yes.

Q. Would this Board of Inspection have the power to say to the individual bank: You must not make that loan, oryou must reduce this loan? In other words, should they have any power, in your view, to interfere, so to speak, in the management of the bank so to say: That loan is too large; you must curtail it; or you must increase the amount of loans you have outside of Canada, or diminish the amount of loans; you must keep more liquid assets. Would they, to that extent, be able to interfere in the internal administration of a bank? For example, suppose that cash reserves or liquid assets, in their judgment, were getting too low, would the board have authority to say: You must change your policy and increase the amount of your liquid assets, or diminish your loans, say, upon commercial paper?—A. My view would be that that board would act in an advisory capacity; that it would suggest to a bank manager that he was going, perhaps, too far, in one direction, and if their suggestion had no effect, the board should then take the matter up with your department, or with the Canadian Bankers' Association, whichever course was proper.

Q. So that the Finance Department, or the Canadian Bankers' Association, might authoratively say: You must change your policy; you must maintain a larger proportion of liquid assets or cash reserves; you must diminish your commercial loans; or as the case may be. Your idea is that there must be an ultimate authority to compel banks to comply with the advice tendered by this board?—A. That is my idea; and I go further and say that that authority should be in the Finance Minister.

Q. So that the Finance Minister in the last analysis would really control the operations of the bank.

Mr. SHARPE (Ontario).—I do not think the Finance Minister should endeavour to lead the witness. The Chairman has objected once or twice to attempts on the part of members of the committee to put statements into the mouth of Mr. McLeod.

Hon. Mr. WHITE.—If there is any objection, I would point out to Mr. Sharpe that the question is based on a Bill as introduced by me. If that question is too leading, I would be very glad indeed to change it. As I understand the witness, this board named by the managers is to have, first, an advisory capacity.

Mr. SHARPE (Ontario).—That is the chief function.

Hon. Mr. WHITE.—Supposing that advice is not taken, is there any authority anywhere to compel the taking of that advice? As I understand Mr. McLeod, his view is that preferable the Minister of Finance, or the Canadian Bankers' Association, should have power to compel a particular bank to accept that advice.

Mr. SHARPE (Ontario).—The witness stid not to interfere with particular accounts, but with reference to the policy of the bank.

Hon. Mr. WHITE.—It comes down to particular loans in the aggregate.

Mr. SHARPE (Ontario).—Not in reference to particular accounts.

Hon. Mr. WHITE.—Just let us develop that, because I think this is of extreme importance. Certainly I want to understand it, because the responsibility is more particularly mine.

Mr. THOMPSON (Yukon).—Do I understand that this proposal means that the managers themselves will elect all the members of the board?

Hon. Mr. WHITE.—That is Mr. McLeod's idea.

Mr. THOMPSON (Yukon).—I think it is of extreme importance to know the precise point where authority lies.

Mr. SHARPE (Ontario).—Supposing there was no authority to interfere with the policy, just to act in an advisory capacity.

The CHAIRMAN.—We can ask Mr. McLeod whether in his opinion that authority should work through.

By Hon. Mr. White:

Q. I thought the Finance Minister, or the Canadian Bankers' Association, should then have the authority to compel the acceptance of this advice.—A. One of the weaknesses of the American system is the lack of power in the comptroller to compel what he recommends.

By the Chairman:

Q. Would you explain just again. Supposing it to be desirable to go further than a merely advisory capacity, what would you then recommend?—A. I would recommend that the matter be referred to the Minister of Finance.

Q. What power would you put in his hands?—A. To take the subject up with the bank. I don't think he need take any compulsory action. The mere fact of his taking it up with the bank, the mere fact that the department had the matter under its attention, would be, I am sure, sufficient to correct any trouble, and no compulsory action would be necessary.

By Hon. Mr. White:

Q. Let me put a concrete case, because it is concrete cases I would have to deal with. Take a situation like in the nineties, or in 1907, let us say, in which there was great money stringency. Let us say that the bank with an asset capital of $100,000,000 had $25,000,000 in liquid resources immediately convertible either in cash or call loans in New York or London, and had $75,000,000 in commercial accounts. Supposing that this advisory board said to that bank: I want to increase your liquid resources. That would mean of course that they would have to curtail their commercial loans, would it not?—A. Yes.

Q. They advise that the banks must curtail their commercial loans. Supposing the banks said: We do not agree as to this policy; we, having regard to our credit and resources, and as to this $75,000,000 of commercial loans we do not think it necessary to curtail. These commercial loans, of course, are an aggregate of all the individual loans making them up. The Minister of Finance comes in, and he takes the matter up. He would have to pass judgment upon the policy of that bank with regard to the amounts of these commercial loans and the amount of its resources, and would have to say: I want you to contract these commercial loans and increase your liquid resources, as between the board and the bank. Would that follow, or would it not? Would it be in your mind that the Minister in such a case, if the board of advisers thought the liquid resources of the bank were too low, should take such action as I have indicated in the event of the bank refusing to act?

The CHAIRMAN.—It is a question between the board and the bank. The matter comes to the Finance Minister. What should the Finance Minister do?

By Hon. Mr. White:

Q. And if he has no power, what can he do?—A. In the first place that recommendation would come up from the board of auditors, or board of inspectors. Such a recommendation is not likely to be made at a time of crisis, and if it was so made it would not be an appropriate time for the minister, or any other authority, to say to the bank: You must not take any drastic action. By taking that drastic action it would only precipitate the crisis. I can hardly imagine that any competent board

of auditors, or inspectors, with the authority which it is proposed to give to this board, would permit a bank to loan $75,000,000 out of their total funds of $100,000,000.

Q. I am only using, of course, hypothetical cases, because I understood you to say yesterday that you were of the opinion that the banks had loaned more commercially than they should.—A. I hold that opinion very strongly.

Q. If the Board of Inspectors agreed with your view, the chances are they would hold that opinion would they not?—A. One object of the Board of Inspectors would be to prevent that very situation from arising, and it could not arise if there was a competent head to that Board of Advisers.

By Mr. Maclean (Halifax):

Q. Yesterday you stated that the provisions of the Banking Bill we are now considering, so far as the inspection clauses are concerned, would be ineffective unless there was activity on the part of the Finance Department. Will you tell the committee what you meant by that statement?—A. I mean by that statement that a bank may appoint two men to attach their signatures to the balance sheet. These men may have no capacity; they may not be auditors at all; and yet that statement goes out and has the same credit with the public as if it had been verified by regular auditors, men of capacity, and such verification would have absolutely no value.

Q. Where do you want the Finance Department active, then?—A. The Finance Department would require to call for a more efficient inspection, or possibly for particulars.

By Hon. Mr. White:

Q. As to this audit, which has been modelled after the audit that you inaugurated in connection iwth your bank—could you make any suggestion as to what qualification could be prescribed that would insure that the auditors were reputable men who would not act in collusion with anybody? These directors have a system of auditing, but it has been very difficult to lay down any regulations as to their qualifications. What I would like to know is whether the Act could be amended, and if so, how, either by having these auditors nominated by a certain individual or a certain association so as to insure that they would be reputable men. For example: I understand that you had confidence in the firm that you got. Now, could the Act be so amended, in your judgment, and if so, how, as to insure the qualifications of auditors?—A. I believe I am correct in stating that the Companies Act of Great Britain states the qualifications of auditors.

By the Chairman:

Q. You refer to the Joint Stock Companies Act?—A. The Joint Stock Companies Act. I am sure also that the Banking Acts, or similar acts, of Australia require qualifications. That legislation prescribes the different auditors—I might almost say the auditors of the different schools—that would be eligible to be auditors. On the broad question I am not very much in favour of the audit systems of Great Britain. It has done an immense amount of good, but still it is not perfect. An auditor should be a principal. He should be a man who recognizes the responsibility he is assuming in auditing a bank.

Q. He should be a principal, not a subordinate?—A. Exactly. It is of no value, or almost of no value, to have a firm of auditors send clerks out to audit a bank, because they are only paid men with less capacity than an average bank clerk of three years' service in any one of our banks, and an audit by men of that kind is of very little use. For that reason I urge the appointment of a Board of Auditors who shall be men of very great capacity in banking and on all subjects of credit.

Q. Would you favour the appointment of men as individuals rather than as auditing firms?—A. As individuals?

Q. What I mean is, would you favour the appointment of these men on their individual auditing merits rather than as firms?—A. I do not think you would be able to get the principals of a large auditing firm to undertake the audit.

By Hon. Mr. White:

Q. Take the audit which you establish, was that done by the principals of the firm or by other competent individuals?—A. By the principals. I selected two gentlemen that were accustomed to bank auditing in Great Britain.

Q. Supposing the appointment of auditors selected in the manner you indicated a few moments ago were approved either by the bank managers of all the banks, or by the Bankers Association, would that be a safe-guard or not?—A. That would be quite an improvement

By the Chairman:

Q. From your experience of bank auditing, Mr. McLeod, would you regard a chartered accountant, or a retired bank inspector, as the best man capable of auditing a bank? I mean would an ex-official of a bank, or a chartered accountant, best accomplish the kind of audit which you desire?—A. I should hardly think that an ex-official of a Canadian bank would be the most desirable man to be connected with the Board of Auditors or inspectors.

By Mr. Thornton:

Q. You have stated that the Board of Auditors should be appointed by the bank managers as a body, and you have also said that you would be opposed to the Bankers' Association appointing that board. What is the difference between a combination of bank managers and the Bankers' Association? Are not the bankers practically nothing more than an association of the managers of the various banks? Are they not the controlling spirits in the Bankers' Association and practically would not this Board of Auditors be appointed by this association?—A. The Bankers' Association is very often controlled by one bank. That one bank, through the control of the association, is able to pass almost any measure that it may wish to pass.

Q. Would not the same thing hold good in this combination of bank managers who would appoint a Board of Auditors?—A. I think not. I think the nomination should be outside of the association, and each general manager would have a voice in the appointments.

By the Chairman:

Q. Would one or more of the general managers possibly exert a dominating influence over the rest?—A. It is possible, but it is less likely than in the Bankers' Association.

By Mr. Thornton:

Q. The manager of a small bank would have an equal say with the manager of a large bank in the appointment of the Board of Auditors?—A. Exactly.

Q. Does not the Bankers' Association practically consist of the managers of the different banks, and do not these managers control the actions of the association? Has not that been our experience in banking matters in the past?—A. In some sections they might, but the Bankers' Association has not very much authority, fortunately, I think.

Q. Is it not true that the Bankers' Association practically controls the situation so far as banking matters are concerned?—A. In fact the Bankers' Association has very little power, and they have no power until a bank fails. Then they have the power of appointing a curator and so forth. With reference to the appointment of auditors, if I may go back to your previous question, I have suggested that if two general managers, or one-tenth of the vote, should vote against any person who is nominated for the position of auditor, that will prevent the appointment.

APPENDIX No. 2

By Mr. Barker:

Q. That bars the appointment?—A. That bars the appointment.

By Mr. Thornton:

Q. That would be your suggestion?—A. I made the suggestion in the paper I read yesterday.

By Mr. Armstrong (Lambton):

Q. You have made the statement that one banker could control the Bankers' Association. I could hardly understand that. In what way would a banker be likely to control the Bankers' Association?—A. By influence. That has happened..

Q. Might that banker not be able also to control the men who are to appoint the auditors?—A. That would be less likely if the appointment was made outside of the Bankers' Association.

By the Chairman:

Q. With the managers acting in their individual capacity?—A. With the managers acting in their individual capacity.

Mr. ARMSTRONG (Lambton).—I understood Mr. McLeod yesterday to say that a trust company connected in any way with a bank was a menace to the banking system in general. Will Mr. McLeod be good enough to explain in what way such affiliated company is a menace?

The CHAIRMAN.—Would the honourable member be willing to allow that to come up at its proper place a little later in the discussion? That matter does not relate to the audit, but will come up later, on 76 B.

Mr. MCLEOD.—I will be glad to answer that question.

By Mr. Middlebro:

Q. Following up your remarks with reference to the system adopted in appointing inspectors for the Bank of Nova Scotia. I understand those inspectors were appointed at the instance of the directors and of yourself as general manager. Is it not a principle of good auditing that the auditor should be appointed, not by the majority of the directors, but rather by the shareholders as a check on the works of the manager and directors?—A. It is, and it would be better probably to have the auditor appointed by the Finance Minister if the government were prepared to accept that duty.

Q. Following up my line of argument. You were willing to go to Scotland to choose the best officers because you were perfectly satisfied that your bank was in a good condition?—A. Exactly.

Q. You went there because you knew your bank was perfectly solvent and was able to pass a good inspection?—A. Yes.

Q. Suppose your bank was in a very bad condition, and that you as manager had so mismanaged the funds of the bank that it was not solvent, what protection would there have been to the shareholders in having capable auditors appointed by yourself and the directors?—A. In that case I would not have had auditors appointed. I would have opposed inspection.

Q. So the system which you recommend, and which you say is so good, would be of no use for the very object for which it was intended.

Hon. Mr. WHITE. Not if the officials were crooked.

By Mr. Middlebro:

Q. In my opinion the auditors should be appointed by that element of the shareholders that are antagonistic to the Directors.—A. I quite agree with you there.

Q. So that the whole matter boils itself down to this: Assuming that you can get an auditor who is able, honest and impartial—assuming that absolutely—it does not make any difference by whom he is appointed.—A. That is quite true.

Q. Then the question is: by what means can we best accomplish that object? Would not this be a good suggestion: we know that the board of directors as a rule control the shares of a bank.—A. Control the voting, rather.

Q. Control the voting by reason of the stock which they own, or stock which they represent by proxy, so that the appointment of auditors by the directors is simply a farce so far as security for the shareholders is concerned?—A. To a very large extent it is.

Q. Then would not a provision in the Bank Act prohibiting directors, either for the year previous, or for the year for which they are appointed, having any voice in the appointment of the auditors, be a good suggestion? Then the appointment of auditors would be absolutely in the interest of the general shareholders.—A. That would not work out in practice.

Q. Why?—A. The directors control the shares of the bank, and practically all shareholders are loyal to the directorate of the bank.

Q. As long as they are doing their duty?—A. As a rule so long as the directors represent the shareholders the shareholders support the directors. Consequently the directors can do what they like in the matter of appointments.

Q. So as soon as the directors lose the confidence of the shareholders their voting power is gone, as it should be?—A. That is right.

Q. As soon as they lose the confidence of the shareholders their voting power should go so that auditors may be appointed apart from their interests.—A. Yes. But when the directors lose the confidence of the shareholders it is generally too late to help that bank.

Q. That may be so, but there may be cases in which it would not be so?—A. Such cases are very rare.

Q. At any rate that would be a better system of appointing auditors than by the present system under which the auditors are practically appointed by the directors.—A. No. I do not agree with you. I do not think you would get away from the influence of the directors over the corporation.

Q. By no means?—A. By no means. That influence is beneficial in most cases, but where there is anything wrong with the management of the bank, it may be without knowledge of the directors, through the influence of the general manager, the directors will so act as to destroy any benefit the audit might be.

Q. Then you think the only remedy is the appointment of a board of auditors appointed by the bankers of Canada?—A. By the bankers.

By Mr. Sharpe (Ontario):

Q. He says the government, if they would assume the responsibility?—A. If the Finance Department would accept the responsibility it would be better to add 'with the approval of the Finance Minister'.

By Hon. W. T. White:

Q. The bank managers would nominate these auditors and the Finance Department approve them.—A. The bank managers would nominate the auditors for the approval of the Finance Minister.

By Mr. Middlebro:

Q. Then they would be appointed by the Finance Minister?—A. No, I should think not; if they were to be first nominated by the general managers of the banks the appointment would only be an approval of their selection.

Q. In that case would there be danger of political influence intervening in the appointments?—A. I do not see how that could occur; if the appointment was by the Department originally there might be danger of that in some cases.

APPENDIX No. 2

Q. But you think that the nomination by the association approved by the Department would get rid of that difficulty?—A. Not by the association, but by the general managers individually.

By Mr. Cockshutt:

Q. I understand you to say that you think a fairly perfect and satisfactory outside inspection of the banks of Canada is possible?—A. I have absolutely no doubt about it.

Q. Can you give us an estimate of what staff, in your judgment, would be required to carry out such inspection?—A. I would think that a staff of twenty would be quite sufficient.

Q. Twenty?—A. Yes.

The CHAIRMAN.—Would you ask about the salaries?

Mr. COCKSHUTT.—Well, the salaries would depend upon the quality of the men and I do not know whether Mr. McLeod would care to express an opinion on the matter.

Q. Would you pay all the men alike?—A. No. The salaries should be quite large.

By the Chairman:

Q. Ranging from how much?—A. For the Chairman of the Board I would not suggest less than $25,000.

Hon Mr. WHITE.—Why that would be more than a cabinet minister.

By Mr. Cockshutt:

Q. From $25,000 for the chairman ranging down to what for the other men?—A. To $3,000 or $4,000.

Q. You would rate them according to their ability?—A. Yes.

Q. There is another question that I think is important. I would like to ask would a certificate of equal value be given to every bank that passed a certain qualification or inspection? Suppose a bank had $3,000,000 capital and $2,000,000 rest account would that bank work out to be as safe and well found a bank as the one with $24,000,000 of capital and $16,000,000 of rest account and other assets in proportion?—A. The auditors or inspectors would not be called upon to state whether the bank with $3,000,000 of capital and $2,000,000 of reserve was better than the bank with $2,000,000 and $3,000,000 reserve, all that the certificate would state was that the affairs of the bank are as represented on the balance sheet.

Q. They would not give any guarantee as to its safety?—A. Absolutely no guarantee.

Q. The auditors simply state matters as they find them?—A. Yes.

Q. No such inspection would, anyway, be pursued to second things. For instance a large firm has a large overdraft in the bank, and there are certain collaterals lying there as security for the account; would the inspectors go beyond what they found in the bank premises itself? Would they go to the firm whose paper is there and ascertain whether they are as solvent as they should be, and put that paper in such class as it ought to be?—A. They would be going beyond their powers if they do that. I think that would be most injurious. They would act through the bank management.

Q. Well, is the public likely to be misled by a system of inspection? That is, a weak bank is practically put in the same position as a strong bank by this inspection. Would the public be misled in supposing that one of the smaller and weaker banks was just as good and just as sound as the largest of our banks?—A. I think I have stated before that the small bank, if properly managed, is as strong as the large bank, and I do not see how the public can be misled by an auditor's certificate attached to the statement of a small and sound bank. If the bank will loan too large a percentage of its assets, thereby impairing its strength by getting rid of all its

available resources, then there would be danger, and it is a danger that the auditor's certificate would not obviate.

Q. Will the inspection of banks eliminate entirely the possibility of bank failures?—A. No.

Q. Then, in your opinion, would the public have a grievance against the government, or those in authority, if a bank that had been recently inspected, and whose qualifications as a sound safe institution had been passed upon satisfactorily should fail shortly afterwards, and the depositors and others lost a considerable sum of money; would these people who relied upon government inspection have any just cause to complain or to bring a claim against the government for the imperfection of the inspection?—A. In my opinion they would have no such cause. Furthermore, the idea has never been thought of in the United States, so far as I know of, and they have had government inspection there for 49 years.

Q. They do not feel that they are then being placed at a disadvantage by the powers that be, by having an inspection that has proved inadequate, or by having certified to a bank being sound that was not sound?—A. No, the government has established the bureau for the purpose of overlooking the banks, and it has done the best it could, and why should the government be liable. I think they are more liable where they fail in doing their duty in not seeing that a bank is properly established.

Q. In your opinion how many times a year should banks be inspected?—A. I think once a year is quite sufficient.

Q. You would inspect every bank once a year?—A. Every bank once a year.

Q. And the inspection would not necessarily extend to all the branches, I understand, but largely to the head office and to the principal branches in the different provinces?—A. There is no objection to inspecting principal branches, but, in my judgment, there is no occasion to go outside the head office.

Q. Where the head office of the bank is located outside of Canada, would we have jurisdiction to inspect, providing they are doing business in Canada? I think there are one or two banks doing business in Canada that have head offices in the old country?—A. They are certainly within the jurisdiction and subject to inspection, they cannot avoid inspection by having the head office out of the country.

Q. You would inspect the offices of a bank with the head office outside the Dominion?—A. I might mention that the Bank of Nova Scotia is doing business in the state of Massachusetts. The inspectors of that state called at our office and said, 'Of what use is this inspection here? Your affairs are all in Canada, we cannot inspect you.' I immediately invited the officers of the state of Massachusetts to come up to Toronto and inspect the Bank of Nova Scotia up there, and they did it. I am sure that every bank doing business in Canada would take that same course as the Bank of Nova Scotia did with reference to the state of Massachusetts.

Q. You think it necessary to inspect those outside branches. Your bank, I mean the Bank of Nova Scotia, is doing a large business in Jamaica, I understand, and you would inspect that in the same way as the branches in Canada?—A. No. As I said before the inspectors would get ample information at the head office. The inspectors would have absolutely the same information that the general manager has, and when you get that information you have all that is essential to ascertain whether the bank is sound or is getting into a dangerous way.

Q. Would you suggest that the report of the inspectors should be sent to the minister or to the government, or to whom would this report of the inspectors from time to time be presented?—A. I think it would be desirable to have it sent to the Minister.

Q. For publication, general publication?—A. I do not think it would be wise to have it published generally.

Q. Not to unduly expose the inner workings of the institution?—A. It might, in some cases be very objectionable. But where that inspector certifies that he has made

an inspection, and that the valuations are, in his opinion, correct, I think it is going far enough, providing you have competent inspectors.

By Mr. Nickle:

Q. As I was not here yesterday, perhaps I may ask some questions that were then dealt with. If I do I trust, Mr. Chairman, you will stop me. In answer to Mr. Cockshutt you made the remark, Mr. McLeod, that you would not think it necessary that the inspector should pronounce on the quality of the assets of the bank?—A. I do think it is essential that he should.

Q. Why did you tell him you didn't think they should pronounce on the financial status of those who might be borrowers and the character of the collateral that may be deposited?—A. I am not aware of having made that statement, I think you misunderstood me.

Q. I understand you used the tersm "audit" and "inspection" as co-relative terms?—A. Synonymous terms.

Q. And in the course of those terms you give to the word 'audit' a much broader meaning than the mechanical verification of accounts?—A. I do.

Q. Will you just define somewhat more definitely what you think the inspector should do?—A. Inspector or auditor?

Q. I am using the word interchangeably.—A. The inspector should verify the accounts of the bank, that is the accounts at the head office, he should examine the correspondence between the head office and the branches, and he should examine the inspector's reports. He should examine the certificates sent in by each manager, and see that they agree to the head office books, and he should check the last government return, made up by the whole bank, check the separate returns sent in by the different branches. Further he should go into all the large accounts and get very complete information with regard to the standing of the parties to whom considerable sums may be loaned. The smaller sums, the ordinary loans of moderate amounts, he need not look into at all, the danger is always in the large items.

Q. Putting it generally, then, as I understand it, the inspector should pronounce whether or not the administration was lawful or lawless and whether or not the administration was along the line of well defined safety?—A. Exactly.

Q. These are the two outstanding principles, and the third would be that in large accounts that might jeopardize the solvency of the bank they should express an opinion as to the quality of the asset and its worth?—A. Yes, and in some cases take action.

Q. We will assume, in the first place, that the administrative policy was bad or the practice of the bank lawless. In your opinion that should be reported to the general audit board, and extraordinary cases to the Finance Minister, on whom the responsibility of action should be laid.—A. The first step would be for the auditors to take up the matter with the board of directors.

Q. And the court of final appeal would be the Finance Minister?—A. It might be so; I think it would be well to have it so.

Q. That is, that the board of bank inspectors should use such measures as they could to remedy the difficulty and failing to do so, should report to the Finance Minister?—A. Yes.

Q. The auditor making the examination should first report to the board of directors of the institution under examination?—A. Yes.

Q. Now, as to the quality of the assets, supposing the auditor making the inspection reported to the board of directors that a certain large asset was so over-valued that its valuation struck at the solvency of the bank, and advised retrenchment. Supposing that the board said that retrenchment would mean the driving into insolvency the corporation to whom the bank had made advances, and consequently refused to enforce retrenchment. Then the attention of the board of auditors was directed to the same thing and they brought their pressure to bear, but without result, and it was then reported to the Finance Minister, whose opinion was that action should be

taken; but the board of the bank refused to act. Would it then be incumbent on the part of the Finance Minister to bring about the overthrow of the bank?—A. I think it should be incumbent on him to insist on action.

Q. Then in the last resort the Finance Minister would have to determine as to the quality of the asset, the solvency of the bank, and the wisdom of the action?—A. I hold that this point you are dealing with is far and away the most important that legislators in Canada have to deal with. If a case such as you state should arise, it is the duty of the government to take a hand and insist that such reforms shall be instituted as will save the depositors of that bank from loss, if possible.

Q. This case, it seems to me, is quite within the range of possibility. A case might arise very easily, where the management of a bank might say: Give us time and we will pull through and save the depositors and shareholders. The Finance Minister might be of opinion that giving time might be dangerous, and between his own judgment and that of the management of the bank he might waiver, with the result that if he pushed the bank over the management would say: You wrecked it. Or in the other case, the bank finally went down of itself, the depositors and shareholders would say: Your judgment was bad, you should have shoved the whole thing over long ago?—A. I would suppose, in that case, the Minister of Finance or the Board of Auditors would suggest that there should be a change in the general management of that bank, and under the new general management they would endeavour to bring the thing into a safe position.

Q. In the final analysis, you believe the Minister of Finance must be a big enough man to assume, from time to time, the responsibility of deciding whether or not the management of any particular institution is safe, his judgment being fortified by the Board of Auditors and the individual auditor making the inspection?—A. Exactly. He should consider the advice given by the Board of Auditors and take such action as he thought the case required.

By the Chairman:

Q. In your experience of Canadian banking, have instances been known to you where banks which were not in the best of condition at one time have afterwards become strong institutions by a change in their management?—A. Yes.

By Mr. Nickle:

Q. In regard to the auditor's report to the minister, sub-section 2, 56*a*, says: 'For the purposes of this section the auditor shall have all the rights and powers given to an auditor under the next preceding section aforesaid.' You think the power, if it were vested in the Finance Minister, should be broader than merely to require the mechanical verification of an account?—A. Yes. I think it should be broader than that. I think the mere mechanical verification of an account is absolutely valueless.

Q. Turning to the English Act, power is given, under that Act, to a minority of the shareholders (I think it is one-third or perhaps twenty-five per cent) of nominating and appointing an auditor. Do you not think it would be an advantage to have that in regard to the banking institutions of this country, so that it might perhaps arouse the shareholders to the danger of the solvency of the bank?—A. In a great majority of cases the shareholders are never aroused.

Q. Not even a substantial minority?—A. Not even a substantial minority. I think that will hold good throughout Canada and in almost all failures of banks.

Q. I may take it as an axiom, then, from your experience, that a shareholders' audit would be of very little value?—A. It is better than no audit at all, but in saying that you say all that can be said in its favour.

By Mr. Sharpe (Ontario):

Q. You have been advocating government inspection for a great many years?—A. For nearly twenty years.

APPENDIX No. 2

Q. And during that time you have sent in, at the decennial revision of the Bank Act your suggestions to the Finance Minister?—A. Yes.

Q. The Bankers' Association were opposed to those suggestions?—A. Unanimously.

Q. So that heretofore they have not been in favour of any system of inspection? —A. No. They have been opposed to a system of inspection; in fact, I could not get a hearing at some meetings.

Q. And if your advice had been followed and some system of inspection devised, it is possible that we should not have had the failures of the Ontario Bank, the Farmers' Bank and the Sovereign Bank?—A. Under a proper system of inspection it would be absolutely impossible for such a condition of things to exist. I have said it before and I say it again, that there are some forms of failure that you cannot avoid even by inspection.

Q. But in regard to the point raised by Mr. Cockshutt, when competent inspectors have gone into a bank, thoroughly inspected it, as your system contemplates, and passed on the solvency of the bank, do you think it possible for that bank to immediately fail afterwards?—A. I cannot conceive how it would be possible for a competent inspector to go into a bank and pass upon it and the bank fail shortly afterwards, unless it was from over-loaning; or it might be possible, if there were some things so well concealed that no inspector could detect them.

By the Chairman:

Q. Would it be possible for a bank so to control its condition?—A. It might be possible, but it would be very rare.

By Mr. Sharpe:

Q. If a bank was overloaning beyond the margin of safety would not the inspectors report on that?—A. Certainly.

Q. And they would call the attention of the auditor to that overloaning?—A. Yes.

Q. In the case of the Farmers' Bank, for instance, where half a million dollars was loaned on the security of the Keeley mine, your idea is that the inspector should take cognizance of that fact?—A. Certainly.

Q. As I understand it, you brought out a couple of inspectors from Scotland, not so much with a view to protecting your own depositors as an object lesson to the Bankers' Association?—A. Quite correct.

Q. So that it is hardly correct to say that the plan outlined in the present Bill is the plan outlined by yourself?—A. The present Bill, I think, might be considered to be partly in agreement with my suggestions, but it does not carry out my plan as I would like to see it.

Q. If bank managers and directors are observing the provisions of the Bank Act and carrying on a legitimate business they do not care how rigid the inspection is?— A. No. No inspection can be too rigid for a properly conducted bank.

Q. It is only the banks improperly conducted that require rigid inspection?—A. I think all banks should be inspected.

Q. Your ideal system is for an inspection where the inspectors are appointed by the government?—A. My own idea is that the inspectors should be appointed by the bank managers or the government; if the government is not willing to undertake that duty the bank managers should assume it.

By the Chairman:

Q. Your idea then is that the government should appoint the inspectors from a list passed upon as qualified by the bank managers?—A. Exactly.

By Mr. Sharpe:

Q. Supposing the bank managers appointed twenty inspectors, and the Finance Minister approved of the selections. You would approve of that?—A. Yes. The nomination would necessarily come from the bank managers.

Q. Supposing the Finance Minister disapproved of the inspectors appointed by the bank managers. What would happen then?

By the Chairman:

Q. As I understand it, the idea was to this effect: the board of bank managers should prepare a list of men whom they deemed qualified for doing such inspection work, and that from that list the Government should name as many or as few as they thought desirable for the work. Is that the idea?—A. It might work out in that way. My original idea was that the managers should endeavour to nominate the full board and then submit their nominations to the Finance Minister.

By Mr. Sharpe (Ontario):

Q. Now, in regard to the returns. You have looked over Exhibit 'A' in the appendix. The plan suggested there is that the Minister should appoint a board of bank inspectors similar to the Railway Commission, their appointment to be for ten years removable only on cause. Have you given any consideration to that plan?—A. The plan in Exhibit 'A' is better—I might say infinitely better—than the plan in the Bill.

Q. And with regard to clause 11, paragraph (*d*) of section 56, and whether there has been any violations of the provisions of the Bank Act,' the board would have the inspector's report in that regard.—A. They should report in that regard

Q. Whether there have been any acts of fraud of any kind?—A. Certainly.

By Mr. Nesbitt:

Q. How often would you have the banks inspected?—A. Once a year.

Q. But no matter what the system of inspection would be, would it not be possible for such a case as the Ontario Bank, where the money was lost in gambling in New York, to take place between inspections, no matter who the inspector was?—A. It is possible that a bank might be inspected on one Saturday night, and by the next Saturday the whole thing might go into smoke or ruin. But it would not be possible for a bank to continue for twenty-five years in an insolvent condition, as I believe the Ontario Bank did. It would not be possible for the Farmers' Bank to start business, while every banker in Canada practically knew from its inception that that bank was unsound and would utimately fail.

Q. I quite understand that. But would it be possible for a manager to have loaned that money on the Keeley Mine between a inspection —A. Yes, no matter what the inspection was.

Q. All the inspector could do would be to report the loan. He could not have made the Keeley Mine loan good?—A. Naturally, he could not make the Keeley Mine good.

Q. So that the Farmers' Bank could have been involved just the same, no matter what the system of inspection. After all you still come back to what you said yesterday that the success of a bank depends largely on the honesty and capability of management?—A. On the management. It all depends on the management.

By Mr. Sharpe (Ontario):

Q. The moral effect of the fact that there is going to be government inspection would have a deterrent effect?—A. Yes. A preventative effect.

Q. You suggested that if the Farmers' Bank or any other bank should be pressed for loan more than a certain percentage of its capital, the board could deal with that matter?—A. A bank could make such a loan between inspections.

Q. In contravention of the Act?—A. If you have no inspection of what use are your regulations with regard to loans or anything else.

APPENDIX No. 2

By Mr. Hughes (Kings, P.E.I.):

Q. Mr. McLeod has stated that the principle followed by the banks in Canada is to loan to the public about 70 per cent of their total assets, and that of other countries to loan about 55 per cent. He has also said that an audit board such as he has in mind would not permit banks in Canada to follow that course.—A. I think I did not use the word 'permit.' I think their advisory influence would be so great first on the management and then on the directors that the case would not occur; that you would have a sounder condition than where money is loaned to the extent of 73 per cent of the gross assets.

Q. What evil results have followed in Canada from this alleged over expansion of loans? Have these results arisen rather from the character of the loans or some other form of management than from the amount or percentage of loans?—A. No, I think that if a banker is wise, although he may be a knave, he will so conduct his affairs that he always has a good strong cash reserve and plenty of available resources. He may go on for twenty-five years, as I said the Ontario Bank did, or perhaps for fifty years with an insolvent bank and all the time doing great mischief to the country and perhaps getting wealthy himself, if he keep within proper bounds, and there is no inspection——

Q. I do not quite follow Mr. McLeod's statement? Would not that result from the bad character of the loans?—A. Not necessarily.

Q. It is more the result of too large a percentage of loans?—A. From too large a percentage of any kind of loans.

Q. Of good loans?—A. Of any kind of loans. If they are very, very good, of course then you might go to a larger percentage in proportion to total assets.

By Mr. McCurdy:

Q. A proper inspection would check that?—A. A proper inspection by the board of auditors or inspectors, who would be expert bankers, would have a salutary effect. I will illustrate the point I want to make in reply to Mr. Hughes. We will suppose that a bank is in existence and is increasing its deposits at a rapid rate. The quality of the loans will have a moderating effect as to that bank being able to continue in existence? All it needs is prudence in the knavish manager that wants to keep on going using the funds of the bank for his own purposes.

Q. Providing the banks would reduce their loans to the public by about 25 per cent, what effect would that have on the business community?—A. It could not be done immediately; it would have to be done gradually.

Q. And very gradually?—A. Very gradually.

By Mr. Barker:

Q. With regard to inspections, as I understand, the Board of Inspection that you propose would not interfere at all with the present inspection which each bank gives to its own affairs?—A. It would not interfere with it, but the present system would be a very great aid to the Board of Inspection.

Q. Because the general inspectors would have access to the periodical inspection reports by the banks' own inspectors?—A. Yes.

Q. And they would have not only the reports of these men, but the men themselves to consult and confer with?—A. Yes.

Q. Now, with regard to the Scotch inspectors or auditors that you brought out, you said they inspected the head office and three or four of the branches. Do I understand that they selected what places they would go to, or did you?—A. They selected.

Q. And they were at liberty to go anywhere else?—A. Anywhere they might think proper.

Q. While they only did in fact find it necessary to go to three or four places, they were at liberty, after they made such inquiries as they thought necessary, to go anywhere where you had a branch?—A. Certainly.

By Mr. McCurdy:

Q. Is there any uneasiness or uncertainty in the public mind as to the selection of a safe depository for the savings of the people?—A. I do not know that I quite understand the question.

Q. In your opinion, is there any uneasiness in the minds of the public generally as to the selection of a safe depository for their money at the present time?—A. I think not.

Q. The effect of a certificate by this audit board as proposed would not be to increase the amount of deposits available to the banks?—A. No, I think it would not increase the amount available.

Q. Under the proposals of the present Bill there would necessarily be a different certificate given to each bank, that is a different firm of auditors would certify as to the correctness of the bank's statement?—A. Under the proposal of the Minister?

Q. Yes, that is to say different firms of accountants would make an audit and give a certificate, and these certificates would be supposed by the public to be of different values; the certificate of a well known firm of high standing would be accepted as of more value than the certificate of a less well known firm?—A. Under the Act proposed, the auditor does not need to be a qualified accountant. Any shareholder or any individual, may be appointed to verify the balance sheet.

Q. Would it not be of advantage to have a uniform certificate given every bank, that is to say, in fairness to the small banks would it not be better that the same firm, or the same officers, should certify to the correctness of the statements of all banks?—A. The practise in Great Britain is to give a uniform certificate or almost a uniform certificate.

Q. But signed by whom?—A. Signed by qualified auditors.

Q. Would it not be fairer to the small banks to have the same officers sign certificates both for small and large banks?—A. Even under the Bank Act as proposed?

Q. Under the Bank Act as printed that could not be done. Would it be of any advantage to the small banks to have the same persons sign their statements who sign the statements of the very large banks?—A. That is, provided you have qualified auditors and that the system I recommend should not be adopted?

By the Chairman:

Q. By your system the certificate would be signed not only by the inspector but by the chairman of the board of inspectors, and all certificates would be signed by that same chairman?—A. Yes.

By Mr. McCurdy:

Q. You would regard it as of advantage to have the same certificates on the statements of the very large banks?—A. Yes.

By Mr. Thompson (Yukon):

Q. If this system which you advocate were introduced, would it increase, in your opinion, the confidence of our people in our banks?—A. I think the Canadian people have full confidence in the Canadian banks already. You cannot increase it very much. And in the past they have had too much confidence, as you know, in a great many banks, and hence the failures.

Q. The system you have proposed, as I understand, is this, that the bank managers shall compose a board which shall appoint or nominate auditors, but in the final analysis the responsibility is placed upon the Minister of Finance and the government?—A. No, I think not.

Q. Who has to enforce the opinion or advice of these auditors?—A. There must be some head, and I have suggested that it is the duty of the government to undertake that through the Finance Department, or a power constituted by the Finance Department.

APPENDIX No. 2

Q. Therefore in the final analysis it is the government?—A. In the final analysis it is the duty of the government to protect the people who put their savings in banks.

The CHAIRMAN.—Well, gentlemen, we have had a very exhaustive discussion on Clause 56. Can we now go on to clause 61?

Suggestion concurred in.

The CHAIRMAN.—Clause 61—Issue and Circulation of Notes. Mr. McLeod gave us some valuable information regarding the proposal of the Minister to establish central gold reserves, as set out in the printed copy of the Bill. Does Mr. McLeod desire to add anything to his statement on the proposed central gold reserves, or have the members of the committee any questions to put to him?

By Mr. Maclean (Halifax):

Q. Have you any suggestion to make with respect to any other scheme to increase circulation?—A. I have no suggestion. I think the central gold reserve plan is an excellent one, and I may perhaps take a little credit for having advocated it a good many years ago.

By Mr. McCurdy:

Q. Will you kindly state to the committee if there is, in your opinion, an underlying principle upon which the present circulation is based, or paid up capital, and if the time has not arrived in your opinion when a change should take place in this regard and provision be made that circulation be based on a percentage of assets regardless of that question?—A. I think a percentage of assets is a more scientific basis than a limitation of capital.

Q. What would be the effect on the banking system of this country, and the general financial standing of Canada, if the law were changed so that the reserve be turned into bank capital stock. As I understand it, it would increase the power of the circulation of the banks by the amount now held in reserve. What would be the general effect on the banking system, on bank stocks as an investment, and the relation of the public to the banking institution?—A. It would increase the liability of the banks, and therefore tend towards inflation. At present you have the reserve funds of the bank in reserve. Instead of leaving that undisturbed you would issue notes against it and take in place of it the double liability of shareholders. The reserve is worth 100 cents in the dollar. The double liability in the experience of almost all countries, is worth fifty cents in the dollar.

By Mr. Maclean (Halifax):

Q. The idea is prevalent that the right of circulation granted to the banks is a very valuable one. About what profit approximately do the banks make out of circulation?

The CHAIRMAN.—Might we take that subject on the next section, 'Tax on the Issue of Bank Notes.' That inquiry would be very legitimate there. We are simply discussing the central gold reserve at the present time. Is there anything further to be said on the question of the central gold reserve? Very well, then we will proceed with the consideration of the proposition that banks should pay an annual tax for the privilege of issuing bank notes.

By Mr. Maclean (Halifax):

Q. What would be the approximate profits which the banks realize from circulation, if that is a fair question?—A. That question goes into the question of the value of money to a bank. It takes up the question of the value of deposits, and it is also related to the question of whether the banks are paying too little for their savings deposits. I have worked out some figures and from these figures I think I can show that the circulation and the deposits are worth two and eight-tenths per cent.

By Mr. Nesbitt:

Q. On circulation and deposits?—A. Two and eight-tenths per cent is all the deposits on interest are worth to the Canadian banks. They are paying three per cent. Let me give you the figures in detail.

STATEMENT OF THE AVERAGE CAPITAL, AVERAGE RESERVE, AVERAGE ASSETS AND PROFITS OF CERTAIN BANKS.

Bank.	Year Ends 1907.	xAverage Capital.	xAverage Reserve.	xAverage Assets.	Profits for Year.	% Profits to Capital.	% Profits to Capital and Reserve.	% Profits to Average Assets.
Bank of Montreal	Oct. 31	14,400	11,000	169,026	1,980,138	13·751	7·796	1·172
Bank of Nova Scotia	Dec. 31	3,000	5,263	38,615	681,709	22,723	8·250	1·765
Bank of Toronto	Nov. 30	3,988	4,488	37,896	586,635	14·710	6·921	1·548
Molsons Bank	Sept. 30	3,215	3,175	33,327	544,038	16·922	8·514	1·632
Merchants Bank	Nov. 30	6,000	3,833	53,305	A473,144	15·771	9·624	1·775
Union Bank	Nov. 30	3,056	1,567	30,583	B473,144 392,432	12·841	8·489	1·283
Canadian Bank of Commerce	" 30	10,000	5,000	115,910	1,752,349	17·523	11·682	1·519
Royal Bank	Dec. 31	3,900	4,390	46,184	742,034	19·027	8·951	1·607
Dominion Bank	" 31	3,607	4,568	49,727	635,235	17·611	7·770	1·277
Bank of Hamilton	Nov. 30	2,470	2,470	32,281	384,708	15·575	7·787	1·192
Standard Bank	Jan. 31, 1908	1,548	1,656	20,100	C 93,049	18·033	8·712	1·389
Bank of Ottawa	Nov. 30	3,000	3,000	32,557	D186,097 443,288	14·776	7·388	1·336
Imperial Bank	Apr. 30, 1908	4,871	4,871	44,182	721,175	14·805	7·402	1·635
		63,055	55,281	703,693	10,089,175	16·001	8·526	1·434

xHundreds omitted. A Year changed profits for six months. B Total repeated to approximate profits for year. C Profits for eight months.
D 50 p.c. added to approximate profits for year.

STATEMENT OF THE AVERAGE CAPITAL, AVERAGE RESERVE, AVERAGE ASSETS AND PROFITS OF CERTAIN BANKS.—*Continued.*

Bank.	Year Ends 1908.	xAverage Capital.	xAverage Reserve.	xAverage Assets.	Profits for Year.	% Profits to Capital.	% Profits to Capital and Reserve.	% Profits to Average Assets.
Bank of Montreal	Oct. 31	14,400	11,083	173,840	1,957,658	13.595	7·682	1·126
Bank of Nova Scotia	Dec. 31	3,000	5,400	41,695	559,577	18·653	6·662	1·342
Bank of Toronto	Nov. 30	4,000	4,500	37,736	582,156	14,555	6·849	1·543
Molsons Bank	Sept. 30	3,373	3,373	32,989	612,646	18·163	9·082	1·857
Merchants Bank	Nov. 30	6,000	4,000	52,165	738,597	12·310	7·386	1·416
Union Bank	Nov. 30	3,180	1,708	29,163	401,013	12·610	8·204	1·375
Canadian Bank of Commerce	" 30	10,000	5,083	111,861	1,627,332	16·273	10·789	1·456
Royal Bank	Dec. 31	3,900	4,409	47,808	746,775	19·148	8·988	1·562
Dominion Bank	" 31	3,952	4,947	48,162	641,318	16·228	7·207	1·332
Bank of Hamilton	Nov. 30	2,471	2,471	31,501	360,308	14·540	7·270	1·144
Standard Bank	Jan. 31, 1909.	1,569	1,769	20,182	283,065	18·041	8·480	1·403
Bank of Ottawa	Nov. 30	3,000	3,000	31,896	429,879	14·321	7·165	1·347
Imperial Bank	Apr. 30, 1909.	4,996	4,996	46,682	743,524	14·882	7·441	1·593
		63,841	56,739	705,679	9,683,848	15·169	8·031	1·372

x Hundreds omitted.

STATEMENT OF THE AVERAGE CAPITAL, AVERAGE RESERVE, AVERAGE ASSETS AND PROFITS OF CERTAIN BANKS.—*Continued.*

Bank.	Year Ends 1909.	xAverage Capital.	xAverage Reserve.	xAverage Assets.	Profits for Year.	% Profits to Capital.	% Profits to Capital and Reserve.	% Profits to Average Assets.
Bank of Montreal	Oct. 31	14,400	12,000	206,661	1,826,167	12·682	6·917	·884
Bank of Nova Scotia	Dec. 31	3,000	5,408	46,029	604,123	20,137	7·185	1·312
Bank of Toronto	Nov. 30	4,000	4,520	42,404	591,471	14·786	6·942	1·395
Moslons Bank	Sept. 30	3,500	3,500	36,390	493,479	14,099	7,049	1·356
Merchants Bank	Nov. 30	6,000	4,042	58,349	831,159	13·852	8·277	1·424
Union Bank	" 30	3,201	1,808	36,961	407,541	12·731	8·136	1·103
Canadian Bank of Commerce	" 30	10,000	6,000	128,052	1,510,695	15,107	9·441	1·180
Royal Bank	Dec. 31	4,691	5,391	58,000	838,306	17,870	8·315	1·445
Dominion Bank	" 31	3,985	4,992	53,665	620,927	15·581	6·917	1·157
Bank of Hamilton	Nov. 30	2,500	2,500	35,104	382,332	15·293	7·646	1·089
Standard Bank	Jan. 30, 1910.	1,886	2,178	28,389	342,258	18,147	8,387	1·206
Bank of Ottawa	Nov. 30	3,043	3,043	35,113	421,065	13·837	6·918	1·199
Imperial Bank	Apr. 30, 1910.	5,000	5,000	55,304	702,508	14·050	7·025	1·270
		65,206	60,382	820,421	9,572,031	14·680	7·797	1·167

xHundreds omitted.

STATEMENT OF THE AVERAGE CAPITAL, AVERAGE RESERVE, AVERAGE ASSETS AND PROFITS OF CERTAIN BANKS.—*Continued.*

Bank.	Year Ends 1910.	xAverage Capital.	xAverage Reserve.	xAverage Assets.	Profits for Year.	% Profits to Capital.	% Profits to Capital and Reserve.	% Profits to Average Assets.
Bank of Montreal	Oct. 31	14,400	12,000	235,298	1,797,992	12·486	6·807	·762
Bank of Nova Scotia	Dec. 31	3,000	5,512	50,278	662,301	22·076	7·781	1·317
Bank of Toronto	Nov. 30	4,000	4,750	47,675	589,656	14·741	6·739	1·237
Molsons Bank	Sept. 30	3,526	3,837	41,272	602,694	17·093	8·185	1·466
Merchants Bank	Nov. 30	6,000	4,533	66,155	1,057,139	17·619	10·036	1·591
Union Bank	" 30	3,298	1,942	44,080	451,620	13·694	8·619	1·025
Canadian Bank of Commerce	" 30	10,000	6,083	150,479	1,838,065	18·381	11·329	1·222
Royal Bank	Dec. 31	5,200	5,908	77,164	951,336	18·295	8·564	1·233
Dominion Bank	" 31	4,000	5,000	60,611	659,300	16·482	7·326	1·088
Bank of Hamilton	Nov. 30	2,588	2,615	39,382	422,090	16,310	8·112	1·072
Standard Bank	Jan. 31, 1911.	2,000	2,408	32,283	373,208	18·660	8·467	1·1156
Bank of Ottawa	Nov. 30	3,434	3,435	41,124	532,353	15·502	7·750	1·295
Imperial Bank	Apr. 30, 1911.	5,560	5,560	60,168	841,693	15·138	7·569	1·399
		67,006	63,583	945,973	10,779,446	16·087	8·254	1·131

xHundreds Omitted.

STATEMENT OF THE AVERAGE CAPITAL, AVERAGE RESERVE, AVERAGE ASSETS AND PROFITS OF CERTAIN BANKS.—*Continued.*

Bank.	Year Ends 1911.	xAverage Capital.	xAverage Reserve.	xAverage Assets.	Profits for Year.	% Profits to Capital.	% Profits to Capital and Reserve.	% Profits to Average Assets.
Bankof Montreal	Oct. 31	14,440	12,250	224,020	2,276,518	15·781	8·529	1·016
Bank of Nova Scotia	Dec. 30	3,574	6,478	57,546	815,519	22·818	8·136	1·417
Bank of Toronto	Nov. 30	4,163	4,933	53·017	677,964	16·285	7·453	1·279
Molsons Bank	Sept. 30	4,000	4,416	45,261	712,539	17,813	8·082	1·574
Merchants Bank	Nov. 30	6,000	4,942	72,702	1,179,581	19·659	10·780	1·621
Union Bank	Nov. 30	4,509	2,630	51,287	662,437	14·691	9·279	1·292
Canadian Bank of Commerce	Nov. 30	10,592	8,190	164,204	2,305,409	21·766	12·807	1·404
Royal Bank	Dec. 30	6,204	7,005	102,053	1,152,249	18·573	8·723	1·129
Dominion Bank	Dec. 30	4,270	5,270	65,170	704,045	16·488	7·380	1·080
Bank of Hamilton	Nov. 30	2,747	3,077	41,390	443,506	16·145	7·615	1·072
Standard Bank	Jan. 31, 1912	2,000	2,508	35,384	381,601	19,080	8·465	1·079
Bank of Ottawa	Nov. 30	3,500	3,908	44,480	595,228	17·006	8·035	1·338
Imperial Bank	April 30, 1912	5,936	5,936	70,760	1,004,340	16·920	8,460	1,419
		71,895	71,543	1,027,274	12,910,936	17·959	9·001	1·257

x Hundreds omitted.

STATEMENT OF THE AVERAGE CAPITAL, AVERAGE RESERVE, AVERAGE ASSETS AND PROFITS OF CERTAIN BANKS.—*Concluded.*

Bank.	Year Ends 1912.	xAverage Capital.	xAverage Reserve.	xAverage Assets.	Profits for Year.	% Profits to Capital.	% Profits to Capital and Reserve.	% Profits to Average Assets.
Bank of Montreal	Oct. 31	15,539	15,583	238,352	2,518,408	16·207	8·092	1·056
Bank of Nova Scotia	Dec. 21	4,168	7,800	66,026	970,544	23,286	8,110	1,470
Bank of Toronto	Nov. 30	4,914	5,914	56,527	835,787	17·083	7·719	1·479
Molsons Bank	Sept. 30	4,000	4,608	49,572	684,779	17·119	7·955	1·381
Merchants Bank	Nov. 30	6,498	5,609	80,743	1,338,844	20·604	11·058	1·658
Union Bank	Nov. 30	4,968	3,102	62,501	706,832	14·228	8·759	1·131
Canadian Bank of Commerce	Nov. 30	14,203	11,873	223,633	2,811,806	19·797	10·784	1·257
Royal Bank (11 months)	Nov. 30	8,681	9,637	133,671	*a* 1,527,324 *b* 138,848	19,193	9·122	1·321
Dominion Bank	Dec. 31	4,915	5,915	73,343	901,529	18·342	8·324	1·229
Bank of Hamilton	Nov. 30	2,972	3,149	46,140	495,860	16·684	7·759	1·075
Standard Bank	Jan. 31, 1913	2,196	2,805	39,165	462,079	21·042	9·240	1·180
Bank of Ottawa	Nov. 30	3,571	4,071	48,418	640,220	17·928	8·379	1·322
Imperial Bank	April 30	5,936	5,936	70,760	1,004,340	16·920	8·460	1·419
		82,561	86,272	1,188,851	15,037,100	18·213	8·906	1·265

x Hundreds omitted.
a Profits for 11 months.
b One-eleventh to approximate profits for 12 months.

First of all for the last six years the average total assets of the following thirteen banks: Bank of Montreal, Bank of Nova Scotia, Bank of Toronto, Molson's Bank, Merchants' Bank, Union Bank, Canadian Bank of Commerce, Royal Bank, Dominion Bank, Bank of Hamilton, Standard Bank, Bank of Ottawa, and the Imperial Bank. As you will all agree, these are the most conservative banks in Canada and the most prosperous.

By Mr. Armstrong (Lambton):

Q. I think that statement is unfair to the smaller banks with smaller capital.—A. No. I have no desire to reflect on any bank. There is no desire to cast any reflection on the smaller banks, I can assure you. The average assets of the banks that I have mentioned for the last six years were $898,650,000. We will say $900,000,000 for purposes of brevity. The profits were $11,345,422. I estimate that the average deposits on interest were $460,000,000. Later, if you wish, I will show you how I have arrived at that estimate. Making a total net profit derived from the public of $25,145,422, or in round numbers, $25,200,000. The average total funds being $900,000,000 we get two and eight-tenths per cent as the value of money to the banks.

By Mr. Sharpe (Ontario):

Q. How do you arrive at the profit?—A. From the statements of the banks.

Q. Have the banks any concealed profits that do not appear in their statements?—A. I do not think there is a bank in Canada that has any concealed profits that are not absolutely necessary to its business.

By Mr. Thompson (Yukon):

Q. That includes profits the banks make on their circulation?—A. That includes profits they make on their circulation.

By Mr. Sharpe (Ontario):

Q. You say absolutely necessary to the business?—A. To the safety of the banks.

Q. But these concealed profits do not appear in your statement as profits?—A. If these hidden reserves, if I may so call them, were shown, they would deceive the public. That is, you could make any explanation as to why the reserves were held. To return to the subject of profits: if the banks had to pay three per cent on all deposits, on circulation, and on the moneys of the shareholders, there would have been an average loss of $1,800,000 per year in operating these banks.

By Mr. Nesbitt:

Q. If they had to pay 3 per cent all round?—A. Yes.

Q. On stock, deposits and circulation?—A. On capital, reserve, deposits and circulation.

By Mr. Thompson (Yukon):

Q. Have the banks ever paid anything on circulation?—A. They have never paid anything on circulation, and with the duty they are discharging to the public at present, they cannot afford to do so.

By Mr. McCurdy:

Q. What would be the effect in case the banks had to pay more on circulation. Out of whom would it come?—A. It would come out of the borrower, assuredly.

By Mr. Sharpe (Ontario):

Q. Is that not merely a guess?—A. It is not merely a guess.

The CHAIRMAN.—That question is hardly fair to the witness.

Mr. SHARPE (Ontario).—I do not want to be unfair to the witness.

The CHAIRMAN.—He is giving the results of his banking experience.

APPENDIX No. 2

By Mr. Sharpe (Ontario):

Q. From your banking experience, how can you say absolutely it would come out of the borrower?—A. Well, who is to pay it?

Q. In the various ramifications of banking, how can you tell where the incidence of that matter would lie or rest. Isn't it mere conjecture on your part, or in other words, can you prove your statement?—A. Yes, I think I can prove my statement, at least by way of inference. You have reached the point where you cannot get people to invest in bank stocks, or only to a very moderate extent. What is the reason? There is not an adequate return.

By Mr. Nesbitt:

Q. For the reason——?—A. Apart from all reasons. I do not believe they consider the reasons as they should consider them, but there is no adequate return from bank capital. You are face to face with the condition where some banks are increasing in size by taking in others, and you cannot start new banks to take their place. The banks cannot well get along with less profits than they are taking now.

By Mr. Sharpe (Ontario):

Q. Most of the banks earn over ten per cent, do they not?—A. On capital, above their reserve?

Q. Yes, but the reserve is made up largely by profits from year to year?—A. They are made up by profits and premium on stock. Some time ago bank stocks sold at very much lower rate or return than they sell to-day.

By Mr. Turriff:

Q. Are there any other countries that give the banks circulation in the same way, and to the same extent that we do. Name such countries if you have such information?—A. I do not think there are any countries. With regard to circulation Canada has the pre-eminence over all countries.

Q. The pre-eminence has not been very great within the last ten years, when the proportion of bank failures, under our system, was greater than in any other line of business?—A. I admit all that, but those are the facts in the system that should be remedied. That does not affect the circulation of the bank.

By Mr. Nesbitt:

Q. Is the circulation an accommodation to the public or to the banks?—A. It is largely an accommodation to the public.

Q. It is a token of exchange, isn't it?—A. Yes.

By Mr. Sharpe (Ontario):

Q. Could the Government not issue the currency of the banks guaranteed by government bonds?—A. If the government took the powers of circulation away from the bank, then the borrowers would have to pay more, as I have already stated. You cannot further impair the profits of the Canadian banks without increasing the cost of banking to the public.

By Mr. McCurdy:

Q. Is it because of the smaller profits that banks have been induced to over-loan? A. It is because of the very small profits that banks are practically compelled to over-loan. As I have already recommended, these loans should be materially decreased, and if they are decreased so as to keep to the limits of safety at all times, then the profits should be increased by higher interest on loans or lower rates on deposits.

By Mr. Armstrong (Lambton):

Q. Is it not practically impossible to establish a new bank under the conditions that now exists with regard to banking and banking matters?—A. I believe it would be quite impossible.

By Mr. Turriff:

Q. Is that condition not due to the fact that banks have been allowed to merge to such an extent, that their capital is now so huge that two or three banks practically control the financial condition and can make it practically impossible for a new bank to make money for a number of years?—A. But, Mr. Turriff, mergers are brought about first by the want of success of the banks that have been merged. That want of success has been brought about by a lack of profit, and in some cases by bad management.

Q. In all cases is it due to lack of profit?—A. Not in all cases. But generally I say it is due to lack of profit and bad management.

By Mr. McCurdy:

Q. What have you to say to this position: In some moderate sized towns in the United States banks of moderate capital pay depositors four per cent and lend money freely at six per cent, a margin of profit of two per cent.—A. You say that is done by banks in the United States?

Q. Yes?—A. I have no knowledge of that.

Q. I believe that to be a fact.—A. It is a very unwise practice.

Q. You think these banks must be either unwise, or else they are putting their operating expenses too low?—A. It is possible they may charge twelve per cent for a loan.

Q. I can very well understand a small bank paying four per cent. I do not know what they charge on loans?—A. The rate of interest was higher at that time and the salaries of bank officers and bank managers, general managers, were very much less than they are now; the cost of living has increased.

Q. Their other expenses, operating expenses and extravagant bank premises, would not that have some influence upon the result attainable by the bank's operations?—A. It has something to do with the rate obtainable from the bank's operations.

By Mr. Donnelly:

Q. Is there any system whereby the banks can arrive at an accurate knowledge of the profit it makes by the loss or destruction of bills in circulation?—A. Yes, we have very exact information on that point. We might say that that profit is practically nil; it is a very, very small amount.

Q. Who gets the benefit of burnt bills?—A. The percentage is so very small that it should never be taken into account in the bank's profits; it is not even one-half of one per cent.

Q. Per annum?—A. No, all told.

By Mr. Ross:

Q. I cannot fully understand that computation of yours. You said that the banks made $25,000,000 in a certain number of years and the deposits were $460,000,000. —A. That is an approximate estimate.

Q. Do you say their profit was 2·8 on their deposits?—A. On their whole funds —2·8.

Q. On what? This $460,000,000 of the loans—A. I say on the whole fund, the average funds of the banks were very close to $900,000,000.

Q. What do these consist of outside of that $460,000,000?—A. Deposits without interest, circulation, capital and reserve. The banks made, before deducting the interest on deposits, $25,145,000, or say $25,200,000, but the banks had to pay $13,800,000 to

depositors. This $25,200,000 is equivalent to 2·8 per cent on $900,000,000, the average total funds of the banks.

Q. What I am driving at is where do you get that $900,000,000?—A. Those are the gross funds, or assets.

Q. What are the items?—A. You will find that in the government returns of the banks.

Q. Can you not tell us in a general way, what else besides the deposits?—A. The reserve, the circulation, deposits without interest, deposits with interest. I was going to say that through the courtesy of the Bank of Nova Scotia I have received some figures that I have not had time to examine, with which I expect to verify my calculation and to prove it correct to your absolute satisfaction.

The CHAIRMAN.—I am sure, Mr. McLeod, that any subsequent statement you may prepare we shall be very glad to have printed and incorporated in your evidence.

By Mr. Thompson (Yukon):

Q. With regard to the circulation, can you tell us how much the circulation is—about how much, somewhere around $110,000,000, is it not?

The CHAIRMAN.—I think perhaps it is in that statement.

A. $97,206,000 at the end of February.

Q. Do I understand from you, Mr. McLeod, that the banks make 2·8 per cent on that circulation?—A. That would be the sum, less the cost of printing the notes.

Q. The cost of printing the notes is not included in that?—A. No.

By the Chairman:

Q. To sum up your evidence I understand you are opposed to an annual tax on the issue of notes, on the ground that it would have to be paid by the borrower?—A. On the ground that the circulating system of Canada is probably the best in the world. It is convenient, it is elastic, and it performs all the functions required of it. I do not know of anything that could take its place and answer the purposes so well.

The CHAIRMAN.—We will proceed with Paragraph (*c*): That a tax be levied on monies loaned by Canadian Banks in foreign countries.

Q. Do you think it advisable to loan monies abroad?—A. I dealt with that in my paper yesterday.

By Mr. Armstrong (Lambton):

Q. If I understand you correctly, you made the statement yesterday that $26,000,000 from foreign countries had been brought back up to 1907. I understand that amount has increased to over $60,000,000 of money brought back from the United States and other countries?—A. I made the statement that $22,515,000 came back between September and the end of 1907.

Q. Have you any idea as to what has been returned up to date?—A. I would be sorry to find that anything had been returned. I should be very sorry to find that the banks had not greatly increased their loans abroad. If they have not, the situation would be much less satisfactory. You might look upon these foreign loans practically as gold in the vaults of the bank; and legislators should encourage increasing realizable resources rather than saying they shall not be maintained. They should do for Canadian banking what a governor does for a steam engine.

Q. I think it is a very important statement and I appreciate it coming from you, as it is generally understood by the people of Canada that a great deal of money is invested abroad, which should be retained for circulation in our own country to assist in developing our industries.

By Mr. Sharpe (Ontario):

Q. In reference to this Paragraph (*c*): That a tax be levied on monies loaned by Canadian Banks in foreign countries, you are discriminating between loans that are permanent and call loans in New York. You say call loans in New York are desirable. Would you say the same in reference to permanent loans?—A. I hope there are no permanent loans. I do not like the term 'permanent' loan.

Q. And limiting permanent loans in foreign countries?—A. I do not like the term 'Permanent loans'. There are time loans in the United States that I think most of the banks sometimes invest in, that is high class commercial paper. That paper yields a fair return to the banks and yet when it is needed it is simply allowed to run off, and the Canadian banks when business requires it here bring the money back to Canada.

Q. If they are time loans, how can they liquidate them?—A. You do not need to get the whole bulk of these notes back at once. A banker will look at his bill case ahead to see what he is likely to have available one, two, three or five weeks in advance, and he will direct his bank accordingly.

By Mr. Turriff:

Q. I notice in the bank returns that some of our large banks—I mean a bank with three, four or five million dollars of paid up capital and an equal reserve—do not loan any money whatever in call loans in the United States, practically no foreign loans. How do they manage, if it is so necessary that our Canadian banks should be allowed to invest their money in call loans or time loans in foreign countries? —A. The returns are not very clear. The returns have been somewhat ambiguous in the past. I am glad to notice that the form of return is to be so improved that it will not be possible to misunderstand them hereafter.

Q. I notice that practically less than half of the Canadian banks have money on call in New York and Chicago. Am I to understand from your answer that although these banks do not show money invested in call loans or time loans in the United States that they really have money invested there?—A. I think so.

Q. That is a very serious matter if they have money invested there and do not show it to the Government?—A. If a bank is in business in the United States and makes its loan from Toronto or Montreal, why should it state the place at which that loan is payable? The banks that have no branches in foreign countries are likely to put their loans under Canadian loans, and I believe they do. It may be quite correct to do so. All depends on the circumstances.

The CHAIRMAN.—May we then leave this question? I understand that Mr. McLeod is opposed to a tax being levied on moneys loaned by Canadian banks in foreign countries.

By Mr. Rhodes:

Q. The view has been expressed by at least one member of this committee that it would be a wise policy to confine the operation of Canadian banks to Canada, and special reference was made by at least one member in that connection to the fact that Canadian banks had invaded the West Indian field and Mexico. If you have no objection I would like you to give the committee the benefit of your view as to the wisdom of this policy?—A. I think the Canadian banks should not be limited in their foreign operations.

Q. Has the business been profitable in a general way?—A. The business has been profitable and beneficial to Canada.

By the Chairman:

Q. In respect to the West Indian business that is done by the bank with which you were formerly connected, and others, how does the amount of deposits compare with the amount of loans? Does the money come into Canada from the West Indies, or does it go out from this country to that dependency?—A. The government statement reveals what deposits are held outside of Canada.

Mr. MACLEAN (Halifax).—Seventy millions.

By the Chairman:

Q. I have here a statement made that the West Indian branch banks were larger depositors than lenders, and that a certain amount of foreign money comes here for loaning in this country in consequence of the branch banks being in the West Indies? —A. I think it is true.

By Mr. McCurdy:

Q. There are two classes of foreign loans, as I understand it, two classes of operations of Canadian banks in foreign countries. The first is the loaning of Canadian bank reserves in foreign countries, which is unobjectionable and which is necessary to prudent banking. There is another class of foreign business which Canadian banks are doing. They are undertaking to do the banking of foreign countries or British colonies, as the case may be. Would there be any objection, do you think, from a banker's standpoint, to exhibiting in the bank's returns to the government, the latter class of operations?—A. There would be no objection from the bank's standpoint other than that the statement of the facts might subject the banks to criticism in the countries in which they are doing business. I believe in the aggregate the banks have more deposits than they have loans of a permanent character, outside of Canada. If you deduct the loans that are made—that is the reserves that are loaned abroad—for the purpose of keeping them liquid, from the total loans outside of Canada, you will find there are more deposits abroad than there are commercial loans.

By the Chairman:

Q. The result then is an increase of the loanable money coming into Canada?—A. Yes, I think so.

Committee adjourned until the afternoon.

ROOM 101,
HOUSE OF COMMONS,
THURSDAY, April 3, 1913.

Committee resumed at 4 p.m., the Chairman, Mr. H. B. Ames, presiding.

Examination of Mr. H. C. McLeod resumed.

The CHAIRMAN.—Now, Mr. McLeod has been examined down to the point where section 76, sub-section (2) comes into consideration. There was an amendment offered by Major Sharpe, I think, to the effect that limitations should be placed on the banks' powers to loan to mining companies in which the president, directors, managers or other officers of the bank were interested, and also the loans to companies in which the directors or officers of the bank are financially interested. The resolution is, of course, much more carefully worked out than the synopsis I have given. You might give us your views, Mr. McLeod, if you will on Exhibit C.—A. I think there is no necessity for such a regulation. I think if you have a proper system of inspection that all this kind of thing would be taken care of. There are some mining companies that are very desirable bank customers, such as coal mining companies, and it is not advisable to regulate banks too much by Act of parliament; it is well enough to strike the main points but do not go too fully into details, it only makes the Act cumbersome and hard to work.

By Mr. Sharpe (Ontario):

Q. Do you draw a distinction between companies as between those having as officers or managers those who were officers or managers of the bank?—A. If you make it too strict you may have some officer of the bank holding a small amount of stock in that company, and owing to that fact the bank would either have to discharge that officer or close the account at the bank.

By Mr. Maclean (Halifax):

Q. I wanted to ask one or two questions that are perhaps not strictly in connection with this subject, but I do not believe I will ever get a better chance of making the inquiries than now. I was going to ask your views as to the desirability of banks loaning money to individuals engaged in speculation in town lots or city lots?—A. It is not good banking.

Q. It is not good banking, but should not the banks go farther than that and discourage their customers who use money for such purposes?—A. I think the banks as a rule do discourage loans that are based on real estate.

Q. There must be an immense amount of capital engaged in that, but whether that could be avoided or not is a question?—A. I dare say you are right in that, it is a bad class of loan and the banks, I am glad to say, generally discourage that class of loan.

By Mr. Sharpe (Ontario):

Q. In reference to this particular amendment I understood you to say the other day that you would absolutely prohibit the loans to officers of the bank, and limit the loans to directors of the bank?—A. I would limit the loans to directors of the banks to the same figures as loans are limited to other customers. I said that there should be certain loans made to officers, and I stated the reasons why those loans should be made.

Q. And with regard to the limitation of loans to directors of the bank, what limit would you put on them?—A. The same as I put on the individual.

Q. And what would that be?—A. Well, I have suggested that 25 per cent of the capital would be a very liberal allowance.

Q. The amendment to section 76 provides: "lend money or make advances in excess of 10 per cent of its paid up capital to any foreign person, company or corporation, or upon the securities of such foreign person, company or corporation, or in excess of 25 per cent of its paid up capital to any person residing in Canada or any company or corporation having its head office in Canada, or upon the securities of such person, company or corporation." That differentiates the local company from the foreign company, limiting the loan to the foreign companies to 10 per cent and the domestic loans to 25 per cent of the paid up capital?—A. I should regard that as objectionable, as it differentiates between the local and the foreign company.

Q. You think that 25 per cent would be applicable to both?—A. I am not sure that I would prefer 10 per cent, but in deference to the views of a great many fellow-bankers I say make the limit somewhere, then they give 25 per cent.

Q. Now in reference to (D) and (E), which refers to loaning to directors, you would not loan to any company or individuals in excess of this 25 per cent, and you would allow the directors and officers to come in under that head?—A. Not the officers.

Q. Just the directors?—A. Yes.

By Mr. Nesbitt:

Q. Do you think it wise for legislation to interfere with the bank's management at all?—A. I think the best course is for the legislators to interfere in the main points, and leave the minor points for the management of the bank, for the directors; and if you have an audit or inspection system that would be all dealt with under that. I think the Act is altogether too cumbersome, and always has been.

APPENDIX No. 2

By Mr. Thornton:

Q. Then you think the vital point is efficient inspection or audit?—A. I think it most vital, next to good management.

By Mr. Sharpe (Ontario):

Q. How could that loan be properly made to the directors?—A. By the counsel of the auditors. We would expect that those auditors would be experts, that is why I named such salaries for the auditors.

Q. The salaries you named were from $25,000 down. What is the range of salaries for bank managers?—A. I do not know as to that. A good bank manager commands a very high salary.

Q. What is the highest you know of?—A. I know of bank managers that get $50,000, but not in this country.

Q. But what are the salaries in this country?—A. I do not know—I know of very few salaries in this country.

The CHAIRMAN.—Shall we go on now to Sections 79 and 83?

By Mr. McCurdy:

Q. The practice is naturally for a bank to secure the services of its general manager and other officers at as reasonable a salary as they may?—A. I would not put it that way.

Q. You will say they are not overpaid?—A. They are not overpaid, I think they are underpaid if anything.

By the Chairman:

Q. Sections 79 and 83 relate to banks holding real estate. These two clauses are not identical, but they have been allowed to stand by the committee. The first question is as to the desirability of a bank holding more real estate than it occupies; I mean the bank acting as landlord directly or indirectly. First of all, clause 79 prohibits a bank from acting as landlord, as you know?—A. Yes.

Q. How does it happen then that so many of the banks are putting up large office buildings which they are renting to tenants How is it done?—A. It is done in this way, that a bank will erect a building and put its office in that building, and above the office it will put a number of other offices for rent. I think it is bad banking policy; furthermore, it is seldom or never profitable.

Q. Is it a contravention of Section 79 of the Act?—A. I think it is, although not a contravention in law, it is contravention in intention.

Q. "The bank may acquire and hold real and immovable property for its actual use and occupation and the management of its business, and may sell and dispose of the same, and acquire other property in its stead for the same purpose." It is very restrictive?—A. Yes.

Q. Do you consider that a bank under that clause would be permitted to put up a fifteen story building and rent thirteen of the stories?—A. Well, they do it.

Q. Now how is that done?—A. They put up the building for the head office.

Q. Do you regard it as a good practice?—A. No, I do not.

By Mr. McCurdy:

Q. If the intention of this clause is carried into effect what will actually happen, I suppose, would be that subsidiary companies would be formed by the banks or their friends who would own these bank buildings and rent to the bank, as a tenant, the ground floor. That practice has already obtained, I think, in some instances.—A. I think it should be prevented, prohibited.

By Mr. Thornton:

Q. Why do you think it is poor banking?—A. Any transaction in real estate is not good banking either in loans or otherwise.

By Mr. McCurdy:

Q. The suggestion has been made that it is necessary for a bank in order to carry on its business to select the best corner in a town in order to attract deposits. Would it be possible for the bank to go off the main thoroughfare to secure banking business, where they could obtain land at reasonable prices, and thus afford to occupy all that land themselves?—A. I think any convenient site is suitable for a bank office; it need not necessarily be the best corner in town.

By Mr. Cockshutt:

Q. Would it not tend to increase the overhead charges if there was only a one-story building on a large frontage?—A. It might, but speaking generally I think the return from bank buildings, in excess of what is desired for bank purposes alone, does not represent more than two per cent of the money invested.

Q. Even if that were the case, would not the tendency be to increase the overhead charges? Take the corner of King and Yonge streets, in Toronto, for instance, costing probably $12,000 to $15,000 per foot front. Would it be an investment for a bank to only put up a two-story building there?—A. It would be an expensive site to select for an office of that kind.

Q. Do you think a bank can do as good a business on a back street as in a prominent place?—A. The bank that is in a prominent place may pick up more transient business, but the bank in a convenient place would satisfy the regular customer.

Q. You would term the renting of upstairs premises as dabbling in real estate? —A. I think it approaches that, and it is not good practice in banking.

Q. You do not think it is a paying enterprise?—A. I do not.

By Mr. Rhodes:

Q. Is not a possible objection to holding real estate beyond its immediate needs, that the bank is locking up an undue amount of capital in what is not liquid?—A. That is one objection.

Q. Is it not a great objection?—A. Yes.

Q. You said just now that it would not yield more than two per cent?—A. That is the general idea I have.

Q. And you think it would be disadvantageous to a bank to invest in excessive premises?—A. I should think it was. The site Mr. Cockshutt mentions is an exceptional one and the rent of offices beyond the ground floor would be high.

By Mr. Armstrong (Lambton):

Q. Would you regard it as desirable or otherwise for a bank to have its board of directors interlock with trust and loan companies?—A. I referred to that yesterday. I had in mind then an affiliated company that was practically owned by the bank and was so close to the bank that it was difficult to tell where the trust company began and the bank ended. And my reason for stating that it was a menace to the country is on account of the experience in Australia in 1893. Banks there were affiliated with building societies, loan companies, and other corporations of that kind; and it was from this connection that trouble began which spread all over the country.

Q. Do you know of any similar instances in Canada where it has resulted disastrously?—A. I have not followed the subject in Canada, but I take it for granted that rules that apply to other countries, particularly to Australia, where conditions are very much the same, will work out in the same way here.

APPENDIX No. 2

By Mr. McCurdy:

Q. The objection which you see against subsidiary companies of the bank, trust and loan companies, for instance, would not be lessened owing to the fact that directors of the bank were proprietors of the subsidiary companies?—A. It would rather increase the objection.

Mr. McCURDY.—The bank statements show that at present 32·20 per cent of the paid-up bank capital of the country is tied up in bank premises.

By Mr. Turriff:

Q. I would like to ask the Finance Minister and Mr. McLeod whether it would not appear from that fact that banks are to a very large extent real estate dealers and speculators: tying up money in real estate, intended to be used for banking purposes.

Hon. Mr. WHITE.—I do not believe that banks would have any inducement to engage in real estate speculation. When they buy an important corner they use the downstairs premises for their own requirements and the upstairs premises are rented for the purpose of obtaining additional revenue. In some cases, I believe, they have gone beyond the bound of reason. I cannot conceive of any bankers deeming it in their interest to indulge in real estate speculation.

By Mr. McCurdy:

Q. Do you think that too much money has been expended on bank premises?—A. I think I expressed the opinion yesterday that banks should not show more than a very moderate sum in bank premises. If they expend the money in bank premises it should come out of profits. That would be the best check on excessive expenditure in that direction. I quite agree with Mr. White that there is no such thing within banking as speculation in real estate. I do not think there is a bank in Canada that buys real estate for the purpose of speculation.

By Mr. Turriff:

Q. Yet when we see practically one-third of a bank's capital invested in bank premises, do you not think that they are going out of the way altogether?—A. As I intimated yesterday, it is difficult to say how far you should build for the future. In all the buildings for which I was responsible, or nearly all, it would have been far more economical to have gone further. I pointed out to you in my paper that in ten years you may expect the banks to have, on an average, $10,000,000 capital; and the business transacted with a bank of $10,000,000 capital in a city like Toronto, or even in some cities of 40,000 to 50,000 population, ten years hence, will be altogether out of proportion to the business transacted to-day. Consequently, they will need much larger premises. I am not such a great critic of elaborate buildings as I was some years ago.

The CHAIRMAN.—If I may interject a statement here, the paid-up capital of the banks to-day in Canada is $114,000,000 and their rest is $106,000,000, making a total of $220,000,000. If $37,000,000 is put into premises, that only represents 17 per cent of their actual capital and not 32 per cent, as was stated.

By Mr. McCurdy:

Q. Under section 83 a bank is allowed to hold real property howsoever acquired, except such as is required for its own use for seven years, and the Treasury Board may extend the time for a period not exceeding five years, or twelve years altogether, and at the expiration of this twelve years, the bank is allowed to take a small payment on account and further extend the lockup. In your opinion, is that time excessively long?—A. In practice, the banks do hold real estate for ten, fifteen, twenty or twenty-five years without any reference to the Treasury Board, I believe.

By the Chairman:

Q. You think then that section 83 is practically a dead letter?—A. As far as the limitation is concerned, in my opinion. You had better interrogate some legal authority on that point.

By Mr. McCurdy:

Q. If it is made easy for a bank to hold real estate for a long time, it makes a real estate loan less unattractive from the bank's standpoint, and might encourage loans on real estate. Whereas if a bank knew that when such property came into its hands that it must be disposed of summarily, they would incline to more studiously avoid such business?—A. It might work a hardship to borrowers if a bank takes security on real estate, and in time of stress was compelled to place that real estate on the market. It would work a hardship to the borrower more than to the bank.

Q. You think twelve years would be a reasonable time?—A. I think seven years is a fair limit. I do not think it should be extended beyond seven years.

Mr. SHARPE (Ontario).—The clause is not a complete forfeiture clause, but says that such property is liable to be forfeited. It needs action on the part of the Crown to declare forfeiture.

By Mr. Nesbitt:

Q. If the banks were not allowed a reasonable time to get rid of the properties that may fall into their hands, would it not re-act on the borrowers?—A. It is sure to do so.

By the Chairman:

Q. There are two features in connection with section 88 that Mr. McLeod tells me he is willing to be questioned on. The first is as to what we know as the secret lien which the banker has on property, the unregistered lien; and the second is as to claims of wage earners when provided by Provincial statutes should be privileged. Will Mr. McLeod give his views on these two points?—A. I think the so-called secret lien is in the interest of the borrower more than in the interest of the bank. If registration were required there would be a great many borrowers refused, and more would not apply to the banks for loans of that kind. I think the liens for wages should hold a preference to warehouse receipts held by the bank. I think they should take priority.

By Mr. Ross:

Q. Is there not a great injustice done to the general public in a case of that kind? You say it is a benefit to the borrower, is it not a great injustice to the other creditors of the bank?—A. Undoubtedly it works a hardship to the other creditors of the bank at times.

Q. Don't you suppose more people are hurt than are helped? The general public are far more numerous than the borrower who is benefited?—A. The creditors, generally, are creditors that are in business and are aware of the methods of banks in taking security of this kind.

By Mr. Sharpe (Ontario):

Q. What do you think about increasing the operations of the Act under sub-sections 2 and 3 which provide that the bank may lend money to a rancher upon the security of his cattle and to a farmer upon the security of his threshed grain? Would you enlarge the scope of the Act?—A. I have no doubt it would benefit the west and benefit ranchers in general.

Q. Considering the conditions in the east, particularly in Ontario, where money is not in grain or ranch cattle, but in live-stock. If it is good policy for the west, would it not be good for the farmers to secure advances on live-stock?—A. If he gets the same accommodation as the rancher does.

Q. It would be good for Ontario?—A. It would be good for the whole country.

APPENDIX No. 2

Mr. McCURDY.—A fisherman then might logically be allowed to borrow on the security of dried fish?

By Hon. Mr. White:

Q. I would like to get your views as to creditors generally, because it is a matter that has been discussed very frequently in the House. Supposing you give a secret lien to farmers and others upon either their live-stock generally or threshed grain, or any other personal property, what would be the effect upon the credit, or community generally speaking? Do you think that it would appeal to them as good legislation? At the present time the secret lien is given to wholesalers; that was an enlargement of the Act. On account of western conditions, we decided to give it upon threshed grain, and to the cattle raiser upon his cattle. You said now that it would be an advantage to give it to the entire community. Are there any considerations arising in connection with the secret lien that would require attention if it were so extended, having regard to chattel mortgage acts, &c., in the provinces?—A. I have not studied that question sufficiently to give an answer that I would care to have go on record. But I may say in practise I have been somewhat opposed to this form of bank loan, and I am speaking of the general tendency with banks to make loans of this kind. I think perhaps it is best for the country, particularly the new portions of the country, that farmers should get the advances that they want. The secret lien feature is a most objectionable one, but whether it is best for the whole country to allow the banks to make the loans and have these secret liens or not is an open question.

By Hon. Mr. White:

Q. From your experience from the practise of banking in Canada supposing a farmer has live-stock or threshed grain in Ontario or any of the eastern provinces, to what extent, if any, will his position be changed by being able to borrow by giving secret or banker's lien upon his cattle or threshed grain over his position to-day if he is in fair credit? If he is in fair credit, does he need the lien, and if not, would he get the loan by virtue of the lien where otherwise he would not get it?—A. If I were general manager of the bank, if he were not in good credit he would not get the money with the lien. If he was in fair credit he would get the money without the lien.

The CHAIRMAN.—May we take up Section 91, which reads as follows:—

> 'The bank may stipulate for, take, reserve or exact any rate of interest or discount not exceeding seven per cent per annum, and may receive and take in advance any such rate, but no higher rate of interest shall be recoverable by the bank.'

Mr. Emmerson has moved an amendment as follows:—

> 'and all payments made by or on behalf of any borrower, whether paid voluntarily or otherwise, and all monies accepted or retained by or on behalf of any bank under the provisions of this Section for interest or discount charges in excess of said rate of seven per cent, shall be recoverable by the person or corporation so making such payment or from whom such interest or discount charge in excess of the said rate of seven per cent, is exacted or retained, in the action therefor in any court of competent jurisdiction.'

Q. There are therefore three points raised, first, as to whether seven per cent is a legitimate rate of interest, and secondly, whether banks should exceed this, and thirdly, whether it is desirable to penalize them in case of their doing so?—A. I think the section as it stands is correct. To put in penalties and to further restrict the rate

would, in my judgment, have the effect of closing a large number of the branch banks, throughout the west particularly. As I have said before, it takes a long time to establish a branch and put it on a paying basis. Each of the banks that are developing in the west have a large number of branches that are not paying. If you say that they shall not pay more interest at those branches than they would be entitled to in Winnipeg or any important point, there is only one course for them to follow, and that is to withdraw their branches unless they want to operate them at a great loss. There may be cases of hardship where banks have imposed excessive rates, but I have never heard of them if there are such.

By Mr. Turriff:

Q. There is no reason, is there, or very little reason, why a bank should charge a higher rate of interest in the west than it does in the east?—A. A branch bank operated in the west is more expensive to maintain than one that is operated in Ontario or in the eastern provinces. Therefore, I think it is right that the banks should charge a little more for the service that it renders in the west.

Q. Is the usual rate in the east 6 per cent?—A. In the east the usual rate is 6 per cent

Q. Then one-sixth higher would easily cover the additional expenses which you have to meet in the west?—A. I had some experience of the American west as far back as 1885. The Bank of Nova Scotia was accustomed to re-discount the notes of the banks in St. Paul at 6 per cent. That paper was derived in some cases from banks in Dakota and other parts of the American northwest, in localities which at that time would correspond to the condition of localities in our western country, and the borrowers must have had to pay a very high rate of interest for that money. At that very time the millers and grain dealers were able to borrow money in Boston at from four to four and one-half per cent, showing the difference between the rates in the east and the rates in the west at that time, and also indicating how much better service the Canadian banks are giving our northwest than would be given to that country under a system of small banks. I think it bears on the point as to whether you are being overcharged or not in the matter of interest.

By Hon. Mr. White:

Q. Let me ask you two questions on that point, take the opening of a bank in the province of Ontario where the business is principally the obtaining of deposits. Have you considered what minimum deposits are necessary to clear the expenses of a bank? —A. That is where there are no loans?

Q. Yes?—A. I should say from $400,000 to $500,000.

Q. Now take the case of the west. In small places such as have been referred to by Mr. Turriff, would a bank be likely to open at any points of that kind where deposits are not likely to be forthcoming in large amounts unless a higher rate of interest was there obtainable than could be obtained in the east?—A. No, it would not be likely to do so.

Q. Now, let us go one step further: we will assume that legislation has been passed, limiting the rate of interest to be paid, to considerably less than it is at the present time. In your opinion, would the banks continue to operate these branches, or would they be obliged to close them up?—A. I think they would revise their list and consider how many they could close.

By Mr. Cockshutt:

Q. I wish to ask if, from a banker's standpoint, a new community is considered as safe a place for investment as an old and well-established community?—A. No, it is not.

APPENDIX No. 2

Q. Under these circumstances then, you would rather express the opinion that a higher rate of interest might be expected to be levied in a town or village of only one or two years of age than in a town that had been established for twenty-five or thirty years and had proved its capacity to exist?—A. I think that is a very reasonable expectation. I also think that there should not be any limits fixed, or at least limits as drastic as those suggested.

Q. Do you think a bank should be confined to an interest of 7 per cent where real estate mortgages are paying from 8 to 10 per cent?—A. I do not think so for a new country. But in reference to a statement made by Mr. Turriff, I may say that the practice of the Bank of Nova Scotia in my time corresponds with the statement he made with regard to another bank, namely: that loans paying excessive rates at once challenged attention. Yet I do not think it in the interest of these communities to put in this limitation of interest. There may be times when it is desirable to loan money in that section and to get a reasonable return for it, and I think it is opposed to the interests of the borrower to make any such limitations.

Q. You feel then that the bank would hesitate to establish branches in new communities if they were limited to 7 per cent?—A. I do.

By Mr. Robb:

Q. At a point in the Northwest where they marketed say 500,000 bushels of wheat, representing $350,000, what commission would a bank get for collecting that money?—A. Probably a couple of hundred dollars at the outside.

By Mr. Nickle:

Q. Before you leave that point: I understand Mr. Emmerson's amendment is to the effect that if section 91 continues, that in these cases where the bank exacts a rate of interest in excess of 7 per cent a right of action shall be given a borrower for the recovery of the excess. That amendment I understand becomes necessary because the courts have held that if the contract sum and the interest is paid there is no recourse in the borrower. Do I understand you go to the length of saying you believe in the retention of section 91, or some other section, limiting the rate of interest, and yet that a borrower shall have no right of action in case an excess rate of interest is charged?—A. Yes, I believe in retaining that section. The borrower has the right, I understand, to refuse to pay the interest, but after payment I think he should not have the right to recover because it would result in a lot of very objectionable suits. For that reason it would be most objectionable, and, as I said before, it would be to the detriment of the borrower more than to the detriment of the bank.

Q. For the moment changing from your position of ex-banker to that of a legislator, do you not think it is a most pernicious system to enact legislation that the rate of interest shall not exceed 7 per cent, that you create these statutory entities and no sooner have you done so than you say the limitation is ineffective and is not to be put into working operation?—A. If I understand this section correctly the borrower has the right to refuse to pay a higher rate than 7 per cent up till the time that his loan is liquidated.

By Mr. Nesbitt:

Q. In other words he agrees to pay it and you think he is a common ordinary skunk to try to get out of it afterwards?—A. He agrees to pay it and does pay it; why should he be encouraged in litigation?

By Mr. Nickle:

Q. Suppose he agrees to pay it and does not pay it?—A. He should not be allowed to recover.

The CHAIRMAN.—"Agency charges." Under clause 94 the bank may retain one-half of one per cent and Mr. Ross has moved in amendment that the rate be one quarter of one per cent. Does Mr. McLeod think that reduction is advisable?

Mr. ROSS.—I think that amendment is not really put in proper form and I do not think I will insist upon it. I think there should be some sliding scale, say one-eighth of one per cent up to $100, and from $100 up to $500, make it one sixteenth. I think the banks should do something for the privileges they have, they do not do very much for the people, and I think one-half of one per cent is altogether too much for exchange.

The CHAIRMAN.—We will allow Mr. Ross to redraft that amendment.—A. I think competition more than takes care of that limitation.

Mr. ROSS.—I would like whilst I have the opportunity, this is an important question, to ask Mr. McLeod whether, as a matter of fact, he does not think a less rate would compensate the banks fairly for the services they render?—A. I think perhaps I might cite you a case—I do not think one half of one per cent is an excessive charge on a draft discounted at say, Sydney, N.S., drawn on Victoria, B.C., would hardly amount to that.

Q. That makes no difference, the interest, this is exchange.—A. This would be a sight draft and you can hardly charge interest on a sight draft, the competition takes care of that.

By Mr. Sharpe (North Ontario):

Q. Do you think the banks should be allowed to charge for keeping accounts? There is a proposition among some of the banks to charge for keeping all small accounts.

The CHAIRMAN.—I understand that the clearing house at Saskatoon agreed to charge 50 cents a piece per month to its depositors who carried with it a current account under $100, something to that effect.

Mr. TURRIFF.—They threatened to do it.

The CHAIRMAN.—I understood they did it.

Mr. TURRIFF.—No, they threatened to do that if they were not going to be allowed to charge more than 7 per cent.

The CHAIRMAN.—Possibly our friends from Weyburn will tell us about that when they come here. Sections 99 and the sections immediately following provide a method under which the assets of a bank may be purchased by another bank, in other words, it provides for amalgamation. It has been proposed that this be rendered possible hereafter only by a special Act of Parliament. Will Mr. McLeod tell us whether he thinks the present methods of bank amalgamation should continue or whether they should be altered?—A. I think that amalgamation should be by Act of Parliament only.

By Mr. Armstrong (Lambton):

Q. Yesterday, Mr. McLeod gave us to understand that he believed in small banks with a capital of $3,000,000 or $5,000,000, if I remember aright, that is that they were much more preferable than the larger ones. I was wondering how large firms, such as the Canadian Northern Railway, the Dominion Steel, or some of the large corporations of this country would be financed by these small institutions if they were compelled to limit their capital to $5,000,000.—A. There will be a large number of these banks and each bank would take a share of the financing.

Q. Yes, but you can quite understand, Mr. McLeod, that as far as the banks are concerned to-day they do not care for separate accounts being kept in different banks, generally speaking?—A. I would hardly think it desirable to give a bank permission to carry the largest account that might exist in Canada.

APPENDIX No. 2

Q. Is it not a general rule among the banks that they do not care for divided accounts; they do not care for a borrower to go to one bank and borrow as much as he can there and then go to another one and borrow there. They would not care for that kind of security, would they?—A. As a general rule that is good practice. But where a customer has to borrow largely three or four banks will undertake to carry the account. That has occurred in my practice time and time again.

By Mr. McLean (Halifax):

Q. You would make no exceptions, but you would prevent the amalgamation of two banks except by Act of Parliament. For instance you do not favour small banks of $500,000 on the ground that they are not very profitable, and you would like to see the bank's maximum capital fixed at $10,000,000. Now, even reasoning from your own standpoint are there not some banks of small size where it will be well to allow them to amalgamate without putting them to the delay and trouble of getting an Act of Parliament? Or say two banks, one of $2,000,000 and one of $500,000?—A. The first amalgamation in which the Bank of Nova Scotia was interested was by Act of Parliament. It did not hinder us sufficiently to prevent amalgamation.

Q. That might have happened whilst parliament was in session?—A. No.

By Hon. Mr. White:

Q. I would like to ask another question that I raised before along this line. Parliament as we know is in session for six or eight or nine months in the year; is it or is it not possible that a situation may arise in the interval in which parliament is not in session in which a weak bank might be in danger of collapse, and yet it might be known to another bank or to bankers generally that the assets of that bank are substantially good and by quick action a powerful bank might take it over. You might conceive that situation. Is there any possible objection to making provision which would allow that to be done instead of waiting until parliament is in session?—A. I think there is nothing in favour of permitting immediate amalgamation. Taking the case of the Baring trouble in England, the banks came together and supported the Barings and prevented the crisis. I have no doubt the same thing would occur in Canada if the banks were called upon to help out.

Q. Take the Ontario bank situation, that bank was taken over in extremis by the banks, and the deposits were guaranteed, it was taken over by the Bank of Montreal and the other banks guaranteed the Bank of Montreal against loss?—A. Yes, that could hardly be called amalgamation.

Q. I know it was a case of purchase of assets. This was an amalgamation but not a direct one. What is meant by amalgamation is the purchase and sale of the assets of the bank by agreement under the Bank Act, and inasmuch as this was taken over, these assets were purchased by the Bank of Montreal under the provisions of the Act. Take that case, parliament was not in session at that time, and how would it have been handled unless some quicker action than that provided in the Act of Parliament could have been taken?—A. Are you not wrong in stating that the Bank of Montreal purchased those assets?

Hon. Mr. WHITE.—Probably some of the counsel present can tell us. Mr. Wallace Nesbitt, who was engaged in that case, is here and we might ask him to explain it.

Mr. WALLACE NESBITT.—That matter went through all the courts to the Privy Council; it was not a purchase of assets, it was a rediscounting of securities. The other banks did not guarantee it; they were supposed to do so but they did not do it; there was some trouble about it and it never was carried out.

Hon. Mr. WHITE.—How did they purchase the real estate?

Mr. WALLACE NESBITT.—It was not purchased, that remained with the curator, and it enabled them to do much better than they otherwise would have done.

Hon. Mr. WHITE.—So that really was not a purchase and sale under the Bank Act.

Mr. WALLACE NESBITT.—No.

The CHAIRMAN.—Section 114 relates to unpaid dividends and balances. At present, as you know, all unpaid dividends and balances have to be reported, if they are more than five years, transmitted to the minister. It is now proposed that after six years they should revert to the government.

Mr. SHARPE (Ontario).—As trustees?

The CHAIRMAN.—To the government as trustees.

Mr. MCLEOD.—That is not objectionable, it will give the government a good deal of trouble that is now taken by the banks.

By Hon. Mr. White:

Q. Is it necessary or advisable? Is there any necessity for that amendment in your judgment?—A. I believe your balances are handled as well or better by the banks individually than they would be handled by the government. I mean that the banks endeavour to discover where these people reside and pay the balances. I think that is the general practice.

The CHAIRMAN.—Section 131 has been held over at the instance of Mr. McCurdy because of an amendment which he is proposing, as follows:—

> 'Any person who being a director, officer, clerk, or servant of a bank, accepts, directly or indirectly, a gift payment or other consideration or receives a promise of consideration from any person who is seeking or has obtained, on his own or any other account, a loan or discount or other advantage from the bank, shall be guilty of an offence against this Act.'

Does Mr. McLeod think that a clause of that character is necessary or desirable? —A. I do not think it is necessary or desirable. I think it would only add to the provisions of the Act without doing any good, possibly not any harm.

By the Chairman:

Q. Section 140, it is proposed to amend as you see by Exhibit F, so as to make any agreement among bankers, whether specific or implied, a punishable offence. It reads:—

> Section 104*b*. 'Every person who, being the president, vice-president, director, general manager, manager or other officer of a bank, enters into an agreement with any other president, vice-president, director, general manager, manager or other officer of any other bank, or is a party to any agreement to which a bank is a party to control, regulate, raise or lower the rates of interest on deposits or loans, discounts, or exchange, or limit competition in establishing branch banks, shall be guilty of an indictable offence and liable to imprisonment for a term not exceeding five years, or to a fine not exceeding $2,000, or to both.'

Do you think that legislation is desirable?

Mr. SHARPE (Ontario).—There is no word "implied" there.

Mr. MCLEOD.—I think it is most undesirable legislation. I think we have shown that the public are being well served by the banks at a minimum cost to the public. It is impossible to conduct the business of banking where competition is so keen without some understanding as to what the commission or rate of interest shall be at certain points.

By Mr. Sharpe (Ontario):

Q. I suppose you are aware of legislation which makes it an offence to unduly raise the price of commodities by wholesalers or agents—conspiracy?—A. Yes.

Q. Then is it not practically along this line a conspiracy on the part of bankers to unduly raise the rate of interest or limit the competition in making loans? If the one is objectionable, is the other not equally so?—A. It seems that that goes farther and limits all agreements.

Q. Supposing it were modified to "unduly raised." Do you think it wise legislation to prevent competition?—A. I think it is unwise legislation and would only encumber the Act.

By Hon. Mr. White:

Q. Is there any money trust, so far as you know?—A. No, I do not think so.

The CHAIRMAN.—Section 153: By the new Act, bank officers will be liable for "negligently" signing any statement as to the bank's affairs. Formerly, knowledge and intent had to be proven.

Hereafter, mere negligence is to be punished by imprisonment, and a term not exceeding three years.

By the Chairman:

Q. Do you think this legislation necessary or advisable?—A. It may be necessary but it is never put in force. Penalties are of no value in case of falsification. It is not objectionable.

Q. Would not the result be to tend to discourage dishonourable men from acting as bank directors?—A. I think it might have a slight tendency in that direction; I do not think it would have any beneficial effect.

By Hon. Mr. White:

Q. Do you think it would tend to make them diligent or not?—A. I do not think it would make any difference.

The CHAIRMAN.—Section 158, sub-section 3: In case any violation of this Act be brought to the attention of the Minister, and on request the latter refuses to sue for the amount of the penalties as provided by this Act, and neglects to sue for a period of three months after such notice, then such person so notifying the Minister may bring suit in his own name for the recovery of the penalties and such penalties shall belong to such person so suing.

By the Chairman:

Q. Do you think any good object would be served by making it possible for an individual to sue in this case?—A. I think it would be very objectionable and might lead to mischief.

By Mr. Maclean (Halifax):

Q. Would it afford an opportunity for extorting money improperly?—A. It might.

Q. Have you had any experience of that kind?—A. No.

By Mr. Sharpe (Ontario):

Q. What is the object of having penalties in the Act? Is it not to see that the banks live up to its provisions?—A. Yes.

Q. Have you ever known a Minister, either present or previous, to sue for any penalties under the Act?—A. I have a recollection of one case.

Q. How many years ago?—A. Ten or twelve, perhaps longer.

Q. Is that the only case in all your experience where penalties have been enforced against banks?—A. I think that is about the only one.

Q. You know of a great many provisions of the Act that have been violated, rendering the banks liable to penalty?—A. I believe I have made that statement.

Q. And no action has been taken by the Minister of Finance?—A. No.

Hon. Mr. WHITE.—Allow me to say that I have fined the banks many thousands of dollars. I desire to correct the statement of Mr. Sharpe, that I have never enforced any penalties.

By Mr. Sharpe (Ontario):

The Minister of Finance has power to fine for over-circulation, it is because of a specific regulation in the Act; but he has no power to act when the ordinary provisions of the Act have been violated. A case was brought to my attention, where a bank had been guilty of a hundred violations of the Bank Act.

Mr. MCLEOD.—I have no doubt of it.

By Mr. Sharpe (Ontario):

Q. And the then Minister of Finance (not the present) refused to either give a fiat or bring an action for penalties. Do you think the matter should simply rest there and that the private individual who feels aggrieved should not have any opportunity to sue the bank?—A. It depends largely on the grievance. The Minister may decide that it is not in the best interests of the public that a suit should be brought.

Q. Do you think penalties should be prescribed in the Act and not enforced?—A. There are a great many.

By the Chairman:

Q. What is your opinion as to the penalties contained in the Act?—A. For falsification of returns, I think they are practically a dead letter, but they should be enforced. The penalties for circulation, I think, are unreasonable, excessive, and should be modified. They were agreed to by the bankers at a time when circulation was far below the capital; but now that circulation is near to capital, and, in some cases, in excess of capital, I think those penalties should be very materially reduced and not exceed, perhaps $1,000, and 10 per cent interest for the time the excess continues.

By Mr. Maclean (Halifax):

Q. It was suggested in the House (but not in the Committee) I think, that there should be some amendment to the Bank Act corresponding to the note redemption fund in the interest of depositors; that is, that there should be a system of contributions by banks to a common fund to protect depositors. It is an old question and I would just like to have your view on it?—A. I am absolutely opposed to a guarantee of deposits.

By the Chairman:

Q. What is your objection?—A. I doubt very much if the banks would consent to it. I think a good many banks would go out of business rather than guarantee the deposits of all other banks.

By Mr. Sharpe (Ontario):

Q. What is your opinion of the system in New York state, which protects depositors by segregating their savings and guaranteeing them by government bonds?—A. You refer to savings banks?

Q. Yes.—A. I would suggest that where any bank uses the term "savings bank," or "savings department" that they should segregate their deposits. If they do not want to do that, let them simply advertise that they take deposits on interest.

Q. Would you have the chartered banks under this Act segregate savings?—A. If people deposit money on interest, I do not think that should be regarded altogether as a savings bank, although, in fact, it is. What I object to is banks using the term "savings banks," "savings departments"—terms that may deceive some people.

APPENDIX No. 2

Q. That is a very important question. I understand the New York state system pays interests at 4 per cent and segregates the deposits, which are guaranteed by government bonds. Is that correct?

Hon. Mr. WHITE.—Explain that. Who owns those bonds. How are they acquired?

Mr. SHARPE (Ontario).—I will read this letter of Mr. McLeod to the editor of the London *Times,* dated January 13, 1910. Speaking of the desirability of protecting depositors, he says: "There have been no failures in Scotland or in Ireland for 31 years; in Canada, within that time, nineteen banks have gone to the wall, most of them with records of fabricated balance sheets. Twenty-nine banks remain. Australia, despite the crisis and suspension of 1893, has a failure record less disastrous than that of Canada. Bank failures in the national system of the United States, under government examination shows a percentage of 5·14 of the total number of National Banks sometime in business since 1864; against 36·2 per cent for Canada for the same period.

"In the case of suspension of a Canadian bank, the first charge on the assets is the notes in circulation; the second, the claims of the Dominion Government; the third, the claims of the Provincial Governments; the fourth, the claims of depositors. In practice where there is apprehension regarding the standing of a bank and a run takes place, the ordinary depositor whose deposits are not subject to notice, if sufficiently alert, is the first to be paid. The savings depositor, who may be required to give notice, is likely thereby to have his claim deferred until actual suspension takes place, and then he ranks last.

"Those who urge that we should follow the practice of all other English speaking countries, by adopting external examination of banks, do so for the reason that such external examination has had a salutary effect in other countries and that our failure record seemingly makes the change imperative, if the banks are to preserve their franchises free from vexatious modifications. They also urge that savings depositors, who represent considerably more than one-half of all the liabilities of Canadian Banks, are entitled to all the protection that can be thrown around them. In some counties, New York State, savings deposits are segregated and covered by government bonds or other security."

By Mr. Sharpe (Ontario):

Q. I would like an expression as to what that system is in New York State, and if it is not applicable to Canada. What would you suggest, in the way of protecting depositors? Many depositors in our country districts put their money in savings banks and draw interest at, say, three per cent.?—A. I think it is very desirable that the savings should be segregated. At the present time it is not a practical question. It could not be done. I have suggested the system of inspection. I have suggested a reduction in the percentage of loans to total bank funds. When the time is fitting if I am here—I shall go further and suggest that something be done in that direction.

Q. In other words, you think an official system of external inspection would protect the depositors?—A. Yes, and limitation of loans to gross assets. This would be, not in the interest of the borrower, which some of you are endeavouring to safeguard, but in the interest of the whole country. When you reach that period, it may be desirable to segregate savings, but not now.

By Mr. Ross:

Q. Would it be possible to protect depositors in much the same way as notes are protected by a fund, say one-half of one per cent of the average deposits in each bank, placed with the Minister of Finance for a term of years until that amount reached five per cent of the deposits, and on which interest would be allowed by the Government at the rate of three per cent?—A. I am opposed to any idea of guarantee of deposits.

Q. That would not be a guarantee by the Government; it would be a guarantee by banks.—A. It is the same thing.

Q. On what ground are you opposed to that?—A. I would suggest that you consider and study the experience of Oklahoma, where trouble came very quickly after the deposits were guaranteed.

Q. The system still prevails in Oklahoma?—A. I thought it was so disastrous that they had to give it up, but I have not followed the subject for the last three years.

Q. Apart from the experience in other countries, is it not possible that a system which might fail in one country might succeed in another? As a practical banker, what would be your objections to that anyway?—A. I would go further and say that a system that might fail in one part of a country might succeed in another part of the same country.

Q. What are the reasons against it?—A. A guarantee of all the banks?

Q. A deposit by all the banks to protect depositors?—A. It would limit or destroy conservatism.

By the Chairman:

Q. You mean that a bank would be very likely to be rash, knowing that someone else would pay its debts if it got into trouble?—A. Exactly.

By Hon. Mr. White:

Q. Would it not equalize the credit of all the banks with the depositors? If all the banks were guarantors of the obligations of each, would it be fair to the banks whose credit was well established by conservative management to be responsible for other banks over whose affairs they have no control?—A. It would be absolutely unfair, and I should think ruinous.

By Mr. Turriff:

Q. Does not all that you have urged against a fund for a guarantee of depositors apply with equal force to the fund for the guarantee of the circulation of bank notes? —A. No, not to the same extent. Under the old system, before the system of mutual guarantee, which was brought in in 1890, a bank note issued in New Brunswick, or Nova Scotia, or Montreal, might pass at a discount out in the west, but under this system there is no discount anywhere, the note holder does not have to select the bank of which he holds the note. One note is as good as another.

By Mr. Maclean (Halifax):

Q. He is an involuntary creditor?—A. Yes.

By Mr. Hughes (Kings, P.E.I.):

Q. The depositor does not select the bank, now. He will go to the bank that is near him. Supposing that such a thing were done, would the Bankers' Association be much more vigilant in looking after the smaller banks and seeing that it does not indulge in practises that were not according to the rules of good banking?—A. I would be inclined to think that the Bankers' Association and all the members thereof would throw up their hands and be ready to give up business.

By Mr. Maclean (Halifax):

Q. The note circulation fund was only possible because the notes were a first lien upon assets?—A. I would think so.

Q. And received the acceptance of banks because notes of issue were a first lien upon assets?—A. And they were mutually guaranteed.

Hon. Mr. WHITE.—And they are the currency of the country.

APPENDIX No. 2

By Mr. McCurdy:

Q. Would you be in favour of allowing loan companies to receive deposits in the same way as banks do?—A. I think there should be regulation.

Q. And trust companies?—A. That is savings deposits you mean?

Q. Payable on demand?—A. I want to emphasize the point that I make that I do not think any bank or corporation should use the term of 'saving bank' unless the savings are segregated.

Q. And in case these companies could receive deposits would it be advisable to insist that they carry a certain amount of cash reserves to meet these deposits?—A. If they receive savings deposits, I think they should be required to segregate these deposits.

Q. And carry cash reserves?—A. Yes, and carry cash reserves if the deposits are payable on demand.

By Mr. Maclean (Halifax):

Q. Yesterday, you expressed an adverse opinion against the possible success of small banks, and you also expressed an opinion in favour of the maximum limitation of capital of banks as $10,000,000. Can you give me some reasons, the principal on which you urge that conclusion? Supposing, for instance, $10,000,000 were your limitation and a bank had $9,500,000, and they were in bad condition, and supposing they could sell a million or two of capital, would you prevent them putting that additional capital in to save the institution?—A. If a limit were set, of course we should prevent them from selling it.

Q. You would not?—A. I would prevent it. A limit is a limit, and should be adhered to.

Q. Would you prevent any limitations in combinations of capital in any other class of business?—A. A limitation on the capital of a bank was a suggestion that I threw out. It is advisable that it should be done in some way. The details would be required to be thought out very carefully.

Q. Is there any way of getting statistics as to the volume of the country's business that is transacted upon credit—it is all done upon credit, I assume, and what proportion might be directly applicable to the assistance of capital?—A. I do not know that it would be possible to get those statistics in Canada.

The CHAIRMAN.—Are there any further questions that any one wishes to ask Mr. McLeod?

Hon. Mr. WHITE.—If that is all, I desire to say, Mr. Chairman, that I am sure I voice the sentiments of every one present when I say that Mr. McLeod, by coming from Europe at very great trouble and inconvenience to himself, and giving us as freely as he has from his experience in banking, the very valuable information which has been imparted to us during the past two days, has put the Government and every member of the House and the public under obligations. It may seem to an onlooker a very easy matter to answer the questions that Mr. McLeod has answered, but from such considerations as I have been able to give the Bank Act and the perplexing questions involved, I need not say that it is a very difficult task indeed. I desire to move, Mr. Chairman, that a very hearty vote of thanks be accorded to Mr. McLeod by the committee for his courtesy, and I desire to assure him on behalf of the Government and on behalf of the House that we very deeply appreciate his course and we thank him most heartily and sincerely for the very valuable information he has imparted which we shall now have the benefit of in considering this most important measure.

Mr. MACLEAN (Halifax).—I have very great pleasure in seconding the motion moved by the Minister of Finance, and I join with him in cordially extending to Mr. McLeod our appreciation of his kindness in coming such a great distance. I am sure every member of the committee feels that his opinions and the evidence which he has

given to us have been exceedingly helpful. I do trust Mr. McLeod will intimate that if we require him at a later date he will be available to the committee.

The CHAIRMAN.—I am sure that it is an unnecessary formality to put to the committee the resolution proposed by the Minister of Finance and seconded by Mr. Maclean. I think the committee are unanimous in expressing their appreciation of his attendance here, and on its behalf I would thank Mr. McLeod most cordially.

Mr. H. C. MCLEOD.—Mr. Chairman, I am very much gratified at the reception I have received from you, the Minister of Finance and from the whole committee. I fully expected to be attacked on a number of points, and that my experience here would not be altogether pleasant. However, in that I have been very agreeably disappointed. I am very glad I came, and I must thank you all for your attention and for your courtesy in the conduct of the examination. Any answers I have given I can assure you have come from the bottom of my heart, and because I believed the information so conveyed to be correct. I was very much surprised to get a cablegram asking me to come here. At first, I thought my presence was wholly unnecessary. The present Bill is such a vast improvement over the previous one that I deemed this measure good enough for a——

Mr. SHARPE (Ontario).—for a starter.

Mr. H. C. MCLEOD.—Yes, for a starter. But having come here I reverted to my original position. I did not take the precaution of reading over all that I had written on the Act, and on the subject of banking, and so Mr. Sharpe and other gentlemen almost tripped me up once or twice. Still I am very glad to be here and so far as any inconvenience to myself is concerned I consider it a great compliment to be invited to appear before this committee. Upon receiving that invitation I would have hastened to obey it, no matter what the inconvenience to myself might be, had I been in Egypt or even more remote points in the East. I would have returned here by the first steamer, just as I did from Italy. (Applause.) I assure you, gentlemen, that I am only too happy to contribute to the welfare of the Canadian banks or the Canadian public in regard to the banking system. I say this heartily because it is to me a labour of love. I retired from the Bank of Nova Scotia three years ago because I felt at that time there was no possibility of securing reforms in the Bank Act; the Government of the day had so stated through one of its agents. I thought that statement was final, and I had no desire to continue agitating for reforms which there seemed to be no possibility of getting. It is a very great satisfaction to me to find this committee so strongly in favour of banking reform, as I know the public were at the time that I entered. In conclusion, let me thank you once more, Mr. Chairman, Mr. Minister, and gentlemen, for your kindness.

The committee adjourned until this evening.

COMMITTEE ROOM 101,
THURSDAY, April 3, 1913.

The Committee resumed at 8 p. m., the Chairman, Mr. Ames, presiding.

Mr. GORDON WALDRON, called and examined.

By the Chairman:

Q. Will you kindly tell the committee, Mr. Waldron, what your profession and present position is?—A. My profession is the law and I am one of the owners of the *Weekly Sun,* a very useful public journal in which I exercise considerable control, and to which I contribute some writings.

Q. And are the articles which are from time to time published in that paper on financial questions mostly from your pen?—A. They are mostly from my pen, yes.

APPENDIX No. 2

Q. What experience have you had in banking and financial matters which has given you that knowledge?—A. Well, I am a student and my attention was directed to banking and financial problems while residing for a number of years in Central America where I became interested in the problems which the Republic in which I resided had, especially the problem of setting up a sound currency.

Q. You were good enough to indicate, for my benefit those items on this memorandum on which you felt you could give some valuable information to the committee. I have marked them here sections 10 and 13, 54, 56, 61, 76, 83, 88, and 99. Taking up the first of these sections (10 to 13) there has been a proposal laid before the committee for the introduction of a system of small banks. At present, as you know, a bank requires $500,000 capital, $250,000 paid up, before it can commence business. A proposition has been made to the Committee that there might be three classes of banks: a Dominion bank, with branches in more than one province; a Provincial, with branches in one province, and city and county banks, with no branches, and that the capital stock of the two latter classes should be $250,000 and $100,000, respectively. Will you kindly give us the benefit of your opinion in respect to these smaller banks? —A. Of course, Mr. Chairman, I speak with great modesty, and before I answer your question I would just like to say that in what I am going to say I keep in view a wider class of interest than has apparently been referred to here during the past few days. I think it is important for the committee to keep in view that the persons interested in bank reforms are not merely shareholders, depositors and borrowers, but the whole public of Canada. The labourer, who may never have a dollar on deposit, is interested in the operation of banking as the industry in which he is engaged depends very much for its stability on banking.

I am convinced that there ought to be a relaxation of the rules for setting up new banks. I am convinced that there ought to be permission granted for the chartering of what I call small banks. I am not going to debate whether they ought to be provincial, county, or anything of that sort, but I think a bank with as small a capital as $100,000 might properly be permitted. It ought not, perhaps, to have branches, perhaps it might have, with limitations. In order that it might be successful, you would have to make some arrangement to give it the benefit the larger banks have, of note issue; but I am very strongly convinced that such banks ought to be permitted. Of course, in some places they could not succeed; in others, they would, and experienced bankers could be found to manage them. I do not agree with what has been said about the extreme difficulty in getting managers. Banking, after all, is not so very difficult a problem if the main principles of banking are adhered to, and I am quite sure that men like Austin of the Dominion Bank in Toronto, and many others like him, would make most efficient managers of these small banks. Such men may be found in many small towns and communities in this province.

By the Chairman:

Q. What facts have come to your personal notice to persuade you that smaller banks are desirable or necessary?—A. Despite all protests of bankers, there is a general impression that the remoter communities are injured by the present system of banking.

By Mr. Nesbitt:

Q. How?—A. Well, deposits are gathered and carried to a central place of administration. The men of ability follow the capital, able and efficient men who might otherwise have remained in the community.

By Mr. Maclean (Halifax):

Q. Would the small bank get these deposits as against one of our stronger banks to-day?—A. I see no reason why it should not.

By Mr. Armstrong (Lambton):

Q. What stands in the way of these smaller banks being established?—A. The Bank Act.

Q. There are very few private banks, in a small way, succeeding to-day?—A. Private banks have diminished in number throughout Ontario, at all events, partly because of depletion of population in the rural districts. They have not the right of note issue, they have not regulation. Of course, my suggestion for smaller banks involves, necessarily, a system of inspection which would keep them following pretty strictly the lines of sound banking.

By Mr. Barker:

Q. Have you any knowledge regarding the efforts of banks with any amount of capital endeavouring to start in a small community?—A. I see branches in very small places. The country is covered with them. I find, for example, the Canadian Bank of Commerce boasts of having three hundred branches.

Q. In small places?—A. Yes. I can name you one example. The Farmers' Bank, of odious memory, started a branch in Brucefield, which is a little hamlet six miles from Clinton and six miles from Seaforth. It established a sub-branch at Dashwood, for example, a remote village at least ten miles from town. They gathered $113,000 at that one little sub-branch.

Q. Do you think a bank with $113,000 or $200,000 of deposits would pay expenses in the first three years?—A. I am not able to say how long it requires.

Q. How long did it take this bank to collect that amount?—A. A comparatively small period of time; I do not know just how long. Take the town of Clinton; McTaggart Bros. have a private bank there, which was run by their father before them, a reliable man of sound judgment, who loaned money. How much capital or deposits they have, I do not know, but it is evident that such a concern, for example, might be turned into a useful small bank.

By Mr. Nesbitt:

Q. Do McTaggart Bros. loan any cheaper than the incorporated bank there?—A. I am not able to say.

By Mr. Barker:

Q. Before you get away from this point, by whom was this $113,000 of deposits made up?—A. I am unable to say.

Q. What rate of interest did they pay?—A. I do not know

By Mr. Maclean (Halifax):

Q. Was the name of the Farmers' Bank any attraction, in rural sections, to depositors?—A. I do not think so. I do not see why a man of sound judgment, assisted by two or three equally capable neighbours, should not form a small bank. If you go into the United States, the first thing that strikes you as you get away from the big centres of money, is the small bank with modest premises which is carrying on the business of banking in the small communities. These small banks are developing the local industries.

Q. Are there small places in Ontario that are not receiving proper attention from the branches of the chartered banks?—A. Despite all protests of bankers, I believe there are.

By the Chairman:

Q. Do you know of any, personally?—A. I could not prove the statement, but I participate in the general belief that the local communities are not served as they should be. I met, the other day, a man who has an industry in a western town of

Ontario, who was going to Montreal to do his banking. My own judgment would be that he and his neighbours are able and efficient men; and if local capital were at their command, they could have used it, and I think, well.

By Mr. Maclean (Halifax):

Q. Is there a bank in his town?—A. Two.

Q. What is his business?—A. Manufacturer of clothing.

Q. Was he in good financial standing?—A. I am quite sure of it.

Q. You are sure that the local banks did not refuse him credit because he was not strong financially?—A. I am quite sure of that.

By Mr. Nesbitt:

Q. He was going to Montreal, to the head office of one of the big banks?—A. Yes.

By the Chairman:

Q. Have you anything further to ask Mr. Waldron, about the small bank question?

By Mr. Armstrong (Lambton):

Q. I would like to ask whether there are any localities that are complaining about the branch bank system, and that you think would greatly benefit by having such a system of small banks as is proposed?—A. I do not know of any community. There are complaints, of course, but as to community complaints, I do not know. I am strongly disposed towards permitting these smaller branch banks, because I do not believe they would interrupt the operation of our system, and they would do these important things, develop local skill.

By Mr. Barker:

Q. Local skill in what?—A. In finance, in manufacturing industry, in getting out apples, it might be.

By Mr. Nesbitt:

Q. Small banks could not do much encouraging a manufacturing industry which would require heavy financing.—A. They might have half a million of deposits. Some of these towns are said to have more than that. Pembroke is said to have three millions of deposits. Another town is cited where they have over a million, and there are only $50,000 of that million loaned out in that locality.

By Mr. Donnelly:

Q. Where the directors live in a community, and the men who propose to borrow live in the same community, would local jealousy or friendship have an injurious effect?—A. I do not think so. There are 7,000 or 8,000 of such banks in the United States with $25,000 capital, serving the community.

By Mr. Maclean (Halifax):

Q. Would the manufacturer you refer to as going to Montreal be a man likely to be a director of a local bank if started in his town?—A. He would very likely be one.

By Mr. Nesbitt:

Q. Would you not think it dangerous that he should borrow from his own bank? —A. Of course, I presuppose for all this the assumption by the government of the duty of inspection and an inspection which is not merely an audit, but an effective direction of all banks according to sound lines.

Q. Do you think from your knowledge that the small bank would serve the local community in so far as borrowing is concerned any better than the branch bank does?—A. I do, because as I understand the branch system of Canadian banking as now carried on there is not sufficient check. There is likely to be over-lending; there is too much commercial lending; and you have the frequent recurrence of times when credits have to be called, when somebody has to be shut off.

Q. That would surely be the case in the small banks?—A. The small bank would look after its own affairs.

Q. What do you mean by commercial lending—what other kind is there?—A. Upon securities, strictly upon personal security, upon bonds and stocks, and there is lending upon commercial enterprises upon which I will speak a moment later.

By Mr. McCurdy:

Q. Should the bank lend to a manufacturer to establish a plant?—A. No; I should think I would lend with very great caution; and I complain that our banks lend too much in that way.

By the Chairman:

Q. Let us take section 54, dealing with the annual special statements. Mr. Waldron might tell us what fuller details are, in his opinion, desirable in the annual and special statements submitted by the directors for the consideration of shareholders?—A. We will only stop one moment on that. I am glad to see the much wider requirements in the statement and the only topic I would say anything on is the report of the value of real estate holdings. I have heard the discussion here, and the objections made by Mr. McLeod whose judgment I respect highly. I think somehow there ought to be a complete disclosure of the real estate holdings of the banks.

Q. You mean those owned and occupied by them, or those held with the intention of selling to make up for a bad debt?—A. I mean all of their real estate acquired from customers or held for office buildings. I go further, and would require to know their dealings with so-called realty companies. There are some ugly suspicions about these we ought to know.

By Mr. Sharpe (Ontario):

Q. A thorough inspection would disclose that?—A. It ought to.

By the Chairman:

Q. Taking up the matter of inspection, section 56, what has Mr. Waldron to say with reference to the proposal in the Bill for a shareholder's audit or with reference to a system of government audit and inspection?—A. I think the system of audit proposed by the Bill is better than nothing and better than what we had before. But I am for a government audit, for an audit by the people, because it is the people's affair.

Q. Would you state to the committee the method by which that could be done, and your reason why it should be done?—A. My reasons are that the public may know the manipulations of what is their interest and property, that is the public credit; that they may see it administered according to sound rules; that it may not get into the hands of a clique; that it may not be dissipated as we have seen in the past, and even as we only suspect in many cases. I would have a government audit, and I would have it carried on effectively. I would have some rules of banking laid down. For example, I would say that the Act ought to say that it is the duty of banks to keep a cash reserve up to a certain limit. Opinion may differ as to how much the cash reserve ought to be. Mr. McLeod says 15 per cent. He knows better than I do, but that is not enough in Australia. In Australia they have 20 per cent in bullion and specie. It would not be enough in the case of the savings banks or trust companies in New York, which are required to keep 15 per cent, 5 per cent in cash and the rest in reserves in the

National banks. The result was when a time of trial came the banks themselves were severely tried by the withdrawal of the Trust Companies that had fallen into discredit. There ought to be a specified cash reserve which it would be the duty of the inspector to see was observed. There ought to be a requirement stating in definite terms as to the other liquid assets of the bank. There ought to be a requirement as to lending to officers and directors. And I think it is perfectly proper that the Act ought to lay down that a bank must not lend more than a specified sum from its assets to any particular person or concern; and so on.

By the Chairman:

Q. Have you any personal experience, or has any experience come directly under your notice, that would lead you to those conclusions?—A. I think the present situation to-day is sufficient to demonstrate to anybody who examines it closely the necessity of inspection. It is apparent that inspection would be of great value to the banks themselves; it would prevent competition in danger. If you set a moderately safe limit of specie reserve and of liquid reserves the bank would not be prevented from over-stepping that by reason of competition. I feel quite certain that the banks drift into a dangerous position. You have the banks to-day with perhaps 10 per cent of cash reserves including Dominion notes. That is a fair statement. That is surely not sufficient. You have enormous sums loaned on what I call commercial loans, largely in the securities we will speak of in a moment. In the operation of business, that is to say, these secret securities, you have the banks in danger of fixing unduly an amount of capital in commercial enterprise which is quite as dangerous as if it were put in real estate.

By Mr. Nesbitt:

Q. What would you do with it?—A. Various things might be done with it. The Bank of England lends upon securities which are regarded more liquid than upon securities. I do not suppose it makes any commercial loans at all.

By Mr. Maclean (Halifax):

Q. It re-discounts?—A. It lends upon liquid security; it lends floating capital. Our banks are lending enormously, and it appears to me are lending dangerously, fixed capital in commercial enterprises and property, calling it liquid capital. It is not liquid capital at all. What can they collect from a business which they have once put their money in?

Q. What difference do you make between liquid capital and fixed capital in a banking business?—A. For example, if a bank bought real estate, it would be fixed capital; you could not realize upon it. It is not liquid.

Q. It is not in the banking business?—A. If it lent on real estate; if it lent upon a business, a going concern for example, as they do lend, as you will see by the statement furnished by commercial companies. One company I have before my mind now is constantly carrying an indebtedness of $800,000 to $2,000,000 in its operation. Who would pretend to say that that capital is liquid?

Q. It would depend upon the security of course?—A. It would depend upon the security. The bank could not sell this raw material in the process of manufacture. It could not realize upon that in months.

The CHAIRMAN.—A great deal of that would be customer's paper.

By Mr. Barker:

Q. For these small banks, where would you expect to get the stock-holders to take the stock with the double liability and enter into this business in a small community? Have you thought of that?—A. Yes, I have thought of it.

Q. After seriously thinking of that subject, do you think you could get stock taken, with a double liability, in a bank that would carry on business in a better manner more to the general interest of the country and of the community, than the present banks?—A. Well, if you could not get it then your bank would not go on, but no harm would be done. If you could get it, it would go on as well as the others.

By Mr. McCurdy:

Q. I understand your position is that the Canadian banks should be required to maintain a legal reserve of say 25 per cent in cash.—A. Yes.

Q. In that case how would such a reserve help the situation in times of financial pressure?—A. Times of financial pressure would not so readily arise.

Q. But you would lock up 25 per cent of reserves in cash which would be available in times of need?—A. Then you would have staple industry. For example in France——

Q. But by simply locking up this 25 per cent you would reduce the amount of the funds available for business purposes?—A. Very well, then you would not have inflation. Anything that makes for the stability of industry is desirable. Look at the enormous deposits in the Bank of France. There they have enormous cash reserves.

By Mr. Maclean (Halifax):

Q. All the reserves in France are carried in that bank.—A. Then you have no fluctuation. The Bank of France keeps about 175,000,000 pounds.

By Mr. McCurdy:

Q. You would prevent industrial activity by this process?—A. No, you would not. Men would find other means of getting their capital.

Q. If you reduce the amount of available capital that can be used you will certainly reduce your industrial activity?—A. I think not.

By Hon. Mr. White:

Q. I want to ask you a question regarding a statement I understood you to make as to the liquidity of our banks—the amounts of specie that they hold in gold, and Dominion notes, which of course represents gold?—A. Yes. That is, it might represent gold if you kept your reserves here in the Parliament Buildings.

Q. I do not want any statement to go out which might create an erroneous impression. You understand, of course, that in addition to the banks holding gold, and Dominion notes representing gold, they have a line of immediately convertible call loans?—A. Yes.

Q. Did you deal with that phase of the question before I came in, because, unfortunately, I was detained in the House?—A. No, I did not deal with that; I did not think that question was large enough.

Q. It is generally understood that the Canadian banks maintain liquid resources of between thirty and forty per cent. You must add that to your ten per cent of cash reserves?—A. Mr. Wilkie, of the Imperial Bank, who is a very careful man, estimated lately that, taking all these things into consideration, the whole liquid assets of the banks of Canada were only 23 per cent of their liability.

Q. I should think that was an under-statement. At all events in addition to the gold, and the Dominion notes representing gold, there are the call loans in New York and in London.—A. And the call loans here.

Q. But they are not so immediately convertible. In larger markets they are convertible, and that, of course, should be added to the percentage that you first mentioned. Would that be right?—A. It would add to the percentage of liquid assets in so far as these are liquid assets. There is a wholly wrong impression in general among the people that it is wrong for banks to have any money whatever in New York. With that idea I have no sympathy whatever. It is absolutely necessary that banks have liquid reserves and they cannot be liquid here in our stock exchange.

APPENDIX No. 2

Q. That is, they are not immediately liquid, they are a line of secondary consequence.—A. The market stocks on our stock exchanges might fail to sell, but you could transfer them to another market.

Q. In the world's market they are convertible into gold.—They sometimes fail to sell there.

By Mr. Thornton:

Q. Did you take the stand in your paper that these liquid assets in New York are perfectly regular?—A. I do not remember whether the paper has done so, but if I were writing I would not encourage the erroneous view that our banks ought not to have these reserves.

By the Chairman:

Q. Do you remember that in the fall of 1907, between the months of September and November, the Canadian banks drew $24,000,000 of gold into Canada?—A. Yes.

Q. For local needs, from their New York and other outside reserves?—A. There is no doubt about it, these reserves are of the utmost importance.

By Mr. Armstrong (Lambton):

Q. You have made the statement that you are in favour of a government audit. Mr. McLeod has suggested that a board of auditors be appointed by the bank managers and that the Minister of Finance or the government should approve or disapprove of these appointments. Would that proposition meet with your approval? —A. Absolutely not.

Q. Then what are your suggestions in that regard?—A. My suggestion is that parliament should enact the method of appointment, and that the officers appointed be responsible to the government or the Department of Finance.

By Mr. McCurdy:

Q. What rule should you lay down?—A. Perhaps I could not seriously set that out in detail. In the United States they have had a long experience. There they have a department of inspection which is largely working under rules of statute. I do not think you ought to involve the Finance Minister or the government in political responsibility, and I do not think you would. That ought to be avoided, but there must be inspection by government officers. It is the people's affair.

By Mr. Ross:

Q. Would you have a special department of the government to look into the inspection of banks?—A. I do not see why there should not be. Take my friend Mr. White, who is in charge of the Finance Department. There could be inspectors under him and he could send them about. These officers might be under the charge of Mr. White.

By Mr. Armstrong (Lambton):

Q. How many inspectors should there be?—A. I am unable to say. There ought to be sufficient for the work and it ought to be done well. The time has passed when we can avoid the disgraceful failures that have happened and we want also to avoid dangerous banking. We want to create a condition where our industries will be stable and we will not have fluctuations and violences.

Q. Then the government will be responsible for any bank failures?—A. How do you mean responsible?

Q. They will be responsible if they are responsible for the appointment of inspectors?—A. No, they appoint the best inspectors they can. They appoint good men and they do the work well. That would not hurt the government.

By Hon. Mr. White:

Q. Just one more question. Under a system such as you indicated, would the banks be in any way controlled as to the amount they should invest in commercial loans and the amount they should keep liquid? In your judgment would it be more than an audit?—A. Oh yes, it would be more than an audit.

Q. You think that the Finance Department, through its officers, should indicate a general policy for banks as to liquidity and these various things you have been speaking about?—A. Yes.

Q. And that should be done with skill? It would not be the Finance Minister who would say to a bank, 'you must shut your doors,' his inspector would say that.

Q. You know that it gets down to the practical, that is where I am concerned?—A. I remember a case in the city of New Orleans, where a Jew of the name of Adler conducted the City National Bank and became very successful on paper for a time. Those of us who knew his operations said that he must fail. The bank inspector came along one day and said to him: 'You must close your doors.' Now Adler might have gone on for two years and made a far more disastrous failure. It was not the Treasurer of the United States, but the bank inspector himself who closed him down.

By Mr. Thornton:

Q. After he had made an inspection?—A. After he had made an inspection.

By Hon. Mr. White:

Q. Getting back to what we were talking about a moment ago, that is to say the administration of the banks from day to day, and the information brought to the attention of the inspector of the department. You spoke, as I understood it, of proper methods of banking, as to the mention made of liquid assets, and as to the amount of commercial loans, fixed capital and other matters?—A. Yes.

Q. Is it your opinion that the inspector, or inspectors, would have authority to control in any way the business discrimination of the directors of the banks as to the loans they would make, and as to the amounts which should go into certain securities, or be loaned in certain ways or otherwise?—A. I noticed you asked Mr. McLeod the same line of questions and it is very important. It is difficult for me to say just what you should specify, but I am quite satisfied that your inspector, or the chief of his department or bureau, ought to be empowered to go to the banker and say: 'Your cash reserves are too low. You must mend this condition.' Or he might say to the banker: 'You have too much loaned in fixed loans, whether commercial or in land. You must mend this condition.' Or he might say: 'You have evaded the rule laid down in the Bank Act that you must only lend 10 per cent to an individual company. We find from your books that you have loaned 25 per cent. You must get rid of that loan right away, it is dangerous.' I see nothing to object to in that. In my opinion that would be quite fair and proper.

By Mr. Sharpe (Ontario):

Q. That is, the inspectors would be enforcing the general principles and the provisions of the Bank Act?—A. Yes, sir.

Q. Not interfering with the particular accounts so much?—A. No.

By Hon. Mr. White:

Q. The principles of the Act, let us get to them. What I am getting at is the control and administration of a bank from day to day. I want to see how far you have it in mind that the inspector is going to touch and modify it in any way, because that is a very important matter?—A. It is a very important matter.

Q. Especially with a branch bank system?—A. Yes.

Q. Where a bank will be giving credits on the Pacific Coast, down the Pacific Coast, and all over the world, practically?—A. Quite so.

APPENDIX No. 2

By Mr. Nickle:

Q. Taking the illustration of the New Orleans Jew and applying it to Canadian conditions, do I understand that you go so far as to say that if the inspector entered a bank and was dissatisfied with the line of credit that was given—let us make the inference personal, and say to myself—that he should have the right to say to the general manager or local manager, 'You must withdraw that line of credit?—A. I should think so. Well, not necessarily withdraw that line of credit, but he should say: 'You must bolster it up and make it a good loan.'

Q. You would give him power to say that he must bolster up or curtail a line of credit?—A. I have no hesitation in saying that.

Q. Any line of credit given to me?—A. I have no hesitation in saying that it must be so.

Q. Follow it to its logical conclusion as I argue the matter.—A. Yes.

Q. Suppose I branch out into business, that I undertake negotiations with a bank and they loan be $50,000 on the strength of my ability and the business I was about to embark upon, and I was half through the venture. The government inspectors come down and call my loan. I say I cannot pay it. Would you say the inspector should arbitrarily have the power of ruining me?—A. I should say probably 'yes.'

Q. Then you would put the judgment of the inspector who visits the bank casually over the judgment of the man who is there in the bank acting permanently?—A. It might be necessary to go that far. I must make the inspector effective.

Q. You would give the inspector who visits the bank casually greater discretionary power than the board of directors and the general manager?—A. I would not say the inspector. He would make his report to the department, he would consult with his chief and the head of his bureau, it would be a wise operation.

Q. But where is the inspector, or the chief, to get the knowledge entitling him to exercise a wiser discretion than the general manager and the board of directors? —A. Well, I am just giving you my views. Some of you may know more about banking than I do, as for example Mr. McLeod did, who preceded me. I am giving you my best opinion, which may or may not be better than yours.

Q. I am trying to work it out on principle. It seems to me that this system of yours may make chaos of the business relations?—A. Not at all. This is done in the United States and it has not made chaos.

Q. I do not understand that the banking system of the United States goes that far.—A. My opinion is that if banking is going on in a dangerous way, we should check it in some manner. The nature of that check is for you gentlemen to determine, in framing the Act.

By Mr. Sharpe (Ontario):

Q. The success of this system would depend upon the capacity of the inspector who would not walk in and order indiscriminately an account to be closed, he would investigate and use his judgment. Whatever he did would have to meet with public approval.

By Mr. Rhodes:

Q. I am advised that in his evidence before the Pujo Commission Mr. Morgan made the statement that he would lend upon character before anything else?—A. Yes.

Q. Bearing that answer of his in mind would you still give the same answer to the question submitted by Mr. Nickle that you would make the judgment of the inspector as to the character as to the men engaged in business superior to that of people on the ground?—A. The character of the investment was what he was alluding to.

Q. No, it was not the character of the investment Mr. Nickle referred to, but the character of the borrower.—A. I did not understand him to mean that.

Q. His status?—A. His financial character which might include his ability to pay. He might think it necessary if he found the bank's condition to require it, he would not be an arbitrary and senseless person, but a wise guide.

Q. Assuming for the purpose of argument that the answer of Mr. J. P. Morgan was that he would loan upon the character of the individual, would you give the same answer to Mr. Nickle?—A. Mr. Morgan was romancing, of course, he was evading in his answers.

By the Chairman:

Q. We will now proceed to number 61. Will Mr. Waldron give us his opinion regarding the payment of an annual tax by the bank for the privilege of issuing notes? —A. Are you not going to let me say anything about the Central Gold Reserves?

Q. Certainly, Mr. Waldron will speak about the Central Gold Reserves.—A. The Central Gold Reserve plan I do not very well understand. The provisions in the Act it would appear to me tend to weaken the specie reserve of the bank. You propose to permit the banks to issue against their deposits of gold and Dominion notes, and so you put a greater charge upon the poor depositor.

By Hon. Mr. White:

Q. Just a moment. Just elaborate that a little, because as far as I understand it that is entirely beside the facts. However, I would just like you to give us your views, but clear it up in your own mind. Under the present system, to-day, and under the Dominion Notes Act the banks may circulate their own notes to the extent limited in the Bank Act, or they may take any gold they have or all the gold they have to the office of the Receiver General and obtain Dominion notes and circulate those?—A. Yes.

Q. Now, under the Central Gold Reserve plan in the Act, instead of delivering the gold to the office of the Receiver General and getting Dominion notes they issue their own notes against that same gold.—A. They deposit gold and issue their own notes.

Q. That is precisely the position.—A. Well, why do they do it?

Q. One of the reasons is this, in the first place there are two aspects of it. In the first place the banks do not like to pay over the counter Dominion notes, because strangely as it may appear very often rumours are started about the banks having exceeded their issuing powers by reason of the fact that they have issued Dominion notes, for the reason that parties going into a bank expect to receive the notes of that particular bank, because, of course, it is the object of the bank to keep its own notes out.—A. Why should that disturb them?

Q. I am stating a fact. In the second place these Dominion notes are costing the Dominion Government a large sum to have printed and engraved, several hundred thousand dollars a year?—A. Yes.

Q. The Dominion derives no advantage from that because the notes are issued against gold, and to the bank. The position is that instead of depositing that gold in the office of the Receiver General and having the Dominion charged with the expense of keeping that gold and the expense of engraving all those notes, the bank will issue its own notes against gold. There is one other feature of it I would like to draw your attention to and that is the check which it is upon the bank note circulation. The bank issues its own notes, and these notes come back every day, so that the bank cannot put out a larger amount than it is entitled to. You will find that if you add together the circulation of all the banks it does not equal the capital of all the banks, although it is an object to them to keep their circulation out?—A. You are just repeating the banks' arguments for cash reserves which I cannot understand.

By Mr. Maclean (Halifax):

Q. What is wrong with the banks issuing notes instead of gold, people do not want gold?—A. Yes we do, we want to see it.

Q. It is intended to increase the circulation?—A. It does not increase the circulation. If they had to put out their circulation in Dominion notes it would accomplish something. I have often thought there has been a very studious effort on the part of the Canadian banks to unfamilarize, if I may use the word, the Canadian public with gold.

APPENDIX No. 2

By the Chairman:

Q. Now, shall we take the next clause, an annual tax for the privilege of using bank notes, do you wish to speak on that?—A. I do not know—there was some gentleman urged that the Dominion ought to issue all the notes, or that some such scheme necessary to secure the currency ought to be in force here. I am not impressed, or I haven't acquired sufficient knowledge to speak authoritatively upon the matter.

By Mr. McCurdy:

Q. What do you think of the suggestion regarding the asset circulation?—A. By asset circulation you mean?

Q. Circulation on the basis of assets rather than on capital?—A. I do not know, I do not understand that the bank issues to the extent of its assets.

Q. No, to a percentage of it?—A. Well, in effect it does that now.

By the Chairman:

Q. Section 76, Mr. Waldron has asked to be heard with reference to the banks loaning to companies where the directors of the companies were also directors of the banks. Do you wish to speak on that?—A. There is the question of foreign agencies.

Q. You want to speak about agencies elsewhere than in Canada?—A. I just want to make this observation that from the eleven years experience I have had in Central American countries, where some of our banks have established branches, I have learned the magnitude of the unexpected disasters in those countries and on that account I would regret the great number of extensions of our large concerns into those countries, Cuba, Mexico, Guatemala, Honduras. One bank has opened lately in Beliss. They are all subject to the most terrible destruction of wealth by floods, hurricanes, plant diseases, revolutions, disregard of law, no one quite realizes who has not spent years in those countries what the dangers are.

By Hon. Mr. White:

Q. You were down there for a number of years?—A. Yes.

Q. Which one?—A. Nicaragua.

By the Chairman:

Q. Mr. Waldron also desires to speak on the question of whether directors of banks should also be directors of companies to which they are loaning?—A. Well, of course it is very difficult to lay down in your Bank Act rules which would be effective, but it would be extremely useful to do so if you can. There is a very lively apprehension in the public mind that the bank assets are getting into the hands of persons, not only of money trusts, but of persons who use them for their own enterprises especially, and I myself have knowledge of the efforts of a stockbroker to acquire control of a bank, as I supposed, in order that he may have the use of its assets to support his business.

Q. Did he get it?—A. He did not.

The CHAIRMAN.—Shall we then take up the next clause, as to the advisability of banks acting as landlords; what have you to say on that?—A. Well, of course as to that——

By Mr. Sharpe (Ontario):

Q. Just before you go to that would you limit the amount which a bank may loan outside of Canada? Do you think loans to Central America would be desirable for our banking institutions —A. I should think not. Why should we encourage them?

By Mr. Maclean (Halifax):

Q. It is very useful down in my province to have branches down there?—A. For fish, yes.

By Mr. Rhodes:

Q. Is there any objection to a bank establishing a branch for the receipt of deposits?—A. Of course such a condition is not going to continue. If your bank does business in Cuba it becomes involved with the Cubans and ultimately it does more than accept deposits.

Q. But there the deposits are greater than the loans, would you regard that as a satisfactory condition?—A. The danger would not then appear to be serious.

Q. That is the actual condition?—A. I am told it is not.

Q. Would you regard that as a good condition for banking?—A. I say yes, and yet while we are told that is the condition we are told that one bank lost several millions in one of those countries.

Q. Has anybody proved that?—A. They just asserted it.

Q. Have you any knowledge or proof of the fact?—A. I have no knowledge, I cannot prove that, but it was said by most reliable persons.

By the Chairman:

Q. What have you to say as to banks acting as landords?—A. I say that it is a surprise that the banks have been evading the law as they have for years, clearly so, and it is astonishing that the bankers disregard the laws as they have. It is quite manifest that, as stated here to-day by Mr. McLeod or by Mr. McCurdy, the investment of 33 per cent of the capital in the bank buildings is very large. That is all fixed capital, and to that extent it renders ineffective the bank as a bank handling the public credit and keeping it liquid all the time. It is extremely dangerous.

Q. Now do you wish to say somthing about loans to farmers?—A. Yes, I want to speak upon the general question.

Q. Of loaning to farmers?—A. No, I want to speak upon the general question. On section 88, that is on certain liens or security upon what is remaining in the hands of the debtor. I regard that as one of the worst features of our banking system.

Q. The unregistered liens?—A. The unregistered liens.

Q. Why do you regard it so?—A. Because it leads the banks into the fixing of a large amount of its capital as fixed capital, as loans which cannot be realized readily. It leads to bad banking. It is wholly injurious to creditors who deal with these debtors; it is astonishing that such a condition would be allowed to continue under the banking legislation of an enlightened country.

By the Chairman:

Q. Where does the injustice come in?—A. The creditor gives credit to a debtor, and when he comes to collect he finds the bank has everything. Under section 88, the whole system of grasping devices has been developed. In Ontario, you have the bond mortgage, a floating security which ought to be abolished.

By Mr. Nesbitt:

Q. The company gives to the bank a bond mortgage?—A. Yes, or a bond mortgage to a trustee.

By Mr. Maclean (Halifax):

Q. Bonds secured by mortgage?—A. Yes. The bank takes from the debtor, under section 88, security on everything he has, including his own personal property.

APPENDIX No. 2

By Hon. Mr. White:

Q. That is, wholesale?—A. No, it is not wholesale. A bank may lend money to any person engaged in business as a wholesale manufacturer of any goods, on the security of his goods, wares and merchandise (section 88-4).

Q. As I understand the Act, the banker's lien is confined to wholesale manufacturers, under legislation, since 1890; but it has never been extended to the retailer or the individual. For example, you and I could not give a chattel mortgage.—A. Quite so, but nearly every manufacturer is also a wholesale dealer.

Q. There is one aspect I would like you to speak to. As I understand the function of the bank, in respect to the transactions, from time to time, with manufacturers of wholesale goods, it is this: A manufacturer obtains his raw material and desires to pay cash for it. He obtains a loan from the bank to make that payment. He gives a lien to the bank on that raw material, and that lien is a continuing lien upon that raw material, transformed into the finished product, and until sold; and then the bank debt is liquidated. That is the process as I understand it.—A. That might be the process, but it does not usually take place. What takes place is that the debtor buys merchandise for the purpose of manufacturing it into goods. He receives from the bank money to pay for it and gives the lien upon it. He manufactures the goods, or partly manufactures them, and renews the lien. The goods disappear and other goods come in; and in practice, track is lost entirely of the original goods, but the lien is made to cover other goods and all goods that he may have in his possession then or thereafter.

Q. What is the objection, from the standpoint of banking, to that function of the bank?—A. That it tends to unduly stimulate manufacturers and to fix banking assets which ought to be liquid. We know, by experience, you cannot call these liens. You cannot rely on them in time of stress.

Q. Is a continued lien not a proper transaction?—A. It is not a good banking transaction. You might just as well say a bank might lend money on land.

By Mr. Barker:

Q. Does not a manufacturer always put up, himself, 40 to 60 per cent of the capital required?—A. Not always. I can give you a case I have in my office at this moment, of a manufacturing company which failed to the extent of $86,000. The English creditors are unsecured to the extent of $10,000. The bank has everything else secured, every particle; and for two years the bank has been carrying on that business, with the purpose of converting everything into security, so that there will be nothing left for anybody else. They had opened a sales account in their books, into which came the results of customers' notes, creditors' cash, which was not subject to his draft. They were telling the English creditors that this man was entitled to credit.

Q. Don't you know this: that every manufacturer, when he begins business, puts up a certain percentage, but frequently he has not enough capital for his business, so he goes to a banker and says, I have put up so much, forty or sixty per cent, whatever it may be. I have not enough to carry on the business, and I want you to advance me some money. Do you say the banker is not justified in lending him something to keep his business alive?—A. Let me say that there are many cases in which the loaning on these securities is perfectly sound banking. The goods of a manufacturing company are of such a character that there is no danger of loss; but there is always the tendency of the bank being led into dangerous banking, and, as I said, of unduly stimulating manufacturing. Take our present condition. We are now exporting from this country $290,000,000 of our own produce, and importing $700,000,000. That is to say, we have that much capital at our disposal, and yet people are saying we have not enough banking facilities. They want an extension of the note issue, when,

manifestly, we are stimulating one branch of industry too much, or are misdirecting our banking capital because we are not producing from the soil, not producing wealth.

By Mr. Emmerson:

Q. Does your objection apply more to the undue stimulation of manufacturing, or to the general principle that secret liens are objectionable in any instance?—A. I base my objection on both points. The secret lien is bad and ought not to be tolerated in this country. It is against the settled policy of the people in this province.

By Mr. Nickle:

Q. Why do you group with the secret lien the bonds issued pursuant to a mortgage to a trustee?—A. It is held that such a mortgage does not require to be registered. It has been so decided by the Court of Appeal in Ontario.

The CHAIRMAN.—Mr. Waldron has yet to speak on the topic of loans to farmers.

Mr. WALDRON.—I have a great deal of sympathy with farmers, and I regard the benefits which the Bank Act is supposed to confer on this class as utterly illusory. In the first place, I do not think that bankers will lend to farmers upon these lines in themselves; but what they will do, if anything at all, is to take the lien to balance up what is already a bad debt and exclude other people from participation in the debtor's assets. In the second place, it will destroy the credit of the farmer. If the banks take advantage of this clause, the farmers will lose the benefit of other means of obtaining credit; the money lender, his neighbours, and all the rest, will not deal with him because they do not know what his state of security is.

Mr. THORNTON.—There are thousands of farmers in Ontario, who borrow money from the bank, buy cattle, feed them in the winter, and pay the money back in the spring. Hundreds of thousands of dollars are made in that way, and it is perfectly legitimate business.

Mr. WALDRON.—You misunderstand me. This clause does not refer to those people. The Ontario farmer cannot take advantage of this clause, as I understand it. He is not a rancher.

By Mr. Sharpe (Ontario):

Q. There is a proposed amendment to loan money to a farmer upon security of live stock.—A. I say, if the farmer has good banking credit, I don't want his lien. I regard this as the very worst feature of the whole Act. It is utterly bad.

By Hon. Mr. White:

Q. I understand your view perfectly. You are against the secret lien, and you are not in favour of liens, generally much less an extension of liens?—A. Quite so.

By Mr. Sharpe (Ontario):

Q. You are not against the liens per se, if they are filed.—A. If you file them, they will not take place, you have killed the whole thing.

By the Chairman:

Q. In your opinion, then, the credit of the farmers, as a class, would suffer if that clause was put into effect?—A. It would throw the farmer wholly on the bank, which might not serve him.

By Mr. Nesbitt:

Q. With reference to loans to the manufacturer, you know that as a matter of practice the banks take security from the individuals, that is, they take the guarantee,

not only of directors, but managers of corporations as well.—A. Oh yes, of course, I know that they do that. And what is the evil of that? In the case I am mentioning, I forgot to tell Mr. Barker; I am speaking of one case. A couple of young men started a manufacturing concern and they put in $15,000 of cash; they put into their asset statement $25,000 for good will and for formula, etc., and they got $86,000 of credit. When it comes to wind up such a concern the stock holders are not worth two cents.

Q. Where you mention one I could mention a hundred?—A. I could mention a hundred to your one.

By the Chairman:

Q. There is just one more subject that Mr. Waldron wants to speak of and that is the unification of banks, section 99 et seq.—A. As to unification of banks, I listened with great interest to what Mr. McLeod said because it tallied with my own views. In the first place, I have great apprehension of a money trust, belittle it as the banker may; I have great apprehension of the concentration of the public credit in the hands of a few men. Therefore, I would take all reasonable precautions against it.

By Mr. Sharpe (Ontario):

Q. Do you find that to be the general opinion prevailing?—A. I think so. I would also say that one of the gravest public dangers that we have is the use of political power by a small coterie of powerful financial men controlling the banks.

By Mr. Armstrong (Lambton):

Q. In what way?—A. You will excuse me if I give you an illustration: The activity of bankers in the last election, for example—I am not saying whether they are right or wrong in the political aspect—but the very fact of a set of banking men, having 3,000 branches under their control and 3,000 local managers and officers obedient to their will exercising this power, ought not to be tolerated in this country.

Q. But do they exercise that control?—A. Unquestionably, I think so, I fear so. and it is manifest that they will do it; men will use political power when they may.

By Mr. Ross:

Q. Can you suggest any way to protect depositors apart from?—A. I am not in sympathy with your proposal of a guarantee fund.

Q. That is not answering my question. Have you any alternative proposal? I am not wedded to my proposal if you can show me anything better.—A. If you have good inspection, government inspection, the depositor in this country will be pretty safe. Beyond that I am not able to say. There may be methods by which depositors may be secured but I am not able to say what they are.

Q. You say you are not in favour of what I suggest. I do not want you to say that it is not feasible—but tell me why.—A. I understand you to propose the formation of some kind of fund, like the note redemption fund. You are using up so much of the funds of the public credit in the first place. If your bank direction is sound you do not need it.

Q. But you know they are not.—A. But they will be, I think. And if you then find it necessary to secure your depositors in that way you will embarrass the use of credit in the country. You use up so much of your credit in protecting it. It is the rule that a banker must lend out what he receives; he cannot lock it up in his safe, and what will your redemption fund amount to?

By Mr. Emmerson:

Q. Would not the same argument apply against the note redemption fund?—A. I have always thought myself that the note redemption fund is largely for show, because it only leads to the prompt payment of a part of the note issue of a bank. It is all collected out of the depositors afterwards in the liquidation.

The CHAIRMAN.—I think we are very much indebted to Mr. Waldron for coming here and giving us one and a half hours of his valuable time, and staying two days to have that opportunity. And I think the committee can offer a vote of thanks to Mr. Waldron for coming down. (Applause).

Mr. WALDRON.—Let me say that it has been a great profit to me to be here, and I go away with a very lively realization of the public zeal of parliament.

Mr. A. K. BUNNELL, called and examined.

By the Chairman:

Q. Will you kindly give your name and address in full?—A. Arthur K. Bunnell, Brantford, Ontario.

Q. I understand that you are the President of the Chartered Accountant's Association of Canada.—A. For the time being, yes.

Q. As an accountant, you also have the permanent audit of several large firms.—A. A great many, sir.

Q. Among others?—A. A large number of chartered companies doing divers businesses in the city of Brantford, as well as financial corporations in that city.

Q. How many years experience have you had as a chartered accountant?—A. I have held my certificate about ten or twelve years, but I have been in business for thirty-seven years.

Q. In different parts of Ontario?—A. In the city of Brantford.

Q. You indicated that you would be willing to be examined in respect more especially of the audit and inspection as to the qualification of auditors, and as to the items that should go into the statements submitted at the special and general meeting by the directors to the shareholders. These would be sections 54, 55, 56 and 112. Taking section 54 what fuller details are desirable in the annual and special statements submitted by the directors for the consideration of the shareholders?—A. I am of the opinion that the details required in the statement referred to are very full, but that the clause should be divided to prevent ambiguity. You will notive that sub-section No. 2 says: 'The statement shall, without restricting the generality of the requirement of the next preceding sub-section include and show, on the one part, the amount of the items (a) to (1) inclusive,' and then it goes on to say: 'And the statement shall include and show, on the other part, the amount of'. My opinion is that that clause should be sub-section 2A, and that the same wording, 'the statement shall, without restricting the generality of the requirement of the next preceding sub-section, include and show, on the other part the amount of.' This is to make it quite clear that the assets shall be without restricting the generality of the requirement of the next preceding sub-section.

Q. Generally speaking would you regard those as being the liabilities and assets?—A. I would.

Q. The first being the liabilities and the second the assets—A. The next point that I would like to make reference to is the profit and loss account referred to in sub-section 4 of clause 54. I would suggest that the same provision apply to that profit and loss statement requiring the signing of it by the general manager, and on behalf of the board of directors by the president or vice-president or any two directors be carried out. It is just as essential to have their signatures to that document as it is in the case of the statement called for in the main part of section 54.

By Mr. Sharpe (Ontario):

Q. That is the profit and loss account?—A. It should be signed by the general manager or other principal officers of the bank, &c., in the same way as the annual statement called for in the heading of assets and liabilities.

APPENDIX No. 2

Q. Your reading of section 54 would indicate that you consider that the statement signed by the general manager, &c., relates only to sub-section 2?—A. Yes, sir.

Q. You would like to have the clause so worded as to make it distinctly understood that the signatures referred to in the first section of clause 54 should be attached to sub-section 4 of that clause?—A. Yes, sir. I do that, because when we come to sub-section 14 of section 56 the auditors are required to state whether, in their opinion, the statement referred to in the report is properly drawn up. I say this provision should refer to the balance sheet and profit and loss statement as well. That is the reason why.

Q. Should the statement be verified by affidavit?—A. That is a matter of what the law requires. In Ontario a statutory declaration is required.

By the Chairman:

Q. Would you advocate any further amplification of the items in profit and loss account?—A. Personally I do not consider it advisable, although I am aware that a large number of men take the ground that it should be somewhat amplified. I am of the opinion that, if these two statements were put in the same category to be examined by the accountant or auditor, and they were to be obliged to go very carefully into the affairs of the bank as required in paragraph (*c*) of sub-section 14, section 56, that would cover it and place the responsibility upon the auditor for an examination and inquiry into each item and sub-division.

The CHAIRMAN.—We now come to 56—14, page 25 of the Bill: 'The auditors shall make a report to the shareholders on the accounts examined by them.'

Mr. BUNNELL.—I am of the opinion that if the word 'statement' there covers both the balance sheet and the profit and loss statement, the auditors could draw up such a report as would obviate the necessity of bringing to light matters that it may not be thought advisable to bring out in the profit and loss statement.

By the Chairman:

Q. You evidently regard the profit and loss statement at present issued by some of the banks as not fully meeting the requirements of the case.—A. There is that idea prevalent.

By Mr. Barker:

Q. What is your opinion?—A. My own opinion is that as at present constituted, it is possible to bring in earnings made in ways that are not contemplated by the Bank Act, such as the increase by the writing up of properties through over valuation; through underwriting, or anything of that kind. I do not say that it is done, but it is possible to do so under the present system.

By the Chairman:

Q. Do you think the profit and loss account should contain all the individual items of profit, and the individual items of loss?—A. No, I do not. But I believe the auditor should examine each of them in the profit and loss statement and satisfy himself that such items arose in the legitimate conduct of banking business.

By Hon. Mr. White:

Q. Suppose there were any profits from illegitimate transactions, or let us assume that there were brought to the attention of the auditor some *ultra vires* transactions, would it not be his duty to call attention to them?—A. It would, sir.

Q. If the transactions were all *intra vires*, if the profits arose legitimately, then I suppose your objection to this would be largely removed?—A. Decidedly so, sir.

Q. Assuming that the banks carry on their business in strict accordance with the Act, then I suppose these matters to which you have referred would not—— A. Then the auditor would be free to give his certificate.

Q. If the auditor was required to state in his report, or otherwise, as to whether all the transactions of a bank were *intra vires,* then these matters to which you were referring need not be taken up.—A. No, sir. The certificate of the auditor in such a case as you stated would be quite satisfactory.

Section 55 says:

'Directors shall also submit to the shareholders such further statement of the affairs of the bank as the shareholders require.'

I consider that should also be signed in the same way as provided in section 54. That is all with respect to that point.

Now, section 56:

'The shareholders shall, at each annual meeting appoint an auditor or auditors,' etc.

I am favourable to the appointment by the shareholders of two competent auditors, one of whom shall be a professional accountant.

By the Chairman:

Q. Why do you think two necessary or advisable?—A. Because I consider that in the important matters of banking, with the multifarious ramifications of the business and the opportunities that arise for differences of opinion, it is decidedly necessary to have two men who may temper the opinions of one another, and in that way get a more matured judgment.

By Mr. McCurdy:

Q. You favour the appointment of one chartered accountant and one auditor?—A. I did not say 'chartered' because I kept away from that especially, I said professional auditor.

Q. Would it not serve the purpose to have two experienced banking men?—A. I would prefer, that one should be a man who has had a training outside of banking, that he should be a man whose training has given him a general knowledge of accounting affairs rather than a man whose work has been confined along banking lines only.

By Hon. Mr. White:

Q. The phrase 'chartered accountant' has no particular significance in Canada, has it?—A. It has not. It has in the Province of Ontario though.

Q. Chartered accountants have not been constituted a profession throughout Canada, as lawyers and physicans have. There are men, not chartered accountants that are excellent accountants?—A. Yes. Any man can practise the profession, but not every man can call himself a chartered accountant.

Q. Have you considered any form of words which would, in your judgment, qualify an auditor in accordance with the views which you have expressed?—A. No.

Q. It is a little difficult to frame that, is it not?—A. Yes, I should call such a man one who is making accounting his business and practising it.

Q. The question arises as to what his experience has been and what his character is?—A. Yes. All such questions arise.

Q. It would be difficult to qualify such a man by any form of words?—A. It would.

By Mr. Thornton:

Q. Are there men available who come up to your standard?—A. I believe there are.

By the Chairman:

Q. In Canada?—A. In Canada.

APPENDIX No. 2

By Hon. Mr. White:

Q. What is your general opinion as to the value of an audit outside of banks altogether?—A. I consider it one of the greatest safeguards to the investment of money that can be possibly adopted—that is for the safe investment of money.

By Mr. Sharpe (Ontario):

Q. What do you understand by audit?—A. I understand an audit to be not only a clerical checking of the work but an examination of the powers contained in the charter and by-laws of the company whose business you are auditing, and a reasonable idea of their business, and a bringing before the directors of such opinions regarding the conduct of their business as your knowledge of business affairs and of their particular affairs may justify you.

By Mr. Thornton:

Q. Would auditors of that kind be able to guarantee that everything was correct?—A. Auditors cannot guarantee because of the frailty of human nature, but if the duties of audit are properly performed they go as far as anything can go towards safety and honesty of administration.

By Mr. Nesbitt:

Q. And they should be able to point out, if anything, the weakness of the business?—A. They should be able to point out, if anything, the weakness of the business. I believe there is a growing appreciation of the value of the auditor, and by the auditor of his responsibilities.

By Mr. Sharpe (Ontario):

Q. For whose benefit is the audit?—A. In the first place it is for the benefit of the shareholder in an incorporated company. Speaking of the Ontario Companies' Act, the auditor is the auditor of the shareholder. He is there to see that the capital of the company—the shareholders' money—is properly, honestly and intelligently administered.

Q. So that if the business of a company is honestly and intelligently and correctly administered, and the provisions of the charter observed in all respects according to law, there is really no occasion for the audit?—A. I would not say that. If all men were honest there would be no necessity for penal laws.

Q. And the purpose of the audit is to see that the law is properly carried out?—A. The purpose of the audit is that the shareholders may have the assurance of a party, who makes it his business, to determine the fact that the law is carried out.

Q. So that if the directors of a bank—I do not say they do—were dealing improperly with the bank's funds and the depositors' money and wanted to conceal the fact, and they had the power to select certain individuals to make the audit, it is possible that under this system they would choose parties who would be favourable to them?—A. There may be dishonest men in all professions.

By the Chairman:

Q. Now, sub-section 7 of section 56, 'Notice of nomination to fill vacancies.' What have you to say to that?—A. There is just the wording there that seems to me peculiar. The phraseology of the sub-section is 'not less than ten days after the last publication,' etc. I think it should be 'within ten days.'

By Mr. Sharpe (Ontario):

Q. Do you think that the appointment of an auditor, referred to in this sub-section, should be vested in the directors or the shareholders?—A. I think it should rest in the hands of the shareholders.

Q. Then if the directors control the situation at all these annual meetings, do you think it is a wise provision appointing them in this way?—A. There are just two methods:—by the shareholders or by the Government. I prefer appointment by the shareholders.

Q. There is the suggestion of Mr. McLeod, that the general managers of the chartered banks should make the appointment?—A. I have the greatest respect for Mr. McLeod's opinion, and it may work all right. It is certainly a very commendable suggestion and worthy of every consideration.

Q. Would you prefer that the Government or the directors of the bank should appoint the auditors?—A. I prefer appointment by the shareholders. It is a mere statement that the directors control the shareholders.

Q. When the shareholders of a bank are scattered all over the country from the Atlantic to the Pacific, they are not congregated in Toronto and Montreal, and there are very few of them present at the annual meeting.—A. True.

Q. And the annual meeting is practically dominated by the directors, isn't it?—A. True.

Q. Therefore, the auditors would be men whom directors would appoint?—A. It might work out that way.

By the Chairman:

Q. What is your next suggestion?—A. In sub-section 11, 'Powers and Rights of Auditors', I would propose to substitute for 'shall have a right of access to the books and accounts', 'shall have at all times a right', etc. The Bill limits the right of access of an auditor to some particular time. I would enlarge that right so that it shall apply to all times.

Q. Then sub-section 13, 'Duty of auditors to check cash and verify securities'?—A. I would suggest the insertion of 'Profit and Loss Account', and have the auditors verify the 'profit and loss account' in the same way as they do the balance sheet. The latter proceeds largely from the profit and loss account and is affected thereby. The profit and loss account is the foundation of the balance sheet, and demands special attention by the auditors. The verification of both statements should be made compulsory. So that it should not be simply a balance sheet audit.

Q. Then as to sub-section 14, 'Report of Auditors to Shareholders'?—A. That sub-section should have the same attention. 'The auditors are required to make a report on the checking of cash and the verification of securities, and on the directors' statement of the affairs of the bank.' I would add the same words, 'and of the profit and loss account.'

Q. Paragraph *C* of section 14 provides that the auditors are to report—

> 'whether in their opinion, the statement referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the bank's affairs, according to the best of their information and the explanations given to them, and as shown by the books of the bank.'

Have you anything to say in that provision?—A. I would suggest that the paragraph be amended by adding the following words:

> 'and whether in their opinion the profit and loss account discloses the true result of the operations of the bank during the year according to the best of their information and the explanations given to them and as shown by the books of the bank.'

By the Chairman:

Q. Your idea is that it is possible for that profit and loss account to be so manipulated as to give an incorrect idea relative to the condition of the bank at the end of the twelve months period?—A. Yes, the statement of the full assets and liabilities which by this clearly seems to be the annual statement, and it must be verified by the auditor.

APPENDIX No. 2

Q. Section 112?—A. Well, section 112 is on monthly returns. I have suggested that the information contained therein shall be in not less detail as to the item thereof than it would be contained in the statement submitted to the annual general meeting of the shareholders. That is, the returns to the government should be the same detail as those made to the annual general meeting.

Q. Now, has Mr. Bunnell any general remarks to make?

The WITNESS.—I beg to submit the opinion that if a system of government audit is substituted for the system of shareholders' audit provided for the proposed Act, then such system should include the requirement that the statements prepared for submission to the annual general meeting of the bank be certified by the auditors or inspectors appointed by the government, after like precautions, and to the same extent as if certified by the shareholders' auditors in accordance with the provisions intended to govern them. For considerations of convenience, the minister should have power to call to his assistance competent persons not on the permanent staff.

By Mr. Cockshutt:

Q. Let me ask two or three questions in a general way. I understand you have had a wide experience in the audit of accounts, not only in Brantford, from which you come, but also in different parts of the country?—A. Through companies organized in Brantford.

Q. Now, all the witnesses already examined have said that they thought a limit should be placed upon the borrowings of a company or of an individual. Do you think a hard and fast rule could be laid down beyond which an account should not go?—A. I do not think it is possible to lay down a hard and fast rule.

Q. You do not think that will be possible?—A. No.

Q. Now, in your experience have you found that companies are carrying on two different bank accounts at the same time?—A. You mean doing business with two banks?

Q. Yes. —A. Yes, I know some who are.

The CHAIRMAN.—Each with a knowledge of the other?—A. Yes, Mr. Chairman.

By Mr. Cockshutt:

Q. Does one bank not object to borrowings from another? Do they not exact a statement from the firm as to their borrowings in the other bank?—A. Oh, yes.

Q. They each want to know the liability to the other bank, do they not?—A. They want to know the liability to everybody, and they have the bank shown specifically.

Q. Do you think it would be desirable to have accounts separate, it is not policy, nor in the interests of the banks themselves, nor in the interests of the borrower.—A. In my experience, no. It may be necessary in carrying large accounts to have an arrangement between the banks whereby a certain proportion of the loan is advanced by each bank.

Q. Is it not possible that a large account, a large credit by the bank may be quite as safe, or safer, than a small account, for which full collateral are put up, say in both cases?—A. It may be quite possible, because an account is large it is not necessarily unsafe.

Q. It is quite possible that a large account then is just as safe as a small one?—A. Yes.

Q. In your judgment is 7 per cent. sufficient interest in all parts of Canada?—A. Well, Mr. Cockshutt, that is a very large question.

Mr. MACLEAN (Halifax).—The witness does not perhaps want to answer a question like that.

Q. I do not wish to press him if he does not want to answer. But you have had some experience in the West, and outside points, and do you think it is desirable?—A. Well, I might put it this way: In territories that are widely scattered, where the

expenses of collection are very large in comparison with the amount at stake, the collection often is far greater than the excess of interest would be there with a very low rate. But on the general question, I would not like to give an opinion at all.

Q. You have advocated an audit for the bank?—A. I am in favour of the audit for banks.

Q. Do you think an audit would prevent failure?—A. Not absolutely.

Q. Would it have a tendency to reduce failures?—A. I should think so.

By Mr. Nesbitt:

Q. Like a company audit in any other business?—A. I should think so.

By Mr. Cockshutt:

Q. It will tend to improve the quality of banking, you think?—A. I should think so.

Q. And therefore you think that the expenditure that will be necessary for a complete audit for the banks of Canada would be justified by the results?—A. It has been so in Great Britain, and I believe it has been satisfactory with the banks in Canada who have conducted it.

Q. There is no reason to believe but that it will be satisfactory in Canada?—A. No reason, to my knowledge.

By Mr. Sharpe (Ontario):

Q. Have you had any banking experience?—A. You mean as a banker?

Q. Yes?—A. No.

Q. When you speak of the undesirability of loans to companies are you speaking from the point of view of the companies or the banks? As a borrower or a lender?—A. I was speaking on the question of security to the banker.

Q. That is you think that the bank should have unlimited right to loan whatever it likes?—A. That the banks should exercise their own discretion with regard to the circumstances brought before them.

Q. You are aware what Mr. McLeod, after his forty years' experience as a banker said, that there should be limitations?—A. Yes.

Q. And from his knowledge of the conditions that exist in the banks there should be?—A. I did not hear him say so, but if you heard it, no doubt he said it.

Q. He said that loans to companies should be limited to a certain percentage of the capital of the bank.—A. That is the total loans?

Q. No, to any one company.—A. I have the greatest respect for his opinion.

Q. You would not put your opinion as against his on that subject?—A. No—a certain limitation on the bank's capital?

Q. To put a limitation on the bank's capital, that is if the bank's capital was a million dollars, and the limit was 25 per cent the bank could not loan to any one company more than $250,000?—A. My belief is that I am not in favour of any interference with the discretion of the banks as to what amount they might loan to any one customer.

Q. I understand that the cause of the failure of the Sovereign Bank was that they loaned more than their capital to two companies, one in Chicago and the other in the Yukon?—A. Not to loaning *per se* but because it was a bad loan.

Q. Do you think it is justifiable to allow a bank to have unlimited discretion in loaning money they have received in deposit, trust funds?—A. I believe that must be left to the discretion of the directors, to the policy of the banker.

Q. Then you heard what Mr. McLeod said that within his knowledge companies did business with two or three banks. Have you any objection to that?—A. There can be no objection to it. Two banks, as a rule, are willing to divide the loan between themselves because the account to be carried is larger than any one bank cares to handle

APPENDIX No. 2

By the Chairman:

Q. Is there any further statement you want to make to the committee?—A. No.

Witness discharged with the thanks of the committee.

Mr. PETER MCARTHUR, called and examined.

By the Chairman:

Q. Your residence, Mr. McArthur?—A. Appin, Ontario.

Q. And your profession?—A. Farmer and writer.

Q. What class of subjects do you write on specially?—A. I usually try to acquaint myself with whatever subject is of the greatest interest at the time.

Q. Do you write poetry?—A. Yes I do.

Q. Have you, Mr. McArthur, of recent years written financial articles for the *Canadian Courier* and for the *Farmer's Advocate* of London?—A. I hardly think, sir, that it would be proper to call them financial articles, because I make——

Q. Articles on financial subjects?—A. If you will permit me to explain my position perhaps it will be better. In my work as a writer I am interested in what affects the daily lives and efforts of men, from the day labourer on the street to the banker, and in doing this I naturally try to get hold of the controlling factors in the conditions at the time, and in that way, in studying the conditions here in Canada, I was forced to the conclusion that the banking situation was the dominant factor in our affairs. Without attempting to master the intricacies of banking but rather to consider the question from the results that seem to me to be naturally arising from it, I did write a series of articles for the *Farmer's Advocate* from that point of view.

By Mr. Thornton:

Q. I would like to ask you, Mr. McArthur, are you a practical farmer?—A. Well, I do every kind of work that has to be done on the farm when I cannot get a hired man.

Mr. MACLEAN (Halifax).—Perhaps it would be better to let Mr. McArthur make any statement he may desire in his own way.

By the Chairman:

Q. Mr. McArthur wants to speak on sections 10 and 13 as to whether a further system of local banks with smaller capital is desirable?—A. Well, in the study that I have made of local conditions it seemed to me that something was needed in the way of banking facilities. I could not see, however, that anything under the present system would help, that the tendency seemed to be entirely towards the formation of larger banks, and anything that I would have to suggest, of course, merely from my own point of view, would be the introduction of a co-operative system of banking for the use of the farming community; that I could not see how we could get any help in the rural districts from the larger banks. Now, if you will permit me to give a little experience that we had in our own neighbourhood, which helped to convince me in this matter, perhaps it will make more clear my meaning. The town of Glencoe, near which I live, has been very anxious of late to do some 'boosting,' as they call it, and they organized a boosting club, or in their more dignified moments they call it 'an industrial association.' The hope of this particular association was to get new industries started in the town that would increase the business, and also increase the prosperity of the town. They did me the honour to elect me an honorary member of their association, and I took an active interest in the work they were attempting to do. When we met to discuss the matter as to what business would be best adapted to the locality, we found that there was practically nothing at which we could make a

start with a hope that the business would grow. The only thing we could do was to approach some of the larger companies operating—described as trusts or mergers—and ask them to establish a branch with us. Investigating along this line, the fact seemed to stand out that these larger companies had been promoted through the facility with which promoters could get from the head offices of banks the necessary capital to put through amalgamations of various kinds. That meant that the money that was being deposited locally in Glencoe was going to Montreal and Toronto, to help these big business firms, to which we had now to apply for a local branch. It looked like sheer folly to attempt to start something of our own. We should have had to enter into competition with some great concern already financed by the banks; and although both our branch managers belonged to the Industrial Association there was no suggestion, on their part, of any form of local business useful to our district, which they would help to finance. So, after looking into the matter carefully, we decided that about the only thing we could do was to promote an apple growers' association and go in for fruit growing. It did not require any capital to be brought in. Apart from that, we found we could do nothing. A change had come over the country; that is, the money had been centralized in such a way that it had led to the centralization of all forms of business, and it seemed to be disastrous to all kinds of local enterprise. If the branch banks are a menace to the country, their work is already done, and I see no way by which it would be possible to undo it. They have worked themselves out, and if we, in local places, hope to do anything to advance ourselves, it must be by trying to promote government control of the larger institutions, so that they will not bear too heavily upon us; and then to start, once more, with co-operative banks that will use local money to promote such local things as can stand up against the conditions that prevail.

By Mr. Nesbitt:

Q. Could you not have formed joint stock companies, and by subscribing stock, started industries that would be a success in your part of the country?—A. Canning might be a success in our part.

Q. Could you not have got the neighbours to subscribe two or three hundred dollars worth of stock each, until you had got enough to start on a co-operative basis?—A. There was no business in which we could face the competition. As regards canning, I had seen a copy of the agreement the Dominion Canning Company made with the grocers, and the impression it left, on me, without quoting it absolutely, was that any grocer who undertook to buy from anyone except the Dominion Canning Company would have been shut off from being supplied by that company.

By Mr. Armstrong:

Q. Might I just ask, are you not aware that there are eighty-five canners, independent of the Dominion Canning Company?—A. I have not looked into that. I have heard of independent oil companies in the United States, but, in the last analysis, it was found that most of these independent companies were financed by the Standard Oil Company, so that, if any difficulty arose, they could present the argument that they were independent companies.

Q. Do you think any of these independent companies are financed by the Dominion Canning Company?—A. I know nothing about it; I only made that observation in regard to oil.

Q. I am satisfied, myself, that they are not.

By an hon. Member:

Q. You were speaking of the deposits at Glencoe. Would you mind telling us how much is taken in deposits there, and how much loaned out locally?—A. I can only

give you what is current talk down there. The prevalent opinion is that the deposits amount to something between $500,000 and $600,000 and that the amount used locally is $100,000.

By Mr. Nesbitt:

Q. What industries have you there now?—A. We had a foundry there, originally, but it has been taken in as part of a larger concern with head office in Toronto. Then, there is a milling company. I understand it is in process of being taken into a larger company.

By Mr. Thornton:

Q. Have you just one branch bank there?—A. There are two.

By Mr. Nickle:

Q. Was your difficulty that you could not get money to advance a business, or that you could not pick on an industry that would succeed?—A. We were unable to pick on any industry in which we should not have had to compete with a powerful company.

Q. The question was industrial, rather than financial?—A. Yes.

By Mr. Emmerson:

Q. In the figures you have given as the amounts received on deposit and loaned, you have taken no account, I suppose, of amounts paid by way of insurance premiums, life insurance, fire, and so forth?—A. No, that was not considered at all.

By Mr. Nesbitt:

Q. Would you advocate that a bank should start with seven shareholders, with a dollar apiece?—A. I do not feel competent to answer that question.

Q. That was the proposition, you know?—A. I was merely taking the results that co-operative banks have given in other countries, and I imagine they would be organized with the same efficiency here as in Germany and other countries where they have been successful. That method of organization I do not claim to know anything about.

By Mr. Hughes:

Q. What advantage would you expect the town of Glencoe to receive from a co-operative bank?—A. Well, co-operative banks in the older countries would finance a young man of good character, who was known to everyone in the district, and who wanted to start in, say, farming. It might be an advantage to us in that same way.

The CHAIRMAN.—Let us now take Section 34.

Mr. MCARTHUR.—I might say, in regard to local banks, that in interviewing and searching for information, we of the journalistic profession are sometimes given information which may lead us towards some conclusion, and yet we do not dare to disclose the name of our informant, for fear of exposing him to criticism or trouble of some other kind. At one period I was obliged to interview quite a number of bankers, Mr. McLeod among them, and one incident which occurred during those interviews made an impression which never left me. If I might, without disclosing the name of my informant, I will tell you what it was.

By the Chairman:

Q. You might tell us the character of the man who made the statement?—A. The manager of the head office of a bank in Toronto. The questions on which I was interviewing him, in the process of my work, were of a purely general character. I had not written, at that time, any articles dealing with the subject of banking, and on this occasion I was merely assigned to get certain information and was asking for it.

After explaining to me his ambitions for the future of Canadian banking, and what shape he expected it to take, he observed, perhaps somewhat irrelevantly, 'We are getting the banking system in pretty good shape. There is only one bank that is not in line with what we have been talking about, and we are going to get it.' and the animus with which he said 'We are going to get it' made me feel that it would be rather unsafe for a small bank to try and struggle with a powerful one which felt it necessary to take in the smaller.

By Mr. Nesbitt:

Q. You did not question him further, as to what he meant?—A. No.

By the Chairman:

Q. Taking up section 34 as to the rate and terms upon which new bank stock may issue. It is proposed that this be fixed by a court or commission instead of as at present by the directors on the issue of new bank stock.—A. The phrase that caught my eye in that, and about which I should like to speak to you is as to the establishment of a court or commission to deal with banking, if that is relevant at this point. We have a railway commission, and in the practice of my work I have had considerable dealings with the Railway Commission. I have found it necessary to criticise certain features of railroad management somewhat severely, and by being able to lay the matter before the railway board I was able to have certain things corrected. But I had a feeling, which I think was justifiable that the fact that that railway board was there not only enabled me to get the evils remedied but protected me from any reprisals on the part of the railways. For instance, when I was coming down here, there was no question about it, I could go to the station and buy my ticket and travel to Ottawa the same as any other citizen no matter how much I had criticised the railways. Now, I have criticised the banks, and I find that the situation is entirely different and there is no strong commission before whom I can lay my case to put an end to that sort of thing.

By Mr. Sharpe (Ontario):

Q. Have the banks discriminated against you?—A. Yes, not in the matter of money, but in the matter of coercing me.

Q. Will you explain that?—A. In this way. As I say I have been sending out my articles. I have been selling to the syndicate of Canadian writers, and they sell to papers throughout the country. I could not tell you what papers, but I understand there are fifteen taking my articles. In these articles I began criticising, or rather speaking of the privileges enjoyed by the Canadian banks. The first paragraph or two went through. I thought I could go a little farther and describe the privileges in more detail. But the articles were at once omitted from all the papers. Now, of course, I have no evidence on that particular case that the banks forced the papers to leave them out; but I never saw fifteen papers act so unanimously in my life.

By Hon. Mr. White:

Q. I was going to say when you found the fish in the milk pitcher it is strong evidence that it contained water.

By Mr. Jameson:

Q. Might that not have been done at the headquarters of the syndicate?—A. I received a letter from the editor of the syndicate stating that he thought the article a particularly happy one on the situation.

Q. He may have been a good politician?—A. Let me proceed to the next case. The *Farmers' Advocate* permitted me to write articles along the same line dealing with the banks and the *Farmers' Advocate* was promptly punished for its work in permitting this. So I have some reason to assume that the other papers did not publish because they were afraid of the same punishment. The banks immediately withdrew their display advertising from the *Advocate*. The editor, Mr. Albright, is here, and

APPENDIX No. 2

he can give you testimony as to what the banks did to them for publishing my articles on the subject. That was the only point where the question of a commission, or the necessity of having some commission came up where these matters could be taken up where a citizen could be protected in his rights even if he criticised the banks.

Q. Supposing that you critised the railways in your journals or letters could the Railway Commission compel them to continue advertising in the papers in which your letters appear?—A. No. I would not expect this banking commission to make them do it. But we could investigate whether they were coercing the critics.

By Mr. Ross:

Q. Would this commission have to report and look into the banks or just hear complaints?—A. I would not wish my suggestion on that to be taken as such.

By Hon. Mr. White:

Q. I was in hopes that it might develop into something of real practical moment here.—A. I was simply going to say that the commission which was mentioned, or rather the board mentioned by Mr. McLeod, could investigate.

By Mr. Nesbitt:

Q. It could not force them to put in that advertisement.—A. My point was not that they should be forced, but that the banks at the present time try to over-awe any critic by doing such things as stopping the advertisement in the paper that publishes such criticisms. There are other cases that I know of, but I will not mention them because I could not give the names of the business men involved.

Mr. NESBITT.—I am very much surprised. I would not think any bank would be cheap enough to stoop to any business of that kind.

By the Chairman:

Q. The next matter is as to the audit and inspection. What are your views with reference to that?—A. In following this question from the particular angle through which I have been regarding it, I received constant suggestions of peculiar kinds of banking practise that are very detrimental to the prosperity of the country and it seemed to me that if we had a system of inspection which would reach the roots of these matters we could put a stop to a number of practises that are freely spoken of in connection with high finance, the burden of which falls upon the people of the country.

By Mr. Nesbitt:

Q. For instance?—A. I would once more have to say that I would have to give instances without names if I am permitted to do that. You understand, Mr. White, the difficulty.

Mr. JAMESON.—These are hypothetical cases.

Hon. Mr. WHITE.—Of course, we desire very full discussion, but probably the committee should consider whether it might be fully as fair to the situation which exists.

Mr. MACLEAN (Halifax).—He wants to emphasize the conduct of banks in the country.

By the Chairman:

Q. Give it as a hypothetical case?—A. Of course, in arriving at my own conclusions, which lead me to criticise the privileges of the banks, I tried to be as fair as possible, and not to make any assertions until I found specific instances that satisfied me that something was radically wrong. I would ask your honourable committee if you would consider me justified in criticising banking conditions, and in believing that audit or inspection would be advisable if I found that in the case of a large borrower who happened to be urgently in need of money that he was refused accommodation until he had made a very substantial present of the stock in which he was interested to a director and manager of the bank which he was approaching.

By Mr. Nesbitt:

Q. You ought to tell us who that is.—A. I am merely putting a hypothetical case.

By the Chairman:

Q. Might I put this question? In your experience in collecting information for the various articles you have written have you come across cases of that character?—A. I have.

Mr. SHARPE (Ontario).—Mr. McCurdy's amendment deals with that. And it is a frequent practise they say.

Mr. NESBITT.—Not frequent, surely?

By the Chairman:

Q. Have you anything further to say on the audit and inspection?—A. It would seem to me that an audit might put a stop to that practise.

By Mr. Armstrong (Lambton):

Q. Was it a general manager that took stock of that nature?—A. Yes.

By the Chairman:

Q. Do you consider in a case like that he did it with the knowledge of the directors or on his own responsibility?—A. Is this part of my hypothetical question?

Q. Was it done independently by the managers or had you reason to believe that it was done with the knowledge and connivance of his board?—A. With the knowledge and assistance of one prominent director.

By Mr. Nickle:

Q. I do not feel like taking the responsibility of forcing the name from the witness, but he certainly owes it to the public to give that name to the Minister of Finance, and the Minister of Finance should take the matter up with the Minister of Justice?—A. Will you permit me to say that in following up these matters—as those of you who have practised journalism know—I was obliged to approach many people—I was very loath to speak of this at first—and simply by questioning arrived at sufficient testimony to convince me personally that the thing was absolutely true. Now if I yield to request, I shall have to give you the names of the witnesses who convinced me, shall I not?

Mr. SHARPE (Ontario).—You are protected here.

Mr. MCARTHUR.—Then I would not be asked to give the names of the witnesses? You see that is my position.

Mr. SHARPE.—You do not need to give the names to the committee. You asked for protection, and the committee grant it to you.

Mr. MCARTHUR.—In that case——

Mr. SHARPE.—You need not disclose the names unless you deem it to be your duty to do so.

Mr. MCARTHUR.—I would be perfectly willing to give the whole report of the case to the Minister of Finance privately.

Mr. NICKLE.—That is as far as you should go.

Mr. NESBITT.—The case you have given is altogether contrary to the Bank Act.

Mr. MCARTHUR.—Yes, I am quite aware of that.

Mr. SHARPE (N. Ontario).—I don't know that there is any special provision in the Bank Act covering that, because Mr. McCurdy has given notice of an amendment covering similar cases.

Mr. MCARTHUR.—Will you just pardon me. I will follow the same course as if I were connected with the staff of a newspaper. In that case I would explain to the editor the nature of the information I have gathered. In this instance I am perfectly willing to lay the evidence before the Minister of Finance.

Mr. NICKLE.—That is fair.

By the Chairman:

Q. Have you anything further to say on the matter of inspection? You believe that more inspection is necessary in order to prevent the recurrence of such instances as you have cited?—A. Yes, that was one of the things that convinced me that it was absolutely necessary to have a strong outside inspection.

APPENDIX No. 2

By Mr. Sharpe (Ontario):

Q. Who should appoint the inspectors?—A. That is a matter that does not fall within my province as an investigator.

Q. Should the directors appoint them?—A. To answer that question I should have to rely merely on my own opinion.

Q. What is your opinion?

The CHAIRMAN.—What is the use of pressing the witness when he says he has no definite idea on the subject?

Mr. SHARPE.—We are entitled to the value of the witness' opinion.

Mr. MCARTHUR.—My own opinion is that the inspectors should be appointed by the Government and should be absolutely independent of any banking influence that might tend to affect them.

By Mr. Armstrong:

Q. Did the general manager to whom you have referred actually receive the stock? —A. I can simply say that he was reputed to have received it according to the best evidence I could get.

By the Chairman:

Q. Now, as to monies loaned by Canadian banks in foreign countries?—A. On that question I do not claim to know anything beyond this: I have listened to the testimony that was given by Mr. McLeod and others, and am perfectly willing to be convinced that they are right when they say that a large amount of money should be, for instance, in the United States. But I have received complaints from business men on the matter and since I have interested myself in the investigation they have sent me information. I have received intimations from them that a wholly unnecessary amount of money is placed in foreign countries at the present time. If a tax would help to keep the requisite amount of money at home in Canada, it would be well to have it. Such is the view of these business men, and I am sorry that in this instance also I cannot disclose names, and I run the risk in withholding the names of being accused of casting a slur on the banks.

By Mr. Nesbitt:

Q. After hearing Mr. McLeod's evidence do you think it right for Canadian banks to make foreign deposits?—A. That is not the point at all. The accusation that has reached me—and I have been able to verify this as in the other case—was that it is a practice with Canadian banks to send a great deal of their money to Wall Street, to a much greater extent than is shown on the returns; that they have various methods by which they conceal the fact that this money is not at home in Canada, and that it appears in their statements under various other heads. For instance the accusation was made—I have heard it made within the past week—that when money was very tight a short time ago, there was something over 160 millions of Canadian money down in New York; which I think is largely in excess of the amount shown in the bank return.

By Mr. Nesbitt:

Q. Do you know that?—A. I forget the actual amount, and therefore could not give the precise figures, but it is larger than the bank returns disclose. Those returns have not been disclosing any such amount as 160 millions of Canadian money as being in New York.

By the Chairman:

Q. You have no personal knowledge of the truth of that?—A. No, it is a mere communication. For instance, there was a despatch to the *Toronto Globe*—I have here the clipping—that Canadian money was tied up in New York at the time.

By Mr. Armstrong (Lambton):

Q. The *Toronto Globe* is pretty good authority. Let us have its opinion.—A. It was not merely opinion, it was a telegraphic despatch that was published in the financial column.

By Mr. Thornton:

Q. What conclusion have you come to as to the effect of that state of our affairs in our business in this country?—A. That it seemed to be starving the business of this country. Money needed in this country should be kept at home instead of it being sent abroad.

Q. Do you know of any specific instance where the want of money was experienced in Canada and could you cite it?—A. I have had considerable outstanding bills and the explanation has been in every case 'Money is so tight just now that we cannot pay you for a few weeks,' and so on.

By Mr. Sharpe (Ontario):

Q. Have you any idea as to what proportion of Canadian money should be allowed to be loaned in the United States?—A. I have no idea on that subject at all.

Q. You have heard what Mr. McLeod and Mr. Waldron said as to the advisability of Canadian loans being allowed over there?—A. It seems to me that it would be advisable to agree upon a certain amount of money as being necessary over there, and then put a tax on all above what would be considered a logical amount so as to prevent this money which might be used at home in Canada being sent abroad.

By Mr. Thornton:

Q. About what percentage of tax would you say?—A. That is a question for bankers and legislators.

By the Chairman:

Q. I understand you wished to be heard with reference to the directors of a bank or banks lending to other banks where the directors were the same?—A. The point I had in mind was the one I have already discussed.

Q. Then section 91, as to the rate of interest which banks may charge to borrowers? —A. It has been covered in the instance I gave you where the borrower was forced to pay a bonus for getting a loan. That was the case I had in mind and I have covered that ground already.

By Mr. Thornton:

Q. Do you think that the banks charge an excessive rate of interest at the present time? For instance in Ontario?—A. The point I was trying to make is that they do not overcharge openly, but sometimes do so on the side. In a case such as I have cited, of course, the accusation is one of rank dishonesty.

By the Chairman:

Q. As to section 140, with reference to making an agreement to limit competition a punishable offence?—A. That is a point which, after considering—and trying to crystalize my thoughts into a definite idea, I decided was still too vague for me to offer any observations that might be of value to your committee. If I may be permitted to put it in a vague way, I am not convinced that those features of Canadian finance which have led many observers to believe that we have in this country a money trust have a real foundation in fact. I am not sure that these features really exist. As a student of these matters I have been led to believe that owing to modern conditions capital seems to be developing new laws, as yet imperfectly understood, and that, acting spontaneously, bankers who are more or less operating in the same district might appear to be acting in collusion when in reality they are acting in a perfectly justifiable way under the conditions. So that in reasoning on these matters I find myself without sufficient evidence to reach conclusions that would be of value.

By Mr. Sharpe (Ontario):

Q. What have you to say as to section 88, 'Loans to farmers on the security of grain and live stock?' You are representing the farmers that are interested in a way? —A. I have talked with the farmers out in the country and I find no demand on their part for that, because every respectable farmer who wanted accommodation seemed to be able to get it in the time of his need.

APPENDIX No. 2

By Mr. Thornton:

Q. You found that to be the case?—A. I did in our district. There seems to be reason for this when you look into it. There are times when a farmer is, after marketing his products, going to the banks to deposit monies. Now if the bank wished to enjoy the benefit of the farmers' deposits it must give him accommodation at other times when he needs it as a matter of policy. So I could not really say that this provision affects the farmer one way or the other.

Mr. W. D. ALBRIGHT called and examined.

By the Chairman:

Q. Your full name, please?—A. William Donald Albright.

Q. Your profession and residence?—A. Profession, journalism, and also farm manager; residence Westminster township near London.

Q. You are managing editor of the *Farmers' Advocate*?—A. Yes.

By Mr. Sharpe (Ontario):

Q. Where is it principally circulated?—A. The edition of which I am editor circulates throughout Ontario and through the Eastern provinces.

Q. Where does it circulate outside of Ontario?—A. To a considerable extent in Quebec and the Maritime provinces, and to some extent through other countries.

By the Chairman:

Q. As to Section 34, what have you to offer to the Committee with reference to that, as to the rates and terms upon which new bank stock may be issued?—A. The points I wished to deal with there was the matter of a commission, but perhaps that may be better dealt with later.

Q. You can deal with that now. You want to supplement what Mr. McArthur said about a board or commission?—A. Yes.

Q. You may as well take it up now?—A. The conclusion I have arrived at, looking at this in the public interest, is that there is need in this country for a court or commission which shall be, if possible, absolutely non-political, and capable, independent and efficient, to supervise and regulate the banking business, to see that it is properly audited by auditors or experts employed by the commission; that this commission should be constituted along the same lines as the Railway Commission, which employs its own experts, and that it should not contain a majority of bankers or appointees of the banks, but that it should contain a majority of members who might look at this matter rather from the standpoint of the public interest. The justification I would urge for this commission is similar to the justification that has been urged for the Railway Commission, the ground being that the bank is in any case a public service institution enjoying a public franchise which makes it a monopoly, in fact, not meaning to be offensive at all, a legalized combine, the Bankers' Association being incorporated as a close corporation. Moreover the banking facilities are in their nature and description a geographical monopoly in some instances. There are instances where local conditions warrant the establishment of only one branch bank, and in these cases the public have to utilize this bank or forego banking facilities. The public has, therefore, an interest in this matter and has a perfect right to see that the business is regulated and supervised in its interest.

By the Chairman:

Q. That court or commission would, to some extent correspond to the board of bank inspectors which has been suggested before this committee?—A. It would, and it seems to me, while I am not a banker nor yet Finance Minister, and therefore not obliged to devise details, that this commission might very well have extensive powers which would enable it to deal with such cases as have been referred to by the previous speaker, and it might have authority to investigate cases where it is alleged that bank-

ing accommodation has been withheld for certain reasons, that it should have extensive powers corresponding with those of the Railway Commission.

By Mr. Armstrong (Lambton):

Q. That it should be a working commission like the Railway Commission?—A. It should, and it is of the utmost importance that men of high calibre should be chosen, and not more than one banker should be on the commission. I can see that one banker might very well be there.

By the Chairman:

Q. Then have you anything to say about the system of government inspection?—A. I have outlined my idea, and I have discussed this matter with a good many friends and neighbours recently, and so far they have all agreed with me that it would be very much in the public interest.

By Mr. Thornton:

Q. Have you talked the matter over with business men and manufacturers?—A. With a few.

Q. Do they all agree with your suggestion?—A. So far no one has taken exception.

By Hon. Mr. White:

Q. They all favour a commission?—A. Yes.

By Mr. Thornton:

Q. Do they seem to have complaints to make?—A. Some of them have, and perhaps I may confirm here better than anywhere else, what the previous speaker said when he mentioned my name. I know it to be true, that among publishers there is a very great fear of offending the banking interest.

By the Chairman:

Q. Is it because of what bankers can do or what they may withhold?—A. What they can withhold directly and indirectly, and the indirect influence which they exercise is far more feared than the direct influence. Now, in support of what the previous witness has stated to the effect that the *Farmers' Advocate* was believed to have been punished for publishing articles which other papers refuse to publish, I will give you the evidence on which we have arrived at that conclusion, and I will submit to you whether my inference is not warranted. The evidence lacks a little of being absolute proof, but is perhaps closest to being that of anything I have come across yet bearing on this matter. Of course it is difficult to get proof, because the bankers are not crude in their methods. Mr. McArthur's series of four articles on banking appeared in the *Farmers' Advocate* in the issues of March 28, 1912, April 4, 1912, April 11, 1912 and April 18, 1912. Previous to that time the *Farmers' Advocate* had been carrying an increasing amount of display advertising on contract account for several banks, and the number was increasing, as was also the amount of other advertising, which is still continuing to increase at a very marked rate.

By Mr. Sharpe (Ontario):

Q. What banks were they?—A. I do not think it necessary to give the names but I can do so if required. One of the leading banks in Canada, a leading bank in Toronto, was one of the advertisers.

By the Chairman:

Q. It is a matter of public record, any one desiring to do so can turn up the paper of those dates and it can be demonstrated.—A. Well, if you desire it I will give them. The Bank of Toronto's last regular advertisement appeared in September. Before the termination of the contract there was some time during which they were using no space, and the contract was not renewed. The Canadian Bank of Commerce contract expired in May, but their last regular advertisement fulfilling the contract appeared

in June, 1912, that contract was not renewed. The Traders' Bank contract would have enabled them to spread their space over a year, but they used up all their space in February.

By Mr. Sharpe (Ontario):

Q. Did they assign any reason for discontinuing the advertisement?—A. Subsequent to the appearance of the article before mentioned the advertising manager called repeatedly upon the officers of the banks through whom he had secured this business, but was not able to secure an audience with any of them. It is true lately some of the banks having relented to the extent of giving us their bank statements, which are in a different class from the regular bank advertising, but we have now no regular display bank advertisements. The advertising manager has informed me that a few of them have shown a more favourable disposition of late, although one of them asked him politely when he called recently whether we were carrying any bank advertising now, and when the advertising manager replied in accordance with the facts the bank official said, 'I do not expect that you will.' These are the facts, related precisely as they became known to me from time to time, and as I have verified before coming here, when discussing the matter with our general manager, who is one of the most successful publishers in Canada and a reputable business man.

By Mr. Nesbitt:

Q. You do not know as a fact that is why they cancelled the advertising?—A. I have stated that it lacks a little of absolute proof, but the committee can judge for itself how far that conclusion was warranted. The fact that Mr. McArthur's letters to the syndicate, along the same line, were not published, but were promptly put under the ban (although one paragraph in the body of a previous article went through) is corroborative.

Q. Was it because you were charging more than you should charge for your advertising?—A. The answer to that is to be found in the fact that the other advertising is increasing.

By Mr. Sharpe (Ontario):

Q. At any rate they never assigned as a reason for withdrawing the advertising that you were overcharging?—A. To the best of my personal knowledge they did not. As I say, for a considerable time they refused to give our advertising solicitor an audience.

By Mr. McCurdy:

Q. Do you make special advertising rates, as some other publications do?—A. No, our rates are uniform.

By Mr. Nesbitt:

Q. Do any other class of business people withdraw their advertising?—A. Yes, on several occasions. I may say that human nature seems to be manifested in this matter of advertising. In my capacity of editor I am frequently criticised for taking positions on public questions which do not agree with the views of various firms who are spending money for advertising. It is not uncommon in the case of our paper, as with other papers, for advertising to be withheld when the paper has taken a stand on public questions not in accord with the advertiser's view, but I may say that as far as the bank officials go, there is no extensive class of advertising that seems to be quite so sensitive to criticism as the bank advertisers, and I am able to state that many publishers whom I know are very much afraid of antagonizing the bank interest, not only for fear of the withdrawal of the bank advertising, which of itself is not of such very great consequence, but they are afraid of the indirect influence of the banks by which other advertisers might be influenced.

By Mr. Sharpe (Ontario):

Q. Are you of the opinion that by reason of these articles the bank advertising was discontinued?—A. You can draw your own conclusions.

By Mr. Nesbitt:

Q. But as a matter of fact you do not know that it was so?—A. I do not absolutely know, but I leave it to the committee to draw their own conclusions.

Q. As a matter of fact you did raise your advertising rates last year, didn't you?—A. Yes, the rates were raised slightly.

Q. Considerably?—A. Not very much, a cent a line or so.

Q. It just so happens that I know of firms who did withdraw their advertising because they thought you charged more than your paper warranted them in paying you. You know that all business men keep all of the inquiries they receive from advertising?—A. Not all, some advertising is of such a nature that the checking system is impossible. Bank advertising is of this nature.

Q. Some business men do drop papers that they think it does not pay them to keep advertising in. I do happen to know of advertisers who stopped advertising because they thought you charged them too much?—A. Not many.

By Hon. Mr. White:

Q. I suppose it is not suggested that we could cure a situation like that by any legislation?—A. My belief is that a court or commission, with full powers to investigate grievances, will have a wholesome, corrective and deterrent influence, and be a protection to the individual, who is now afraid almost to whisper a vital opinion against the policy of a bank.

Q. Have you in mind any commission or court that should take action and restore the advertising or not?—A. Not necessarily. I submitted the evidence in question as indicative of what might be manifested in other ways.

In regard to the tax on issuing bank notes, it seems to me that in view of the valuable franchise enjoyed by the banks, that one of two things should be done. I am not sure that the former is feasible, but I mention it as a possible alternative; that the note issue should be in the hands of the government. If that is not feasible, then this valuable franchise, by which the banks are able to duplicate their capital, should be taxed. At present, as I understand it, the banks draw two interests upon part of their capital, and one interest upon practically the whole of it. They draw one interest on their reserves on call in New York, and four per cent on what is deposited with the government.

By the Chairman:

Q. How about the specie that lies in their vaults?—A. They do not draw more than one interest on that. They draw one interest upon all their capital and two interests upon a part. In other countries, I believe, this note issue is taxed, and I see no reason why it should not be taxed in Canada. Another point comes in here. Our banks are enjoying a valuable privilege, which will be immensely more valuable as time goes on. The banks are putting up buildings valued at five million dollars and writing them down at six hundred thousand dollars, and there are, in addition to this, concealed profits in various forms, besides all of which they are earning an amount of money which equals a dividend of twelve to eighteen per cent.

Q. If you had bought a farm for a thousand dollars and your improvements had increased the value of the farm to two thousand dollars, and you were making, say, a hundred dollars a year profit, would you calculate that hundred dollars on your original one thousand dollars or on the two thousand dollars, when reckoning your rate of interest?—A. As the value increased, I would count the increment as part of my profits and start the new year with a new valuation.

Q. Suppose you put the profits back into your farm and it was double, eventually, its original price. Would you calculate your profits on the double valuation or the original valuation?—A. It might be calculated very well upon the original valuation.

By Mr. Robb:

Q. How much capital have you?—A. About $33,000.

APPENDIX No. 2

The CHAIRMNA.—Mr. Albright is not on our list of regular witnesses, but if the committee has no objection, we shall be glad to consider him as such.

Carried.

By Mr. Sharpe (Ontario):

Q. Do you agree with Mr. McArthur that liens on live stock are illusory?—A. I am not positive that there is a great advantage in that. I can conceive that the bank might, in some cases, be more ready to extend credit where it was needed, if there were such a lien, but I fancy the value of th privilege might easily be over-estimated.

Mr. ALBRIGHT.—Before I conclude I would like to give the substance of a letter I have received, in regard to the banking situation. It emphasises the point that the public believed that the government and the Bankers' Association were behind the Farmers' Bank, and that therefore they were safe with such a backing. I only wish to say that I think this emphasises the necessity for a proper inspection.

Witness retired.

Committee adjourned.

HOUSE OF COMMONS,
COMMITTEE ROOM No. 101,
FRIDAY, April 4, 1913.

Committee met at 11 a.m., Mr. Ames, the Chairman, presiding.

Mr. CLARKSON called and examined.

The CHAIRMAN.—Mr. Clarkson has submitted to the Department, a few suggestions as to technical and clerical changes, on Sections 11, 12, 16, 37, 119 and 125; but as these are being taken up by the Department, we are not going to bring them before the Committee.

Mr. SHARPE (Ontario).—Would there be any objection to putting them on record as part of his evidence?

The CHAIRMAN.—I will do that. Mr. Clarkson will be examined only on Section 56.

The above memoranda filed.

By the Chairman:

Q. Kindly give the committee your name, address and occupation.—A. Geoffrey T. Clarkson, accountant, Toronto.

Q. Will you tell the committee what experience you have had in connection with banks and banking?—A. I am a liquidator of the Monarch Bank, the Farmers' Bank and have been acting in connection with the Sovereign Bank.

Q. Your experience, then, has been in following out the procedure set forth in the Bank Act, more especially in connection with the winding-up of banks in difficulties?—A. Yes, banks and companies.

Q. Will you give the committee the benefit of your experience, in such form as you see fit, as applicable to section 56, on the audit and inspection of banks?—A. I will take up the sections as they appear here. 'The shareholders shall, at each annual general meeting, appoint an auditor or auditors, to hold office until the next annual general meeting.' I belive they should appoint the auditor. I do not think it matters very much who appoints the auditors, so long as they are firms of standing and reputation. My idea is that the shareholders should appoint them, subject to the approval of the Finance Minister. You must be sure to get firms of standing as auditors.

Q. Do you think it would be desirable that the appointment be made of firms, or of individuals? Does it not sometimes happen that a well known firm of auditors appoints, through pressure of business, a relatively inferior subordinate, to do the work?—A. I do not think there is any chance of that in connection with auditing banks. The matter is too serious.

Q. You think it would be perfectly safe to name responsible firms, rather than individuals?—A. If an individual is named, he will have to get other people to help him, and he would choose the other members of his firm.

By Mr. Sharpe (Ontario):

Q. A shareholders' appointment would be virtually a directors' appointment?—A. It might or might not be.

Q. But, ordinarily speaking?—A. Ordinarily speaking, the directors would have some effect upon the minds of the shareholders.

Q. Do they not dominate the annual meeting, by reason of their stockholdings and proxies?—A. The directors certainly dominate a meeting so long as they have the confidence of the shareholders. I do not think it makes any difference. It is the quality of the firm you get.

Q. I am just instancing a case. Supposing the directors had anything to conceal, they would not select a reputable firm, but a dummy?—A. I do not think there is much chance of that.

Q. I am not asking you whether there is any chance of it, but I say, if the directors had anything to conceal, they would appoint an incompetent man?—A. I think the chance of their doing so is very light, because I think the public would judge a bank by the auditors appointed. The reason I mention the auditor being approved by the Finance Minister is to get over any such chance.

By Mr. Thornton:

Q. You say that if one of the leading members of a firm of auditors was appointed, he would employ, in any case, a subordinate to do the work?—A. To make the proper inspection, he cannot do it all alone. Subordinates help, but he has to take charge of the work, and the final compilation of the statement.

By Hon. Mr. White:

Q. As I understand it, for a great many years your firm has been engaged in business as accountants and liquidators?—A. That is right.

Q. Is there any firm in Ontario, so far as you know, with a wider experience than yours?—A. I do not know of any firm that has had a wider experience.

Q. So it is proper to say—without causing you to make the statement—that your firm has been one of the leading firms of accountants and liquidators in the Province of Ontario for a great many years. Your father, a member of the firm, frequently was appointed by the courts as liquidator and receiver, was he not?—A. Yes.

Q. You have been the liquidator in the case of the Monarch and Farmers' Bank?—A. Yes.

Q. Of the Farmers' Bank, from the time it was placed in liquidation?—A. Yes.

Q. And you are aware of the causes that brought about the downfall of the Farmers' Bank, the loans, mismanagement, fraud, etc.?—A. I am aware of it.

Q. What would you say as to this: Supposing a thoroughly competent firm of auditors had been engaged by the shareholders of the bank or by the directors of the bank, to audit its books and give the certificate called for in the Bank Act, from year to year. What would you say as to the possibility or probability of the bank carrying on business, if it did carry it on, and the directors and managers acting as they did in connection with the administration of that bank?—A. I would say, if there had been an inspection by a thoroughly competent firm, it would not have prevented the failure of the Farmers' Bank. It would have allowed the condition of the bank to become known in time, however, to save a great deal of what was other-

wise lost. The failure of the Farmers' Bank was brought about by the fact that a bad loan was made, and in trying to recover that, the officials loaned to the Keeley mine. I believe, of course, that the Farmers' Bank was insolvent before it started, on account of the cost of organization, but apart from that, it would have failed from mismanagement.

Q. Just to develop that idea a little—auditing, in your judgment, would not prevent mismanagement, but it may prevent losses by drawing attention to the mismanagement at an earlier date?—A. Exactly.

Q. So the wreck of the Farmers' Bank was brought about by their making a loan, and their subsequent acts in connection with that loan?—A. Exactly.

Q. They got in deeper and deeper?—A. Yes.

Q. Apart from that, I understand you to say the bank was insolvent at the beginning?—A. Yes, from the inauguration of the bank.

Q. On account of expense?—A. The cost of organization.

Q. How many branches did they own?—A. Twenty-seven.

Q. Were there losses, or not, in connection with the administration of these branches?—A. There were very few losses.

Q. I do not mean losses in connection with loans, but the opening up of branches. —A. Half the capital was used in opening branches.

Q. The reason I call attention to that is this, that the Sovereign Bank, by opening up so many branches as to constitute a drain upon the bank from the beginning, were, to use an expression, bleeding to death from that cause. Would the statement be true, with rtgard to the Farmers' Bank, that it was bleeding to death, in one sense, from the opening of branches?—A. Certainly, they had not a branch that paid them.

Q. Half the capital was lost in that way?—A. Yes.

Q. An auditor could not prevent that?—A. That is a matter of policy.

Q. Could an inspector prevent it?—A. Not unless he wanted to set his opinion up against the directors of the bank.

Q. So that if the policy of the bank was controlled by the directors elected by the shareholders, so far as the loss of 50 per cent of the capital of the Farmers' Bank was concerned, an auditor or inspector, in your view, would not have been able to prevent that?—A. Not according to this Bank Act. My idea is that the department of Finance should control the policy of the bank, where it becomes necessary to do so.

Q. In opening branches?—A. No. I mean the general course of its business.

By Mr. Sharpe (Ontario):

Q. What do you mean by policy?—A. The general policy, keeping reserves, the amounts it puts in fixed assets, the general policy on which it does its business.

By Hon. Mr. White:

Q. You say that 50 per cent of the capital of the Farmers' Bank went in opening branches. How much was lost on the Keeley mine?—A. $700,000, with interest, went into it.

Q. So that between the opening of branches and the Keeley mine, the capital was wiped out, and more?—A. Yes.

Q. Did they pay any dividends on capital?—A. $50,000.

Q. That was improperly paid, under the Bank Act?—A. It was an illegal payment.

Q. Would an auditor have been able to check that up?—A. He certainly would.

Q. As I understand it, in order to make their profits appear to be as published, they increased the value of their mine holdings?—A. Yes.

Q. Arbitrarily?—A. Yes.

Q. Would an auditor object to that?—A. He certainly would.

Q. Is that, or is it not, in accord with the principles of good accounting?—A. Strictly in accord with it. The whole matter simmers down to a question of opinion,

as to whether it is right or not, and in valuing any assets there is room for a difference in opinion.

By the Chairman:

Q. And in the case of the difference of opinion, what appeal is there?—A. There is no appeal. That is one objection I have to this section.

By Mr. Sharpe (Ontario):

Q. What is your suggestion?—A. An auditor goes into a bank—I do not agree with Mr. McLeod when he says that a proper audit of a bank can be made in two or three days.

Mr. THORNTON.—Are we allowed to ask questions?

The CHAIRMAN.—Let Mr. Clarkson finish his statement.

Mr. CLARKSON. I know the difficulty of valuating the assets of any bank, and I think the people most competent to do it are the directors and the officers of the bank. I do not think that any auditor is competent to go into a bank and make a proper inspection within two or three days.

By Mr. Nesbitt:

Q. Not even if he is a government appointee?—A. No matter who he is.

By Hon. Mr. White:

Q. You know the branch bank system of the chartered banks of Canada. There are some 2,800 branches altogether, some of them of minor, and some of greater importance. Supposing there is a bank, with large important offices in Montreal, Toronto, Winnipeg, Vancouver, New York and London, and that you are an inspector reporting to the government with regard to the affairs of that bank. Could you, or could you not, get the information that would justify you in making a statement as to the condition of the head office within a short time?—A. Not within two or three days. Within a short time you could not reasonably investigate the large loans, it would depend upon the size of the bank.

Q. Supposing they had large loans at the points I have mentioned, what would you have to do?—A. My opinion on that is that the people most competent——

By the Chairman:

Q. I was just going to suggest to the Committee that we allow Mr. Clarkson to make his statement, and that we should take note of the questions we wish to ask him. Would you give in your statement, first your idea as to whether this shartholders' audit as proposed here is advisable or if not wherein you think it should be improved?—A. I think it meets the case if you get a proper firm of auditors, but I think you should thoroughly understand in the inspection of any bank that the question of the value of the assets is going to come down to an 'opinion', the opinion of the auditor as opposed to the opinion of the officials. The persons most competent to determine the value of the assets of the bank are the officials of the bank and in order to enable an auditor, if he is going to make an inspection, to get these opinions as closely as he can, the senior officers in each branch should be required to send a declaration to the auditor giving a list of loans in each branch and their opinion in regard to any of these of which they have any doubt. This course brings the matter before the auditor immediately. Then the auditor can go over the larger loans of the bank. These are really the matters which affect the situation, although a lot of small items in branches might also affect it. If he is of the opinion that the loans are not worth the amount at which they are stated, I think he should be allowed to refer the matter to the board of directors and take a certificate from them as to the value. We should require that he immediately communicate with the Department of Finance and inform them as to the situation in case of an issue as to value with the directors, and it could determine between the directors and auditors as

to whose opinion is right. Otherwise the auditor could say to the directors of the bank: My opinion is so and so; you will have to make sufficient reserves to the banks once the public statement shows an impairment in the reserve fund. There is only one end to it. I do not think it is right that any auditor, or any two or three men, should have the power to determine, upon their opinion as to whether the bank is to be allowed to continue in business or not, particularly when it is a question as to whether their opinion is any better than or as good as the opinion of the officials of the bank they are auditing for who have no chance to object with effect.

Q. Generally speaking, what are some of the distinctions that you would apply to determine the relative solvency or strength of banks if you look over their statements?—A. The relative solvency would depend upon the amount of their assets as compared with their liabilities, and the amount of their assets would come down to a question of opinion.

By Hon. Mr. White:

Q. I want to come back to the question of discounts, the valuation of paper under discount by the banks. The returns show that a very large proportion of the assets of the chartered banks of Canada are in discounts, in commercial paper?—A. In loans, yes.

Q. Supposing you have a bank carrying on business throughout Canada and in the United States and abroad, and, disregarding for the moment small accounts, but having a number of branches and offices in which there are large accounts with firms, or in which there is commercial paper representing large amounts under which the obligation of individuals is held, could an auditor or inspector pronounce as to the value of that paper unless, of course, something was brought to his attention that would suggest fraud or impropriety? How would his opinion be, as compared with that of the directors or officers of the bank?—A. I do not think it would be as good.

Q. Could it be as good?—A. No, I do not think it would be as good because they are dealing with the situation from day to day and it is their business to know all about the matter. An auditor, however, could make himself familiar with the larger loans and keep in touch with them sufficiently to know whether, in his opinion, they were good, or whether there was a doubt as to their value.

By Mr. Sharpe (Ontario):

Q. Then you think there should be a perpetual audit?—A. The auditors could keep themselves in touch with the situation. I do not think you can step into a bank for a week and then come out with a proper audit.

By Hon. Mr. White:

Q. Let us say a firm or company gets a credit from a bank to cut timber on the Pacific slope of half a million or a million dollars, or more as the case may be. Who should be the judge, or who must be the judge, if that is the proper expression, as to whether that credit is justified or not?—A. The people most able to judge would be the officers who made that loan.

Q. Would an auditor or inspector coming in from the outside be in as good a position to judge, unless he knew the conditions on the Pacific coast, as would the officers of the bank?—A. Certainly not.

Q. Would that also apply to the United States, on any commercial business done on the Pacific coast?—A. I think so. This question of values is a very hard one indeed. In fact, the question of value depends upon opinion, not on fact at all.

Q. Could the Finance Department, or an auditor, form a judgment with as great discretion as the directors or officers of the bank in making commercial loans of large amounts?—A. That would be foolish. What are the officers for? If that were the case the department might just as well manage the banks and be done with it.

Q. In the event of course of anything being brought to the attention of the auditor that would suggest fraud, he would call attention to it?—A. Certainly that would be his duty. The officers know more about the credits. A statement from them is the

closest an auditor or inspector can get as to the value of the accounts. I say an auditor cannot make an inspection or audit in a week.

Q. It has frequently happened in connection with banks that a bank makes a loan of $300,000 or $400,000 in the exercise of its bona fide discretion to a firm or company, thinking it is a good loan. Let us assume that that company gets in a bad way and begins to lose money, and the bank is in doubt as to the policy it should pursue as to how that loan is to be realized, whether they will give a further extension or whether they will shut down absolutely and take their loss. Whose discretion, in your opinion, should be determinative as to the action to be taken there?—A. The managers and directors of the bank should deal with that.

Q. And should the auditors have power to say: I want you to terminate that loan or otherwise?—A. Any auditor or inspector who did so would be a very brave man to set his opinion up against that of the officers whose business it is to attend to that matter.

Q. So long as there is no element of fraud?—A. So long as there is no element of fraud or dishonesty.

Q. You spoke a moment ago of the Finance Department directing the policy of the banks. I was not quite sure as to what you had in mind.—A. Perhaps that word was unfortunate. I mean that if a bank carries on its business in a conservative way, that is to say, has reasonable liquid resources, does not invest too much in fixed assets, and keeps its loans within what is thought to be safe limits of banking business, that would be all right. But where a bank becomes reckless and invested too much in real estate, or tied up its loans in dead accounts and did not keep sufficient reserves, then its policy would have a very great and detrimental effect upon the value of its investments.

Q. All the banks give information now in their annual statements as to the matters you have mentioned. For example, the statement shows the amount of specie, Dominion notes and commercial loan; also the amount in real estate. Had you in mind that the Finance Department might take up a statement like that and say: Now, we think you have too much in real estate, and that you are getting into an unliquid condition? —A. The banks render monthly statements, and it is my idea that where any bank got reckless the department could say: We do not consider your policy is conservative enough; and so check it.

By Mr. Sharpe (Ontario):

Q. How would you enforce the authority of the Department of Finance if the bank refused to act on their suggestion?—A. I do not know whether they have the right to withdraw the license or remove the management.

By Hon. Mr. White:

Q. I want to refer you to paragraph 56A for a moment. I understand you to say that the Minister or the Department of Finance could glance over the statement of any bank and if there was anything there that indicated improper banking he could call the attention of the bank to it and take such steps as may be determined by this Act.

Now section 56A reads:—

> 'The Minister may direct and require any auditor appointed under the next preceding section of this Act to examine and inquire specially into any of the affairs or business of the bank, and such auditor shall, at the conclusion of his examination and inquiry, report fully to the Minister the results thereof.'

Let me ask you this: I am assuming that this auditor would be a man of qualification, a man who would not collude with directors or with officers. Supposing there was anything in the annual, or monthly statement, that attracted the attention of the Minister as indicating bad banking. In your judgment would or would not this provision assist materially in correcting that situation? You see the

section says that the minister may direct and require any auditor to examine and inquire into any of the affairs or business of the bank, and the auditor shall report fully to the minister the result thereof. Now supposing you were auditor, let us say? —A. It seems to me that the statements on the face of them would largely show the condition of the bank without having to go through such a procedure.

Q. Just one other question and then I am through, I do not want to monopolize the time to the exclusion of other members of the committee. You say that in your judgment this audit would be effectual if the auditor was approved by the minister? —A. I do not think there is very much chance of the banks appointing auditors other than those of standing. At the same time, to overcome any such chance I think the Department of Finance should approve of the nomination. I think they should take up and assume the burden of this duty.

Q. Then if the Department of Finance, or the Minister, has to approve of the auditor, that approval should be given before the appointment has been made, because I suppose it is not expedient to change something that has once been done? —A. It would be far from expedient to change the auditor after he was appointed.

By the Chairman:

Q. Would that lead to the necessity of a certified list of anticipated auditors being dealt with by the department?—A. I do not know that that will follow. It is provided in the Act, is it not, that nominations are to be made? As soon as they are made they could come before the Minister and he could signify his approval or disapproval of any of them.

By Hon. Mr. White:

Q. The minister of course should exercise a very proper and judicial discrimination, he should not be influenced, as Minister of Finance, by any considerations other than the getting of a suitable auditor?—A. The matter is too serious for anything else than that quality of consideration.

The CHAIRMAN.—Suppose the auditor is named by the shareholders at their annual general meeting. The annual meeting is over and the minister declines to ratify the nomination. That means the calling of another meeting, does it not?

Hon. Mr. WHITE.—The minister should approve of the nomination before the appointment is made, because it might be embarrassing to disapprove after a man had been appointed. You might have a very respectable man, but an incompetent one in the opinion of the minister, and if his appointment were not ratified it would place the man in a very awkward position before the public.

By Mr. Thornton:

Q. We understand that you are thoroughly in accord with the idea that independent auditors should be appointed?—A. I think it will be a benefit.

Q. You have already answered some questions in connection with the Farmers' Bank. Do you think that an independent audit, such as is contemplated in connection with the Bank Act, would have disclosed at the end of six months, or at the end of a year, the true state of affairs in connection with the Farmers' Bank?—A. An audit would have disclosed the condition of the Farmers' Bank as soon as it had been made, but it would not have disclosed within six months that the loan which really wrecked the bank was a bad loan.

Q. Was the Farmers' Bank a member of the Bankers' Association?—A. It as.

Q. According to your investigation did the Bankers' Association know the true state of affairs in connection with the Farmers' Bank?—A. That is a question I cannot answer. The true state of affairs——

Q. In your investigation did you find that out or did that come under your notice? —A. Most people knew, a few months prior to the failure of the bank, that it would likely get into difficulties.

Q. Did you hear what Mr. McLeod said yesterday?—A. No, I did not.

Q. Well, Mr. McLeod made the statement, and he made it most emphatically, that every bank manager in Canada knew from its inception that the Farmers' Bank could not stand.—A. What would give them that opinion would be the character of the man at the head of it. I doubt if every bank manager in Canada knew how the Farmers' Bank was incorporated, but most people did know that the people at the head of that bank were utterly incompetent to run a bank and would wreck it sooner or later.

Q. Supposing the bank's true condition could have been known by the appointment of a competent auditor, appointed in the same way as is supposed under this Act, or perhaps in some better fashion, could the true state of affairs have been publicly known within say 18 months after the bank had started business?—A. I say that the true condition would have been known whenever an audit was made except to this extent—that the auditor would not have been able to tell that the loan which wrecked the bank was bad at that time.

Q. Supposing the true state of the affairs of the bank had been known, we will say inside of 18 months of its inception? There had been very few deposits up to that time and there would have been very little loss to depositors had the truth been disclosed?—A. The losses would undoubtedly have been minimized.

Q. When it was known that the bank could not exist, and yet it was allowed to go on for four years, was there not something approaching criminal negligence on the part of somebody, on the part of the authorities in some way in this country?—A. We may suspect very many things that we lack proof of. No, I should not take that stand.

By Mr. Armstrong (Lambton):

Q. Did I understand you correctly, Mr. Clarkson, in stating that all disputed claims between the auditors and the directors should be referred to the Finance Department?—A. No, I pointed out that as this section is cast here, the auditor is paramount.

By Mr. Nickle:

Q. What section is that?—A. Section 56. Under that section as framed, the auditor is paramount, and if, considering the position of the bank, he came to the determination that certain reserves should have been made to meet impairments, he could refuse to sign his certificate unless his opinion was acceded to and the directors or the officials of the bank could not make him sign it. If they were under pressure to call a meeting they would have to go to that meeting without a certified statement, or else go with a statement showing impairment, and then the risk of wrecking the bank would occur. As I said before, it is not right that such a thing should happen. My idea is that the auditor should have the right to refer any question of opinion to the board of directors, and accept their view. This audit is not preventive. It merely discloses what has happened up to that time. After the certificate has been signed on the basis of the directors' opinion the matter could be referred to the Department of Finance, which could determine whether the opinion of the auditor or the opinion of the directors was correct.

Q. Would the directors or the auditor make that reference?—A. The auditor. He would take the opinion of the Board of Directors and then bring the matter before the Department of Finance.

By Mr. Armstrong (Lambton):

Q. The auditor is now appointed by the directors and shareholders, is he not?—A. Yes.

Q. Your suggestion then practically is to leave matters as they are at the present time in regard to the appointment of auditors?—A. I do not think it makes any difference who he is appointed by as long as he is a man of standing.

APPENDIX No. 2

By the Chairman:

Q. Do you think that when an auditor named by the shareholders goes through the accounts of the bank and submits his report to the shareholders, or to those who have appointed him, he should transmit a duplicate of that report to the Minister of Finance?—A. The department will get it any way from the bank because the auditor's report will be in the form prescribed in the Act.

By Mr. Armstrong (Lambton):

Q. Would not the Finance Department be loaded up with a lot of disputed claims from the banks from time to time?—A. What are you going to do about the matter? When the situation is one which involves the continuation or failure of a bank, the officials ought not to be deprived of the right of stating their opinion against the auditor's opinion, and you have to refer to somebody outside them for final determination.

Q. Would the directors be likely to re-appoint an auditor who disclosed the unfortunate result of any of the loans that they had made?—A. If they did not, I do not suppose the auditor would object.

Q. Then your idea is that the auditor is to be appointed by the bank directors and shareholders and only for that one bank?—A. No, I do not think that any auditor will be able to give a proper inspection unless he has two or three banks under his charge, because the force he will need will be expansive. He will need a number of men and will require to have under his charge two or three banks to do his work effectively. Of course if any one man has got an effective force outside he can do it.

By Mr. Broder:

Q. Why should the auditor report the facts? Why should his opinion have such weight?—A. The whole question of the value of the assets is one of opinion.

Q. He is reporting the conditions?—A. That is the condition in his opinion.

By Mr. Ross:

Q. I did not hear your evidence in regard to the failure of the Farmers' Bank. Can you tell me what proportion of the losses occurred through the operations of the head office and what proportion through the branch offices?—A. I cannot tell you that.

Q. Can you tell me what proportion of loss was incurred through the investment in the Keeley mine?—A. Do you mean bad debts in the branches and bad debts in the head office?

Q. The losses through operations in the head office or otherwise, if you can give it.—A. I do not know what the percentage of losses through operations was.

Q. Give us the amount of the bad debts?—A. They left so little in the branches that there was practically nothing to lose there. I should say there was over $5,000 or $6,000 in the branches—no, it would be $10,000.

Q. Well now, in connection with the condition of that bank—originally its capital was $500,000?—A. $584,000.

Q. The double liability of course would produce that much more if it were workable. What did it produce to you?—A. So far I have collected $21,000, I think, but you understand I have got judgment against about eighty people that I have been holding.

Q. For how much?—A. I do not know how much, the contributory list is large, $800,000.

Q. You do not know how much it is worth?—A. I do not.

Q. You have only collected $20,000?—A. Yes, but I expect the double liability will produce $150,000.

Q. What would be your opinion of this double liability from your experience of this bank?—A. The double liability in the case of an ordinary bank is usually surprising, as it often produces more than you expect it will produce. In the case of the Farmers' Bank, however, it may not do so—I have a rather low idea of its value.

Q. In this particular case?—A. Yes.

Q. You think the double liability is some protection to the depositors?—A. I certainly do.

By the Chairman:

Q. What percentage do you think may be generally collected out of the double liability?—A. 75 or 80 per cent.

Mr. McCURDY.—I would like to put on the records that in the case of the Bank of Yarmouth the collection of the double liability of shareholders amounted to 87 per cent.

By Mr. Ross:

Q. Do you expect, if it is a fair question, you know all the facts of the case, that the depositors will receive anything at all from the Farmers' Bank?—A. Not unless the Keeley mine produces something.

By Mr. McCurdy:

Q. With reference to the loan of the Farmers' Bank to the Keeley mine, Mr. Clarkson, in your opinion would not a competent bank auditor, one accustomed to granting credits, judging by the credits, have neglected at almost the inception of the loan that the transaction was wrong in principle and bound to result in loss?—A. They would not at the beginning because the loan was not made to the mine but to a private individual, who was thought to be a millionnaire, on his personal security of $150,000, that is Mr. Wishart. When Mr. Wishart would not pay the debt the bank advanced to the mine, so that any competent inspector would not know that it was originally a bad loan.

Q. So that it resulted from misjudgment of the manager as to the financial standing of Mr. Wishart?—A. I think so, largely.

Q. Now, assuming that the directors control the shareholders' meeting, would not public opinion compel them to appoint auditors of standing?—A. I think so.

Q. If they appointed dummies?—A. I do not think they would dare do it—I do not think they would do it.

By Mr. Sharpe (Ontario):

Q. Do you, Mr. Clarkson, put a bank in the same category as other joint stock companies in regard to the appointment of auditors or inspectors, that they should be appointed by the shareholders?—A. I do not think it matters who they are appointed by as long as proper people are appointed.

Q. Do you think they are in the same category as other companies?—A. A bank?

Q. Yes?—A. No, I think the question of the inspection of a bank is a much more serious question.

Q. It is more important.—A. Well, the audit of a bank is more serious, the character of the assets is different.

Q. You think that the appointment should be made by the same parties, the shareholders of the company?—A. I know of no reason why it should not.

Q. Taking into consideration the fact that the banks have a paid up capital of a hundred millions, and remembering that by their charter granted by the government they enjoy the privilege of taking deposits, they have deposits of millions of dollars belonging to parties who have no control over the management of the bank, do you not think that depositors are in the nature of wards of the government and should be protected by the government by a system of inspection?—A. Well, you have power to limit the appointment of auditors by their having to be approved by the Minister of Finance.

APPENDIX No. 2

Q. That is your suggestion in relation to that. Speaking about the line of credit of a million, or half a million, for cutting timber on the Pacific coast which was referred to here yesterday, and considering the hazardous nature of this loan because of danger of loss by fire and other matters, do you think that will be a good line of credit for a bank in Montreal or Toronto to give?—A. It might be absolutely good.

Q. As a matter of policy, though, would it be good banking?—A. I know of no reason why it would not.

Q. Speaking of the Farmers' Bank, how much was the total loan to the Keeley mine?—A. About $600,000 exclusive of interest, about $700,000 with interest.

Q. What was the paid up capital of the bank?—A. According to the records $580,000, according to fact $532,000.

Q. Of paid up capital?—A. Altogether.

Q. Do you think there should be any limitation to the power of the bank regarding the proportion of loans to the paid up capital?—A. That is a question I am not competent to answer; personally, I don't think there is any objection.

Q. You think there is no objection?—A. Only to this extent that there is a limitation beyond which a bank should not go.

Q. What would be your idea as to the limit? Mr. McLeod put it at 25 per cent of the paid up capital?—A. I am not competent to talk on that point.

Q. You are not competent?—A. No.

Q. You say that half of the capital of the Farmers' Bank went to opening branches?—A. Exactly.

Q. And there was an extensive loss in connection with the opening of the branches?—A. No, in the opening and operation of the branches.

Q. Possibly you think they extended the branch system too rapidly?—A. Yes, I do.

Q. Had they been more conservative in the operation and opening of branches the loss would not have been so great?—A. If they had not opened as many branches the loss would not have been so great.

Q. Mr. McLeod says that a bank of $200,000 capital is not more liable to disaster that a bank of $2,000,000

> 'capital: the one must be content with a small circle of operation; the other must avoid the temptation to reach out with the dash and daring that in too many instances for want of restraint, has resulted in menace and wreck.'

Do you agree with him in that?—A. I say that the Farmers' Bank opened branches recklessly.

Q. Speaking about the inspection and audit, are not the branches largely checked up at the head office?—A. Yes they are.

Q. And reasonable inspection or audit at the head office is usually sufficient?—A. It would be largely sufficient, but I do not think the auditor would be satisfactorily performing his duties without looking into them, to some extent at least.

Q. You cannot agree with Mr. McLeod's opinion,

> 'If there be any Canadian bank that is of which a fairly clear insight cannot be obtained by intelligent auditors within a week, by examination at the head office alone, that bank's system is out of date, and a chartered accountant's assistance might not be amiss for the purpose of improving it.'

A. I do not agree with Mr. McLeod.

Q. How long do you think would be reasonably required for the inspection or audit of the bank?—A. I could not tell you that, it depends upon the size of the bank and the way it is managed; the management of the bank will have very considerable to do with it. If it is conservatively managed the auditor will not have to look into the loans too closely; on the other hand if the management is reckless in regard to its loans the auditor will have to look into the various accounts very carefully.

Q. From your experience you say that the branches are checked up sufficiently from the head office without the assistance of the inspector outside?—A. I say that the branches are well checked by the head office, at the same time I do not consider the inspection complete unless the auditor knows in what condition the branches are, to some extent, because if you leave out the branches altogether it will afford a place in which bad debts can be put.

Q. With regard to the subsciption to the Farmers' Bank, was there a large foreign subscription?—A. Yes, there was.

Q. Have you been able to realize on the double liability on that subscription?—A. No.

Q. What was the amount of the foreign subscription?—A. $135,000.

Q. In view of your supposition that you will not be able to realize on that would you limit the subscription to bank stock to a certain percentage of local subscribers?—A. No, I would not, I would get capital wherever it could be obtained.

Q. Even with foreign subscribers? Do you think it is advisable to allow foreign subscribers to subscribe at all in connection with bank stock, even when they are not of great extent?—A. I think you haven't enough bank capital in Canada as it is, and if you can get it from outside take it.

Q. Do you think it was a good subscription for the Farmers' Bank?—A. No, it was not, it was never a bona fide subscription.

Q. Can you offer any suggestion as to how to get *bona fide* subscriptions in foreign countries?—A. No, I cannot.

Q. As I understand it the Bankers' Association, as soon as a bank gets *in extremis*, puts a man in charge called the curator?—A. A curator is put in after the bank suspends, yes.

Q. And employs counsel or a lawyer?—A. For the time being, yes.

Q. He acts until the bank's affairs are wound up?—A. Not necessarily. The person who files the petition is customarily entitled to the winding up.

Q. As a matter of practice is that done, or is it the Bankers' Association solicitors that wind up the affairs of the bank?—A. Well, you are asking a question that I cannot answer very well. As a matter of fact this same gentleman who is the solicitor for the Association in some matters has acted as solicitor in winding up the Farmers' Bank, but why, particularly, I am not prepared to say.

Q. But those people who suffer because of the cost of winding up the bank will feel that it is an important matter to them?—A. The cost of winding up will be exceedingly heavy.

Q. Have you any idea approximately of what it will be?—A. I think it will be $75,000 before we get through. There is not a single asset in the whole bank that is free from litigation and trouble.

Q. Are the solicitors paid according to the work they do or on what basis?—A. According to their bills taxed by the courts.

Q. And as to the liquidators themselves, they are paid on a percentage basis, are they not?—A. No, they are not. When it comes to a matter of that kind the liquidator is allowed a lump sum, but it will not be a third of what one of the papers stated the other day.

Q. You think that in the winding up of these institutions a less expensive method may be used?—A. I do not know it.

By Hon. Mr. White:

Q. Is the tendency of the lawyer to limit or to extend the litigation?—A. I do not think so, in this case no.

By Mr. Sharpe (Ontario):

Q. Would you suggest that there should be any limitation to directors or to individuals or companies at all?—A. In what way?

Q. Limitation in the amount?—A. Amount of what?

Q. Of loans to directors or companies or individuals?—A. I am not competent to speak about that.

By Mr. Turriff:

Q. Mr. Clarkson, in your statement I understood you to say, for instance, in reference to the case that the Minister has brought up, of a loan of $300,000 or $500,000 for cutting timber on the Pacific coast; that the officers and directors of the bank would be in a good deal better position to decide as to the value of the account and the assets that would be there to cover the loan than would any auditor. Do you not think that if the auditor was working right along from the early years, and taking into consideration the fact that the directors and the officers of the bank, having made the loan would want to keep it looking as well as possible in the books of the bank? Would not the auditor, after he had been there two or three years auditing, be in a position to give as good, or actually a better opinion as to the value of the assets available against that loan than the bank officials?—A. No, I do not think so.

By Mr. Papineau:

Q. With reference to the double liability, have you any opinion as to the application of Section 130 in connection with Section 126? Section 126 says: 'Any suspension by the bank of less than ninety days during, or within twelve months, does not constitute insolvency,' but section 130 says: 'Persons who, having been shareholders of the bank, have only transferred their shares, or any of them, to others, or registered the transfer thereof, within sixty days before the commencement of the suspension of payment by the bank, shall be liable to all calls on the shares held or subscribed for by them, as if they held such shares at the time of such suspension of payment, saving their recourse against those by whom such shares were then actually held.' According to the law, then, the person who transferred his shares would be responsible for the double liability if the transfer was made within sixty days of insolvency?—A. If he is a shareholder within sixty days, he is liable unless the person who holds the shares at the time of the suspension pays the double liability.

Q. Have you ever used that clause?—A. Yes, we are using it now.

By Hon. Mr. White:

Q. Let us say that you have transferred your shares within sixty days of suspension, and the liquidator fixes the liabilities on you. You have then recourse against the transferee. Is that the position?—A. Yes.

By Mr. Broder:

Q. Is the time limited in which to take action?

Mr. WHITE.—You can take action any time.

By Mr. Nickle:

Q. Is it not fallacious to argue that because failures of Canadian banks have been head office failures, that therefore branch office inspection should be abandoned?—A. I say it should not. There is very little chance of trouble occurring in the branch offices. At the same time, I think a certain measure of inspection should be given to the branch offices. The auditor receiving the returns should know the condition of the large loans in branch offices.

Q. In the final analysis, was not the failure of the Ontario Bank delayed by current loan account being charged up with New York speculative losses?—A. I am not conversant with the affairs of the Ontario Bank.

Q. Assuming that that were correct, a head office audit would not have disclosed the New York losses?—A. I am not sure of that. If the head office audit showed that certain securities should be there, they should have been there; and an attempt should be made to confirm their existence. So, it is merely a question of confirming the existence of securities. It is not an outside inspection.

Q. Suppose a head office general manager had a conspiring confrere in a large branch office, would it not be possible for the two of them to work together so as to cover head office losses by transferring them to this outside branch?—A. If a return, under oath, is made to the auditor, I do not think the senior manager of a branch office is going to perjure himself to help out head office officials.

Q. But assuming that the man in the head office saw difficulty approaching. Is it not quite within the bounds of reason that he might avoid the audit by transferring the loss to a large outside branch, with the manager of which he was in collusion?—A. My idea is that all large loans, irrespective of head office or branch, should be looked into by the inspector.

Q. In that respect, you and I agree. Do you use the terms 'audit' and 'inspection' as interchangeable?—A. What is required is not an audit, in the accepted sense of the term; it is the preparation of a statement of a bank's liabilities, and the ascertaining of the existence and value of its assets.

Q. It is not a verification of assets, but an expression of opinion upon the value of the assets, as well as checking them off.—A. It is an expression of opinion.

Q. I do not think it is, but in your opinion, in order to be satisfactory, the audit must be of such a character that some opinion is given as to the policy of the bank and the worth of its assets?—A. A reasonable inspection should see that the larger loans exist, and that in the opinion of the auditor their value is substantially the same as set out in the statement.

Q. You are not using the words 'audit' and 'inspection' as interchangeable?—A. What you want is an inspection or preparation of the statement, call it what you will.

Q. Allow me to read you one sub-section here: 'to check cash and verify the securities of the bank at the chief office of the bank, against the entries in regard thereto in the books of the bank.' It seems to me that is an audit as distinct from an inspection?—A. I do not think that is an audit. It is just proof that the securities are there, to the amount the statement shows.

Q. I suggest that you read the Finance Minister's speech on the subject.

Hon. Mr. WHITE.—I may be wrong.

By Mr. Nickle:

Q. Very well. As to the duty of an auditor, in running down doubtful securities, do you think he is a watchdog or a bloodhound, that is, does he proceed on the assumption that everything is right, or does he proceed on the assumption that things are wrong, and proceed to find out just what it is. I want an answer to that, because this section is very important, and it is just where the English law has fallen down. —A. An auditor would not go into a bank imagining everything to be wrong.

Q. Would he imagine everything to be right?—A. He would want to know that everything was right.

Q. I would like a direct answer.—A. It is a question to which I cannot answer yes or no.

Q. You say you cannot answer yes or no?—A. I say an auditor would not go into a bank, imagining everything to be wrong. That would be foolish. When an auditor goes into a bank, he wants to know that things are right.

Q. It has been held by the courts in England that an auditor is not negligent in the performance of his duty unless he has knowledge of irregularity. I want to get your idea of what this bank audit should be, and the attitude of the auditor

towards the bank?—A. I have told you that an auditor, when looking over the branch office returns, should consider, from the information in front of him, whether the amounts as to values are reasonably correct. Where any doubt arises, he should follow up the items more closely. Then it is a question of his forming a reasonable opinion.

Q. If he were dissatisfied, what would be his next step?—A. Report it to the board of directors of the bank, and it seems to me, notify the Department of Finance.

Q. That is, the Minister of Finance?—A. Yes, so that he could settle the issue with the board of directors. I do not think the auditor is the man to determine who is right, in a difference of opinion. In my opinion, the Minister of Finance would finally accept the responsibility of decision.

By Hon. Mr. White:

Q. There are two questions I want to speak about, head office and branch office audit. As I understand it, a branch may fail or have its capital impaired, from two principal causes. In the first place, there may be large losses in connection with the loans that you have referred to. As I understand you, large loans are dealt with principally at the head office, or authorized at head office. Is that right?—A. Principally.

Q. And it seemed to be your opinion, in regard to large loans, either at head office or branch office, that they would require looking into by the auditor.—A. To a certain extent, the policy of the bank would be the dominant factor in the whole thing. If its policy were conservative, the auditor would not require to go so strictly into the loans. If it were not conservative, I should say he would have to examine them more closely.

Q. Supposing it were not conservative, and there were large loans, let us say, at other offices than head office. In your opinion, the auditor should look carefully into these loans. —A. I think he would have to.

Q. Let us get away from the question of loans, to a case where a bank was wrecked by fraud. In your opinion, do you think that any one officer could impair the capital of the bank, and cause it to fail, by himself, or must there be collusion?—A. There would have to be a certain amount of collusion if the fraud continued for any length of time.

Q. There might be collusion at head office?—A. Exactly.

Q. Might there not be collusion between head office and an important branch office? —A. Yes, certainly.

Q. So that in order absolutely to avoid fraud, would it or would it not be necessary for the auditor, if he intended to make a thorough inspection or audit—and especially in a case where the management is not conservative—to inspect, not only the head office, but those other offices in which this collusion might exist?—A. I think collusion can exist anywhere, whether an auditor is there or not. If fraud happened, the auditor would have to find it out. I have felt, for a long time, and I feel now, that where there are large branches, the auditor will have to look into them if his inspection is going to be at all effective.

Q. That is the view I have sometimes put forward.

Q. You are aware, in a general way, of the operation of Canadian banks and their branches not only in Canada but abroad. Are you in a position to say as to the extent of business carried on in London and in New York?—A. I cannot.

HON. MR. WHITE.—Well, I will not touch on that.

By Mr. Sharpe (Ontario):

Q. Should the returns from branches be verified by affidavit?—A. That is my opinion.

Q. And should the monthly statements be so verified?—A. I do not know any reason why they should be.

Q. What reason should there be why the branches should make an affidavit and not the head office?—A. For the reason that the auditor has to depend on the opinion of the men in the branches.

Q. And has not the Government to depend on the monthly return?—A. That is a statement of fact.

Q. Are not the returns from the branch managers statements of fact?—A. The main thing you are trying to get at is the opinion of the officers of the bank. The thing that is going to be of advantage to the auditor is that opinion.

By Mr. McCurdy:

Q. I understand that you have had considerable experience in connection with winding up the Farmers' Bank?—A. I had the winding up of it.

Q. Judging from your experience, do you think it would have been possible for anything like a total collapse to have occurred in connection with the bank provided that a trained and skilful person had been in charge of it?—A. His policy would not have been the same.

Q. The character and capacity of the management is of the utmost importance?—A. Of the utmost importance.

Q. Have you had other experience in banking inspection?—A. Not inspecting; I have had to do with the Sovereign Bank.

Q. Your experience is limited to your observations in the case of the Farmers' and Sovereign banks?—A. Yes.

By Mr. Nesbitt:

Q. Do I correctly understand you to say that when an auditor goes into a bank he should get a statement from the officers of the branches of the banks as to the weak accounts, or should he find the weak accounts?—A. Every auditor will be governed by the policy of the bank. But if he goes into a bank with an enormous number of accounts, how is he going to pick out which are good or bad? The auditor can only get the benefit of the knowledge of the officers in that regard.

Q. Could he not find the weak accounts by inspection?—A. How can he with the mass of accounts?

Q. Just roughly, I think he could by noting the constant renewals.—A. There are thousands and thousands. No; it is not practicable.

Witness retired, with the thanks of the committee.

Mr. JOSEPH HENDERSON called and examined.

By the Chairman:

Q. Kindly give your name, profession and address.—A. Joseph Henderson, vice-president of the Bank of Toronto. I am one of the vice-presidents of the Bank of Toronto.

Q. You might briefly give the committee, Mr. Henderson, some idea of your banking experience.—A. It commenced forty-nine years ago; five years with a bank that has gone out of existence, and forty-four years with the Bank of Toronto. In the Bank of Toronto I have gone from the bottom up to the next to the top. I have been inspector, branch manager, and have occupied other positions up to that of assistant general manager; and subsequently I became a vice-president and director of the bank.

By Mr. Nesbitt:

Q. You are not actively engaged in the bank management now?—A. I am not an officer of the bank; I am a director.

APPENDIX No. 2

By the Chairman:

Q. With your permission, I would like to take up the points raised in this memo. and such others as the committee may from time to time desire to examine you on. First of all, I would ask you if you have a statement to read before the committee?—A. No, I have no statement.

Q. If there are any of these points on which you have something to say, you can indicate it as we go along. First of all, let us take section 4, which provides that the bank charters shall be renewed every ten years. The question is under discussion as to whether they should be of a longer or shorter duration than ten years. Mr. Henderson will give his opinion as to the desirabilty or otherwise of the policy of the decennial revision.—A. My own opinion—and I want to say that in expressing anything I say here I do not represent any interest but myself; I am not speaking on behalf of the Bankers' Association or any particular institutions—is that it is rather a misfortune that banks should be treated differently from any other large companies and have a period fixed at which their charters shall expire. I do not see why the charters of a bank should not be perpetual. But if it is desirable—and I presume it is probably desirable in the growing state of our country and with the changing conditions emerging from time to time—there might be a period fixed for the revision of these charters. But I do not think it is a good thing to say that the charters of the banks shall expire on a certain given date. Should any contingency arise by which it was impossible for the charters to be extended, if we should get into a deadlock in the House, some of the members might be able to talk on a subject for three months until after the first of July, and the banks would find themselves in a very awkward position. I do not see any gain in fixing a date at which the charter shall expire. That does not prevent parliament revising the Act at any time it seems necessary and in the interests of the country that they should do so.

Mr. TURRIFF.—I would like to say that the argument advanced by Mr. Henderson does not apply at all, because there can be no possible deadlock in parliament that would prevent the revision of the Bank Act, because the government always has it in their power to withdraw the particular question that is causing the deadlock.

The CHAIRMAN.—I shall have to rule any political discussion out of order. This Committee is the one oasis in Ottawa just now.

Mr. HENDERSON.—I might just add one reason why I am suggesting that the charters should not expire at a given date. In discussing the question with some investors at one time in London, inquiries were made as to the terms upon which bank charters were given; and the fact that the length of the charter expired—they may not know the temper of the parliament here, and may not know that parliament is always going to continue the bank charters—and that they were putting their money into a company with a limited life, was an argument deterring them from making investments in Canadian bank stocks.

By Mr. Thornton:

Q. Do you know the reason why the charters should run for only ten years?—A. It has been a growth, it has gone on from one ten years to another. The question has not come up seriously because the charters have always been renewed. But, as a matter of principle, I do not see why a bank should be singled out from any other class of business.

By the Chairman:

Q. Let us take up section 10, as to whether banks should be permitted to start with a smaller capitalization than that provided in this section, and Mr. Henderson could give his opinion as to the desirability of small banks, provincial banks with branches

within a province, and city banks with no branches at all, having a smaller capital than $250,000 paid-up, when they commence business.—A. Whatever might have been the reasons favourable to small banks, the fact that you have given them the privilege of the note issue would make it exceedingly inadvisable that banks with a small capital should have the right to issue these notes and to have them available for currency throughout the length and breadth of this wide country of ours. Let me just try, if I can, to give you my reasons for that. In the first place, the history of Canadian banking is against the practice of having small banks. It has been a fact that the small banks have not, in the long run, been able to live. Sometimes, they have served a useful purpose, but in the course of events they have found they cannot live and compete with their larger neighbours. Because, after all, the great strength of a bank is the amount of good will that attaches to it and it is usually a fact that the larger the capital the larger the surplus, combined with proper confidence in the directors and management of the bank (because the larger the bank the greater the financial strength and the larger amount of margin they have behind them) the consequence is that I think the smaller banks always find that they are handicapped though they serve a useful purpose in some localities. One of the members of the Committee spoke of the Western Bank of Oshawa as having done exceedingly good work in encouraging the local industries of that town. Quite true, but the local bank in that particular did not render a particle more good to the town of Oshawa than branches of chartered banks have done in the town of Peterborough or the town of Cobourg. In the latter case the branch bank took in hand one of the small industries of the place and helped it along. The man was capable and successful. He did not have very large capital. He commenced in a very small way, by the assistance of a branch bank he was enabled to build up one of the largest car-building industries in the country. Take the length and breadth of this province and you will find that where the local industries have been stimulated, they have been stimulated very largely by branches of the large banks. I think you will find that is the case almost invariably.

Then it is alleged, and very properly so, that a small bank can be as well managed as a large bank within the limits of this power to act, within its own range—that it can do just as efficient work as the larger bank, and give the same careful management. I am not disposed to dispute that. I think most of you will know private bankers who were doing business in this country, and who started business in a small place. They had a very close and intimate knowledge of the people in the district, they made their loans carefully and they were successful, but the history of the private banks has been that they could not in the long run operate successfully, for reasons, one of which constitutes a great reason against small banks. Many of these private bankers were shipwrecked in this way: They gradually grew in the confidence of the community. They were in a position for a number of years to manage their affiairs well. They were well known and knew everybody in the district. The public had confidence in them and commenced to make deposits with them. Gradually these deposits became larger and the bankers extended their loans. But as their deposits grew, their power of using these deposits did not keep pace with that growth. They found that to lend money they had to go outside of the range of people that they knew and were familiar with. They found that they were increasing their deposits. They did not like to refuse these, but they could not use them among the people that they knew and therefore could not use them safely. That was the history of dozens of these banks. The fact that they had this excess of money on which they were paying interest and which they had to use led them to seek investments outside. During the time of the first Manitoba boom there were scores of our private bankers who took these surplus moneys to the Northwest and put it into real estate and suffered through it. Where they did not do that they put their surplus money into some other speculative venture. What the small bank would need always would be to have

a sufficiently well balanced business: that is to have loans and deposits about equal and within a territory that they were familiar with. As soon as their deposits got in excess of their loans they would be handicapped because they would have to go further afield to make their investments, and those investments would then cease to be local in character. I have in mind a number of branches of our own bank, the character of whose transactions has changed within the last few years. To one place we went first for the purpose of making loans. When we had been there for probably three or four years that branch had loans amounting to $600,000, and deposits of not more than $150,000. That section of the country became prosperous, and the loans have diminished. We do not loan $150,000 there now, and we have deposits amounting to $600,000. It seems to me that you cannot adjust that by any process that will help to make the small bank in any way as efficient as it is when part of a larger system. The larger bank is able to utilize surplus money in any place in which it operates, and I do not think any system of small banks can be as well balanced or will be in the long run as successful as the larger ones.

May I say one other thing? I had a list of the banks that have gone out of existence, largely through failure, and nine-tenths of them have been small banks. They have not been, and from the nature of things cannot be, as successful as the larger banks. Mr. McLeod pointed out that the small banks do not command the same amount of ability. It is possible, however, to get men of ability in small towns, just as it is in a large town, and we are always on the look-out for such men in the larger banks.

The whole history of our Canadian practice is against the small bank. The danger has arisen and the great losses to the shareholders have more largely occurred through these banks than almost any other. I do not think it is a good thing to have small banks.

By Mr. Nickle:

Q. If you can find that list of banks which failed, will you please hand it in? —A. Yes.

By the Chairman:

Q. Are you through with your statement on that point?—A. I think so.

By Mr. Turriff:

Q. As a matter of fact did not the large banks that we have today start in a small way?—A. I think the greater number of them started with a capital of not less than $500,000.

By Mr. Nesbitt:

Q. Is it a fact that the Sovereign Bank started with a great deal larger capital? —A. Yes.

Q. So that the success of a bank does not depend on the size of the capital? A. That is not the only factor.

By Mr. Sharpe (Ontario):

Q. Would you limit the present capitalization of banks?—A. I would not limit it. We have a growing country, and it would be a great misfortune to look ahead and say we have to limit it.

Q. Would you allow amalgamation to go on?—A. I would allow amalgamation to go on within limits, but that is another question.

By the Chairman:

Q. Do you think the number of places throughout Canada where deposits and loans are as equally balanced is great?—A. It is impossible to tell; in our own experience it is a very rare thing to have the deposits and loans in a place balancing. There is generally a preponderance of one over the other.

Q. Where the conditions are such a small bank would be liable to succeed?—A. Yes, I would say so, but I would not dogmatize on the point.

Q. And even where such conditions prevail, would you say such small banks are unsuitable?—A. I would not say that.

Q. I mean where the conditions are changeable?—A. I would say the argument in favour of the local bank is that the local man knows the conditions well and can handle it well. When he extends his business outside his local district and moreover has not had the necessary training, I think the bank would be at a disadvantage.

By Mr. Henderson:

Q. Do you not think it possible that a bank might start with too large a capital? I mean by that, that in the field in which it is about to operate there may not be sufficient business for the investment of their money. The result may be they may have to look outside for investments and make them where it would not be proper to do so. That is what befell the Sovereign Bank?—A. You are quite right, sir. I think the great misfortune which befell the Sovereign Bank was due to the fact that they got a large amount of money from Morgan & Company and the Dresdner Bank. They did not know very well how to advantageously use the money, and they used it in speculative ventures. But that does not affect the general question that the larger the amount of capital the safer the bank is; and even although it brought about trouble in the case of the Sovereign Bank, still the fact that that additional capital had been subscribed was a great source of strength to them in the liquidation, because the large amount received from the shareholders in connection with that increased capital very materially aided in reducing the liabilities.

By Mr. Thornton:

Q. You cited a specific case where the deposits of a bank had increased from $150,000 to $600,000, whilst the loans had decreased from $600,000 to $150,000. Are there many cases like that?—A. I could not say.

Q. I mean that have come under your notice?—A. You know conditions will vary in districts from time to time.

Q. What is the cause of that?—A. There are different causes. The industries that were located there have possibly dried up, or failed because the people who ran them are not competent.

Q. Have the banks any trouble in finding safe and profitable investments for their funds?—A. Not at present, at least. There are more applications for loans than we have money to grant.

By the Chairman:

Q. That condition varies from time to time?—A. Quite so.

By Mr. Armstrong:

Q. Would it not be almost impossible to establish a chartered bank at the present time?—A. I do not think the conditions are very favourable to inducing people to put their money into bank stock. We are not making half as much money as we ought to make. I think those whose business it is to advise customers in the matter of investments, are disposed to recommend an investment from which a very much higher rate of return can be obtained than from bank stocks, at present.

APPENDIX No. 2

By Mr. Nesbitt:

Q. Following up Mr. Armstrong's question as to the possibility of starting new banks. Do you know of your own knowledge whether the present chartered banks have ever tried to oppose in any way the formation of a new bank?—A. Not of my own knowledge. I think in every case that new banks were started facilities are given to them when they are ready to commence business. The older banks are willing to take them in and reciprocate with them in every possible way. I do not think any banks that have been started have had any opposition of that kind.

By Mr. Sharpe (Ontario):

Q. The Bankers' Association were not very friendly to the Sovereign Bank were they?—A. The Sovereign Bank people did not require us to be friendly to them, they knew too much. They wanted to show us how to do things and they would not take any advice or assistance from us. In the case of the Weyburn Bank that Mr. Turriff is familiar with, I have had several very interesting conversations with the manager, and with a view of giving him information as to the conduct of head office matters, spent two or three hours with him. I know the manager of our Bank in Winnipeg did the same thing, and that the manager of the Dominion Bank also gave him every facility and assistance. I think we are quite willing to give them a fair show if the character of the manager justifies it.

Q. When the Sovereign Bank was in operation it calculated its interest quarterly to depositors?—A. Yes.

Q. The other banks objected to that very strenuously?—A. Yes.

Q. And now they are only calculating interest half-yearly.

By Mr. Cockshutt:

Q. In your experience is it difficult to get the right class of directors at the present time? A. Well I would only say this, I can only speak from my own experience, I think the Bank of Toronto has made an admirable selection.

Q. The reason I ask that is there is an opinion abroad that the responsibilities of the directors should be largely increased, and that opinion seems to have a great deal of backing.

The CHAIRMAN.—Perhaps you might discuss that on Clause 153 which deals with negligence. With regard to sections 18 to 29, does Mr. Henderson wish to say anything with regard to by-laws made by the shareholders or by the directors?—A. I notice there was a suggestion made that an amendment be made to the Act. The section as it now reads is: 'The shareholders of the bank may regulate by by-law,' that while it is permissive that they may make these regulations, the amendment was made that they 'shall' regulate certain things. I think it is desirable in the best interests of the bank to leave the matter as it is, if the matter is left in the hands of shareholders as to what they shall regulate. There are certain things that they always regulate, but I do not think they should be compelled to regulate minor matters.

The CHAIRMAN.—That is your amendment, Mr. McCurdy, do you wish to ask Mr. Henderson any questions?

By Mr. McCurdy:

Q. That applies particularly to loans to directors. Where the director is passing on a loan to himself is there any objection to having such loan authorized by the shareholders?—A. Loans by directors to themselves? Well, I do not think there is any necessity for limiting a loan that should be made to a director.

Q. But is there any objection to it?—A. I think there is, decidedly.

Q. What is the objection?—A. I do not see why a director should be singled out from anybody else and a loan not be made to him.

Q. Simply because he has a personal interest, and there may be a temptation to advance money to him. You see the director is in the position of a trustee handling the shareholders' money, and when his own interest comes in there may be a temptation. I do not know that it is ever abused at all, but the temptation might be there to advance money more freely to themselves than to some person outside?—A. As a matter of fact I have never known a director who was a borrower from the bank and who was in possession of a line of credit, to be present at the board meeting at which his account was discussed.

Q. Would there be any objection to that provision? Will you state your view? —A. I think, speaking generally that the less limitation you place by legislation upon the regulation of banks the better it is. It is very unwise to legislate against conditions that may afterwards turn out to be exceedingly beneficial. For instance, I think it unwise to legislate against banks lending to their directors, because those may be very safe and the best loans they can make.

By Mr. Broder:

Q. Do you know of any case where this privilege has been abused?—A. I have never known any occasion.

By Hon. Mr. White:

Q. Is it an object to the banks to have good directors, men of standing in the community whose accounts may be valuable to the banks?—A. Very decidedly so.

Q. Now another question is would not that director be at a disadvantage as a business man in having to obtain loans from some other institution if he is a director of the bank?—A. I should think so, they would wonder why he did not get it from his own bank.

Q. Let us presume that the bank is prohibited from making him a loan by the Act. Would he still be at a disadvantage?—A. I would think so.

Q. Then in your opinion would or would it not be the fact that a business man having a valuable account might be precluded by legislation of that kind from going on the board of his bank or not?—A. I think it would very materially have that effect.

By Mr. McCurdy:

Q. Your statement was that the privilege or position of directors has never been, to your knowledge, abused in the matter of granting loans?—A. Yes, that is my experience.

Q. You probably know that some years ago the National Monetary Commission at Washington sat, under Mr. Breckenridge, and investigated the banking system. I have taken some extracts from that report showing that he gives that as the reason and the cause of bank failures. I will just summarize them here. In September, 1883, a bank failed and these are the reasons which Mr. Breckenridge assigned:

> 'Management unscrupulous and unsound. Managing director owed bank $225,000 out of capital of $500,000.'

An Hon. MEMBER.—Is this a Canadian bank?

Mr. MCCURDY.—These are Canadian banks. He goes on:

> 'March, 1887, Maritime Bank of Dominion of Canada, $600,000 sunk in series of more or less speculative accounts, most of them in unduly large advances to a few favoured firms or individuals, largely a one man bank.'

—A. That is a $500,000 bank.

Mr. MCCURDY.—A small bank, $600,000 was lost in a series of more or less speculative accounts and in unduly large advances to a few favoured parties.

> 'August, 1887, Bank of London, involved by a speculative president in a variety of precarious ventures, among the number a loan company under his control which later became insolvent.'

APPENDIX No. 2

'November, 1887, Central Bank of Canada. Its history was one of undesirable practice, scandalous mismanagement and more or less dishonest diversion of the bank's resources to the benefit of an inner clique.'

—A. That list, as you are going on, is all small banks.

By Mr. McCurdy:

Q. It is only a matter of degree, I think?—A. Quite so.

Q. Then in the same year:

'1887, Picton Bank. Failed on account of large loans to one man.'

'1887, Federal Bank of Canada. Became involved in 1885 in losses in Michigan Lumber deals and Manitoba lockups, and the formation of subsidiary company or machine for operating in the bank stock.'

—A. I do not know, in the case of the Federal Bank, that the directors were at all interested in the large loan in Michigan, not at all.

Q. No, but Mr. Breckenridge gives the reason for the failure.—A. You asked me if I had any knowledge, and I have never had any association with the people that ran those banks.

Q. But you have been a banker all your life and these things naturally come under your knowledge?—A. Does it not follow that the shareholders should know the character of these men when they elect them as a board of directors?

'July 16th, 1885, the Banque du Peuple. Inquiry developed the existence of overdrafts owing by directors and others to more than 20 per cent in excess of the bank's paid up capital stock.'

'July 25, 1889. Banque Ville Marie. To an extent of nearly double its capital, its resources had been squandered upon most precarious and unpromising ventures, in great part owing to the personal speculations of the president.'

'March 6th, 1905. Bank of Yarmouth. A consequence of loans to one firm out of all proportion to its own means.'

'June 23rd, 1908. Banque de Ste. Hyacinthe. It became generally known that the bank was under large advances to the South Counties Railway, and this raised doubts as to the liquid conditions of the bank's resources.'

'In the Ontario Bank, which failed October 13, 1906, the general manager's speculative transactions involving a loss of $1,733,000 covered shares listed on the New York Stock Exchange of more than $100,000,000. Also dealings in bank's shares made losses of $230,000.'

These are some of the cases in which Mr. Breckenridge says failure was due to the fact that excessive loans were made to directors. I would be the last to suggest anything that would interfere with the free practice of banking, because I think that the personality of the manager and of the directors is of the utmost importance, but my question was whether or not in your opinion, there were objections to having the shareholders seized of loans which are to be made to the directors.—A. I would answer that—

Q. You see there has been a great deal of damage done in the past by the abuse of the director's privilege.—A. The Bill as it is drawn now gives the shareholders power to regulate, it gives them full power if they desire to do so. I would not say that they "must" do so. Of course that is my opinion.

By Mr. Sharpe (Ontario):

Q. You are in favour of the amendment?—A. Not at all.

Q. Mr. McLeod said the loans should be limited to 25 per cent to any one individual or company. Do you agree with that?—A. No, I do not. I would leave it perfectly free for the management, if they are capable and honest, they may be making the very best loan they have. In such matters you must depend entirely upon the management.

Q. The legislation is designed to correct abuses where the management is not the very best.—A. Possibly so, but I do not think you would be gaining anything by it, and you may be doing an injustice. We are very apt here to follow the American banking system, and to think that anything coming from there must of necessity be better than anything we have here. I want to say I think we would do far better to follow the English and Scotch laws; the Banking Act there is the simplest possible, no limitations, or very few, and the powers of loaning are very much wider than our own, and I think the success of that has been greater than under any other conditions.

By the Chairman:

Q. One of the propositions before the Committee is to strike out sub-section (*h*) of section 18, what is your opinion of the desirability of that amendment?—A. I would not strike it out, but would leave it in the power of the shareholders still to regulate that if they choose. I think the shareholders in the bank control it, and can tell the directors what they are to do, and if the shareholders decide that it is advisable for them to do so I would leave it in their power.

Q. Section 29, sub-section (*a*). There is a proposal before this Commission to make this sub-section read: "the management of the affairs and concerns of the bank," in other words striking out "and disposition of the stock, property." What effect do you think that would have?—A. I would really want to take that into fuller consideration and study the effect of it. As it is here it does not seem right.

The CHAIRMAN.—That will stand over to be considered under amalgamation of banks. Then we come to Section 34, as to the rate and terms upon which any bank stock may be issued. It is proposed to have the rate and terms fixed by a court or commission, or an amendment fixed by the Finance Department. Have you taken cognizance of that amendment?—A. I really cannot see why the directors should not be allowed to judge of that. I do not quite appreciate what is to be gained by submitting this to a commission.

By Hon. Mr. White:

Q. As long as it is issued above par?—A. Oh, certainly, it must be issued at par, at least; also, they cannot ask their shareholders to pay at a higher premium than the percentage the reserve fund bears to the paid up capital. I cannot see anything to be gained by referring the rate of issue to a court or commission.

By the Chairman:

Q. Sections 43*b* and 77. "Proposed that these clauses be struck from the Bill, having for effect to abolish the banks' privileged lien on its own stock when held by a debtor of the bank." What have you to say as to that?—A. The clause has been in the Act for over forty years, and I know of only one case, during that time, in which the lien has been of any service to the bank. I have not very strong views on the question, either one way or the other. It is a convenience to the borrower, but is not of very great value. There are a great many customers who are stockholders and who would like to borrow money, without having to furnish an endorser. They would say, you know, I have some stock in your bank. I see no reason why, under these circumstances, that stock should not remain there as security for the loan.

Q. The stock is deposited as security against his overdraft, and obviates the necessity for an outside loan. Is it always possible for a person, who so desires, to ascertain whether there is a lien on bank stock standing in the name of an individual? —A. No.

Mr. MCCURDY.—This is from the standpoint of the shareholder. In the case of a loan company making an advance on these shares, and the shares being transferred to the loan company, in the collection of the double liability, the loan company must

pay. If a bank lends to a man of no substance, on the security of his shares, (as it might very well do), in the case of liquidation the value of the double liability clause would be lost, as you would find a great number of these men of straw holding shares in the bank.

Mr. WHITE.—I do not quite follow that. I do not think it is of very much importance.

Mr. NICKLE. It is important to this extent. At the present time the banks get a receipt, which is a non-negotiable security, for advances made. If the bank were not to have a lien on stock, it could not borrow on the mere receipt. Suppose that the provision were taken away by which the bank has a lien on its own stock for advances made, would not the practice of the bank be changed so that they could issue scrip instead of a receipt? Instead of a receipt being issued, the bank would issue scrip, endorsed in blank by the owner, and the bank would loan on that. It is purely a question of how you do it.

The CHAIRMAN.—It is quite evident that we shall not finish with this witness this morning, and if it is the unanimous wish of the Committee, this afternoon I will endeavour to get permission for this Committee to sit while the House is in session.

Motion carried.

Committee adjourned.

The Committee met at 4 o'clock p.m.

The CHAIRMAN.—When we adjourned at one o'clock, we had finished with section 43 (*b*). If the members have no questions to ask Mr. Henderson regarding the sections between 43 and 54, we will request him to take up section 54.

By Mr. Armstrong (Lambton):

Q. Has Mr. Henderson any suggestion with regard to the intervening clauses?—A. I think not.

By the Chairman:

Q. We will take up section 54, which deals with the annual and special statements of the directors, Mr. Henderson might say as to what fuller details are desirable in these statements—A. I cannot think of anything fuller. It is really very full. If I were going to make any changes, I would make them in the way of lessening the number of provisions rather than of increasing them. But, as there appears to be a desire for very full information, I see no reason why it should not be acceded to within these limits. There is one thing, I think, in the item of assets, which I rather think has been dealt with, paragraph (*d*), cheques on other banks and cash items in transit. I think the words "cash items in transit" should be struck out, because it will be very difficult to interpret that. It might be interpreted so as to give a false idea of a cash item.

By Mr. Rhodes:

Q. You heard Mr. McLeod's testimony on that point, did you not?—A. He agreed with that, to do away with cash items in transit altogether. What is intended to be covered by that will find itself placed under other headings, in some cases under one heading and in some cases under another.

Q. Did not Mr. McLeod state that "kiteing" would take place under that, and do you agree with him in that respect?—A. That is a possibility

By the Chairman:

Q. And a danger?—A. I should say it is a danger and could be abused.

Q. Just a moment in connection with sub-section 2; it is proposed by Mr. Aikins to amend section 54 by adding to paragraph (*j*) of liabilities the words: " and all acceptance."—A. That is in bills payable.

Q. And Mr. Aikins proposes to add to paragraph (*d*) of assets the words: " and the nature of such cash items." What would you think of these changes? Would they be an improvement?—A. Oh, no. Cash items in transit, are items sent by mail during the last days of the month charged by one branch against another office. These items not having been credited by the office to which they are sent are outstanding at the close of the month. These are the items in transit and they run to very large amounts. We could not give the details necessary to set out in each return the " nature of such items." In a large bank there might be several thousand items in transit at the end of the month.

By Mr. Nesbitt:

Q. But they are shown under other items?—A. They are shown under other headings in the statement.

By Mr. Rhodes:

Q. Supposing it were feasible, it would mean a great delay in making out the returns?—A. It is an impracticable suggestion.

By the Chairman:

Q. Under sub-section 2, paragraph (*j*), bills payable, Mr. Aikins has proposed that this be made to read " bills payable and all acceptances."—A. I would rather that some of those who are really responsible for the details of the return should speak on that. I am not quite sure in my own mind what are the bills payable of a bank. It may be assumed that drafts drawn by one branch upon another or by the bank on its correspondents that have not yet been presented for payment may be called bills payable. Other than that I do not know what bills payable there are that banks have.

Q. And all acceptances?—A. And I should say that nearly all acceptances that are in existence are acceptances that are drawn under letters of credit and would be covered by the next item, paragraph (*k*). But I prefer that some one who is more responsible for making up these returns should speak on these two points.

By Mr. Sharpe (Ontario):

Q. Would you require the bank to publish annually a list of its so-called investments?—A. I think that is altogether unnecessary.

Q. That is Mr. McLeod's idea.—A. I know it is, but I do not agree with him.

By Mr. Rhodes:

Q. Is there any objection to it?—A. Why go into such detail. After the Directors have gone over these securities and seen that they are properly valued, why should that not be accepted? Is it any person's business to know what securities a bank has been investing in, if the thing has been properly invested?

By Mr. Sharpe (Ontario):

Q. It is the depositor's business.—A. It is a very small fraction of the whole, Mr. Sharpe. The amount of securities held by a bank is perhaps two millions while their loans are forty millions.

Q. What is your objection to publishing a list of investments? Mr. McLeod suggested that it should be done?—A. I cannot help what Mr. McLeod thinks. I do not approve of that.

APPENDIX No. 2

By Mr. Rhodes:

Q. You have not given any reason for your opinion.—A. I have always thought it was unnecessary. One reason that occurs to me is this: I remember a case in which a bond broker came to us and presented some securities to us for sale. We thought they were a very good security and we bought some. Immediately he published all over the town that we had bought this security, and the public could infer that it had our endorsation. The same thing might occur if we published a list of securities. We should not be put in a position of endorsing these securities. And then, we are parting with them all the time; they are changing constantly; they are not things that remain in our possession continually unless they are very high grade securities. In England, the amount of securities of that kind held by the banks is much larger than is held in this country, and they never think of inquiring into details of that kind over there.

By the Chairman:

Q. You will remember that Mr. Clarkson this morning made some remarks as to sub-section 4 of section 54 about the profit and loss account. You heard what he said with reference to the fuller detail. What would be your opinion of that?—A. Did Mr. Clarkson so state? I think that was Mr. Bunnell.

Q. Yes it was Mr. Bunnell, last night.—A. I do not think that is at all desirable. The results of the operations are shown in as great detail as you need to show it, I should think.

Hon. Mr. WHITE.—We come back largely to the question of the charter and capacity of the men who are running the banks.

By the Chairman:

Q. Let us take section 91 which specifies that seven per cent. is the maximum legal rate of interest. Would it be possible in its annual or special statement for a bank to give the amount of money which it has out under loan or discount exceeding that rate?—A. Oh, yes, that information could be obtained.

Q. Would it be a very difficult matter for a bank to include that in its statement? —A. I think it would be quite simple.

By Mr. Maclean (Halifax):

Q. Are there any other countries that you know of where there is a statutory limitation of interest chargeable by banks?—A. I do not know of any, though there may possibly be. There may be such a law in some of the States of the Union, but not in any of the large Continental countries. There certainly is not in England. At the present time the banks in Germany are paying, and are glad to pay, 8 per cent. in order to get money.

Q. Does the Bank of England's interest rate affect the Canadian banking rates? —A. Not to any appreciable extent. It has an indirect influence undoubtedly, because it would affect our rates in this way: If a Canadian bank were drawing on its credits with its London bankers they would possibly not feel inclined to draw so largely on them if they had to pay 6 per cent. for that money as they would if they were going to get it at 3 per cent. To that extent variations in the bank rate would affect us.

Q. Do Canadian banks borrow occasionally from British banks?—A. I should say that a number of Canadian banks have an arrangement with their London correspondents that they may overdraw their account for a certain amount. They have a regular line up to which they draw. It sometimes is convenient for them to overdraw. The amount that they owe to banks in the United Kingdom is shown in the monthly return to the government.

By the Chairman:

Q. Taking up section 56 we would like to have Mr. Henderson's views regarding the audit—as to its necessity, its desirability, and the manner in which it should be done?—A. Let me start out by saying this: that if one properly appreciates the extent and value of such an audit as can be obtained by external inspection, and understands its limitations and is not disposed to attach undue importance to it, I think it has a good place and will have a value in connection with our Banking Act. At the same time I do not believe that there is any form of external inspection that can be devised that is at all equal to the inspection that a bank makes through its own properly qualified officers. Perhaps you will permit me to speak of the experience I have had in connection with our own bank, of our own system, so that you may see what the character of the inspection is that is carried on by a fairly large bank. We have an inspecting staff in the first place of six or eight men, who are constantly inspecting all the offices in Ontario and Quebec. We have an inspecting staff in the West who are inspecting the western offices. The inspectors visit those offices every year, go thoroughly into the working of the offices, and the way in which the administration is being carried on, and report very fully upon the loans. In addition to this inspection the full transactions of each one of those offices—that is to say, a list of every note that is discounted, of every loan that is made—is each day sent forward to the head office and examined by the officers who supervise these branches at the head office. These officers watch all the details of the loans, and also receive a statement of every note that became due and has not been paid. So that the daily working of the bank's branches is constantly before these officers in the head office. If there is anything in the daily work or anything in any loan that has been made which looks doubtful, these supervisors—men who have had experience and training and proved themselves capable and judicious—bring it to the attention of the general manager, who enters into correspondence over it. In that way the whole daily work of every branch is brought constantly under the view of the head officials. Now, when these inspection reports come in, they go first into the hands of the chief inspector, who draws attention to anything that the inspectors have directed attention to. It has been my practice since I went on the board of directors realizing the responsibility that attached to the directors, to try to share that responsibility with them and to relieve them of it by going over every one of these inspection reports.

At the end of the year when a statement of debts considered bad or doubtful is called for these also come under the review of the head office and under the review of the directors, who consider them with the reports presented by the inspectors and also the result of my own observations on them. Then to meet the question of the inspection at the head office, a committee of the directors, of which I form one, make an inspection of the cash and of the securities, and go through the returns from the branches to see that all the entries are properly entered in the statement that is presented to the shareholders. The directors are very willing to spend the time over it and they go into it very thoroughly. They become as thoroughly informed on all matters as it is possible for them to be in the limited time at their disposal. I cannot conceive that any form of external inspection could be so thorough, so complete and so intelligent as that, because it is an inspection based upon knowledge. It is followed from day to day and from week to week and really covers the whole ground. I quite appreciate what Mr. McLeod said in his evidence. He said: 'I did not think that a system of external inspection was required for the Bank of Nova Scotia, because we looked after that.' I think that it is true with the great number of the banks, if not all of them.

I quite appreciate the desire and the feeling shown to satisfy the public that some outside official should give such supervision as it is possible to give. The feeling is that an audit should be made by some one who will feel that his responsibility is more directly to the shareholders, because it is called a shareholder's audit in the Act. I

APPENDIX No. 2

think every properly constituted board of directors, if they have any realization of what devolves upon them, and the fact that they are trustees for the shareholders, should accept their responsibilities and try to act up to them as best they can. If they cannot go into the details of the bank's operation they should have somebody to do it for them, in whom they have absolute confidence. Having that in view I thoroughly agree with what Mr. Clarkson said—that if you get a competent and efficient auditor fully seized of his responsibility and availing himself of the information placed at his disposal, and he should see that he gets all the information he reasonably requires—if you get such a person it does not matter in the least whether that man is appointed by the shareholders or the board of directors, or the Minister of Finance, or the Canadian Bankers' Association. It does not matter very much if you get the right man—that is the essential thing. But I do not see any reason why the responsibility should be taken off the shareholders. Theirs is the responsibility altogether. To a large extent they lose their money if the bank goes wrong. The responsibility rests with them, and I do not think we should try to shift it. There is a fear of our becoming too paternal in our legislation. If you have a sufficient body of capital behind the bank, forming a reasonably good margin of safety to the depositors, I think you are fulfilling your ordinary duty to the depositors and to the shareholders.

I do not know that I can say very much much more except this: I have been rather surprised, and I think most bank directors would feel hurt, at the imputations that are thrown out, that because the directors are the most influential persons in connection with the bank, therefore they must be regarded with a good deal of suspicion, and that they should not be permitted to vote or hold proxies for the appointment of auditors. I cannot conceive of any circumstances that should give rise to such a position and such an attitude being taken towards the directors as a body. Take the case of the Bank of Toronto, the directors are men who, in their own persons and families are immediately connected with the bank. They have shares representing a par value of about $1,160,000, or a cash value of about $2,300,000, and is it conceivable that these men should not have a voice in the selection of men who are going to investigate the affairs of the bank, and have exposed to them an immense amount of confidential information? You are placing a very large amount of power in the hands of the shareholders' auditor, so that if he chose to make himself disagreeable he might bring a great deal of discredit upon the bank without any adequate cause. To my mind it is altogether unfair to say that the directors should not be permitted to have a voice, to have a right to say whom they should select and recommend to the shareholders for the position. It seems to me altogether wrong. Now, that is all I want to say on that point.

There is just another point I would like to make a remark on: Mr. Clarkson gave us, I think, some exceedingly valuable information as to what he conceived to be the duty of the auditor, and how far he should go in making that audit. I do not think, though, that one suggestion he made is altogether in harmony with what I think would be the right thing to do. He comes to the point where there is a possible difference of opinion between the auditor and the directors. The auditor has his view, the directors have another. Now he thinks there should be somebody over them both to whom the matter should be referred, and he wants to lay that onus upon the Minister of Finance. If the Minister of Finance is willing to make himself an arbitrator in every case of this kind there is no objection to it whatever.

By Mr. Sharpe (Ontario):

Q. Do you think there would be many of such cases?—A. I do not think so—I shouldn't think so. I should think that in 999 cases out of a thousand that if the auditor is not satisfied with anything and goes to the directors and talks it over, if they are decent people they would either accept his view of it or convince him he is wrong.

I do not thing it would be wise to have legislation placing that responsibility upon the Minister.

There is just this other one point I want to speak of and that is this, that what is apparently in the minds of some members of the committee is that it is not altogether satisfactory that the shareholders' auditor should be nominated, or controlled by the directors. I have spoken of that from Mr. McLeod's point of view, and I want to speak of it from another. I can appreciate the fact that in view of some of the recent disclosures that have taken place in the Farmers' Bank that where the directors were, as stated by Mr. Clarkson, thoroughly incompetent, and where they were led entirely by their president and general manager, that an auditor who was appointed under this influence might be also a party to the weakness and incompetence and fraud which was exhibited, and that to meet an exceptional case that may arise in our banking system, if such a state of affairs should possibly emerge again, there should be some way of securing a competent and suitable auditor. I think the suggestion made by Mr. McLeod has many points that recommend it, but it does not wholly meet with my own approval, for reasons that I do not think I should go into, because I am not going to discuss it now.

By Hon. Mr. White:

Q. The appointment of a board?—A. Yes, the appointment of the board. Thinking it over after the whole discussion that has taken place here, I have a plan floating through my mind, not in a shape that I would like to give it at the present time, a plan that I would like to discuss more thoroughly with other bankers, in which we might possibly arrange that there should be an action in which the shareholders, the directors, the Minister and the general managers of the banks might all have a voice in connection with the selection of the auditors. I would not place the responsibility on any one of these in such a way as to relieve the shareholders themselves of their responsibility, and if you will permit me I should like to have time just to think that over, and subsequently if it appeals to me more strongly when I get the whole details, I would be glad to submit a statement thereon to the Minister. I may say I think, without violating any confidence, that when the thought passed through my mind and I discussed it with one or two friends the matter was presented to Mr. McLeod, and Mr. McLeod spoke to me and said he also would like to think the matter over, and he had the impression that the plan I suggested might in some respects be a better plan than his own. So that I would be glad to supplement anything I have to say in connection with the appointment of an auditor at a later time by sending in a statement.

By Hon. Mr. White:

Q. To the committee?—A. To the Committee, yes.

The CHAIRMAN.— I am sure that will be perfectly satisfactory to the Committee and when that statement comes in we will put it in our records, or you can present it in person and explain it.

By Mr. Cockshutt:

Q. I would like to ask Mr. Henderson a question. I understand that you do not object to government or independent audit of the banks?—A. No.

Q. You have no objection to that?—A. No.

Q. There are 25 banks at present in Canada?—A. Yes.

Q. What number of inspectors would be required for those 25 banks, in your judgment?—A. What kind of inspection do you refer to?

Q. Well, an inspection such as would be considered satisfactory and fairly complete?—A. You mean as satisfactory as is now carried on by the bank staff?

Q. I would not think it would be as exhaustive, probably, as you have, but it would want to be fairly thorough or else it would be inefficient and unsatisfactory?—A. I

can hardly say. If you are going to form a board of examiners I hardly like to say what number would be required. The plan I have in view would not contemplate the appointment of a board, but would contemplate the shareholders of a bank nominating their auditors, but those auditors might be approved by the Minister after consultation with managers of the banks.

Q. In your own case, how many does it take? For your own bank will one be sufficient?—A. One man might do to take charge, but he would have to have some assistants with him, as they do in the English banks where the auditor who is appointed brings with him his staff, and his fee covers his own services and the services of his staff.

By the Chairman:

Q. There are some small banks, and I suppose two or three of them could be audited by the same firm, or the same man, could they not?—A. I do not see any reason why one good firm could not examine two or three or more banks, if the work is not going on at the same time.

By Mr. Cockshutt:

Q. Do you think that the auditor can be reasonably asked to report upon the value of the securities placed before him?—A. I do not think it is fair to ask him to do that. A competent man would, in the examination of the bank's affairs as they are presented to him, and being in possession of the different books at the head office, get a very fair idea of the character of the administration of the bank, but when you come to the ramifications of the banks, and the millions of dollars that they have out in loans scattered from Halifax to Vancouver, transactions in this country and transactions in other countries, I do not think we should ask any auditor to become responsible for those figures. I think he would do a very great deal in assisting, in confirming the values that have been placed, and I think that his report will be of very considerable value, but I do not think you must attach too much importance to it, or hold the auditor responsible for the representations that are made as to the value of the assets.

By Mr. Maclean (Halifax):

Q. It has suggested itself to me that the amendment to the Act in reference to the shareholders' audit would require a report to the shareholders, and inasmuch as the year of the different banks usually ends nearly at the same time, and the annual meetings are held at the same time, there would be a difficulty there, or at least you would require a great number of auditors, possibly?—A. Yes.

Q. If the reports were all to be made at the same time?—A. Some banks have the meeting at which that report is presented some weeks after the end of the year; in some cases three weeks and in other cases five or six weeks elapse before the report requires to be presented.

By Mr. Cockshutt:

Q. I was going to ask if you think that outside inspection of this kind would have a salutary effect upon banking as it is at the present time?—A. I think it would.

Q. Do you think it would exercise a certain amount of check?—A. I think it would, yes. It might be necessary in some cases and in other cases it would not make any difference.

Q. You do not think it would entirely do away with bank failures?—A. I should think not.

Q. Would it, do you think, reduce the number of bank failures?—A. Let me quote along that line the very pertinent remark of Mr. Forgan, of Chicago, who said: 'Outside inspection never prevents loss, it exposes it.' The loss is made before the examination takes place, when the advance is made, if it is to be loss; it is by examination only that this fact is established and exposed.

Q. I was going to ask you on that very point you were discussing a moment ago with regard to the possibility of a difference of opinion between the auditor and the bank management?—A. Yes.

Q. Would it be possible in the case of any doubt of the value for the bank agents to submit the loan to the auditor, for his opinion as to the security before the transaction was gone into? Would it not be possible by some such arrangement that loss on the transaction might be saved?—A. Impossible.

Q. One thing that could be done you think is to try to get out of it with as little loss as possible.—A. I think all the auditor could do is if he thought there was likely to be a loss made in connection with a loan, to see that proper provision was made for that loss.

Q. You would not consider it desirable to place in the hands of the Board of Inspection or Audit the power to order a reduction in some certain account that the bank was carrying?—A. I certainly would not. I think that the responsibilty for the management must rest with the board of directors, and the general manager for whose actions they are responsible.

Q. Do you think it would be advisable or expedient in any way to limit the amount to be placed in the hands of any one corporation, firm or individual?—A. I am personally opposed to that. I do not think as a matter of practice, if you have the right general manager, and he takes his directors into full confidence and they exercise their very best judgment, I do not think any limitation should be placed, because I know numbers of cases in which the biggest loans we have had have been the most satisfactory and have involved the least anxiety and clerical labour. They have been also much more profitable, although bearing a lower rate than a smaller loan, which involved a great deal of clerical work and more interest.

Q. Mr. McLeod expressed the opinion that banks should not exceed a capital of $5,000,000. What do you think about that?—A. I do not think he went so far as to say that. He said he thought $5,000,000 was a pretty fair average.

Q. You would not advise a limitation being put on the capitalization?—A. No, I would not advise any limitation, and for this reason: we are all growing very fast. I remember when the policy of the Bank of Toronto, a good many years ago, was to establish a good, strong, small bank. They had this feeling, they never wanted to be a big bank. Well, they changed their minds and found that it was unwise to set any standard beyond which we should not go. As the business grew, we extended our capital and our resources to meet it. I would not like to place any figure as the limit of capitalization for banks in this country. I have a great deal of respect for Mr. McLeod's judgment in that. He has had a great deal of experience, and it is possible my own opinion may not be as good as his.

By Mr. Northrup:

Q. As I understand the audit, it seems to me that no matter how perfect your audit may be or what scheme is devised, the audit can only, after all, be effective against dishonesty, recklessness, or incapacity, which, in the end, come to the same thing. That is to say, presuming a bank is well conducted, an audit in those cases, would be practically of no benefit; but in the case of such banks as the Farmers', the Monarch, and the Sovereign, then the audit would protect the shareholders and depositors to a certain extent, at least. That, I understand, is the position?—A. Yes. In those cases an examination by a competent auditor would have disclosed the facts and probably minimized the losses.

By Mr. Maclean (Halifax.):

Q. At the time of the collapse of the Sovereign Bank, how many hours were required to enable the bankers to value the assets of that bank?—A. I can hardly tell you that, because I was not in the confidence of the people who made the

examination. I think two or three bankers were informed of the condition of the bank some days before, and they had an opportunity of making a rough valuation as to what the assets might possibly produce——

Q. I am told they did it between ten o'clock in the morning and midnight of the same day. Would that likely be correct?—A. I was not one of those who made the examination. I do not know what length of time they took, but after ten o'clock in the morning, when the bankers met to consider the affairs of the Sovereign Bank, the representatives of three banks stated that as the result of the examination they had previously made, they believed the assets of the bank would produce, roughly, so much money, and they therefore recommended the banks to advance the amount of money necessary to take it over. The discussion on their report and the questions raised in connection with it, took place that day, and between ten that morning and somewhere in the evening, the bankers decided to make the advance, and took it over on the basis of the report made by the others.

Q. That only meant an examination of head office evidence.—A. I am sure the results have not panned out according to the report we got.

By Hon. Mr. White:

Q. Is it, or is it not a fact that the Sovereign Bank was, and is, largely interested in two enterprises: One the Milwaukee bond transaction, and the other the Alaska Railway, of which, even at the present time, nobody can tell what the outcome will be, and that very large sums were invested on those accounts?—A. Quite so.

By Mr. McCurdy:

Q. Your statement was that an inspection would simply reveal a loss after it had occurred. Therefore, it would be too late to be of much practical value. Are there not, in the case of the wreck of a bank, many general losses made before the one culminating in the overthrow of the bank? If these smaller losses were checked by an inspection, it might be of substantial benefit and prevent the wrecking of a bank.?—A. I think that is probably true. If in any one year a bank has made losses that they are not able to provide for out of their profits, if there were no outside inspection, the temptation might be not to disclose that loss to their shareholders. External inspection might insist that that state of affairs should be disclosed, but it would not prevent that particular loss. It would have been made in spite of the examination.

By Mr. Maclean (Halifax):

Q. I would like to ask you two questions, which I will put together, though perhaps they may not be directly relevant. The first question is: Would a board of chartered bank managers have selected Mr. Travers as manager of the Farmers' Bank if the selection was left to them? The second question is: Is there any way of insuring the appointment of good general managers in the case of the creation of new banks? Should that power be left entirely to shareholders? Is it too great a power to leave to them?

Mr. NESBITT.—They subscribe the money, why not?

Mr. HENDERSON.—I think perhaps I am quite safe and justified in answering your question, Mr. Maclean as to Mr. Travers. Mr. Travers was, at one time, an officer of the Merchants Bank of Canada. He was not connected with the Merchants Bank of Canada at the time he called upon our bank in Toronto—The Bank of Toronto—in reference to the new agency we were opening in Berlin, where, at one time, he had lived. He asked us to appoint him as manager, but, from the information we had received, both as to his character as a banker and his character as a man, we declined to appoint him. I think any board of chartered bankers would probably have come to the same conclusion if they had made the same examination as we had.

Now, as to the other hypothetical question, as to whether there should be some power, other than the directors and shareholders, to select the general manager of a new bank, I do not see how you can or why you should advise the people, who are going to put their money into it, whom to select.

By the Chairman:

Q. When a new bank is organized, is it customary to have that organization originated by the man who ultimately becomes its general manager? I am just asking historically?—A. I think Mr. Clarkson could give us a good deal of information about that, historically. I think he found that the promoter of four banks, some of which never came into existence, the promoter of the Monarch Bank, Farmers' Bank, and another bank which I do not think I had better name, was chiefly actuated by the commissions he hoped to get for selling stock.

By Mr. Sharpe (Ontario):

Q. You knew, when Mr. Travers applied to you, that he was not a capable and competent man. Do you represent the Bank of Toronto at the Bankers Association? —A. No, I do not. Let me say a word here. You think a certain amount of responsibility attached to the Bankers' Association in respect to that appointment?

Q. The knowledge you had must have been possessed by the Bankers' Association. It was known generally to the officials of The Bank of Toronto?—A. We certainly had a knowledge of it.

Q. The general manager is your representative at the Bankers' Association, is he not? What is his name?—A. Mr. Coulson.

Q. And he is now dead?—A. Oh no.

Q. Who was the general manager that died in Montreal?—A. Sir Edward Clouston.

Q. Who is president now of the Bankers' Association?—A. Mr. D. R. Wilkie of the Imperial Bank.

Q. Was it Coulson or Clouston that sent a letter to the Finance Department? —A. A letter was sent by Mr. Coulson to Mr. Clouston, who sent a letter to the department, based on what had been said by Mr. Coulson.

Q. So that Mr. Coulson disclosed to Mr. Clouston the information that Travers would not be a proper man to manage a bank?—A. I do not think he would have been justified in doing that.

Q. That is getting away a little from my question. I would just like to follow it up a little. Mr. Coulson being a member of the Bankers' Association, would naturally discuss the desirability of having Travers as manager of this bank. Don't you think that some responsibility rested on the Bankers' Association, to apprise the Minister of Finance as to the desirability of issuing a certificate to the Farmers' Bank?—A. I am very doubtful about that.

Q. Sir Edward Clouston wrote a letter, saying that by reason of the method of raising the deposit, a certificate should not be issued to the Farmers' Bank; but that letter came a little too late?—A. I believe that to be the case.

Q. Why did not the Bankers' Association follow it up and lay the facts in your possession before the Minister of Finance?—A. I cannot answer for the Bankers' Association, I do not know what the Association knew.

Q. Did you feel any personal responsibility with all your experience?—A. My dear man, I do not see what we could do.

Q. Could you not, knowing that he was an unworthy and incapable man to manage a bank, have prevented him receiving the certificate, and so have avoided the loss subsequently caused to the depositors?—A. No. Supposing I had gone to the Minister and made such a statement to him, and that Travers had found that out and came back and asked me on what grounds I made that representation. What position would I have been in—

APPENDIX No. 2

Q. Your board of directors must have had some information?—A. They had no information whatever.

Q. Did you, as a matter of fact, communicate to any bankers your own knowledge as to the character of Travers?—A. No, we did not, because we got the information in confidence.

Q. What is the capitalization of the Bank of Toronto?—A. $5,000,000.

Q. What was the capitalization of the Sovereign Bank?—A. I think it was about $4,000,000.

Q. Did you know the amount of the loan of the Milwaukee bond transaction?—A. $700,000 or $800,000 possibly.

Q. And the Alaska Railway transaction?—A. Equal I think to about $2,000,000, or something like that. But these were in different loans, and amounted to these figures in the aggregate.

Q. Will you say that there should be no limitation on the right of a bank to loan to corporations or individuals?—A. I think so in spite of that.

Q. Have you any suggestions owing to the large percentage of failures Mr. McLeod has told us of how to remedy the state of affairs? Is there any prevention for this?—A. The only prevention is to have competent and trustworthy men managing the bank, and even then they may make mistakes. They would not, however, do dishonest things.

Q. Your views have to do with an ideal board. Laws are made to prevent the men who are not ideal men from transgressing the law.—A. But I know of no way in which you can legislate to make a dishonest man an honest man or an incapable man a capable man.

Q. But you have expressed yourself in favour of some form of inspection?—A. I have said that inspection will do good service if you do not place too much dependence upon it, or rely too much upon it.

Q. Has your board of directors been continually opposed to outside inspection?—A. No, it has not.

Q. But the Canadian Bankers' Association were opposed to it for many years?—A. It was not thought necessary to have it.

Q. They were a good deal opposed to it?—A. Yes.

Q. And they have been opposed to it up to this revision?—A. Well, the matter has not been a very live subject. The plan that was suggested by Mr. McLeod did not commend itself to them. I remember the discussion that took place. The objection made to it was that they did not think it would be efficient.

Q. At any rate, the Canadian Bankers' Association, or individual banks, did not suggest to any one any method by which external inspection or audit could take place?—A. They were quite satisfied.

Q. You were quite satisfied also with the Bill that was presented by the late Finance Minister making the audit permissive and not compulsory?—A. The position we took was this: That we were quite satisfied, so far as the Bank of Toronto was concerned. It was stated by the president to the shareholders that no form of inspection that could be devised was so thorough as the one we had in use. But we said we were quite willing to submit to any form of inspection that parliament by its representatives might desire to have brought into effect.

Q. So far as your own board was concerned, it may not need inspection, but do you not think that a board like the Ontario board or the Sovereign board or the Farmers' Bank Board requires some system of inspection?—A. It is easy to be wise after the event, Mr. Sharpe.

By Mr. McCurdy:

Q. Do I understand you correctly in stating that you thought any such system of inspection would not be very effective towards preventing losses or bad management?—A. Well, I am not quite sure that I put it in that form. I say it will not

prevent them. It may minimize the loss. The inspection cannot, if a loan is once made, put that loan back as if it had not been made.

Q. Do not the banks themselves already utilize the services of inspectors to a very large degree?—A. Yes, by this inspection you create an additional inspection.

Q. But it would be of some use?—A. It would be useful, unquestionably.

By Mr. Donnelly:

Q. Do you not think that the knowledge that there is going to be an external audit would have a tendency to deter the banks from making such loans as were made by the Sovereign or the Farmers' banks, say on the Keeley mine?—A. Very likely it would have a salutary effect upon them.

By Mr. Sharpe (Ontario):

Q. The general manager of the Sovereign bank was personally interested in that loan, was he not?—A. I have no knowledge of that.

Q. I understood that his brother was connected with it?—A. I heard so, but I do not know that it is the case.

Q. Are any of the staff at the head office of the banks sworn to secrecy?—A. All of them.

By Mr. Nesbitt:

Q. Mr. Sharpe has just asked you about your own private report on Travers. It is not customary to carry your own private reports on your business to the Bankers' Association?—A. No.

By Mr. Thornton:

Q. Did I understand you to say that there was a pressing need at the present time to satisfy the outside public because their confidence has been lost because of the failure of banks, that there was some need of some kind of inspection?—A. I said that there was a demand for it.

Q. Because of the losses the people had sustained?—A. Quite so.

Q. Then you said, too, that in an extreme case, like the Farmers' bank, there ought to be a final court of appeal, which might be the Finance Minister?—A. I did not say that.

Q. You said something to that effect?—A. I think that statement was made by Mr. Clarkson this morning, and I have dissented from that. I do not think that responsibility should be placed upon the Minister.

Q. But still that in a very extreme case there ought to be some authority outside of the board of directors?—A. Well that is a hypothetical question that I would not like to answer.

Q. You made the statement, did you not, that there should be some way to meet exceptional cases like the Farmers' bank?—A. Did I make that statement?

Q. Yes?—A. I do not quite know in what connection that question came up.

Q. I took your remark down. You say that you have a vague idea in your own mind which you would like to work out in connection with other bankers as to the formation of a board of auditors?—A. As to a method of having auditors nominated, but I do not approve of a board of auditors.

Q. As to the method of having auditors appointed, that would practically be an independent audit?—A. I am assuming that a shareholders' audit has been proposed by the Minister and that it is his desire to have an examination of some kind made under this Act. I think we all approve of that, and I think the step is a step in advance. All I want to do is to strengthen the position we desire to reach by means of the shareholders' audit, and if there is a suggestion that occurs to me by which I think this can be helped and strengthened and benefited, I should like the opportunity to present it.

Q. But you think there is an urgent need to satisfy the outside public?—A. I do not know that I go that far. I think you have that impression, and I am quite willing to take your representation that such is the case.

By Mr. Armstrong (Lambton):

Q. I do not quite understand the position you take with reference to auditors. Mr. Clarkson, this morning, made the statement that he was in favour of the shareholders and directors appointing the auditors, and that before they were finally appointed that at least the names would be submitted to the Finance Minister for consideration. What objection have you to such a mode of procedure?—A. None. I do not know whether the Minister would approve of that or not.

Q. Then what objections do you have to the position taken by Mr. Clarkson in regard to accounts that are in dispute as between the directors and the auditors? Where should they be submitted, and how can they be disposed of?—A. I am not prepared to say. I am not prepared to endorse that view. If the Minister came to us and said: I want to take that position; I would say: All right, we will endorse it. But I would not make the suggestion, and I would not like to have it understood that I was approving of placing that responsibility upon the Minister.

By Hon. Mr. White:

Q. Just on that point. As I understand it, Mr. Clarkson in his evidence gave it as his view that if a dispute arose between the auditor and the management of the bank it might be referred to the Minister. It is not likely, I think, that many of these disputes would arise, but they might possibly, and they might be disputes of some consequence. Suppose it was a question of a large account, as to what to do with it, whether to continue it or to close it out. What, in your judgment, would the Minister have to do in order to settle a dispute of that kind? Let me put it this way: go back a little in your experience of banking. You have known of large accounts that were dubious at the time but worked out satisfactorily later on?—A. Yes, frequently.

Q. By nursing such an account it has sometimes turned into a very good one.—A. I have a clear recollection of a large advance being made, for which securities were held. There was no market for these securities, but we had absolute faith in their ultimate value and kept them for over two years. As a result of this the bank's debt was paid and we handed over to the borrower's executors, he having died in the meantime, $150,000.

Q. I am not dealing with a case in which any fraud arises because in that event the auditor's duty would be clear: there would be no dispute about it at all, the auditor would simply shut down upon it. But take a case where there is a dispute, or difference of judgment, as to the value of a loan, leaving out of consideration the present Minister of Finance, who is supposed to know everything, although he doesn't. Do you think it at all likely that the Minister's opinion upon a matter of that kind would be better than the opinion of the general manager and the board of directors of a particular bank, or not?—A. If you were to give me a concrete case and inquire whether the judgment of the present Minister of Finance would likely be better in a particular instance than that of some particular general manager, I have no doubt that I could express my opinion.

Q. Well, we will get away from that for a moment. I want you to tell the committee something about the granting of credits, as to how a company or a firm that might afterwards get into a rather bad way, we will say, are granted a credit originally. How is that dealt with? Take a mining company, a coal company or any other company or firm that desires a credit in a bank, how will that be dealt with in the first instance?—A. When the application is made they state what they want. They also present a statement of their affairs, upon which they ask that the credit shall be based. That statement is submitted to a very careful scrutiny.

Q. By the officers?—A. By the officers of the bank. They meet with the individual persons and form their impressions also as to them—if they have not had previous knowledge of them—and it is based upon the men who are carrying on the business, the character of the assets, and the nature of the business, and the bank's judgment is then formed as to whether it is desirable to grant a credit or not. After that judgment has been formed by the executive officers of the bank, it is brought before the directors of the bank, many of whom have had a wide experience—some in one branch of business, and others in another—the whole matter is laid before them and again discussed, and if it commends itself to them then the credit is granted.

Q. Once the credit is granted it is available for the company?—A. It is.

Q. Now just on that point. Suppose the credit is granted and availed of, is it, in your judgment, that an auditor or inspector, either of the government or otherwise, would come to a different conclusion as to that credit and in any way over-ride or interfere with the judgment of the directors?—A. I think it would be quite within his right to express his opinion to the directors, and give the reasons upon which that opinion is based, and ask them to take into consideration what he says. But after the auditor has made his report, if the directors differ from him, then I think his duty is at an end. Then if he is not satisfied and thinks the matter is all wrong, he ought to get out.

By the Chairman:

Q. Would it add to the strength of the recommendation of the auditor if he could refer to a sort of banking tribunal his differences with the directors and secure a decision, so to speak?—A. Do you mean that for the purposes of the Bank Act an expression of opinion should be given that might find a reflex in some section of the Act?

Q. Would it strengthen his position if this auditor, having made his examination and differed from the directors, could secure from some financial expert an endorsement or otherwise of his recommendation? Do you think there is anything possible in that line?—A. I will tell you what has occurred to me, and what I would feel inclined to suggest if I were an auditor and had any such difficulty.

Q. There would be only the moral persuasion?—A. If a question of that kind arose and there was a difference of opinion between the auditor and the board of directors. and it was a serious matter. and they could not convince each other, I would feel inclined to say: 'Both of us may be mistaken. Let us select some person in whom we have absolute confidence, lay the matter before him, take his opinion on the subject and see if he cannot give us some light on it.' I think that would be a very much better way to settle the difficulty than to place the onus of effecting a settlement upon the Minister of Finance or upon any official. To bring the dispute before the members of a banking tribunal I do not think would be good business. I do not think it is quite the proper thing to do to bring another bank's affairs before those actively engaged in the management of an opposing and competing bank.

Q. Would you have the government create an arbiter of that character?—A. You would have to get a very perfect man, I think.

By Hon. Mr. White:

Q. He would have to be a financial Solon.—A. I think so. I think the government had better not undertake to select such a man.

Q. In a period of financial stress or stringency, is it not a maxim of banking—let us say in the old country, not here—that the bankers should act pretty boldly?—A. That is a maxim of banking.

Q. Is that maxim adopted by the Bank of England?—A. Invariably. They have restored confidence in many cases by suspending the Bank Act and loaning up to the limit.

By the Chairman:

Q. Is it a fact that the more stringent the times the larger the deposits, and the better the business, the smaller the deposits?—A. No.

APPENDIX No. 2

Q. How does that work out?—A. The more stringent the times as a rule the smaller the deposits for this reason, amongst others: when times are stringent securities are cheap and people draw the moneys that they have in the banks to get the benefit of these cheap securities that will bring them in a high rate. We have customers that in ordinary times will keep very large balances with us. Just at the time when everybody else wants money they draw their deposits out and make fresh investments.

By Hon. Mr. White:

Q. They are wise people from their own standpoint.—A. Certainly.

Q. That is the whole art of making money: to have money when money is scarce. One more question with regard to inspecting. You have described your system of inspection. Do you consider that system to be thoroughly good?—A. It is, I believe, good, but in spite of it, mistakes arise and losses occur.

Q. Take a bank with a couple of hundred branches—150 or 200 branches—some of them very important—what would a system of thorough inspection in a bank of that kind cost in the course of a year? Would it run into large figures?—A. It would run into large figures.

Q. I am told it runs into very large figures?—A. Because you must put the best men you have got on your staff on inspection. You must have men who have experience, who have been tested and who have judgment, and if they are fit for a position of that kind, you must pay them well.

Q. Would you be content as general manager of a bank with 150 or 200 branches, with anything short of an inspection such as you have described?—A. I certainly would not. I would not feel safe without it.

Q. Suppose there was an outside inspection that was intended to be thorough. Could it be better relied upon?—A. I would not rely upon it to the extent that I would rely upon our own inspection. I would consider it of value but I would not like to depend upon it.

Q. Would not any inspection from outside that was as thorough as the inspection you have mentioned have to depend upon the officers of your bank, or any other bank—that officer would be employed in the inspection you have described?—A. I think so, undoubtedly, unless they were going to commence the work all over again.

Q. I believe it is very rare that a bank has been wrecked through collusion and fraud, although it has happened.—A. Yes.

Q. Is fraud necessarily confined to collusion in any one of the offices of the Bank?—A. No.

Q. Might it happen at any important office of a bank by collusion?—A. Yes, and has been.

Q. Might not a bank have a large amount of securities in its office abroad—bullion, securities and cash?—A. I think they must have. I have no personal experience of an office abroad, but I do not see how they can avoid having them.

Q. Take the example of the London offices, at which large sums of money are paid in as a result of exchange operations. They are doing a large banking business, where very much is in cash as a result of the transactions upon exchange?—A. Surely.

Q. That office is an extremely important office?—A. Yes.

Q. Would the same apply to New York and other large offices?—A. Yes, it would apply to all large clearing house centres where settlements are made.

Q. Then so far as the element of fraud is concerned—which I have said is very rare and not likely to occur, but still has occurred and may occur again—so far as fraud based upon collusion is concerned, or speculation, inspection would not, in your opinion, be a sufficient check, we will say at the head office. Could it take place at any other office?—A. It could take place and I would just like to emphasize again the fact that the inspection is good so far as it goes, but you must not place dependence upon what it is able reasonably to bear.

Q. Now let us take a specific case that I was engaged upon in the interest of the shareholders—that of the Ontario Bank—and this was said to have occurred in connection with some speculations in New York. Some money would be sent down to New York and invested in stocks on the market there. At the head office the entry would be charged to New York. That amount of money was lost. No entry was made at the head office, but more money was sent down and again New York was charged with the entry. In the result the books at the head office showed a loss of say half a million, or a million of dollars in the hands of correspondents in New York, which had been lost. Now take a situation of that kind and the amount held in New York and other centres, would it not be necessary to check up and find out how much money and securities were in the hands of correspondents in those places in order to have a thorough inspection?—A. You would have to have a verification in each and every place.

Q. That is the point I am making, while I admit they might rely upon the inspection system of the bank that you have called attention to, rely upon the reports of those officers as to outside officers, if you are to rely upon your inspection I should imagine it would have to be as thorough as the inspection you mention, or substantially so, in order to close all doors?—A. Quite so.

By Mr. Sharpe (Ontario):

Q. In your experience there have been no substantial losses in the branches?—A. I would not say that; some of our branches——

Q. No failures have resulted from losses in the branches?—A. I am not sure I can speak as to that. A great many banks fail, but I cannot give particulars of them all.

Q. If there were external inspection as suggested by some members of the committee it would not be necessary to inspect the branches any more than you do now? —A. If you are satisfied to accept the auditor's statements, take his word, and let him make the best examination he can, and satisfy yourself that he has done his duty, you get what you ask for but you must not place dependence upon that beyond what he is able to do.

By the Chairman:

Q. We are going on to 61, if the members will permit it, which refers to the issue and circulation of bank notes, and also brings up the matter of the gold reserve, the tax for the privilege of issuing notes, and a tax on moneys loaned by Canadian banks in foreign countries. Mr. Henderson will give us the benefit of his experience on these points?—A. As to the proposal of the Minister to establish a gold reserve I think it is a wise piece of foresight on the part of the Minister to make provision for the future, and I think it would meet with the approval of the banks.

Q. If this central gold reserve is established could not the banks dispense with what is known as the special emergency circulation?—A. Well, they could do so; whether it would be wise to do so or not I am not prepared to say. The emergency circulation serves a very useful purpose. There is at the present time in our country circumstances that require such an enlargement of circulation for a short period of time as provided for by the emergency circulation. The members will probably all quite understand the reason for that; from September up to the end of November, when the movement of the harvest in the lower provinces as well as the western provinces takes place, there is put out over the counters of the bank every day very large sums of money for the purpose of paying for the amount of grain brought in and delivered at the elevators and warehoues in these places at that time. That money is paid out so that the circulation increases from $20,000,000 to $30,000,000. The banks are permitted to exceed the limits of their circulation upon condition that they redeem it absolutely at the time fixed by the Act. The way that works out is that the circulation goes up day by day, month by month, until it reaches its maximum, about the middle

of November, and immediately it commences to return as the money finds its way back as payment on land, implements, the interest on mortgages, the settling of store accounts and things of that kind, and it goes back again to its normal as a rule by the end of the time fixed in the Act. The gold reserve would not meet the necessities of that particular case because we would have to put out actual money in order to increase our circulation by $30,000,000. I think the gold reserve would not so fully meet the requirements of the country as the emergency circulation does at that particular season. But the country is growing, with a yearly increase of over 400,000 in our population, and we will require an additional amount of circulating medium to carry on the business of the country, and it is quite possible we may find our requirements growing a little faster than the Act will allow us to expand our circulation against capital, and for that reason I approve of the proposal.

Q. You would like to keep the old provision as well as the new?—A. I would.

Q. What would be the result if the government issued $5, $10, and $20 notes?—A. That brings up the whole history of the circulation, whether it should be issued by the banks or through the government. I would be very glad to take it up, if you desire it.

By Mr. McCurdy:

Q. I would like Mr. Henderson to give us his views on the basis of circulation, and if there would be any objection in his opinion of providing for an asset circulation, that is instead of having it limited by the paid-up capital of the bank that the circulation should be limited to a certain percentage of the total assets. That might give more flexibility?—A. There is a very great deal of force in the view you put forward, but I would not like to enter on a discussion of it; I have thought a very great deal on that, and if it were practicable at the present time for us to consider making a change in the basis I think it might be very useful to have a discussion on the subject. I do not think under the circumstances at the present time it would be well for us to change the basis upon which our circulation is issued. I am quite free to admit it is not on a scientific basis, that is to say that there is no relation necessary between the paid-up capital of the bank and the amount of the circulating medium it requires for the conduct of its business. If one could arrive at the true relation between the assets, or a certain portion of the assets and the amount of circulation required, it might be all right to fix that as a basis, but I would not like to go into it without giving the matter a good deal of consideration.

Q. Do you not anticipate that before the next revision of the Bank Act the present limitation of circulation will have to be altered?—A. It is possible, and I think we will have given it more thought when that time comes, and perhaps in the meantime we can educate ourselves and the public as to what is the best way of meeting that emergency, but it is a pretty big question to take up just now.

By the Chairman:

Q. Do you regard the Central Gold Reserve as an interim expedient?—A. I would not say that, it may be found to serve the purpose very well. It is a wise expedient now looking forward to the future, and it may be found that it will satisfy all our needs, so I would not like to dogmatize very much upon the subject.

By Mr. Rhodes:

Q. In view of the fact that it is competent for the banks to transfer their reserves by way of stock bonus, and thus increase the circulation, would this action tend to weaken the stability of the banks in the future?—A. I would not say it would weaken the stability of the bank because so far as the amount of money which forms the assets of the bank is concerned it is immaterial whether it is in capital or in the reserve.

By the Chairman:

Q. It would increase the security to the depositors?—A. Yes, under the additional liability accruing to the increased capital.

By Mr. Maclean (Halifax):

Q. We heard the opinion expressed, the other day, that banks make an enormous profit out of circulation. I suppose there is a limit?—A. Oh yes, but I think we shall come to that when we discuss the advisability of taxing the note issue.

The CHAIRMAN.—We will ask Mr. Henderson to speak on the taxing of the banks for the privilege of issuing bank notes. Major Sharpe has proposed that the following sub-sections be added to clause 61: 'The bank shall pay to the Government of Canada an annual tax equal to ..... per cent on every one hundred dollars of notes issued under the authority of this Act.' And further: 'The bank, in addition to this annual tax, shall pay to Government of Canada, a tax equal to ..... per cent on every one hundred dollars loaned in foreign countries.'

Mr. HENDERSON.—I do not think that it is quite fair for me to simply say that I do not approve of that, without giving some reasons; and I really think that perhaps my reasons are based upon a series of historical facts. If you will permit me, I will try and present the matter before you.

Our banking system has been a growth. The power of banks to issue notes goes back to the formation of banks in the early history of our country. When the first banks were started, when the Bank of Montreal and Quebec Bank received their charters, there was practically no currency in the country. There was a little gold and a little silver, but practically no currency for carrying on the business of the country. The country was young and small, and without facilities of that kind. The banks issued their 'promise to pay' and passed these out over its counter, and the notes then passed from hand to hand. As other banks were established, they were given the same powers. They did a duty that could not be done at that time by anybody else. As business grew, as the banks increased, the amount of their circulation increased proportioned to the increase in the business of the country. Up to 1870, I think it was, they had to observe this provision: they were obliged to keep one-tenth of the amount of notes they issue in government securities. They also had to pay a tax of 1 per cent per annum on the amount of the circulation that was in excess of the amount of the gold reserve and government securities they had on hand. We now come down to the time of Confederation, and the bringing together of all the different banking systems of the provinces under one Bank Act; we come down to the first Bank Act of Confederation in 1870. The government, at that time, were not as prosperous as now. They wanted to get some money and they hit upon the expedient of having a share in the circulation of the country. They submitted a plan and discussed the matter with the banks. They realized that the banks had performed a very efficient service in meeting the requirements of the country, by issuing circulation, and by adapting themselves to the needs of the country. And consequently, the government did not feel that they would be justified in taking that privilege entirely away from the banks. The country was then, as now, growing rapidly, and needed all the help and assistance the banks could give it; and to take away the power of circulation would have been taking away the power that assisted the industries of the country. Therefore, the banks surrendered to the government the right to issue two dollar and one dollar notes; and in return for that the banks were relieved from the tax they had hitherto paid, and from the obligation to keep government securities. It was a contract to relieve the banks from a tax, possibly not binding, for all time to come. It was an arrangement made at the time; the banks were deprived of the exclusive power of circulation they had formerly, but on the other hand, they were relieved from a tax. It is no reason why, having been relieved of a tax once, it should not be imposed again if it is in the interests of the whole country to do it. As to that, I should say I do not think it is in the interests of the country, and possibly, if I do not convince you, I can give you some

APPENDIX No. 2

reasons for it. We have grown with the country until the average circulation now amounts, in round numbers, to $100,000,000. That circulation is, I believe, unique in the history of the whole world. I think Mr. McLeod was perfectly justified in saying that so far as our currency system is concerned, it is superior to any system in the world in this respect: that it meets the varying conditions of the country, adjusts itself to the demands that are made upon it from time to time; is elastic in its nature, cannot be inflated and serves the purpose of adapting itself to every class of business in a way in which no other system does.

Let me try to explain. The banks are the clearing houses of our country. Every monetary transaction, as a rule, gradually filters through them. If a man wants money to meet his needs, he goes to the bank, draws a cheque, gets that amount of currency, and pays it out. As I said. the amount of circulation is now about $100,000,000, constantly moving, and to it must be added the $20,000,000 of government currency. How do the banks benefit by having a large amount of that money at their disposal? It is just this: that each one of us, to the extent we carry that amount in our pockets, lends the bank so much money. We keep in our pockets what we require for our needs and put the rest into the bank. The banks send out no more money than the people keep in their pockets. Every time that you deposit notes in the bank, they are sorted out, and if they are not the bank's own notes, they are sent to the other bank, to be exchanged for gold. So there is a continual pressure on the other banks to redeem their circulation. That works automatically, but more than that, it meets every varying need of the country. In the grain season, when there is a large demand for money and a large amount paid out, the notes are paid out and serve their purpose until they come back again. Some times the amount paid out daily is a million dollars, and on other days it is comparatively small. Just to give you an illustration, I had a little estimate made the other day, of the circulation of the Bank of Toronto, which, throughout a period of twelve months, was on the average something slightly under five million dollars.

The amount of the Bank of Toronto's notes paid out over the counter in the course of a year to enable that average of $5,000,000 to be maintained, amounted to over $60,000,000. The transactions which keep in circulation $100,000,000 are running into the billions of dollars. Anything that is deranging the smooth working of a system that works so perfectly, and so perfectly adapts its requirements to every individual member of a community, would be an injury and a detriment. You would lose very much more than you would gain. There are two positions that may be taken. The government should have the whole right to the whole issue, or as now the issuing power may be shared with the banks. The bank would not, to the same extent, use the government currency, because it would cost them dollar for dollar. So that we would have not any object in putting ourselves about to meet the requirements of the country. It would in many cases cost us more than the thing was worth in order to satisfy the needs. The reason they so often have currency famines in the United States, and the difficulties they have there, is because their system does not adapt itself to the daily requirements of the country. That is the one reason why our system succeeds, because it serves the public more perfectly than any other form of currency can do. If you were to withdraw that circulation from us and take a hundred million dollars away from the resources of the bank, and thus reduce their power to lend to their customers, it would mean there would be $100,000,000 less at the disposal of the banks to lend to their customers, and loans would have to be called in to that extent. And at this stage of our history, when the banks are doing their very best to meet the requirements of this country, it would be a most unwise measure. I think in view of the splendid service the banks render by means of their circulation, instead of asking us to pay a tax you really ought to pay us a bonus for the work we do. I think it is worth it to you. And not only that, but I would say that if you are sufficiently short-sighted to impose a tax on us, we should have to collect that tax from our customers in the end.

By Mr. Sharpe (Ontario):

Q. Would not that argument apply with equal force to the taxation of railroad companies, because they would have to charge for it in their passenger and freight rates?

The CHAIRMAN.—Let Mr. Henderson finish his statement.

Mr. HENDERSON.—I think I have finished it. I have given my little historical sketch, and my reasons why it should not be passed.

By Mr. Sharpe (Ontario):

Q. I think the incidence of taxation would rest with the banks if their profits are abnormally large and with their customers if their profits are small.

By the Chairman:

Q. Would it not be well for Mr. Henderson to say if the profits of a bank are inordinately large?—A. I have a little statement here that I would like to submit to you.

By Mr. Sharpe (Ontario):

Q. Would you prohibit one bank from circulating another bank's notes?—A. That arises under another heading. I will tell you where I think Mr. McLeod's point arose, it was in connection with this: We are limited now in the issue of our notes to the amount of our paid-up capital. Some banks have been accused of not increasing their capital sufficiently, keeping their capital small, in order to have a larger earning power upon a small capital, instead of increasing capital upon which they would have to pay a full dividend, and that when they have reached the limit of their own circulation, they use the notes of other banks and pay them out thus forcing other banks up to their limit. They then sit back and wait for other banks to increase their capital in order that they may again use their notes. I think Mr. McLeod's idea is that, if they were forced to pay out only their own notes they would do their duty increasing their capital and so be able to supply their circulation from that source. Have I interpreted it rightly?

Mr. C. H. MCLEOD.—Or circulation against a deposit of gold.

By Mr. Sharpe (Ontario):

Q. Are you in favour of that?—A. I do not like to legislate for special cases. I would rather teach them by means of moral suasion.

Committee adjourned until Tuesday.

APPENDIX No. 2

HOUSE OF COMMONS, ROOM 101,
Tuesday, April 8, 1913.

The Select Standing Committee on Banking and Commerce met at 10.45 a.m., the Chairman, Mr. Ames, presiding.

The CHAIRMAN.—Although some members of the Committee are not here I think we had better continue with the taking of evidence. When the Committee adjourned on Friday, Mr. Henderson had partially concluded his evidence, having, if I remember rightly, finished with the proposals up to section 56, including the discussion of the matter of the audit. You had commenced the consideration of section 61—is that not so, Mr Henderson—and you were discussing the issue of bank notes?

Mr. HENDERSON.—I think I had concluded all I had to say about the circulation of notes.

The CHAIRMAN.—You had finished with what you wished to say about the circulation of notes, but had not dealt with the question of the creation of a central gold reserve.

Mr. HENDERSON.—I spoke of the gold reserve with approval because the question was raised as to whether the circulation against a gold reserve was to do away with the emergency circulation. I thought not.

The examination of Mr. Henderson resumed.

By the Chairman:

Q. I have received a letter from Mr. George Hague, who for many years was General Manager of the Merchants' Bank, in which he takes exception to this plan of a central gold reserve, and states his reasons. I would like, with the privilege of the Committee, to ask Mr. Henderson what he thinks of this objection: (reads)

"With regard to the important matter of the extension of the circulating powers of the banks, on the basis of a deposit of gold—I regret to say, I do not approve of this scheme at all. The gold would have to be withdrawn from the stock of gold held as security against deposits, and so far, the scarcity of depositors weakened. Now, to withdraw funds held as security for the great mass of depositors in order to secure additional liabilities—which are well secured already—is a most undesirable scheme of finance. For, let it be remembered, that all notes issued by the banks are doubly secured already—*first* by a *preferential lien* on all the assets of the banks; and *secondly*, by the *Bank Note Redemption Fund* to which all the banks subscribe—and which is in the hands of the government. The idea of a *central gold reserve* is a very plausible one—but it will not bear examination. The banks *have no gold to spare for the purpose of securing new liabilities*; for every dollar they have at present, or are ever likely to have, is required to meet their largest liability of all, namely, to their depositors. (In speaking of gold, I of course include legal tender notes.) If any additional circulating power is required—beyond what is already provided—it should be obtained either by calling up *more capital*—or by a temporary extension of the emergency provisions."

I would like very much if you would give us your views as to the statement contained there?—A. Mr. Hague was regarded in his day—and is still—a financial

authority, although he has been out of touch with the active management of a bank for some years, and has not had the pressure of the increasing amount of business that is now being thrown upon the banks to administer, and therefore while I have a great deal of respect for his opinion, and was brought up under him and imbibed a great many of my opinions on banking from him, I feel that he is looking at this particular question, perhaps, not up to date. His point as I take it is this: that the setting aside a special portion of the assets in the form of gold is to that extent impairing the general security that would inure to the benefit of the depositors.

Mr. Hague points out that it is hardly necessary to create a special reserve for the purpose of securing notes it is purposed to issue under this plan, because the Act as it now stands gives the note holder a perfect lien in any case, so that he is already well secured. We are limited, however, under the Act, in our circulation, to the amount of paid-up capital. Therefore when we reach that point and have to go beyond it, the only two courses left to us, he points out, are an increase of capital or an increase of emergency circulation, which would take its place with the other circulation as a first charge upon the assets. Well, the difficulty of immediately increasing your capital for a supposed need would be so great that it could hardly be done if the demand came upon you suddenly. In the meantime the demand would probably be only of a temporary character; but we are growing very rapidly and, as I pointed out previously, our circulation at present of bank and dominion notes is, on the average, about $15 per head of the population. If another 400,000 is added to our population this year, and another 400,000 next year, we will require to increase our circulation by a sufficient amount to provide for the increased population. It may not pay to increase our capital when we can by means of this special reserve, obtain the increased circulation necessary to meet the emergency and overcome a temporary difficulty. If the circulation is to go permanently on the higher basis no doubt the banks will have to increase their capital to meet it, but I think the provision is a wise one that will only be used if and as occasion requires, and I do not think that any injustice is being done to the depositor because although you set aside a certain portion of that gold as against this circulation, he has still recourse to all the other assets of the bank. We are really not weakening the position of the bank at all. This provision, I believe, is copied from the Scottish Bank practice. When the Bank Act of 1884 was brought into operation, and when the banks in England that had the issuing power were then limited in their circulation to the amount then authorized there was also a limitation placed upon the Scottish banks and the latter were given the privilege of increasing their circulation from time to time as required, putting up a special gold reserve against the increase. That practice has been followed in the drafting of this Act. These are my opinions on the subject of the proposed gold reserve. It is a new feature in the Canadian Act and I do not know who is responsible for it. It was not a suggestion by the Canadian Bankers' Association, because that body did not see the Bill until it was presented to the House. I think the Minister of Finance takes the responsibility of the provision, and in my opinion it is a very wise one to get over difficulties that may arise.

By Mr. Sharpe (Ontario):

Q. The objection seems to me to be from the depositors' point of view. Is that not so?—A. Quite so.

By the Chairman:

Q. Would you say the position of the depositor is quite as good in November when the emergency circulation provisions are exercised to their fullest as in July, when there is no emergency circulation?—A. Well, that is a difficult statement to answer. It is presumably the case that if the circulation is increased the assets of the bank would be increased to a corresponding degree or the liabilities would be lessened—in November both liabilities and assets would probably be increased——

Q. Would it be a parallel case to an instance where there was a first and second mortgage on a property? Would it be a parallel case increasing the amount of the

first mortgage? Would the position of the second mortgagor be as favourable? Would you consider that as a parallel case?—A. No, I would not.

Q. Would you consider the value of the first mortgage was increased?—A. Suppose the first mortgage was increased and the money obtained by that increase of mortgage went back into the property it would increase the value of the property.

Q. Now, suppose that instead of doing so they brought their gold to the Dominion Treasury, and acquired Dominion notes of small value and circulated them instead. Would the two situations be analogous?—A. Quite.

Q. Mr. Hague's contention is that the extra circulation of bank notes is an additional liability. In that second case would the issued Dominion notes be a liability? —A. The issued Dominion notes would not be a liability of the bank, but to obtain these Dominion notes the banks would require to pay out an equal amount of their assets.

By Hon. Mr. White:

Q. By taking away their gold?—A. Yes, taking away their gold.

Q. There are two questions I want to ask you because I think Mr. Hague is proceeding on wrong premises. There seems to be an impression that a bank can increase indefinitely its note circulation. What would you say as to that? You put out an issue of bank notes, what happens? They are deposited in other banks. Do they come back or not?—A. They come back. I thought I tried to make that clear.

Q. Suppose you had the power given you in this Act of issuing notes against gold deposited, would that change the situation as stated by you to the committee with regard to the issue of bank notes? Would they not come back just the same?—A. They would come back just the same, undoubtedly.

Q. So it is only a question of issuing note circulation to meet a situation developing just as it is at the present time?—A. Quite so.

Q. If instead of depositing gold as provided in the Act and issuing bank notes against it, you deposited gold with the Assistant Receiver General's office and received Dominion notes, what would be the difference between the two proposals?—A. So far as the bank is concerned, and so far as the position of the public is concerned, there would be no difference whatever.

Q. No difference whatever?—A. The one recommendation that this plan would have over the other in the mind of the banker, is that it is a good thing to keep the public familiar with the issue of your own notes, to advertise by means of the circulation of your own notes rather than to advertise the Dominion Government's notes, and so get the public to place dependence on your own note issue.

Q. There is another question: Has it been found in practice that some unwarranted conclusions are sometimes drawn by reason of the bank paying Dominion notes over its counter?—A. I have not had the practical experience lately of coming into contact with the daily work of the office that would enable me to answer the question. I think I can state, however, that such would possibly be the case.

Q. Who bears the expense of engraving the notes which will be issued under the plan prescribed in the Act?—A. Under the plan prescribed in the Act, if a bank issued its own notes it would have to pay the expense.

Q. As against gold?—A. As against gold.

Q. Gold is deposited in either case?—A. Yes.

Q. And whether you wish for Dominion notes or bank notes, it is impossible for you to increase your circulation beyond your means?—A. Beyond our daily requirements caused by the daily change in conditions.

By the Chairman:

Q. As between the two plans of issuing bank notes or Dominion notes, would you feel justified in saying that the former increases your first mortgage liability, while the latter decreases the amount of your available assets?—A. I think that is the case.

By Hon. Mr. White:

Q. Just a moment, Mr. Henderson, if you put out one million dollars of bank notes, they are secured by gold to that amount?—A. Yes.

Q. The first mortgage liability, in my judgment, does not arise when a million dollars of gold secures the issue. The bank notes are out but they are a charge against the whole of the assets and against this gold. On the other hand, if you deposit a million dollars of gold in the vaults of the Receiver General, and take out a million dollars of Dominion notes, that million dollars is absolutely gone so far as the bank is concerned? It is not even loaned in trust, it belongs to the Dominion Government, it is handed over to the Dominion Government, who owns that gold, and the Dominion notes are issued against it. In either case the million dollars of gold is gone from the bank?—A. Yes, that is the case.

By Mr. Nesbitt:

Q. In the one case the Dominion holds a dollar in gold as security against the notes issued?—A. Against the issue of that excess amount, yes.

By Mr. Thornton:

Q. Mr. Chairman, the Minister of Finance in putting his first question hardly completed it in this respect: the impression is abroad that the bank has power to issue an unlimited amount of its notes. Mr. White asked the witness if that were so and desired an explanation. That point was not fully answered. I think it is very important that the country should know just exactly the standing of that question, because I presume ninety-nine out of every hundred of the rank and file of the people do not know the facts?—A. Well, I tried on Friday, Mr. Thornton, to the best of my ability to answer that question and to explain the way in which the circulation was issued and redeemed. If I had the notes of what I said at that time it would perhaps answer your question. If the committee would like me to again explain the matter I would be very glad to do it.

Mr. THORNTON.—Well, Mr. White put the question to you just now.

Hon. Mr. WHITE.—Probably not in the way you understood it. What I had in mind was this: it appears to me that the impression exists that a bank could put out bank notes at any time and expect them to stay out. What I was asking Mr. Henderson to state was whether or not that was the fact. As I understand it these notes keep coming back all the time from the other banks so that it is impossible for a bank to unduly swell its note circulation beyond a certain amount. I pointed out the other day that for the greater part of the year the note circulation of the banks was well within the total paid up capital of all the banks in Canada; that if they could get their notes out, although it would pay them to keep them out, they keep coming back every day in the clearances of the banks. That is the important feature.

The CHAIRMAN.—Mr. Henderson gave us fifteen or twenty minutes on that subject on Friday in a very clear statement which is printed in the evidence. If the members who were not here on Friday will read that they will understand the question clearly.

Mr. BARKER.—Would it not be well to allow Mr. Henderson after reading the communication of Mr. Hague if he thinks it necessary to do so to put in a written memorandum giving his views upon the matter?

Mr. HENDERSON.—I shall be very glad to do so.

By Mr. Thornton:

Q. There is an impression abroad that the gold to a large extent is imaginary, that there is not actually gold to meet the notes?—A. Well, that is a very fallacious idea. We can show you the actual stuff. Our directors can look at it and they do and handle it every year to see that it is there. We cannot give them bags of lead tokens or anything of that kind and try to make them believe it is gold; for they look at it. they see it and handle it.

Mr. THORNTON.—There is a mistaken idea as to that.

APPENDIX No. 2

By Mr. Emmerson:

Q. Are you, Mr. Henderson, familiar ith the Bank Act of 1844, in England? A similar step to that which is now proposed by the Minister of Finance was taken by Sir Robert Peel, I think it was in 1844 or 1845, to form a Special Gold Reserve?—A. Well, Mr. Emmerson, I would not answer that question because while in a general way I know the provisions of the English Bank Act of 1844-45, I would not undertake to say to what extent the circumstances and conditions under which it was created are at all analagous to the circumstances and conditions in connection with this. I think the circumstances are rather different, but you may have greater knowledge on economic subjects than I have and so I am not prepared to say.

Q. It is because I haven't that knowledge I put the question. I have seen it argued that the provision for a gold reserve failed of its purpose although it had for its object one that is similar to that which the minister or the government have in view in this provision?—A. I think it is a very important question and I think it is possible that if our country continues to grow very rapidly, as there is every prospect that it will, that the whole question of currency may have to be the subject of very serious consideration in the near future. We may have to consider it under conditions that do not exist now, and I think that, until it becomes a more serious question and difficulties emerge that do not exist now, this provision that is made under section 61 is going to serve a very useful purpose and will keep us out of trouble. If we find the country growing very rapidly we may have to reconsider the whole question of the basis of circulation, but I do not think there is any use discussing that question now. I think we had better leave it as at present.

Q. I have understood that to be a signal failure and that it had to be remedied. Now if the position that existed at that time was similar to or in any way analagous to the present situation it might be some guide to us with respect to this proposal and I thought possibly you might have studied that feature of the Imperial Act.

Hon. Mr. WHITE.—I do not like to leave your statements without comment. It seems to me that you are entirely wrong in that respect.

Mr. EMMERSON.—They are not my statements, I am saying that I have seen that argument advanced.

Hon. Mr. WHITE.—I think we are talking of two different things altogether. Now in the first place we know it is very desirable that there should be circulation to meet the necessities of the country and the question arises how that can best be provided. Because of the disastrous experience in Great Britain this Bank Act of 1844 that you speak of was introduced and they provided that future issues, and it is the law to-day, that the issue of Bank of England notes should be entirely against gold. Now I think what you have in your mind is this, that on two or three occasions the Bank Act had to be suspended and the Bank Act only permitted the issue not against gold but on its own liability in order to meet the situation. I submit for your consideration these are two entirely different things. If you desire to have a clause inserted in this Act to the effect that the Bank Act may be suspended, and give the banks power to issue an unlimited amount of note circulation, it would only be because of the state of affairs that you have in your mind. But this deals only with the question that the banks should be allowed to issue circulation against gold.

By Mr. Aikins:

Q. You have stated that there is need for increasing the circulation in Canada?—A. I do not think I have stated that. I have stated that we may require an increased circulation by reason of the increasing population. Up to the present time we have had all the circulation we require.

Q. The provision proposes now to allow for increase, that is the circulation in Canada, for the benefit of the people of Canada?—A. Unquestionably.

Q. And that circulation is limited, as the Act now stands, to the amount of the unimpared paid-up capital?—A. That is the case, except for a period for which

special provision is made, and also for the provision proposed to be made in this Act to meet possible requirements.

Q. The circulation of notes on the paid-up capital of the Canadian banks is also made in other countries than in Canada?—A. I believe that is the case. I believe some of the banks have the right to issue notes in the British colonies and possessions.

Q. To the extent to which the circulation of notes is made in those colonies and British possessions and elsewhere, to that extent it takes away the circulation from Canada?—A. It lessens the power of that particular bank to increase its circulation since it is limited by the amount of its paid-up capital.

Q. It takes that portion engaged in another country than Canada from its home circulation?—A. Quite so.

Q. I think if you look at section 61 you will see that there is statutory provision for the circulation of those notes in other countries than Canada?—A. Quite so.

Q. And the effect of that statutory provision is to take away from Canadian circulation the bank notes otherwise authorized by the Act?—A. Yes, to some extent, but from another point of view it possibly is not. It will depend altogether, I think, upon the conditions of the particular bank that had that privilege given to it, or that was disposed to exercise that privilege. If it could meet its fair share of the circulation that naturally attaches to its own business in Canada and have a sufficient amount within its limit to do this additional work outside of Canada, Canada would not be in anywise limited in the amount of the circulation by reason of that. If, however, they are not doing their fair share in providing the circulation of this country, if they are, for instance, not increasing their capital sufficiently, and while they are using their own notes in another colony they were issuing the notes of other banks in Canada, then possibly their action might be open to objection.

Q. You mean the notes of other Canadian banks?—A. Yes.

Q. But assuming there is one bank doing that, then to the extent of its note circulation in the other country, to that extent Canada is deprived of that circulation?—A. If that bank requires that amount for its daily work over the country, but if it does not, if it is not up to the limit of its Canadian business, then I think it would not be an injustice to Canadians.

Q. Let me put it in another way: if Canadians require the full amount of that circulation then the circulation in the other country deprives the Canadians of the benefit of it?—A. That is putting it generally. I would not like to assent to that because it might be governed by the particular conditions of the particular banks.

Q. But, as I said before, suppose Canadians require the whole of the Canadian circulation in Canada?—A. Quite so.

Q. And part of that circulation is issued by the bank outside of Canada, to that extent Canadians are deprived of the benefit of the circulation. I think that is manifest, isn't it?—A. It is manifest, but you cannot treat the circulation as a whole. The circulation is made up of the circulation of thirty or forty different banks. It does not necessarily follow that because one bank issues up to its full limit, and another bank has not business enough to enable it to circulate up to its full limit, that you can force that bank up to its limit.

Q. Let me put the question over again: If Canadians require the circulation of the whole of the Canadian banks in Canada, then the circulation issued in other countries deprives Canadians of the benefit of that circulation?—A. Taking it as a whole, yes.

By Mr. Northrup:

Q. Are you not aware that one Canadian bank in Havana has $6,000,000 under discount, and $13,000,000 in deposits. That, I presume, results in a benefit from the Canadian point of view?—A. I think so far as deposits and discounts in Havana are concerned, if a bank is not issuing Canadian bank notes there, the question of circulation is not affected by those deposits or discounts.

Q. On the other hand, would not the fact that the bank had deposits of $13,000,000 as against $6,000,000 under discount mean that there would be $7,000,000 available for the Canadian public?—A. That is true so far as money is concerned, but that does not affect the circulation.

Q. I mentioned the illustration for the purpose of showing that while it might hamper Canadians to some extent, on the other hand it might result in very great benefit?—A. Yes.

The CHAIRMAN.—I think the question of banks loaning outside of Canada comes up under section 76. We will shortly reach that section, and perhaps discussion on the point had better be left until then.

Mr. AIKINS.—The point I was making had reference to circulation.

By Mr. Sharpe (Ontario):

Q. What Canadian banks have agencies in Havana?—A. I know the Royal Bank has an agency, but I am not sure that other banks have.

Mr. MCCURDY.—There are only two banks that have agencies there.

By Mr. Sharpe (Ontario):

Q. What limitations are placed on a bank in regard to over-issue, what prevents it from over-issuing its circulation?—A. If a bank over-issues there is a penalty provided, which penalty has been enforced.

Q. Who ascertains whether a bank has over-issued?—A. It has to make a return to the government of its highest amount of circulation.

Q. Is there not some system of inspection of checking by a bank? Who is responsible for the over-issue?—A. The management of the bank.

Q. Who reports the fact to the minister?—A. The manager of the bank has to report it.

Q. Is there not some other system of checking a bank up in order to be positive that there is no over-issue?—A. I do not know of any, Mr. Sharpe.

Q. Does not the Bankers' Association check up?—A. I think I know what you are referring to. Just let me try and look up the clause.

Q. Do not the Banks check up each other's issue, so as to see that there is not any over-issue?—A. They supervise the inspection of the disposition made by the bank of the notes that have been delivered to them by the printer, and they supervise the destruction of the notes of the banks—that is to say, they see the quantity of the notes, signed and unsigned that are on hand or that are reported to have been destroyed. They see that notes are properly destroyed, but I do not understand they go into the question for the purpose of determining whether there has been over-issue.

Q. Would that not be a check to see that the quantities of notes that are in hand are right?—A. It would not affect the question, Mr. Sharpe.

Q. I understood you this morning to say that the Bankers' Association do check up individual banks, or inspect their issues?—A. They inspect the amount of notes that come from the printer, and they inspect the amount of notes that are to be destroyed.

Q. What is the particular object of doing that?—A. So as to see that the notes that are reported to have been destroyed are properly destroyed.

Q. And it operates as a check upon the bank's issue?—A. It does not act as a check upon a bank's daily issue because that result depends entirely upon the daily business.

Q. Do you think that a check is necessary by the bank as regards this issue? —A. I have never known a case in which a bank, having over-issued, has failed to report it. I do not see how banks could do otherwise unless they make absolutely false returns.

Q. Would the Bankers' Association know whether a certain bank had over-issued? —A. They would only know it from the returns made to them.

Q. Is the monthly return verified up in any way, or is it simply a written statement?—A. I do not quite understand what you mean.

Q. Are the manager's returns in regard to the issue, sent to the Minister of Finance verified in any way by affadavit or declaration?—A. A declaration is signed by the chief accountant who declares that the return has been prepared under his direction and is correct according to the books of the bank. Also signed by the president or vice-president, or someone acting as president or vice-president, and by the general manager, who makes a declaration that the return is made up from the books of the bank.

Q. Is that a statutory declaration or just a statement?—A. Well, you are a better legal authority than I am. I would be very glad to submit it to you. It is just this form (exhibiting statement).

Hon. Mr. WHITE.—I might say that it is not an affidavit or a statutory declaration, but penalties are attached to it under the Bank Act. So far as punishment is concerned it has the same effect.

Mr. SHARPE.—Provided the return is correct.

Hon. Mr. WHITE.—If the return is correct it is all right.

Mr. SHARPE (Ontario).—Suppose the bank does not send in a correct return. In other words, what check has the department upon a bank in regard to over-issue?

Hon. Mr. WHITE.—The only check the department has is the return sent in, and the penalties which are attached to falsification of the statement.

By Mr. Sharpe (North Ontario):

Q. Mr. McLeod, writing to the editor of the *Chronicle,* makes this statement:—

> "One member of the Bankers' Association retired from the executive rather than be responsible for the incorrect monthly statement of circulation prepared by the association for the government. The amount of incorrect bookkeeping disclosed by the monthly return to the government would appal a board of chartered accountants trained to correct entries. Of thirty-four banks reporting to the government in January, 1905, at least nine were sending in incorrect returns."

Now this is rather an astonishing statement. I would like to draw the attention of the minister to this statement of Mr. McLeod, who was a bank manager for many years.

Hon. Mr. WHITE.—What is the date of that statement?

Mr. SHARPE.—February 23, 1910. How can the minister absolutely assess any penalties if the returns sent in by the banks are false?

Hon. Mr. WHITE.—I understand the explanation is this: Some of the banks had written off a certain amount of circulation which for a great number of years had not been heard of. That was the basis of the complaint that was made, but the circulation in question was written off, and the matter was rectified.

Mr. SHARPE.—Are there penalties for over-issue, or are they in the discretion of the minister?

Hon. Mr. WHITE.—If the statements are false, to the knowledge of the officers sending them in, that is an offence against the Act, and there are penalties provided for it. Last year by inadvertence there was an over-issue of comparatively small sums at the peak of a crop moving season. Where banks have branches all over Canada—hundreds of branches—they know that no matter how closely they keep in touch with the situation there may be some slight miscalculation or incorrect estimate. In consequence there is a slight over-issue which has come to the attention of the department in the statement, and fines are imposed on the offending bank. I have fined several of the banks sums from $1,000 down, as the case may be; it depends on the amount and the circumstances. Sometimes no matter how much

judgment is exercised there will still be over-issue on account of the great number of branches of the bank and the time it takes to get information to the head office, but there is a penalty imposed. That would be where a simple mistake had been made. Of course it is a different thing for a bank to send in a false statement.

Mr. SHARPE.—How can the Minister of Finance tell whether the statement is false or not; he does not examine the books?

Hon. Mr. WHITE.—Under our system with branch banks extending all over Canada, the head office of a bank must keep in touch as well as it possibly can with these several offices. No doubt the banks do their utmost to keep the circulation within limits—in fact we know they do, and very seldom is there any over-circulation.

Mr. SHARPE.—Is there any objection to the statement of a bank being verified by statutory declaration?

Mr. HENDERSON.—May I say just a word? I do not know anything of what Mr. McLeod had in the back of his mind when he wrote the statement which Mr. Sharpe has quoted. It is a most extraordinary statement for any man in his position to have made.

Mr. MCCURDY.—Before leaving the question of circulation I would like to point out that Canadian banks have no right to issue their notes in a foreign country.

Mr. HENDERSON.—No, it is limited to a British Colony or possession.

By Mr. Cockshutt:

Q. Does a bank know from day to day what its circulation is?—A. We do.

Q. You know every day?—A. We know every day.

Q. In case circulation is destroyed by fire, or goes down when a vessel sinks, have you any means of determining what quantity of bank notes are destroyed in that way? —A. Not at all. They still appear as a liability against the bank and are still outstanding.

Q. You have no estimate of how much the banks make from time to time by the destruction of circulation?—A. We do not make anything out of the destruction of bank notes so far as I know, and it would never be ascertained until the bank was wound up.

Q. You have your check then on the amount of the bills that you have out from time to time?—A. Absolutely. We know the number of notes that come into our possession, the number of notes on hand every night at every branch of the bank, and the difference between what we have on hand and the total amount of our bank note account represents the amount that is in circulation. To prevent any over-issue at any time, where we find we are coming near the margin of our circulation, a telegram is at once sent out to our branches stating what amount of notes they must keep on hand at night. We know in that way what every branch of the bank has on hand. That is the procedure we follow and we cannot go over the limit. It would only be through some mis-chance such as the failure of a telegram reaching a branch bank that over-circulation would occur under such circumstances. But under ordinary circumstances by no possible chance would a well-regulated bank exceed the prescribed circulation.

The CHAIRMAN.—Now, if we go on to the next proposition which is that the banks should pay an annual tax for the privilege of issuing bank notes, Mr. Henderson has prepared a statement as to the earnings or the profits of the banking business, that statement he did not present on Friday afternoon, but he is prepared to present it now as pertinent to this discussion.

A. Well, I am not going to enter into it on too wide a scale, I would rather take something with which I am absolutely familiar, and I will take the figures of the Bank of Toronto's statement last year. I think the Bank of Toronto may be considered to have the reputation of being a bank, moderately large in size, neither very large nor very small, possibly it strikes the mean between the very large and the small bank; it has also the reputation, I believe, whether rightly or wrongly deserved,

of being reasonably conservative in its management. I want to point out that last year was probably the most profitable one that the banks have ever known,—speaking generally it was a most favourable year; business was exceedingly active, every dollar we had available for the purpose of loaning was loaned, there was sufficient demand for money to enable us to get a fair average rate, so that the circumstances under which we operated last year were exceptionally favourable to the banks. Add to that the fact that it being a prosperous year the losses for the year were relatively smaller than probably the average of a series of years.

These being the conditions I take the Bank of Toronto's statement as a sample. The total gross profits we were able to show on a capitalization of nearly $5,000,000 (the average paid up capital being about $4,914,000)—were $835,787. That on the average capital looks like a large percentage. I think the banks have been unwise in publishing the rate of profits on their paid-up capital, and not on the amount of shareholders funds. To the capital of $4,914,000 we should add the reserve fund of $5,914,000, and on these combined amounts, the bank earned a gross profit at the rate of 7·70 per cent. Now, from those gross profits there was taken $20,000 for the pension fund, which is really an expense, and $100,000 was written off bank premises, so that the amount of profit available for distribution was $715,787, which on the capital represents 14·57 per cent, but on the capital and reserve combined,—on the shareholders' money represents 6·71 per cent.

By the Chairman:

Q. Is the reserve fund partly accounted for by premiums on stock?—A. Partly by accumulations and partly by premiums on stock, possibly about one-half of it, or about $3,000,000 was put in in actual cash as premiums on stock, and the rest was from accumulations extending over 57 years. The reserve fund being built up with the special object of improving the stability of the bank, and giving additional security to depositors.

The shareholders were paid dividends and bonuses that amounted to 12 per cent on the capital, but on the actual amount of the shareholders' money, all that was returned to the shareholders last year was 5·45 per cent, and we carried forward 1 per cent to profit and loss account. I do not think anybody will accuse the Bank of Toronto of robbing the public, when all they were able to return back to the shareholders, after putting a reasonable amount to profit and loss, was 5·45 per cent.

Just let me give one other statement. I will deal with it somewhat generally, taking it from a slightly different point of view. I have analysed the statements of certain banks as they were rendered to their shareholders at the end of their respective financial years; the Bank of Montreal for the year ending 31st October, 1912, the Bank of Nova Scotia, year ending 31st December, 1912, the Bank of Toronto 30th November, 1912, the Molsons Bank, 30th September, 1912, and so on down with the respective dates at which their year ended.

Q. Are you willing to have that statement inserted in our minutes?—A. Yes. I will not worry you with all the figures it contains. I am quite willing to submit this statement, and it will form a part of the committee's report so that you can study it for yourselves. Perhaps I can explain it to the committee by a reference to one or two items in it. The Bank of Montreal had in 1912, an average of capital and reserve amounting to $31,122,000 shareholders' money. The total amount of the average assets was $238,000,000, of which $31,122,000, as I have pointed out was shareholders' money and $207,000,000 was money that had been received from the public in deposits, note circulation, in deposits made by other banks and comprising the whole additional funds available for the use of their business. On that large amount of $238,000,000 they reported that they made total profits of $2,518,000. I have assumed that shareholders of a bank who incur the responsibility which attaches to shareholders are reasonably entitled to get a fair return for their money, not an excessive return, but a fair return. I have estimated that if these shareholders had taken that amount of

money that is theirs, and had invested it in first class securities, without incurring any liability whatever, they would have no difficulty in obtaining a return of 5½ per cent. If they had obtained a return of 5½ per cent on their own money the shareholders of the Bank of Montreal would have received from that, without liability or risk whatever, $1,711,710, which leaves the bank as having earned $806,698 from the use of $207,000,000, or for handling that amount of public money, taking care of it, running all the risks that are attendant upon it. Yet in a year when the losses were proverbially light, they made not more than 39/100 of 1 per cent upon this amount of $287,000,000. The Bank of Toronto, on the same basis, made 52/100 of 1 per cent. Taking the average of the thirteen banks that I have named, the Bank of Montreal, the Bank of Nova Scotia, the Bank of Toronto, the Molsons Bank, the Bank of Commerce, the Merchants Bank, the Imperial Bank, the Union Bank, the Royal Bank, the Dominion Bank, the Bank of Hamilton, the Standard Bank, and the Bank of Ottawa; fairly representative banks, they had a total amount of shareholders' money of $169,340,000, and of other moneys, other assets, $1,016,730,000. Their gross profits were $14,956,722. If you allow all these shareholders 5½ per cent on their own money they would have been able to earn $9,258,700, in the gross, and $5,698,022 on other assets. That is to say on the average, taking the best of them, those that had the highest earning power, and those that had the lowest earning power, they had an average profit on a turnover of the money entrusted to them by the public of 56/100 of 1 per cent. You can easily see where, if we increased our rate of interest on deposits our profits would go.

Statement filed by Mr. Henderson as follows:—

STATEMENT FILED BY MR. HENDERSON.

Banks.	Year Ends 1912.	Total Shareholders' fund. Capital and Reserve.	Total Assets received from public deposits etc.	Total Profits.	Shareholders' funds at 5½%.	Profits earned on other Assets.	Percentage earned on Assets after allowing 5½% on Shareholders' fund.
Bank of Montreal	Oct. 31	31,122,000	207,230,000	2,518,408	1,711,710	806,698	·39
Bank of Nova	Dec. 31	11,968,000	54,058,000	870,544	658,240	312,304	·57
Bank of Toronto	Nov. 30	19,828,000	45,699,000	535,787	595,540	240,247	·52
Molsons Bank	Sept. 30	8,608,000	40,964,000	684,779	474,440	211,339	·44
Bank of Commerce	Nov. 30	26,076,000	197,557,000	2,811,806	1,434,180	1,377,626	·69
Merchants Bank	Nov. 30	12,107,600	68,636,000	1,338,844	665,885	672,959	·98
Imperial Bank	Apr. 30	11,872,000	58,888,000	1,004,340	652,960	351,380	·60
Union Bank	Nov. 30	8,070,600	54,431,000	706,832	443,850	262,982	·48
Royal Bank	Nov. 30	18,318,000	115,353,000	1,666,172	1,007,490	658,682	·57
Dominion Bank	Dec. 31	10,830,000	62,513,000	901,520	595,650	305,879	·49
Bank of Hamilton	Nov. 30	6,391,000	39,749,000	495,860	351,505	144,355	·37
Standard Bank	Jan. 31	4,508,000	30,876,000	381,501	247,940	133,661	·43
Bank of Ottawa	Nov. 30	7,642,000	40,776,000	640,220	420,310	219,910	·54
		168,340,000	1,016,730,000	14,956,722	9,258,700	5,698,022	Average ·56

APPENDIX No. 2

By Mr. Aikins:

Q. That would be some very slight insurance against the double liability?—A. If that is the intention I think it would be some insurance, but a very slight insurance.

By the Chairman:

Q. Have you finished your statement along that line?—A. Yes, on that particular phase. I do not want to say anything more about the question of profits. I only made up the statement for my own satisfaction and I was disappointed at our moderation. I thought we were doing a great deal better than that. I think the banks will have to try to do better for their shareholders than they have been doing.

By Mr. Aikins:

Q. Do you think, Mr. Henderson, that the statement you have given to us will tend to increase the number of banks in Canada?—A. I do not think I should express an opinion as to that.

Q. I should judge from what you said that you were discouraged from the result of your calculations.—A. I am.

Q. That being so do you think such a statement as you have given will encourage the increase of banking facilities in Canada?—A. I leave everybody to draw their own inference as to that.

By Mr. Ross:

Q. You have said that the Bank of Toronto last year earned 5·45, I suppose for the year?—A. I said that the dividend which was paid was equal to 5·45 on the amount of the shareholders' funds.

Q. What did you put to reserve?—A. We did not put anything to reserve. We carried to profit and loss account 1·06 of the shareholders' funds.

Q. And nothing was put to reserve?—A. Nothing was put to reserve.

Q. We have been discussing here what effect a gold reserve would have on the depositors.—A. We have discussed that at great length already.

The CHAIRMAN.—I think we have passed that question. Unless the committee desire to re-open the whole question of gold reserves I do not think we ought to go back to it.

Mr. Ross.—There is no section of the Act which deals specifically with depositors. I ask your permission to take up this matter because it is very important.

The CHAIRMAN.—You are re-opening the whole question of gold reserves, which has been discussed this morning for an hour.

Mr. Ross.—I want to consider the question from the standpoint of the depositors.

Q. I see that according to the returns the amount of capital possessed by the banks amounts to $116,000,000, and the circulation, about the same. The deposits are $1,100,000,000. The depositors have no security, Mr. Henderson, except in the good management of the banking system and the double liability?—A. And the assets of the bank.

Q. But the assets are dissipated by the bad management of the bank.

The CHAIRMAN.—Excuse me, Mr. Ross. If you are going to make a speech we will have the speech entered on the minutes. If you are trying to get Mr. Henderson to agree to your qualifications I do not think it is quite fair to put words into his mouth that he has not said.

Mr. Ross.—I think I ought to be permitted to ask my question in my own way. I have not abused the privileges extended to the members of the committee very much.

By Mr. Ross:

Q. Is there anything you can suggest that will give additional protection to depositors? For example are you in favour of external bank inspection?—A. I have no hesitation in saying that we are quite willing to submit to external bank inspection.

The CHAIRMAN.—I may say that the method pursued in this committee from the beginning has been to obtain the views of the witnesses on subjects in certain consecutive order. The witness has spoken for an hour upon certain subjects and the members of the committee have decided that these subjects are finished. It is not desirable that a member who was not in the room at that particular time should come back and reopen the whole subject.

Mr. ROSS.—I do not want to do that. To do that would be, I think, manifestly unfair. At the same time, owing to the pressure of public business we cannot all be here at one time. The point I am trying to get at is whether Mr. Henderson can suggest to this committee anything that will accord additional protection to the depositors, more protection than they receive at the present time.

Mr. HENDERSON.—I can only answer that question generally. I think this Act is very well designed to give protection to the depositor.

By Mr. Ross:

Q. The Act has nothing in it except the proposed audit, and that, it has been said here, is ineffectual. Do you think an external inspection would give greater protection to the depositors?—A. I think external inspection will give protection to the extent that that external inspection is worth. As a matter of fact, to a bank carefully and capably managed, and capably and honestly reported upon by its directors, an external audit is not going to add any strength. It may give a little greater confidence to the public. We have been discussing the audit for two or three hours and I thought I had satisfied every person as to the extent to which I was prepared to go.

Q. Will you state what is the objection of the bankers with respect to the depositors' redemption fund?—A. May I answer that question by asking you another?

Q. You may.—A. I just want to put it this ay: if you borrowed $100 from one of the members of this committee——

SEVERAL HONOURABLE MEMBERS.—That could not be done; it is impossible.

The CHAIRMAN.—This is entirely a suppositious case.

Mr. HENDERSON.—I will put it the other way. Suppose you loan a member of this committee $100, and that man did not pay you, and you could not get your money back from him. Do you think you would be justified in going round to all the members of this committee and asking them to pay up their share of the loss you had met with?

By Mr. Ross:

Q. That is exactly what you do in your note redemption fund?—A. The position is entirely different. The only franchise which the banks have to thank parliament for is the right of note issue. I have tried to point out that the country is obtaining a great deal more advantage out of that than the banks are. We have been given that privilege and in return for that privilege we have made those notes a first charge upon the assets, and we are giving the country a good service. Some of the members of this committee are feeling particularly sore because losses have occurred in their constituencies by reason of the mismanagement and the failure of a certain bank. It seems to me that instead of trying to place the responsibility—I am giving my own opinion and you can take it for what it is worth—instead of trying to place the responsibility upon the minister, or trying to place the responsibility upon the Canadian Bankers' Association, who have no powers given to them although they are made responsible in the eyes of the public for a great deal—if inquiries had been made by them as to the character and nature of the men who were establishing that bank, and had told their neighbours something about it, these losses might have been prevented.

By Mr. Nickle:

Q. Speaking of the question of profits. I have observed in reading the annual statements of some banks that the average profits are about constant. How is that

brought about?—A. I really cannot tell you as to that. I do not think the profits are quite constant, Mr. Nickle.

Q. I said approximately?—A. Perhaps you will realize where they are working, as they are, on a very narrow margin, an increased profit of a small decimal is a pretty fair amount on the aggregate.

Q. I will put the question in another way: Do you think there is any foundation for the general belief that there is a fund to which the excess of profits made over the average, is credited from time to time?—A. I do not think there is any such fund, unless it be based upon a principle of this kind, which I think, perhaps should be observed by all banks. Taking a series of years, if a bank is careful in examining its history and noticing its loans and its losses, they will observe that the rate of loss will fluctuate to some extent. But taking it over a series of years there will be possibly an average that a careful banker would arrive at by making an analysis of his business. He might think that it would be desirable in the interests of a bank to make an average yearly provision for losses.

By Mr. Nesbitt:

Q. As insurance against loss?—A. Precisely.

By Mr. Nickle:

Q. Would I be right in assuming that there is in most banks such a fund?—A. I cannot say about that. I do not know about any bank but my own.

The CHAIRMAN.—You mean in the way of a contingency fund?

Mr. NICKLE.—I do not want to tie myself to any particular phraseology.

Mr. HENDERSON.—And I do not want to tie myself to any answer.

By Mr. Nickle:

Q. Are these undefined funds considered part of the returns to the government?—A. They appear in the government returns.

Q. Under what heading?—A. Under different headings, according to the practice of different banks. They appear either as a liability——

Q. There is no uniformity of practice then?—A. No, I think not. These funds would either appear in the liabilities or in the amount of assets, but I do not think the matter is of very great moment. I do not think the amount is such as to greatly affect the position of the bank.

Q. Is it through these funds that the large and unexpected losses of a bank are hidden?—A. I have no knowledge of any large and unexpected losses.

Q. Then you are exceedingly fortunate?—A. Yes.

Q. I have in mind the case of one of the chartered banks, and it is not information I got in any way as solicitor. This bank made a very substantial loss amounting to about a quarter of a million dollars. When the annual return was made the average profits of the bank for that year were just about as they had always been, and it was not very big, either. How did they cover that up?—A. You would have to ask them. I could not answer that.

Q. It is a species of high finance of which the Bank of Toronto knows nothing?—A. I have very little education along that line.

Q. Would you be good enough to enlighten me in so far as your education goes?—A. I cannot answer a question like that.

Q. In other words, I think there is running in the minds of the public and in the minds of the committee, the idea that the statement you made does not accurately set out the true financial position of the banks.

The CHAIRMAN.—You mean the statement that Mr. Henderson made here?

Mr. NICKLE.—I mean the statement showing the small percentage of profit amounting to about one-half of one per cent on the depositors' money. The impression exists that there is some fund to which excess of profits are credited, and from time to time there is an adjustment as between the reserve, or some other way, so that the shareholders do not know anything about such practices.

Mr. HENDERSON.—I will answer that by saying that I do not think to the extent there may be any provision of that kind that it appreciably affects the position spread over a series of years. I think if there is such a fund it is a protection to the shareholders. If there is any benefit when it comes out ultimately it is theirs.

By Mr. Nickle:

Q. You said that last year was an abnormally prosperous year?—A. Quite so.

Q. Taking last year, would I be justified in assuming that it, having been an abnormally prosperous year, an abnormally large amount of profits would be credited to this undefined fund, and that really your statement was an average statement rather than a statement for an abnormally prosperous year?—A. No, I do not think you would be justified in doing that, because I think all the banks showed very much larger profits last year than they have ever shown before.

Q. That is only as to the amount, not as to the percentage?—A. Yes, as to both.

Q. Then you have no reason to say that an abnormally large amount was credited to this undefined fund, so far as you know?—A. No, I have not.

By Hon. Mr. White:

Q. In connection with that let me put a hypothetical case to you: Suppose a bank from its experience, or the experience of other banks, had reason to believe that losses would be met with over a course of years, or some unexpected losses might be met with that could not be foreseen or provided against by the exercise of the best judgment, in your opinion would it, or would it not, be improper to write off from the entire body of current loans and discounts a reasonable amount which, in the estimation of the directors, or management, might provide against a situation such as that?—A. I think it a very wise thing to do, and I think it would be the proper thing to do.

By Mr. Ross:

Q. Does the Bank make more out of its circulation or its deposits if it is not too general a question?—A. We make more out of our circulation than we do out of deposits on which we pay 3 per cent.

Q. I understood you to state that the banks had no privilege except that of circulation; have they not the privilege of exchange under the Act?—A. Oh yes, but this is not an exclusive privilege.

Q. Do you not consider that the privilege of being able to monopolize the word "banking" and the privilege of securing of deposits is an additional privilege?—A. The privilege of taking deposits has to be shared with private individuals and other companies. You can take deposits from men if they choose to make them with you and loan and trust companies can also do so. It is not a special privilege to the banks.

Q. But these companies are limited with regard to investment?—A. That does not affect the situation, they have the right to take deposits the same as bankers.

By Mr. Sharpe (Ontario):

Q. Are the conditions in Canada somewhat similar to those in the United States?—A. I cannot say.

Q. What rate of interest do the National Banks pay on their deposits?—A. I do not know, I have no knowledge of the National banks system other than that these National banks of the United States have, as a rule, perhaps double the amount of free deposits that the banks in Canada have.

Q. Speaking about the interest paid on deposits, if a deposit is made during the currency of the month it is not allowed interest until the end of the month, is it?—A. I could not say that.

Q. What is your system?—A. I think they allow it on the daily balances.

Q. From the day a depositor puts his money into the bank?—A. I am not familiar with all the details of all our offices, but I think it is on the daily balances.

The CHAIRMAN.—If the Committee is willing, we will have the whole question of the rate of interest and the payment of interest on deposits taken up at the one time when we are dealing with clause 91, which is expected to cover all that, the rate of interest charged and the rate of interest paid.

By Mr. Sharpe (Ontario):

Q. Do you know that the banks in the United States pay taxes amounting to $3,700,000 to the United States Government for the privilege of issuing notes?—A. I do not know anything about that.

Q. Have you heard no complaints about the National Banks paying that tax?—A. They are full of complaints.

Q. Did you ever hear any definite complaints?—A. Many of them say that their whole currency system is wrong.

Q. Do you know of any National Bank that is complaining?—A. I have never troubled myself very much in regard to that, we have enough to do to look after our own interest.

The CHAIRMAN.—Section 76 relates to the business and powers of the bank. There is a proposal before the Committee to permit a Canadian bank to establish branches and open agencies outside the Dominion only insofar as it can be shown that these are advantageous to its Canadian business. The committee would like to hear what Mr. Henderson has to say in reference to that proposal.

By Mr. Turriff:

Q. Who has to determine that question whether it is advantageous to the Canadian business or not? Do the shareholders of the bank have to report to the Minister, or who have they to give that opinion to?—A. I do not think I should be asked that question because I have no personal knowledge of the situation. We have had no agencies outside of Canada, we do not do any business outside of Canada, we do not make loans outside Canada, I am not an authority upon that subject.

By the Chairman:

Q. That is Mr. Aikins' proposition?—A. I think that question should be answered by somebody who has some knowledge of the subject, I haven't any.

By Mr. Aikins:

Q. I want to ask you one question. Assuming that branches of the bank are opened in other countries than Canada, that will necessitate inspection of those branches there in those countries, will it not?—A. By the Bank?

Q. By the Bank, if it be bank inspection?—A. Yes.

Q. And if it be external inspection then by the auditors so appointed?—A. Possibly. I do not know to what extent this audit and inspection is to go, I do not think I should be the authority as to what kind of inspection it should be. Assuming that it is to be a condition that the auditors would go and make inspection of these places that would be a fact.

Q. Do I understand that by reason of your not knowing anything about these extra territorial bank branches you are not prepared to express any opinion?—A. I think not.

By Mr. Maclean (Halifax):

Q. Might it not be possible that these outside bank agencies might be advantageous to the general trade of the country and not advantageous particularly to the bank?—A. That it might be of advantage to Canadian trade to have extra territorial agencies I can quite believe, but I am not familar with the working of them.

By the Chairman:

Q. In London, Paris and elsewhere your experience is through agencies?—A. We have agents at some of these places, but not branches.

Sir EDMUND OSLER.—On the question of interest and bank profits it might be of use to the Committee to know that according to a computation made by the National City bank, based on the average returns from 24 leading institutions in New York during a period of five years, after allowing five per cent interest on its own capital, a Metropolitan Commercial bank makes a profit of 1⅕ per cent a year on its deposits.

Mr. SHARPE (Ontario).—I do not think any ex-parte statement of that kind should go on the record.

The CHAIRMAN.—Sir Edmund Osler's statement is upon the record as he made it. Now there has been a discussion, Mr. Henderson, with reference to the desirability of banks loaning money to mining companies whose directors are also directors of the bank, and to other companies where the same set of directors are financially interested in the other companies. Have you anything to say as to the desirability of limiting the loans that a bank should make to the company, where the directors are interlocking, or to the directors themselves?—A. I think I expressed my view on that previously. Speaking generally, I do not approve of limitations being placed on the management of a bank, and laying down rules for the internal regulation of their affairs. If the shareholders entrust their affairs to men in whom they have confidence they should give them such powers as they feel disposed to give. The shareholders of every bank have the right to lay down the rules under which the directors shall carry on their business, and I believe that the shareholders of each bank should make their own rules in regard to that. If the shareholders who put their money into the bank say, 'Our bank may do business with mining companies' and make the provision that their directors shall have power to do that business they should be at liberty to do so. If the shareholders also say that they do not want any of their directors to have anything to do with loans made by the bank they have the power to make such regulations, but I do not think any legislation should be introduced to make the bank work under limitations in that regard.

By Mr. Turriff:

Q. Do you think that an amount, say 25 per cent of the capital of the bank, should be loaned to any one concern, irrespective of who or what it is?—A. I think in some cases it would be the very best loan they could make, even if it were 50 per cent it might not do any harm, I would not place any limitations in the Act.

By Mr. Sharpe (Ontario):

Q. Do you approve of the general principle of trustees not dealing with trust funds?—A. I have given my answer specifically.

Q. I mean apart altogether from the bank question, do you think that trustees should, as a rule, deal with trust funds, or loan them to themselves?—A. I do not think I should be asked to answer that question.

Q. Do you think that depositors are interested when directors of banks loan money to themselves, or to companies in which they have control?—A. Depositors, if they think the directors of the bank are not dealing justly with the funds are not obliged to deposit their money with that bank.

Q. But do they know whether the directors are lending money to themselves or to companies in which they are interested?—A. If they do not know thy can find out.

Q. How can they find out?—A. They can ask and if they do not get satisfactory answers let them go to some other bank.

Q. Do you know that the national banks of the United States are limited as to the amount of loans they make to any individual?—A. I know they are.

Q. Do you agree with that principle?—A. I know they are evading it in every possible way.

Q. If there were a similar limitation put on Canadian banks would our directors evade it?—A. I do not know whether they would or would not, they might.

Q. Do you not think there is——A. Pardon me, you misunderstand my position. You asked me if there is any limitation of the amount loaned to any one person by the National Bank in the United States.

Q. Yes?—A. That is quite true, but they will loan the same amount for the same transaction to four or five persons, and so come within the meaning of the Act and they consider they are quite justified in doing it.

Q. But it seems to me that they are observing the provisions of the Act in that case?—A. Quite so.

Q. I understand they must limit loans to the amount of one-tenth of the unimpaired surplus fund provided that the amount loaned does not exceed 30 per cent of the paid up capital stock?—A. Quite so.

Q. Would not a limitation of that kind result in the distribution of loans among the smaller people in Canada?—A. I do not think I should be asked to answer general questions of that kind.

Q. It would, as a matter of fact, result in the wider distribution of loans?—A. It might. It might result in a wider distribution of loans very disastrously. You might have to take up a large number of small loans which were not profitable.

Q. In whose discretion are the loans made by the banks?—A. The general manager and the directors.

Q. Do the directors pass on every loan?—A. On all of any consequence.

Q. On loans of what amount?—A. I do not know, each bank makes its own rule.

Q. Under the banking system of the United States when by-laws are requested to check these matters, monthly meetings of the board of directors are required. I suppose most of the Canadian banks have monthly meetings?—A. I think they all have weekly meetings.

Q. Where loans on discount are required they are referred to a committee for approval, and such approval is recorded in permanent form.—A. I am not going to express an opinion on that.

Q. Do you think that the board of directors should pass on loans over loans of a certain size?—A. I won't say that either.

Q. As a matter of fact do they approve?—A. I think they do, but I cannot speak generally. I can speak only of our own bank. I want to repeat what I said before, that I have not got such an amazing amount of admiration for the American banking system as to think it is a standard we ought to follow.

Q. But there may be some beneficial features about it?—A. Quite so, and I think we ought to look at them, too. I have no doubt, Mr. Sharpe, that if you were on the board of directors of a bank or were entrusted with the management of a bank you would want to do the same. On that point each person must exercise his own judgment. I think that if the shareholders do not wish their directors to be limited we should not limit them. If they do wish them to be limited then let it be done, but the English and Scotch banks have no such limit as that.

Q. They have a minority inspection over there by a committee appointed by the shareholders?—A. Yes.

Q. Which we have not got here?—A. But we are going to get it.

Q. I do not know as to that.—A. I think so.

By the Chairman:

Q. I have frequently heard in the committee the intimation, if not the actual assertion, that bank deposits are trust funds, that bank deposits are identical with trust funds. Are they regarded as such by the bank?—A. I have been brought up with the idea that the relations of banker and depositor are as the relations of debtor and creditor, and that when a man asks for his money we have got to give it to him; but if he puts his money into a bank only for safe keeping he ought to put it in a safety deposit vault where it can be kept for him.

Q. Then there is an essential difference in your mind between a bank deposit and a trust fund?—A. Quite so.

Q. Deposits with interest or without interest?—A. It does not make any difference, the relations are precisely the same.

Q. You spoke the last day you were giving evidence about the directors having a trustee relationship.—A. I adopted the language of Mr. Sharpe in that.

Mr. THORNTON.— A depositor puts his money into the bank for safe keeping.

Mr. NESBITT.—No, for investment.

By Mr. Thornton:

Q. Does not the depositor put his money in the bank for safekeeping?—A. If he wants to put his money in for safe keeping he should not do that; he should put his money into a safety deposit vault and lock it up.

The CHAIRMAN.—The depositor lends to the bank and takes the usual risk that any lender takes in lending any money to another borrower.

By Mr. Thornton:

Q. Is it not the general impression that the depositor puts his money in the bank for safe keeping?—A. You must not ask me such a question as that.

By Mr. Nickle:

Q. Do you really wish to stand by the statement you have just made?—A. What is that?

Q. That if a man has money for safe keeping he should put it into a safety deposit vault and lock it up?—A. That was the inference I drew from Mr. Thornton's remark.

Q. Do I understand you to say the bank is under no obligation to the ordinary depositor any more than the ordinary creditor is under to the debtor?—A. I understand that is the relation that exists between them. If I have been wrongly informed I would be glad to correct that understanding.

Q. I am asking you as the director of a bank. Do you wish to stand by the two statements that you made a few moments ago?—A. As the director of a bank I am always ready to protect all the interests under my charge.

Q. You feel the obligation you are under?—A. Quite so.

Q. To act more or less as a quasi trustee?—A. Do I quite understand the legal and technical significance of that?—A. I am not quite sure that I do.

Q. The point I am trying to make is that you realize there is a certain obligation on you not to speculate outside your legislative authority with the funds of the depositors?—A. Oh, surely. I feel the responsibility of protecting those funds to the very best of my ability, but I would not feel that I was absolutely limited to the position to be under the Trustee Act.

Q. When you do not pay more than one-half of one per cent there is more obligation devolving upon a bank than there would be in the case of a debtor and creditor? —A. The legal relation I understand to be as that of a debtor and creditor between the bank and its depositors.

The CHAIRMAN.—Does the committee wish to have Mr. Henderson speak as to the desirability of loans outside of Canada? That has not been covered.

APPENDIX No. 2

By Mr. Maclean (Halifax):

Q. What is the average rate of interest secured on call loans in New York by a Canadian bank, is it a high or low rate?—A. I can only speak from general observation and not from practical knowledge. I should say that taking it year in and year out, the rate they obtain on their call loans is very much less than they get on their deposits. Occasionally a high rate is paid, but only for a day or so and then it is over. The average rate obtained on call loans in New York is small. For long periods there has been difficulty in getting more than one and one-half per cent on call loans.

By the Chairman:

Q. The Bank of Toronto does not have call loans in New York?—A. Not at present, and we very rarely have had.

The CHAIRMAN.—In the Bank Statement of 1913 the Bank of Toronto has no call loans in New York. Therefore it would be probably better to hear some other banker on that point.

By Mr. Turriff:

Q. Before leaving that point, if the Bank of Toronto does not have any call loans in New York or anywhere outside of Canada, and they seem to do just as well and make just as much money as other banks, why cannot other Canadian banks keep their money in this country and make a profit?—A. That is not a very good question, but I will answer it in this way: I think probably the Bank of Toronto would do better if it were putting some of its money on call in New York and getting part of our reserve there instead of keeping that money in Canada. I do not want to criticise the action of my own bank, but I think it is a very good thing indeed for the banks to keep a part of the reserve money where the calling of it in will not interfere with the general business of this country. We have all our money, it is true, in Canada, but whether we are to be commended for that or not, I am not prepared to say. Suppose the contingency arose that we wanted for a special purpose to draw in five—or ten millions of our money. We could do that with the greatest ease of mind and clearness of conscience by asking our neighbours on the other side to pay that up for us, whereas if we had to draw it in from our own customers whose business was extending and who were dependent upon the continued use of that money for the prosperity of that business we might be doing them serious injury.

Q. Has the Bank of Toronto made as good profits for the last five years as these other Canadian banks who are lending money outside of Canada?—A. I do not know as to that.

Q. I think they have?—A. I do not think so. We are sometimes thought to be a little too conservative.

Q. What I want to have explained, if I can, is why other banks that are lending so much money out of Canada, cannot do as the Bank of Toronto is doing?—A. I do not think you can point a moral and adorn a tale from the action of the Bank of Toronto in that respect. I have a very distinct recollection of a time when we had difficulty in employing our funds in Canada, and we made loans in the United States, which loans in time of pressure were of the utmost value to us. We had not any hesitation in calling them in and they were very useful indeed to us. I was looking over the bank returns from June last year until the present time, and I think the amount of money that has been withdrawn from foreign countries in that period of time is about $50,000,000. If that amount of money had been loaned out here in the general business enterprises of the country and been suddenly withdrawn, the calling of it in would have created a great deal of hardship and a great deal of distress. Therefore, I am not at all disposed to criticise those who make some loans outside of Canada.

By the Chairman:

Q. Coming to section 83, as to the advisability of banks acting as landlords. Have you any information to give the committee with respect to the desirability of banks

erecting large buildings and leasing considerable portions to tenants other than themselves?—A. I do not think I ought to say anything more in connection with that matter than this: I think that the more closely the banks keep to what appears to be the intention of that clause the better. At the same time I know that other bankers do not share that view. One banker, for whose opinion I have a good deal of respect, and who has a building that he claims is profitable, says it is quite as good a cash asset as any asset which the bank has. Therefore, while I express the opinion that the more closely banks are kept to the spirit and the intention of the Act the better, I am not disposed to criticise those who differ from it.

Q. Do you approve of section 79 as limiting the bank from owning real estate, which they do not occupy?—A. I think the intention of that clause is that a bank should have buildings for its use and occupation. I do not think that you could possibly limit a bank so as to say that it should have no offices to rent in its building. Generally speaking, the intention and governing principle is that the building should be for their own use and occupation.

Q. When you find, as in a city like Montreal, a bank with a fifteen story building, in which they occupy the basement, and the remainder is leased, is the bank itself the owner of that building?—A. I am not sure that I quite understand your question.

Q. What I mean is, does the bank own that building and act as landlord, or is there a subsidiary company?—A. I do not know anything about that. That depends entirely upon the facts.

Q. Have you a large building in Toronto of which you lease a part?—A. We have our offices and our solicitors are upstairs. They are the only tenants we have in that building.

Q. Is it not true that at the present time one of the banks contemplate putting up a fifteen or twenty-story building in Toronto and leasing it?—R. I could not answer that question.

By Mr. Maclean (Halifax):

Q. Leasing would not change the matter?—A. I do not know, I am sure.

By the Chairman:

Q. Does clause 79 prohibit a bank from putting up a twenty-story building and leasing nineteen stories to other tenants?—A. I think you had better ask the minister that.

By Mr. Barnard:

Q. Take your own case, if I may do so, in the city of Toronto. The value of the land you occupy, as compared with its value when the bank bought it, has increased very much indeed?—A. Quite so.

Q. You have, I think, a four-story building?—A. Yes.

Q. If that were a fifteen or twenty-story building could you not pay a very much better rate of interest on the present value than you formerly could?—A. I think that is quite possible.

Q. The point, I may add, is this: when you limit yourselves to a small building such as that of the Bank of Toronto or a comparatively small building, are you not tying up a certain amount of the bank's assets as represented by the land and making it non-productive?—A. Do you think it is quite fair to ask me to criticise the policy of our own bank?

Q. I do not want to ask anything unfair, but I would like to take this for an example: Take a bank that has a lot worth say, $200,000 or $300,000, is it not almost a necessity to put up a large building on that in order to get revenue in proportion to the value of the land?—A. Yes, it may be thought so.

APPENDIX No. 2

By the Chairman:

Q. Is that wise banking?—A. I think it is a matter of opinion as to whether a bank should do that or not.

Q. Should there be legislation to render that difficult or impossible?

By Mr. Barnard:

Q. I take it that it is good banking to get all the revenue you can on your house and lot. That is a fundamental principle?—A. Yes, no doubt about that.

By the Chairman:

Q. But is it good banking to lock up so much of your capital in a fixed asset?—A. If the asset is producing I am not supposed to criticise. Other bankers have taken an entirely different view from mine on this subject.

Q. In other words your bank has not transgressed in this particular matter and you do not want to answer this question?—A. I do not know, we bought a building in London because it was a desirable location, and because the downstairs part of it was useful for our purposes. It had offices above it, and it has helped to some extent in reducing our rent, not to any very appreciable extent. We did not go into it in order to be a landlord for a revenue producing purpose but we did it just because it was the best office for us and it suited our purpose. We also have a building with offices in Montreal. Other banks have thought it remunerative to have office buildings, but I have little experience of it, and I do not want to say whether it is wise or unwise. Here is the clause of the Act and I have stated what I believed was the intention—and I think the best course for banks to follow is to keep to it as nearly as possible.

By Mr. Turriff:

Q. I understand Mr, Henderson's answer to Mr. Barnard is that it is good banking to get as much revenue as possible from the building?—A. Yes.

Q. From the expensive lot and building? Now if that is the case you might carry that further. If one-third of the capital of the bank to-day is invested in bank buildings, and if that is good banking, because you can make a good interest on it, why not put three-fourths of the capital of the bank in real estate and offices? Is that good banking?—A. I should not suppose it is good banking because it was not fulfilling the purpose for which the bank is created. What is the governing motive in putting up that building? Is it to secure revenue or to acquire an advantageous site where they will be able to carry on their banking business to the best advantage?

By the Chairman:

Q. What proportion of the assets of the Bank of Toronto is in bank premises?—A. Between 3 and 4 per cent.

Q. The total assets I mean, of their total capital and rest?—A. Oh no, no.

Q. What proportion of your capital and rest is invested in real estate?—A. I think the basis that should be taken, on that point, is the proportion that your real estate bears to the total assets.

By Mr. Turriff:

Q. The assets belong to the depositors largely?—A. Quite so, the bank buildings can be sold to pay the depositors.

By the Chairman:

Q. I find the Bank of Toronto has very few branches in the Northwest, and therefore does a comparatively small western business, consequently unless the Committee especially desire we will not take up that matter of loans to farmers—unless you wish to speak of it?—A. Well, I am at the disposal of the Committee.

Q. Have you anything to say on that point?—A. We have some branches in the West, I think we have twenty-five or twenty-six branches there, we do not do as large a business as some of the western banks, and I am quite willing that the rest of the bankers should speak on that.

Mr. McCRANEY.—I think it will only take a moment, and I would like to hear Mr. Henderson give his views on the question, as there are a number of branches of his bank in my riding.

By the Chairman:

Q. Very well then, we will ask Mr. Henderson what he desires to say about authorizing banks to loan to farmers upon the security of threshed grain and to stockmen upon their cattle, Section 88, as amended.—A. I believe that clause has been put in the Act at the request of the western people, who want to have that privilege. If they want it I think they should have it. I think it is an entirely different question whether it is going to be any great advantage to the banks to have the right to take security of that kind.

By Mr. McCraney:

Q. I would like to ask Mr. Henderson if he thinks any loans will be made to farmers as a result of such legislation which are not made now?—A. I would say, speaking for myself, that if I were manager of a bank in the West I would not care to make any loan on any security under this section of the Act, unless I were prepared to make it to the man without the security.

By Mr. Douglas:

Q. In your opinion would it overcome the necessity of having an endorser to the note?—A. I would like to point out the nature of this security for a loan made to a farmer upon grain in his possession, and absolutely under his control. It might be removed during the night and disappear, if he were a dishonest man. In making such a loan I would depend altogether upon the honesty and integrity of the farmer. If he were a man I had confidence in and trusted I would make him a loan at any rate; it is all right for the banks to take this as an additional security, with an honest man it would protect him from outside creditors he might have, but the risk that you would have is naturally greater than it is when you are advancing upon something tangible.

I may say just one word perhaps on these sections of the Act relating to special liens which are better understood if one realizes the circumstances under which they were originally enacted. The powers that are given to banks to advance on these special securities, known as Securities under the Bank Act were introduced into the Act, at the time that the National Policy was adopted. The government desired to give greater facilities to manufacturers, and the impelling motive that led to these clauses being put into the Act was to enable the manufacturers who had to put a great deal of capital into buildings, and who required an additional amount of working capital to carry on their business, it enabled them to go to the bank and upon the security of their raw material they could obtain an advance to cover the period of the working up of these goods in process of manufacture and distribution. The original intention was to keep this confined to large transactions by fairly large manufacturers who had capital, and although the goods were in their own possession there was behind them a sufficient amount of capital to give stability to the transaction. I think that was the primary intention of it and we should not carry the practice too far. The act limited the advances to wholesale dealers and manufacturers, and it should not be extended to small transactions. Yet, at the same time I would say this that if the representatives from the West think it is going to be of advantage to extend these transactions to farmers, and if they have a sufficient number of men of character and substance who come to the banks and offer this security, and if having regard to

the character of the men the banks are willing to make the advance, I would not object to give them the same right to pledge that security as has been given to the large manufacturer.

Q. It is the practice of the Bank of Toronto to insist upon an indorser for every farmer's note?—A. Not by any means; it is a very wise rule and a proper thing to do.

By the Chairman:

Q. Either East or West?—A. Yes, East or West.

By Mr. Douglas:

Q. Will this legislation dissipate that trouble?—A. That is a matter that will be found out by experience, if it is a good man he will not be asked for an indorser, if they do not know him quite as well, probably he will.

By Mr. McCraney:

Q. The suggestion as made in the amendment is that there should be a provision that the lien, if it is taken by the bank upon the farmer, should be registered in the local court. Has Mr. Henderson any opinion to express whether the banks would take this lien if it were required to be registered as a chattel mortgage is?—A. Well, I do not know that that affects us very much. In the case of farmers it would be perhaps an additional protection to us. The question of the registration of a lien is this, isn't it: It is to give protection to the outside creditors, by giving them notice—while the original intention and the general working of the Act is that the class of people who get advances under this section, it is the desire of the bank, that the bank shall be the only creditor. That is our intention and desire. If a manufacturer buys goods and brings them into his warehouse we want to know that the money we are advancing to him pays for them. That is our desire. I do not think we want to get any advantage over any creditor; it is simply to get security upon the things that our money has created or purchased.

By the Chairman:

Q. There is another amendment that has been proposed as to the claims of wage-earners. Have you anything to say as to that amendment which has been styled exhibit D?—A. The bank will have to be careful in making their advances to see that they are protected against those liens. We would rather not have to look after these things, and prefer to conduct our business without considering the rights of other people.

Q. Now we come to the very important question of the rate of interest the banks may charge the borrowers and the rate of interest the banks should pay the depositors.—A. The provision under the Act as it is at present is this:

> 'The bank may stipulate for, take, reserve or exact any rate of interest or discount not exceeding 7 per cent per annum, and may receive and take in advance any such rate, but no higher rate of interest shall be recoverable by the bank.'

That clause went into the Act in 1867 or 1868 and is 44 years old. I have been trying to trace up its history. So far as I have been able to obtain its history it is this: we used to have the old usury laws in effect in the provinces of Upper and Lower Canada, but between the years 1858 and 1867 those laws were done away with. I am inclined to think that the legislators of that day were sometimes like the legislators of the present day: they did not think it was a wise policy to let these bankers charge any rate they liked, and so some one hit upon the happy thought of saying '7 per cent is a pretty decent rate to give these people and you will have to limit them to that under the Act.' So far as I can find out it was under some such condition that the provision was inserted. Now what is the practice? I think the practice bears

out the idea that money is, after all, just like any other commodity that we deal in—it finds its level, it finds its rate. The banks are permitted to charge 7 per cent but they do not do so. In many cases they have almost forgotten that there ever was such a restriction imposed upon them.

Some Hon MEMBERS.—Hear, Hear.

Mr. HENDERSON.—They have charged more and they have taken more. Now, as a matter of fact, I think if you were able to analyse the earnings of the banks, you would find, that not one of them has been able to obtain an average rate of 7 per cent in any of the years since this clause was inserted in the Act. During the past year the average rate earned on all loans that the Bank of Toronto made throughout the whole bank is a very considerable fraction under 6 per cent. In that statement I am limiting it to the actual loans that are made to commercial customers and call loans. The amount on call loans in Canada has borne a very fair rate throughout this year. The figures that I have taken, or rather the percentages I have taken, are not for the year 1912, because I have not got my analysis for that year, but for the year 1911. For the information of some of the western members I want to point out to them that the rates west of Lake Superior in our own bank are just a fraction over one per cent higher than they are for the whole bank.

By Mr. Turriff:

Q. That would be about 7 per cent?—A. That would be under 7 per cent. That is for the whole district west of Lake superior.

Q. Might I ask the question here: you mean that the average west of Lake Superior is a little over a fraction of one per cent higher than the total average?—A. Than the total average for the whole bank.

Q. That would mean that you lend money in Winnipeg, you lend hundreds of thousands of dollars at 6 per cent, and then you soak the farmers for 8 or 9 per cent to make it up to an average of 7 per cent.

The CHAIRMAN.—Mr. Henderson is making his statement?—A. I am going to be perfectly frank and tell you all about it.

The CHAIRMAN.—He has already confessed mea culpa.

Mr. HENDERSON. The average rate of expense all over the bank has to be taken into account in connection also with the loans. The average rate of expense of the branches west of Lake Superior—taking the whole of them from the lakes westward to the Pacific coast—is just one per cent more—which is precisely what we charge additional, than the average rate. The average rate on loans taking it for 23 branches in the prairie provinces—I do not know whether the other bankers will be willing that I should give this away—is greater than the average rate over the whole bank by about 2½ per cent. Now Mr. Turriff, I want you to pay attention to this also. The average rate of expense in the same country branches is 2·58 per cent higher than it is all over the bank. I want you to note this fact, that not by design at all but just through the process of competition and just through the process of adjusting the rate to the conditions that exist the increase in rates is about equal to the increase in the rate of expense, the two things are just as nearly equal as it is possible for two things to be equal to each other—the one is 2·54 per cent, to be absolutely accurate, and the other is 2·58 per cent. I do not know that I intend to say anything more. I have tried to show you how we are trying simply to meet the needs and conditions of the country. It would not be possible for the banks to carry on business as philanthropists, to be able to open up branches and give facilities to the farmers of the West, if they were to be limited to 7 per cent. That would not be possible. It simply means this: that as between the two things, the closing of offices and the payment of reasonable rates the legislators can choose which is best in the interests of the country.

My attention has been drawn to a paper published in the West which devotes itself almost entirely to the financial conditions there. I would like to read some extracts

APPENDIX No. 2

from an article published in that paper. I will not detain you long, but will conclude before one o'clock, and there will be still time for Mr. Turriff to ask a question. (Reads):

> 'It is desirable that rates for credit in western Canada should be reasonably cheap. And, of course when local capital increases, the tendency will be for rates to fall.'

That is true. When deposits in the country increase the rates will fall. At present in the case of our own bank we lend more than twice as much money in the West than we get from the West in the way of deposits.

> 'At present the West is financed mainly on capital from the outside—and there is no use blinking at the fact that hasty attempts to force the interest rate down whether in mortgage loaning or banking would act somewhat as a check on the incoming of capital.'
>
> 'No banking system can ignore varying local conditions. Certainly any system of purely local banks would tend to make differences in rates more rather than less acute.'

As I do not believe in a comparison of ourselves with the United States, and taking a leaf out of their books, I am not going to point out to you how the banks in the United States charge higher rates, because I do not want you to look to their practice.

> 'To open a branch in an outlying district is a "deal in futures." At the outset not even expenses can be made. Only under a branch system indeed would such pioneer banking be attempted. In the settlement days of the Western States there was nothing aproaching this rapid extension of banking facilities. At remote points the expense of operating a branch office makes it a business necessity to charge higher rates for loans than in other localities.'
>
> 'In fact, if the members at Ottawa who have been striving to have a clause put into the Bank Act prohibiting every chartered bank from charging more than 7 per cent for loans and advances, were successful, either one of two things would happen. The law would be inoperative or, if it proved to be really effective, then the greatest sufferers would be the borrowers in the West who now pay 8 per cent or 9 per cent or even more, to the banks for loans and advances.'

May I say just one thing more? I have some knowledge of loaning conditions in the West, and farmers in the prairie provinces gladly pay eight or nine per cent for mortgage loans giving as security their farms to the extent of one half their value. They are glad to get money at 8, 9 and 10 per cent, giving absolute security, and yet they come and make a great grievance because, after the loan company has got the best security they have to offer, the banker trusts the farmer on his personal credit, and on his personal integrity, and charges him a rate in excess of 7 per cent. Why should he not? He asks us to take all the risk on his personal character and integrity and do that on a much lower rate of interest than an absolutely secured loan on real estate. My own view of the matter is this: that if any of you legislators wish to make a record for yourselves for good judgment and wisdom, you will ask to have that clause struck out of the Act, and let money find its level like everything else. Competition will right all these things. It has always been the case. In the provinces east of Lake Superior where there is competition and a greater abundance of money, the rate of interest, as I have pointed out, is under 6 per cent on the average. In the West they are doing splendidly, but they must not ask impossible things.

By Mr. Turriff:

Q. What is the highest rate of interest that is charged by your bank?—A. I really do not know.

Committee adjourned.

HOUSE OF COMMONS,
COMMITTEE ROOM, No. 101,
WEDNESDAY, April 9, 1913.

Committee met at 10.30 a.m., the Chairman, Mr. Ames presiding. The examination of Mr. Joseph Henderson resumed.

By the Chairman:

Q. We have covered the first one hundred clauses of the Bill. Mr. Henderson has nothing to say about the amalgamation of banks, but he is prepared to give evidence on section 114. An amendment has been proposed, in effect, that all unclaimed dividends, drafts, bills of exchange and deposits shall revert to the Government. What would you think of that idea?—A. I see no good reason why this money that has been deposited with the banks and entrusted to them should be taken away from them and handed over to the government. We have had in our practice numbers of cases in which people, after the period of six years, have come to us and withdrawn this money. You will find a great many changes taking place from time to time. I have also cases within my own knowledge in which persons have stated that they knew that there were funds at their credit unclaimed for six years; but knowing that the money was all right, they did not reply to a request to come in. I see no good reason why the persons who have chosen the banks as the custodians of their funds should not have them left with the banks. The amounts of this character held by any individual bank are not large, but as a matter of principle I think these amounts should be allowed to remain where they are. As long as they are in the banks we are using that money and lending it to the general business interests of the country. The moment you take it away from us and put in into the hands of the government, it simply goes into the general fund and does not specially further the business interests.

By Mr. Sharpe (Ontario):

Q. Supposing a man died without heirs, who would legally be entitled to that money?—A. It is a matter of law which is governed by the law of the province in which he dies. We have never had difficulties in any of the unclaimed monies of that character. I presume it would be known, and the legitimate heirs would apply for it.

Q. How long is it since the banks have been publishing their lists of unclaimed funds?—A. For ten, or fifteen, or twenty years.

Q. When the government compelled the banks to start the system of publishing unclaimed balances, did the banks write off the unclaimed balances previous to that time?—A. How can I tell that, Mr. Sharpe?

Q. You were connected with the Bank of Toronto, and would know what your bank did?—A. We did not.

Q. I understand some banks wrote off all of these unclaimed balances?—A. I do not think so. I think you will find that nearly all of them have very old deposits, going back for years.

By Mr. Maclean (York):

Q. What about uncashed drafts that have been sold by the banks—is there much of that?—A. There is a list of those published also, Mr. Maclean.

APPENDIX No. 2

By the Chairman:

Q. If there is nothing further in connection with Section 114 we will take up Section 140 B. It is proposed in Exhibit F, to add a clause making any agreement among bankers to limit competition a punishable offence.

> Every person who, being a president, vice-president, director, general manager, manager or other officer of a bank enters into an agreement with any other president, vice-president, director, general manager, manager, or other bank, or is a party to any agreement to which a bank is a party, to control, regulate, raise or lower the rates of interest on deposits or loans, discounts or exchange or limit competition in establishing branch banks, shall be guilty of an indictable offence and liable to imprisonment for a term not exceeding five years, or to a fine not exceeding $2,000, or to both.

Mr. JAMESON.—Surely it is not an indictable offence to lower the rate of interest, Mr. Chairman.

By the Chairman:

Q. What are your views in connection with that, Mr. Henderson?—A. I think it is an unfair proposal.

Q. Are such agreements customary among banks at the present time?—A. I can say this, that in Scotland the rate of interest that is allowed on deposits is regulated from day to day and week to week by agreement amongst the banks, and the rate they are going to allow is published and given publicity. Also, the exchange on cheques and the charges for the issue of drafts are regulated by agreement from day to day. No person, no matter what their connection with the bank is, can obtain special privileges. It is reasonable that when the interests of the banks are to be benefited by working together, if no injustice is done to the public, they should be able to make arrangements with one another. On the whole, these agreements have not worked, I believe, against the interests of the public.

By Mr. Sharpe (Ontario):

Q. The rates of interest charged for loans fluctuate and the rates of discount fluctuate from time to time according to the money market?—A. Quite so.

Q. But the rates paid on deposits never fluctuate?—A. No.

By Mr. Clark (North Bruce):

Q. Is the rate of interest paid on deposits a matter of arrangement among the banks?—A. It is a matter of arrangement, I think, to this extent. I presented to you yesterday, a statement which I think proved that the banks were not making profits sufficient to justify an increase in the rate of interest paid, as such increase would wipe out any margin of profit. Under these circumstances it is reasonable for them to enter into an understanding with one another.

Q. Suppose one bank raised the rate to 3½ per cent, who would discipline that bank?—A. We could not discipline them. Some banks have done it.

Q. Not for long?—A. As long as they lived. Those of them who increased the rates and paid more found that it did not pay them and they have gone out of existence.

By Mr. Sharpe (Ontario):

Q. That is very severe discipline.—A. It is self-imposed, and you cannot object to that.

By Mr. Jameson:

Q. Would the payment of one half of one per cent, or one per cent more of interest on the deposits in the chartered banks in Canada put any of the banks you

know of out of business?—A. No, but I would say this, as an illutration: The Bank of Toronto last year had about $35,000,000 on which they were paying 3 per cent. Had they paid an additional half of one per cent, on that amount it would have cost them an additional $175,000. That $175,000 represents 3½ per cent on their capital, and the amount of dividend that they earned upon their capital and surplus combined, on which they paid dividends was about 5·45 per cent; and if you take that $175,000 on the amount of their capital and surplus combined it would represent something over one and one-half per cent, about 1.70 per cent. It would reduce their earnings on their capital and reserve to an amount of about five per cent.

Q. Apart from their reserves, what were the earnings of the capital in that year?—A. I am sorry you were not here yesterday. I had my notes here then, and to-day I have to speak somewhat from memory.

By Mr. Sharpe (Ontario):

Q. I think it was 17 per cent.—A. About 17 per cent on capital and about 7·71 per cent on the amount of capital and reserve.

By Mr. Jameson:

Q. Do you not think it would be a fair proposition for the banks to pay the depositors all they possibly can afford in the way of interest inasmuch as the deposits they receive are the means of enabling them to carry on banking?—A. They ought to pay them all they can possibly afford to pay; and 3 per cent is all they can, under existing conditions, afford to pay.

By Mr. Sharpe (Ontario):

Q. Why could they not arrange a different rate of interest on deposits according to money conditions? A. I think, in the long run, if they attempted to do that, the class of people we have here and who deposit their money would not by any means understand why their rates should be 3 per cent one month, 2½ per cent another, and 3½ per cent another; and I think that, on the average, the rate that they are receiving is a very fair rate.

Q. During this past year money is worth more than it has been for the past five or six years. Why do you pay more on deposits now?—A. Even though money has been in greater demand recently the average increased rate realized at present amounts to less than .18 of 1 per cent more than a year ago, and against this we find that our expenses have increased at a correspondingly higher ratio.

By Mr. Clark (North Bruce):

Q. The rate in Scotland has not been flexible?—A. It is flexible; it is changed very frequently, and at the same time that they change the deposit rate they change also the loaning rate. We have not been educated to that in this country, and it would be difficult indeed to start it.

By Mr. Sharpe (Ontario):

Q. Is there not some public official in Scotland who meets the bankers to arrange the various rates?—A. Not to my knowledge. I think it is a matter of mutual arrangement.

Q. Do you believe in any laws regulating combinations or agreements to unduly enhance prices as a general principle?—A. I do not want to answer that.

Q. You would not want that particularly applied to the banks?—A. I do not think I should be asked to express an opinion on general economic subjects.

Q. You do not think such a law should at least apply to the bankers?—A. I think the bankers do not require any such law.

APPENDIX No. 2

By Mr. Maclean (York):

Q. We are talking about combinations between bankers in regard to rates of interest. Do you know of any instance where the bankers, either individually or collectively, made representations to the government in regard to the interest paid by the government savings banks?—A. The only time that question arose was a very long time ago, at a time when loans were being obtained by the Finance Minister at a very much lower rate than was being paid by the banks on deposits. In speaking of this, it would be better if somebody who had actual knowledge of the facts were to speak, but I think I can fairly represent what I believe to have been the case at the time. The Finance Minister was anxious to reduce the rate because money was being obtained from abroad at a very much lower rate than they were paying in the post office savings bank He did not think he could reduce the rate to them unless there was a corresponding reduction made by the banks because, if he paid those in the post office savings banks a rate lower than the banks were paying he felt there would be large withdrawals. The matter was discussed, I believe between the bankers and the Finance Minister, and there was no formal agreement entered into, but there was an understanding that if the government reduced the rate of interest on their deposits the bankers would not take advantage of that fact and keep their rates up, but they would reduce them also to that rate, and that rate was 3 per cent.

Q. At that time, it was easy for the government to get money?—A. Very.

Q. And at this time, when it is hard for the government to get money, if they slightly increased the rate of government deposits they might get money more easily? —A. I think that argument should be addressed to the Minister of Finance.

By the Chairman:

Q. From a banker's point of view, what do you think would be the effect of the government increasing the rate of interest on savings banks deposits, from 3 per cent to 3¼ per cent or 3½ per cent?—A. I do not like to predict what would take place; but if we had to increase the rate of interest we pay to our depositors, by reason of the action of the government, we would have to correspondingly increase the rate of interest on our loans, because we cannot afford to lose the difference.

By Mr. Maclean (York):

Q. Instead of building up your trust funds, could you not reduce your profits and give the public the benefit?—A. We cannot reduce the profits. You would not, to-day, make an investment in bank stocks because you would not be getting a sufficient return for your money, and if you are going to reduce those profits still further, it would make it impossible for the banks to continue to pay the dividends they are now doing.

Mr. AIKINS.—There are amendments proposed to 131A and 134, which appear to have been omitted in the agenda. 131A is by Mr. McCurdy.

The CHAIRMAN.—The agenda, of course, does not cover all the amendments. The amendment proposed by Mr. McCurdy of 131A reads: 'Any person, who, being a director, officer, clerk, or servant of a bank, accepts, directly or indirectly, a gift, payment or other consideration or receives a promise of consideration from any person who is seeking or has obtained, on his own or any other account, a loan or discount or other advantage from the bank, shall be guilty of an offence against this Act.'

By the Chairman:

Q. Is that already covered by the Criminal Code, to your knowledge?—A. I cannot answer as to that, but I would condemn the action that is aimed at. As to what penalty should be imposed, I do not think I can express an opinion.

By Mr. McCurdy:

Q. I would ask if, in your opinion, there is any objection to inserting a clause of that kind in the Act?—A. The only objection I would have, and I speak with some

reserve, is that the wording of this is very, very wide indeed. How far does it go: 'Any person who, being a director, officer, clerk, or servant of the bank, accepts directly or indirectly a gift,'—If I gave a man a cigar, or if a customer gave me a cigar, he or I would be receiving a gift.

Mr. SHARPE (Ontario).—Read on. It says 'with the intention.'

Mr. HENDERSON.—It does not say that.

By Mr McCurdy:

Q. If it could be worded in such a way that the clause would simply seek to prevent the purchasing of favour from a bank,would there be any objection to that? —A. I would say, without hesitation, that anybody who receives a monetary consideration to influence him in using the funds of the bank and is influenced by that, should be reached in some way.

By the Chairman:

Q. From your own banking experience, have you any reason to believe a clause like that is necessary?—A. I have no experience to lead me to believe that it is necessary. I should be very sorry to think it were.

By Mr McCurdy:

Q. It is one of those questions that people do not like to discuss openly?—A. That is quite possible, and I should say it should not be done.

By Mr. Aikins:

Q. Is there any objection to the proposed amendment to Section 134? Section 134 provides 'Every bank which at any time holds in Dominion notes less than forty per cent of the cash reserves which it has in Canada, shall incur a penalty of five hundred dollars for each such offence.' I desire to have added to that 'Every bank shall show in its returns, under section 112, how much of such cash reserves are held in Canada, and how much elsewhere.'—A. As to that, my experience with the bank I am connected with, is that all our cash reserves are held in Canada, and for that reason the clause would not apply. I do not know why the words 'held outside of Canada' are inserted, but I do not think it is a matter of very great consequence, so far as the forty per cent is concerned, because banks are all likely to hold a larger portion than forty per cent.

Q. I am not speaking about the forty per cent, but the desirability of showing where these reserves are held by banks doing business outside of Canada.

The CHAIRMAN.—Your point, Mr. Aikins, is practically covered by the Minister's amendment.

By Mr. Aikins:

Q. Not entirely, but substantially; but is there any objection to such an amendment as is proposed?—A. I have no objection to it.

On Section 153, subsection 2.—Liability of officers.

By the Chairman:

Q. The new Act proposes that the word 'negligently' be inserted. I want to ask Mr. Henderson whether he thinks that if the word 'negligently' were introduced into clause 153, it would deter responsible citizens from acting as bank directors.—A. I think the word 'negligently' helps rather than affects their position unfavourably.

Q. You would favour the insertion of the word 'negligently'?—A. I think it is desirable that it should be inserted.

APPENDIX No. 2

Q. There is one other clause, 61C. An amendment was proposed by Dr. Steele, to clause 61, with reference to the sterilization of notes.

By Mr. Nickle:

Q. Before leaving the discussion on the word 'negligently' can you suggest any machinery that would have the tendency to have these things done regularly? As I understand it, if a man signs a report in blissful ignorance of facts—and he may very easily close his eyes so as not to notice the facts—then he is not negligent. Suppose these officials of the bank simply signed a document placed before them. That would not be negligence, and a jury would not so construe it. Is there anything we can do to stimulate activity in the verification of these statements?—A. I cannot suggest any method by which that should be done. I think that every director or officer of a bank who signs such a statement should make inquiries of the person responsible for making it up, and find out, as best he can, that he is justified in signing the statement, if he has not, himself, knowledge of the facts.

Q. Do you not think it might be advisable to have something on the line of legislation, setting out what are the duties in regard to that position?—A. If a proposition to cover that point were submitted to me, I would give it my best consideration, but I do not think I can answer that general question.

Q. As I understand it, it has been fairly well held here, also in England, and on reasonable grounds, that if the official preparing the statement is honest, he is not negligent. That is practically the effect of the Cockburn case in Toronto, and I think one or two other cases. Would you, as a practical man, suggest some method whereby responsibility would be cast on the official signing the document?—A. Will you leave that with me in this way, Mr. Nickle: that I will take it into consideration and discuss it with our solicitor, and if I can suggest anything that will tend to strengthen the clause in that direction, I will be very glad indeed to submit it to the Committee.

Q. Provided you will keep in mind that the tendency of the Committee is not to come to the conclusion that " where ignorance is bliss, 'tis folly to be wise."

Mr. TURRIFF.—I think that is an amendment proposed by the Minister, I mean, the putting in of the word 'negligent' in Clause 153. The effect of putting that word in, is to make it much more loose and lax. It does not strengthen the position, but has the opposite effect.

Hon. Mr. WHITE.—How do you arrive at that conclusion? Let us develop the thing. If it weakens it, we will strike the word out, with the greatest pleasure. Let us just look at the situation for a moment. There were two decisions given by Magistrate Denison in Toronto, one in connection with an Eastern Bank (The Yarmouth, I think), and the other the Cockburn case. It was decided, in both cases, that if a statement were signed by the president of a bank, in order to fix criminal liability on him you had to show intent. That is, wilful intent had to be shown. It had to be shown that he had knowledge of the facts and had wilfully made a false statement. No matter what the wording of the old Bank Act was, that, under the provisions of the old Bank Act, of course, is the law. There is no question about that; so that if a bank president to-day, pending the enactment of this new measure or a change in the law, signs a false statement, false in fact, before any criminal liability can attach to him the man's criminal intention must be shown. That is the law to-day, as I understand it.

Now I conceived that it was desirable that directors, presidents and others making statements to the Finance Department, or statements on which the Auditor could act, should be made diligent, in so far as the imposition of penalties fixing criminal liability, could tend to make them diligent. The result is that, we have, as we think enlarged the Act. This clause has had a very great deal of consideration, both on my part and on the part of my assistant here, and also by the Department of Justice; and I inserted the word 'negligently' with the intention that the liability should remain as it is, so far as wilful mis-statement is concerned.

Apart from that if a man makes a misstatement there is no question about it he is liable under the negligence clause, and that, in addition to that there should be a penalty imposed if he is negligent; that is to say that if his duty as president involves the making of a statement, and he makes that statement negligently the intention was that there should be criminal liability in connection with that. If this Committee is of the opinion that I have, instead of increasng the penalties, that under the old Act and the decisions thereunder this word should come out, if the lawyers of this Committee are prepared to tell me that the old Act, with the word 'negligent' cut out is sufficient, and if I come to the conclusion that they are right I will strike it out, but the intention in inserting the word was to make it more drastic.

Mr. CLARK (North Bruce).—The word 'negligent' makes it stronger.

Hon. Mr. WHITE.—I am told so, the Minister of Justice tells me so. Negligence is the lack of care to do something that it is a man's duty to do, it is negligence not to take care that a statement is correct.

Mr. MACLEAN (South York.)—Negligence in doing what?

Hon. Mr. WHITE.—Whatever it is a man's duty to do. For example take negligence in the case of accidents on railways. The question is what is the duty of the man on the railway; negligence is a question of fact. What was the duty upon the officer, president or director? Then if he does not discharge that duty, if the jury finds that he did not take reasonable care, then he is negligent. Negligence is the opposite of diligence.

Mr. AIKINS.—Will you pardon the suggestion? Negligence is equivalent here to breach of duty, that is 'every director who,in breach of duty' surely that duty should be defined, then you can determine the question of negligence.

Hon. Mr. WHITE.—Let me ask you this, as a good lawyer you know that sometimes then you attempt to define your limit. Having the greatest respect for the ability of the lawyers on this Committee yet I confess I would not like to entrust them with the duty of defining all the duties of a president or a director, covering every situation that may arise. I do not believe, with all due respect, that you can define or should attempt to define all their duties under all circumstances.

Mr. AIKINS.—Let me suggest then that since the determination of whether he has or has not done his duty will be left to the jury to define would it not be better at the moment to attempt to define his duty and prevent difficulties which might otherwise happen?

Hon. Mr. WHITE.—There is the check on it that the jury would determine the question of fact. The court would say whether there is a *prima facie* case for the jury, and I haven't any doubt myself that it would probably work out that any president or director who has taken his duties seriously, and is prepared to show that he has so taken his duties, does not run very much risk of going to trial; but, on the other hand, if he is negligent the intention is that he should go to the jury.

The CHAIRMAN.—As Chairman of the Committee I must ask the Committee to remember that the whole Bill is to be argued afterwards and that speeches between members, in the way of argument, are not opportune at the present time. We are examining witnesses, and any information the witnesses can give us we are delighted to have, but when we have finished with the witnesses we are going to discuss the measure among ourselves.

By Mr. Sharpe (Ontario):

Q. With the explanation of the Minister of Finance of his reason for inserting the word 'negligent' will the winess revise his opinion in regard to this clause?—A. Mr. Sharpe I will just say this, I am a layman, and dealt with this question from a layman's point of view. The clause without this word 'negligent' in, would read: 'Every president, vice-president, director, &c., who prepares, signs, approves or concurs in any account, statement, return, report or document containing any false or

deceptive statement shall be guilty of an indictable offence.' Now a man may sign a document which may contain a mistake which he would not have any opportunity of finding out unless he went through every item in it, and was conversant with every possible detail in it, he might sign it, it might contain an inaccurate statement, which would be held to be false, and under the wording of this Act, without the insertion of the word 'negligently' he might be held to be guilty. I understand this word 'negligently' saves him from that if he has tried his best to do his duty in connection with the signing and approving of that document.

Hon. Mr. WHITE.—In the discharge of his duty.

By Mr. Sharpe (Ontario):

Q. Would there be any objection to the banks being compelled to pass by-laws defining the duties of the directors, without exhausting the whole list, to define certain specified duties?—A. I do not think I should answer a general question of that kind.

The CHAIRMAN.—That is presumably covered in 43 and 77. There is only one more question on lines that have not already been dealt with, and that is Dr. Steele's amendment to Section 61,:

> "But the bank shall not reissue such notes until the same have been sterilized, by heating them to a temperature of 270 degrees or by some other method approved by the Minister."

I want to ask Mr. Henderson as a practical banker whether that idea would work and whether it would be impossible or difficult to carry out.—A. I do not know what the process is or what apparatus the bank would require in order to carry it out. It would almost seem to me that if we are to provide an apparatus for sterilizing these notes, in order to prevent the spread of contagion we would also have to put the person who brought the notes into our office through the same process and sterilize him. I do not know whether it is practicable. I think, Dr. Steele, and members of the Committee that the banks are just as desirous of conserving the health of the community as most people are, and that when we get any of these notes into our possession that are in that state, if we know them to be so, we try to destroy them as speedily as possible. But I suppose, it will be quite possible for these germs to be carried by a perfectly clean note if it came through the hands of a person who was infected. I hardly think the suggestion is practicable. If it came to the knowledge of any person that the notes issued by a bank were disease carriers they should be communicated with. I think it is objectionable to legislate on the subject.

By Mr. Steele:

Q. It is always too late when that state is reached.—A. We take a good many chances with bacteria in other ways than with notes.

Q. We are endeavouring to lessen those chances. With regard to your remark respecting the person carrying these bank notes, the law now provides for the fumigation or disinfection of that person. But we want to get at the bank notes which are tainted if they come out of a house where contagion is known to exist. These notes will be carried to the bank, and they go out perhaps to members of three or four or half-a-dozen families and in that way distribute those germs. With regard to the expense involved this is not the time for the discussion of that phase of the question; the expense will not be very great, from $8 to $15 will cover the cost of the apparatus. Can you give us any idea, Mr. Henderson, how many bills would be paid out in one of your branches in a small town, or how many customers would be visiting the place in a day?—A. That is too difficult a question, too general altogether.

By Mr. Cockshutt:

Q. I would like to ask whether there is any system under which the banks carry out the destruction of bills by reason of their condition?—A. It depends upon their condition wholly.

Q. Not because it has been in circulation a long time?—A. Not at all, every teller throws out the bills that should not be re-issued.

Q. Is that supervised by the department in any way or is a return made?—A. The amount of notes so destroyed is reported to the secretary of the Bankers' Association.

Q. Do you not think there are many bills in circulation, not only bills of your own bank, but those of all the banks and of the Dominion Government too, that are dangerous to the public health?—A. It is quite possible that is the case.

Q. Has your attention been called to that fact?—A. No, it has not been called to it.

Q. You are aware that the Bank of England never sends out a note the second time?—A. I am aware of that, yes.

Q. Would that entail a very large expenditure upon the banks in this country if that were made the law?—A. I tried to ascertain what it would cost the Bank of Toronto when that suggestion was made. You will remember this in the first place that the Bank of England note is for a large amount, £5, a great part of our circulation in this country is a long way under that amount, so far as the bank notes are concerned, by far the largest proportions of notes in circulation, are $5 notes. Now taking the payments of the notes that were made over the counter last year I think I estimated that if we were only permitted to pay those notes out once, and had to destroy them as soon as they came back, it would cost us $125,000 a year.

Q. That is a large amount?—A. Rather. We had better give up our circulation altogether.

Q. You have no doubt that there are a number of bills in circulation that really are not fit for circulation, haven't you?—A. I think that is quite possible.

Q. Can you make any suggestion to the committee that would obviate that? I think that is a very discreditable phase of the currency of Canada. There should be some way of overcoming the difficulty. Have you any suggestion that would operate in the direction that Dr. Steele has suggested?—A. I do not know to what extent it would have effect, but I think it is a very useful thing indeed to have these matters brought to the attention of the bankers, and personally I shall see that this matter is brought to the attention of the general managers of the banks. I think, also, perhaps the Finance Department might co-operate with us, if there is no objection to their doing so, and they would be able to accomplish something in that direction, but I think it would be a pity to make it a matter of legislative enactment.

Q. How would it be to make the word "cleaned" if it is wrong to use the word "sterilized," or it might be handled in some way different to sterilizing, so that it would remove the danger to public health. You are aware that the average citizen counts his money with his finger, often touching it to his lips which is a very dangerous thing to do, that is the reason why it is very important that money should be looked after, it is a question of cleanliness. If the banks would pay special attention to the cleanliness of their notes possibly it would remove the difficulty?—A. I will try to have it done.

By Mr. Maclean (York):

Q. $125,000 a year is a large amount for fresh notes every time you issue one. How much does it cost you under the present system?—A. I have not made an average on that, but I should suppose it costs us probably about $15,000 a year.

Q. Then you would be out over $100,000 a year?—A. Yes. That would be rather a serious matter.

Q. What proportion of that amount does the cost of paper represent? The point I want to get at is this: the American Government are proposing to reduce the size of the bank note, and therefore to make a great reduction in cost. The bank note there will probably be about two-thirds of its present size, and if the cost of paper were reduced it would help to reduce the expense?—A. I would have to make inquiry

of the Bank Note Company in order to answer that question, as to what difference that would make in the cost.

By Mr. Edwards:

Q. Reference has been made to the Bank of England not issuing its notes a second time. Do you understand that practice is based on sanitary reasons, or as a precaution for financial reasons?—A. The latter I believe to be the case.

Q. Then it is not because of sanitary reasons?—A. Not because of sanitary reasons.

By Mr. Charlton:

Q. We have 445 patients in the Consumptive hospital in Muskoka and Toronto. I was talking with our medical superintendents the other day about this matter and they think that the circulation of the sort of bank bills which circulate now constitute a tremendous agency for the transmission of disease and that something should be done to obviate it.—A. Are they actually able to trace it, do you know, Mr. Charlton?

Mr. CHARLTON.—They think so.

The CHAIRMAN.—Mr. Henderson has been before the Committee for three days and he has given us, I think, very valuable evidence. I know I shall voice your desire when I thank Mr. Henderson for coming here and giving us so much of his time. (Applause).

Mr. HENDERSON.—Thank you very much. It has been a great pleasure and an education to have been here. I want to say that I never appeared before an audience that I have taken more pleasure in addressing.

The CHAIRMAN.—Mr. H. B. McKenzie, General Manager of the Bank of British North America, Montreal, will be our next witness. Mr. McKenzie also has worked through all the stages of banking, and has had a wide experience as inspector, and has been here during Mr. Henderson's evidence. I may say that with a new witness every subject is germane in its proper place, so you may question Mr. McKenzie as fully as you like. There are two matters on which Mr. McKenzie may be considered an authority. The Bank of British North America has the shareholders' audit, and I think Mr. McKenzie can tell us how it works and what the results are, and what his opinion is of the shareholders' audit proposed in the Bill. The Bank of British North America also has a system analagous to that of the gold reserves proposed in the Bill. I think Mr. McKenzie might deal with these two matters first.

Mr. SHARPE (Ontario).—Was Mr. McKenzie on the original list of witnesses?

The CHAIRMAN.—I might say that Mr. Pease was on the original list of witnesses, but having to go away asked that Mr. McKenzie should take his place.

By the Chairman:

Q. I am going to ask you first to deal with section 56, containing the proposal as to the audit. You have, I understand, a system of shareholders' audit in the Bank of British North America. Will you kindly give us the benefit of your knowledge in respect to that?—A. We have had, for twenty years at any rate, an annual audit by the firm of Price, Waterhouse & Company. They assemble all the annual returns from the branches and they prepare and certify in London the annual balance sheet that is presented to the shareholders. These auditors are elected each year by the shareholders at their annual meeting. They do not confine themselves purely to bookkeeping matters. Every now and again we get inquiries in Montreal direct from the auditors regarding this account or that. A short time ago they made a complete investigation of our securities in New York. They arrived unexpectedly one day and counted and checked up everything. We have always regarded the audit as of value and I think the shareholders attach importance to it. I do not know, Mr. Chairman, what more I can say about the matter, but if there is anything you would care to ask me I would be very glad to answer it.

Q. How are the auditors chosen?—A. They are selected at each annual meeting by the shareholders.

By Mr. Sharpe (Ontario):

Q. Where do you hold your annual meetings?—A. In London.

Q. Do most of your shareholders reside in London?—A. They are scattered. Some reside in England and some in Scotland, others live here.

Q. But there is a big proportion in the Old Country?—A. I think so.

By the Chairman:

Q. When you are speaking of the auditors do you mean a firm or a couple of individuals?—A. It used to be the firm of Price, Waterhouse & Company, but some years ago a shareholder objected to that. He said the auditors should be individuals who could be held responsible, that the responsibility of a firm was not satisfactory, so at the next annual meeting two individual members of the firm were chosen and that practice has been continued.

Q. Do they have to certify to the correctness of the bank's statement?—A. Yes.

By Mr. Turriff:

Q. Do the auditors make an inspection at the various large offices of the Bank in Canada, or do they base their report altogether on the returns sent in?—A. The auditors get their information regarding the great bulk of the branches from the returns that are sent in to Montreal and from the reports of the inspectors, but they have perfect liberty to make any inquiries they like, or visit any branch they like; and as I mentioned a few moments ago they did a little while ago visit New York. They have also been to Montreal and there is no reason why they should not go anywhere else they wish to.

By Mr. Maclean (York):

Q. Did they recommend any changes in the securities when they checked them over?—A. Not one.

By Mr. Sharpe (Ontario):

Q. What would be their duty if they discovered any unsatisfactory accounts?—A. Their duty would be to report to the directors.

Q. Where is your head office?—A. In London.

Q. Do you believe in unexpected audits, or inspection?—A. Yes, I think it is an advantage.

By the Chairman:

Q. Do I understand this audit to be particularly a shareholders' audit?—A. Yes. The auditors are the representatives of the shareholders.

Q. And do they make their report to the shareholders?—A. Their report consists in their signatures to the annual balance sheet.

By Mr. Nesbitt:

Q. That is, your auditors simply confirm the balance sheet?—A. That is it.

Q. If it is found correct?—A. Yes.

Q. The auditors are appointed by the shareholders at the annual meeting, that is by those present?—A. Yes.

Q. From year to year?—A. Yes.

Q. In the working out are the shareholders largely dominated by the directors?—A. The shareholders, I may say, do not attend the annual meeting in large numbers. The voting is mostly done, as I think it is in many other banks, by proxies which the directors hold.

APPENDIX No. 2

Q. And the directors themselves when they are sitting as shareholders, have a voice in the selection of the auditors?—A. In respect of their own shares and also in respect of any proxies which they hold.

Q. When sitting as shareholders?—A. Yes.

Q. Your auditors are English auditors?—A. Yes.

Q. Would you think that their views on any question arising in New York would be better than those of your own management?—A. Perhaps I should have explained that our bank in New York does not do a general commercial business and is not allowed to take deposits. Our business there largely consists of making call and demand loans against securities that are listed on the stock exchange. When I referred to the examination of our securities by the auditors it was those securities that I meant.

Q. Your head office in Canada is in Montreal?—A. Yes.

Q. When the auditors go to Montreal do you think their opinion as to the responsibility for any losses there would be better than that of the local management?—A. The firm of Price, Waterhouse & Company have an office in Montreal. They also have an office in New York. There is no information, I suppose, of a local character that is not accessible to them in either office, and I should say they would be in a good position to express an opinion as to the value of any security.

Q. That would be largely accounted for by their peculiar position of having local offices?—A. Yes.

Q. Active offices in these two places?—A. Yes.

Q. But that is not what I want to get at exactly. What I want to ascertain is whether the views of these auditors having just come from the Old Country, without any local knowledge such as you suggest, would their views as to the value of securities be better in your judgment than those of the local manager?—A. I see no reason why an intelligent Englishman with a good business training should not visit any place in the world and express an opinion that would be worth while regarding business conditions on securities or accounts. They are conducting business with great success all over the world.

Q. I quite agree with you, but at the same time would their views be better than those of the local management?—A. I would not say better entitled to consideration.

By Mr. Clark (North Bruce):

Q. Do you know of any case where the report of the directors has been altered in any way by the auditors?—A. The auditors themselves, I think, assemble the annual returns.

By Mr. Turriff:

Q. And so far as the election, or appointment, of the auditors by the shareholders is concerned, exactly the same result would be obtained if the president or general manager appointed. That is to say there are very few shareholders present at the annual meeting. The directors as large shareholders, and holding proxies from shareholders, are sitting there electing the auditors, so that the officials have the selection practically speaking of the auditors?—A. I think, not necessarily.

Q. But practically?—A. Although the shareholders give proxies and allow the directors to represent them at the annual meeting in the matter of the election of the auditors, they are not indifferent on the subject. All of them get copies of the annual report, and while I think they would go on indefinitely agreeing to the re-appointment of Mr. Sneath and Mr. Waterhouse, who are the auditors, I think they would inquire at once if any changes were made.

By Mr. Nesbitt:

Q. Surely they would re-elect these men if they prove satisfactory?—A. Yes. The matter is not entirely in the hands of the directors merely by reason of their holding proxies for shareholders.

By Mr. Sharpe (Ontario):

Q. But the directors dominate the annual meeting, do they not? They have the control?—A. They could elect.

Q. And if they had anything to conceal they could appoint the auditors they wanted to?—A. Then they would be under review by the shareholders generally.

Q. I know, but they could not be under review until the next annual election, anyway?—A. The shareholders would have inquiries made at once, I think.

Q. Your bank does not, of course, require stringent bank inspection as much as some others that have failed?—A. I would not like to express any opinion on that.

Q. What I mean to say is this: If an audit or inspection is for the weak bank, the bank doing business improperly, if there were none in existence your bank and the Bank of Toronto, represented here by Mr. Henderson, do not require inspection?—A. I think we are all the better for it.

Q. You think you are all the better for an inspection?—A. All of us. There is a moral effect from it.

By the Chairman:

Q. Does an auditor require special experience or training different from that which an auditor who goes through the books of an ordinary industrial concern possesses?—A. When you speak of an auditor as distinguished from an inspector I should say that a chartered accountant or experienced man of that kind should be able to audit a bank or an industrial concern. I do not know that Price, Waterhouse & Company have any special knowledge of banking except as it has come to them from their examination of banks.

Q. Would you consider a bank inspector, who had long years of experience, as equally qualified to audit a bank?—A. I would consider that, provided he were a capable man, his experience as a bank inspector would be an added qualification.

By Mr. Clark (North Bruce):

Q. Are your auditors absolutely independent? Suppose they report against the report of the directors, or against the directors, or the operations of the bank, how long would they hold their jobs if elected, as they are, by the directors?—A. Of course, they never have. I think if they withheld their signature from the annual statement, and it had to be presented to the shareholders, lacking that confirmation, there would naturally be an animated time at the meeting, and what results would follow from that discussion I could not say.

Mr. JAMESON.—Either the directors or auditors would lose their jobs.

By Mr. Maclean (York):

Q. As we are now dealing with the general question of audit, what is your view of a public audit of the banks of Canada in the interests of the public?

By the Chairman:

Q. The system of government audit and inspection, you mean, as set forth in Exhibit A. One of the things we are going to discuss is a system of public audit of all banks. What is the view of the witness in regard to a public audit of the banks?—A. I should like to be quite clear as to what you mean.

Q. The government having the right, through an auditor of their selection and appointment, to audit any bank doing business in Canada under the Bank Act?—A. By an auditor of the government?

Mr. MACLEAN (York).—And as a portion of the Bank Act.

By the Chairman:

Q. The system of government audit and inspection?—A. I should say it would be undesirable.

APPENDIX No. 2

By Mr. Sharpe (Ontario):

Q. Why?—A. Because it would leave the government exposed to recriminations whenever there was any trouble. You could not have that responsibility without being faced with it every time a bank got into trouble.

Q. Is that the experience in the United States every time a bank gets into trouble? —R. That is a very different thing. There, examinations are conducted by different bank examiners, all over, who are not all responsible to the federal government.

Q. But the National banks are all under the controller of currency, are they not? —A. I have never heard of any claim being made that the federal government should reimburse people who had lost money through the failure of a National bank. At the same time I think there is evidence before us quite recently which is sufficient to show that there is a feeling on the part of the people of Canada that the government is held very strictly to account for its action in connection with banks.

Q. Not for the want of inspection?—A. Well, it would apply there as well as anywhere else, I fancy.

By Mr. Nickle:

Q. Do you make any distinction between an audit and an inspection?—A. By inspection, I refer to the internal inspection that all banks have.

Q. Did Price, Waterhouse & Company make an inspection of the Bank of British North America, or did they make an audit?—A. They made an audit; they do not inspect each individual branch.

Q. They verify the assets and liabilities. Do they express any opinion of the quality of the assets, or of the policy of the bank?—A. Any expression that they make they make to the directors, and the directors are in London. I fancy they do, for I am occasionally requested to furnish certain information for the information of the auditors.

Q. For the information of whom?—A. Of the auditors.

Q. Do they express any opinion in relation to whether or not the bank is carrying on business in a lawful or lawless manner, whether you are observing the provisions of the Bank Act?—A. It would be a very proper subject for their inquiry.

Q. Do they consider it a proper subject for their inquiry?—A. I should think they would.

Q. Do you know?—A. I have not questioned them on the point.

Q. Therefore, you are in the dark on that point?—A. I am in the dark on that point.

By Mr. Maclean (York):

Q. We do know that the banks furnish monthly returns to the government and that those returns have on occasion been found to be incorrect, misleading and at times dishonest. If there had been a public inspector before whom these returns were passed and if that inspector—or whatever you may call him, auditor—had the right at any time to go into a bank and verify those public returns would he not immediately check what other people apparently have no way of finding out; and would not a system of that kind be in the public interests?—A. A system of that kind would require just about as much machinery as the aggregate inspection machinery of all the banks in Canada put together. I do not know any other way it could be done.

Q. I think, greenhorn as I am, that if a statement of that kind, came before me and I was an inspector, I would know in twenty-four hours whether it was right or not.

By Mr. Sharpe (Ontario):

Q. Is your only objection to Government inspection that it would possibly involve the government in the responsibility of a failure—that is, from the government's point of view you raise the objection and not from the banks' point of view? From the banks' point of view you have no objection?—A. None.

Q. You are speaking from the government point of view that it might involve them in some responsibility in connection with failures?—A. I think you are quite as likely to get efficient inspection by making your appointments from those well trained and experienced firms of auditors as you would do if the matter were left in the hands of the government.

Q. The government would appoint good men?—A. Provided the government appointed inspectors equally capable and trustworthy, I see no objection from the banks' standpoint.

Q. Do you know, roughly speaking, how many shareholders there are in your bank?—A. I could not tell you.

Q. How many shareholders are present in person at the annual meeting?—A. Very few, I think.

Q. Looking over the list of the annual meetings of the banks here, the attendance of shareholders would run about twenty persons, some more, and some less?—A. I would not like to boast that we have any more.

Q. Really, the directors dominate the annual meeting?—A. When you say dominate, you mean control.

Q. Yes.

By Mr. Maclean (York):

Q. Do you not think an inspection and investigation by an expert of these signed returns handed in to the government, would at once detect the things that in the past subsequently had to be found out, and which, instead of being checked in their early stages would grow into great losses both to the shareholders and the public?—A. Of course it is possible to devise a system of inspection, provided you do not mind how large it is, how much machinery you have, that will oversee the banks and will detect fraud, after it has been committed, but I do not think that you could have a system of inspection that would be effective with regard to all the banks all over the country unless you duplicate the inspection staffs of the banks.

Q. But I want to keep down to the question of signed returns. My contention is that if provision were made in the Act for an investigation whenever that officer saw fit, he could verify all the signed and published returns. Is it not likely that such an investigation would detect the wrong in that statement immediately?—A. I do not see how, Mr. Maclean. For instance, the Government statement of the Bank of British North America shows we have $31,000,000 of current loans in Canada. How would you detect whether there was anything wrong in that?

Q. I think you could from day to day in any bank. It could have been done if the published returns of the Farmers' Bank had been verified by a public inspector, and the same would apply to the Ontario Bank and any other bank that has failed in this country. I want to know if it would be possible in the cases of all the banks that have gone wrong in this country, if in the opinion of the witness we had a public inspector to verify the sworn statements, would not the wrongs that have been done have been almost immediately ascertained?—A. What you suggest would be much more easily done in the case of the new banks and the small banks. But I would be very unwilling to take the responsibilty of recommending that the new banks and the small banks should be subject to a system of audit and regulation from which the larger banks would be free.

By Hon. Mr. White:

Q. Just developing that idea of Mr. Maclean's on the subject of the returns to the Government, is it not a fact that the returns from all the branches are gathered up into a statement?—A. Yes.

Q. You referred to your bank having $31,000,000 in current loans and discounts, and all the banks, I think, have about $1,000,000,000 of current loans and discounts, so that these returns on their face are only figures?—A. That is all.

APPENDIX No. 2

Q. Now, in order to ascertain their correctness or verify them, as Mr. Maclean stated, would it be possible to detect from the statement evidences of fraud, or if any accounts were weak accounts, or if any questionable practices had been employed or not?—A. From the statement it is quite impossible.

Q. I understood you to say—and correct me if I am wrong—that any system of inspection involving a pronouncement upon accounts as well as the making of an audit to be effectual, would have to practically duplicate the inspection machinery we have in the banks?—A. That is my view.

Q. Take a bank that has, we will say, two hundred branches with important offices in Winnipeg, Vancouver, Calgary, Edmonton, down the Pacific Coast, in the West Indies, and in the Yukon. In your judgment, and taking loans and discounts only, could or could not an efficient inspection be made, that would justify an inspector in giving a certificate with regard to those loans being correct? As I say, could, or could not, an inspection be made that would be worth anything, unless individual accounts, which would go to make up that item, or at all events, a portion, were considered checked up and passed upon? What would be your view in regard to that?—A. Perhaps I can explain best by saying what I consider the value of our system of inspection is, as compared with our audit. They are two absolutely different things. The inspection goes much more deeply into everything. The inspector takes the balance sheet and verifies every item on it, and he reports on conditions generally at the branch. Now, the auditor, on the other hand, has a very much more restricted opportunity. He does not visit the branches. At the same time, he has all this information, and I think there is no doubt that though he cannot have the opportunities of the inspector, for detecting fraud, yet he can and does, I believe, perform a service that is very useful and quite worth while.

Q. I understand you to say that for a thorough inspection your machinery would have to be duplicated?—A. When I said that, I was endeavouring to answer Mr. Maclean, who asked about verifying the absolute correctness of these statements. If you wanted to find out, down to the last dollar, you would have to duplicate the system of inspection.

By the Chairman:

Q. Here we have (indicating) a monthly statement of assets and liabilities. Here you see the amount in specie, Dominion notes, deposits, and so forth, that every bank has in its assets, and here the notes in circulation, &c., in its liabilities. Could any official of the government here in Ottawa, from a careful study once a month of these statements, ascertain whether any of these twenty-six banks was in a less favourable position towards the public than the other banks?—A. Yes. I should think so.

Q. You think you could find the relative solvency of the banks from this statement?—A. Yes. The figures here show the amount of deposits, cash reserves, and the amount of loans.

Q. How would you go to work with a statement of that kind, to ascertain the relative solvency of the twenty-six banks?—A. Let us take one bank. If the statement shows that the cash reserves are steadily diminishing or the deposits diminishing and the loans increasing, you know that bank is getting a little more extended. Beyond that, I do not know that you could detect very much from these returns.

By Mr. Maclean (York):

Q. If the attention of the government were called to a wrong condition existing in a bank—as did happen in the case of at least one bank, the Farmers', could not a competent government inspector find out within twenty-four hours whether these charges were true or not, and especially in a case where the government's attention had been called by the Bankers' Association to an improper condition existing in a bank?—A. Any qualified man appointed to go into that bank, and with authority to investigate its affairs, could undoubtedly have found out, if not within twenty-four hours, with sufficient promptness, that the thing was wrong.

By the Chairman:

Q. That is, if notice was given?—A. Exactly.

By Mr. Nickle:

Q. When Mr. McLeod was on the stand the other day, he made the statement, I think, that the Ontario Bank was practically insolvent for some thirty years. What, in your judgment, would be the best system of ascertaining whether or not a bank was insolvent?—A. That is rather a large question.

Q. Perhaps, before you begin to answer that question, I might state to you what I think is the attitude of this committee. We appreciate that most of the banks are carefully audited and inspected, but experience has taught us that there have been several disastrous failures, through wildcat speculation and lawless banking. We are anxious to ascertain if it is not possible to provide a legislative remedy to prevent a recurrence of these unfortunate conditions. Let us assume, for a moment, that you are a dishonest general manager. What would you dread most in the way of inspection, that you think is within the sphere of legislation?—A. It is rather difficult to put myself in that position.

Q. I want the maximum of protection consistent with legislative action.—A. Do I understand that you wish me to say whether I would recommend an audit by a chartered accountant, a government audit, or an audit by the Bankers' Association, or some other kind of audit?

Q. May I answer that question by asking another. You change places with me, and, as a legislator, what solution would you find to my question?—A. You are speaking of two things that are not in existence yet, the government audit and the audit by the Bankers' Association. My recommendation would be, if, for the moment, we reverse our positions, to follow the example of the banks in England, and adopt the audit by chartered accountants. That may not be the best way, I could not say, but I would be inclined to adopt it. That system in England has coincided for a great many years past with an entire absence of such troubles as we have had here. The system may or may not have been entirely responsible, but I am strongly of opinion that there is a moral effect of considerable weight in having banks' accounts submitted annually to a firm of high standing; but as to which kind of audit, government or otherwise, would give the best results, I am not prepared to say.

Q. As I understand it, in England the minority of the shareholders have power to appoint an auditor.—A. Not that I know of.

Q. I think that is the case, though. Do you think that power should be vested in the shareholders of Canadian banks, power in, say, twenty-five per cent of the shareholders, to nominate an auditor?—A. I have not given that any consideration. It is a perfectly new idea to me.

Q. Do you make any distinction between the banking system of Canada under which our banks have the power of note issue, and the banking system of England, where there is no such power? Did you take that difference into account, in coming to your conclusion?—A. No. I think not.

Q. Did you give any weight, in arriving at your conclusion, to the superintendency of the Bank of England over the general system of England?—A. What do you mean by superintendency?

Q. I understand the Bank of England keeps a very close watch on the general banking principles of England; that they are really the maintainers of credit in England, and they watch very carefully the business conduct of other banks. We have no such superintendent of affairs here.—A. I am not aware that the Bank of England exercises any such control.

Q. You did not take that into account?—A. No.

Q. Well, did you take the difference in the geographical conditions into account? Shareholders meetings in England are well attended, and the shareholders take a keen and active interest in the management of affairs; while in Canada, owing to the size of the country and the stock being scattered all over, very little interest is taken in

bank meetings by the shareholders.—A. I am not sure that shareholders' meetings in England are so largely attended.

Q. Then that is not a factor that you considered?—A. No.

By Mr. Sharpe (Ontario):

Q. I would like to ask if you know of any cases where defalcations have occurred at branch offices of banks, or have bank failures generally resulted from the result of operations at head office? Have you ever known a bank to fail by reason of defalcation at the branches?—A. I cannot recall at the moment, no.

Q. From your knowledge of the losses have they occurred at the head office?—A. Very serious losses have occurred through the branches.

Q. The losses resulting in the failure of banks have not occurred at the branch offices?—A. The statement was made a few minutes ago with reference to the Ontario Bank, that it was insolvent thirty years ago. It is very likely there were losses at the different branches, but how far the losses which resulted in the failure of that bank occurred through the head office and the branches respectively, I could not say.

Q. Speaking about the Farmers' Bank and the Sovereign Bank, all the losses I understand resulting in those failures occurred through the head offices?—A. No, the Sovereign Bank lost a great deal of money at the different branches.

Q. The failure was largely on account of two loans, the Yukon railway and another concern?—A. It was largely caused by two large items.

Q. And those loans were made through the head office?—A. Through the head office.

Q. So that substantially the Sovereign Bank failure resulted from the operations at the head office?—A. They were the largest factor, I think.

Q. As a matter of fact every chartered bank has an efficient system of inspection of its branches?—A. Yes.

Q. So that substantially inspection by the government would not be an absolute necessity? In order to ascertain the actual condition of the bank it is really only necessary to inspect the head office and some of the larger branch offices where the big loans are made?—A. A very fair idea of the business of a bank can be obtained by the inspection of the returns made to the head office by the branch offices and by inspecting the inspector's returns.

Q. So that you think substantial results can be obtained that way?—A. Results can be obtained in that way, yes.

Q. Mr. McLeod says that there is no Canadian bank that is thoroughly well managed and inspected which an intelligent auditor could not within a week ascertain by examination of the head office alone whether the bank was sound or unsound. Do you agree with that?—A. Yes.

By Mr. Jameson:

Q. Do the chartered accountants in England keep up a running audit of the banks during the year or is it just an annual audit at a stated period?—A. I think our auditors come in periodically but it is not a day by day audit.

Q. But it is substantially a running audit through the entire year?—A. I am not sure what you mean by running audit.

Q. What I mean to say is that it is not merely an examination or inspection or superintending of the balance sheet at the end of the year containing the substance of the year's business?—A. They audit the balance sheets in our half-yearly statement, and yearly statement. A running audit, I understand, has some reference to the oversight of the receipts and disbursements; our auditors do not touch these at all.

Q. You were speaking of your auditors having visited your New York, and, I think, your Montreal branch?—A. Yes.

Q. Did they go there on their own motion or were they sent there by order of the directors?—A. Well, they arrived in New York without any knowledge on my part

or on the part of the New York agents; whether they were instructed to go by the directors or not, I do not know.

By Mr. Thornton:

Q. You are a bank inspector, that is your duty, is it not?—A. I have been an inspector, I am now a general manager.

Q. But you have been an inspector?—A. Yes.

Q. And in the pursuit of your duties as an inspector you visit branches of your bank?—A. Yes.

Q. How often do you visit them?—A. Once a year.

Q. You only inspect a branch once a year?—A. Once a year unless some special circumstances arise calling for another investigation.

Q. How long will it take you to inspect your branch in a town of 5,000 or 6,000 population?—A. An inspector and a clerk would perhaps do a branch of that size in four or five days.

Q. Do you take a clerk with you?—A. Sometimes and sometimes not, it depends upon the size of a branch and the amount of work to be done; sometimes two and sometimes five or six.

Q. You have made hundreds and perhaps thousands of these inspections?—A. Hundreds, at any rate.

Q. As a rule in the various branches of your bank do you find everything pretty straight?—A. As a rule, yes.

Q. And few of the losses that have been made by your bank have arisen because of wrongdoing at the branches?—A. Well in our bank all the losses that have occurred have occurred at the branches.

Q. Have there been many?—A. I fancy we have our ordinary proportion of misfortune.

Q. You say that a large number of your comparatively few losses have been incurred at the branches?—A. I say that we have our fair share.

Q. You make your report as inspector to the head office at Montreal?—A. To the secretary in London, who hands it over to the directors.

Q. You do not make your report as inspector to the office at Montreal?—A. To the general manager? He gets a copy.

Q. From these reports that you, as inspector, make, would your general manager have a pretty accurate idea of the management of the bank and its various branches? —A. Provided that the inspection were capably done.

Q. We take it for granted that it is capably done?—A. Yes.

Q. That is all compiled in such a way as to be easily understandable?—A. Yes.

Q. Now that being the case, your auditors take these reports which enable them to go through the affairs of the bank?—A. They are accessible to them, I could not guarantee that they read every one of them, at any rate they are accessible.

Q. Now you say that your bank has a system of audit by chartered accountants? —A. Yes.

Q. Who appoints them?—A. The shareholders.

Q. At what meeting?—A. At the annual meeting.

Q. These chartered accountants who are auditors of your bank are appointed by the shareholders, you say. Are they interested in the affairs of the bank directly in any way?—A. Not to my knowledge, I should think most likely they are not.

Q. They are supposed not to be?—A. They are supposed to be in a position to render a perfectly independent report.

Q. How long a time do you give them to make a yearly report of the audit at the head office?—A. I could not tell you; that is made in London, I am in Montreal.

Q. Have you any idea what it costs to make it?—A. I cannot give it to you, I shall be very glad to get the information and supply it, but I haven't it with me now.

APPENDIX No. 2

Q. Now the point is this, just as Mr. Nickle stated, putting yourself in the place of a member of this committee who wants to get just as perfect a banking system as possible, which will, if possible, restore the confidence of the people which has been lost because of the losses and failures of banks, what would you say should be the system of inspection? Or would you say there ought not to be any government inspection?—A. I would recommend a system of audit by chartered accountants, appointed annually by the shareholders as preferable.

Q. You think that would be the best?—A. I would say so.

Q. You heard Mr. McLeod's evidence on that point?—A. No, but I have read

Q. He is in favour of government inspection, isn't he?—A. I think not. Is he parts of it.

not in favour of a board of inspectors appointed by the general managers of the banks?

Q. Yes, perhaps that is it. You heard what Mr. Henderson said, that he thought there should be some kind of independent inspection that would satisfy the people, you heard him make that remark?—A. I am not sure I was here when he made that remark.

Q. Did you hear him make the remark that he had an idea in his head that he thought with the help of other experienced bankers a system could be worked out which would be satisfactory to the people? The point we want to get at, Mr McKenzie, is, if you can look at the matter from the standpoint of a legislator and a member of this Committee, should there not be some kind of inspection that would safeguard the interests of the people, especially the depositors?—A. I think it is desirable, yes, that is what I suggested.

Q. And your suggestion is that the auditors should be appointed by the shareholders, and by inference that there should be no authority outside of the bank to appoint those auditors?—A. I think it would be well to try that first. It has been working very satisfactorily on the other side for some years.

Q. That is in England?—A. In England.

By Mr. Maclean (York):

Q. What is the capital of your bank?—A. £1,000,000.

Q. How many years has that been your capital?—A. Since 1836.

Q. You have not increased your capital?—A. Never.

Q. Canada has greatly expanded since the organization of that bank?—A. Yes.

Q. The banking requirements of this country have also increased?—A. Yes.

Q. And you have not seen fit to increase your capital?—A. No.

Q. Do you say there is a lack of banking facilities in this country to-day?—A. At the present moment money is very tight.

Q. Then one of the requirements of this country is an increase of the banking capital. Now how would you proceed in connection with your bank to increase your capital? Where would you get it?—A. If the directors decided to make application for an increase in capital I presume they would issue it in just the ordinary way, as it is done by all the other banks.

Q. Partly in England and partly in Canada?—A. It would be taken up by the shareholders in England, and by the shareholders in Canada as they wanted, I expect.

Q. You can also increase the banking capital available in the country as you do largely increase it, by means of deposits; you not only get capital for banking by reason of your shareholders' money and the deposits left with you by your customers? —A. Yes.

Q. And the only available funds for the banking business of this country are made up of these two items, the shareholders' capital and the deposits?—A. Yes.

Q. Now, do you get many deposits from England?—A. Very few.

Q. And while there is admitted to be a stringency of money here in Canada apparently there is more money over there in England. There is more money in England than there is in Canada?—A. A great deal I should say.

Q. Well, then would it not be worth while trying in this country in which there is a lack of funds for the business to try to get in some way some of that superabundant capital in England for use here?—A. I think all the banks do remit large sums out here.

Q. All the British banks?—A. All the banks who have offices in London, and all who are represented by correspondants in London, they are constantly making remittances of British capital out here.

Q. Has any effort been made by the Canadian banks to secure deposits in England, that you know of?—A. I think the matter has been considered by the directors of our own bank, but they never took any action for reasons which I cannot tell you at the moment because it is a long time back. We have a few deposits but very few in London. We are only doing business in England in one place, remember, in London.

Q. Those funds are not transmitted here?—A. They form part of the bank's general assets.

Q. Well then do you know any case of Canadian banks trying to get additional capital in the old country?—A. Selling shares in the old country?

Q. Yes, selling shares?—A. I do not recall one for the moment.

Q. There has been something done in that direction, as a matter of fact. In the way of increasing the banking facilities of this country by getting our shares taken up in England very little has been done?—A. Very little has been done by the Bank of British North America in the way of deposits, if that is what you wish me to say. Our shares, of course, are very largely held there.

Q. But you have not increased them to any extent?—A. Not at all.

Q. So that so far as the funds of England are available for the purpose of increasing the banking facilities of this country, very little has been done in the way of putting out shares there or getting deposits?—A. I do not think that anything much has been done in that particular way, but there have been very large and very successful efforts made for inducing the investment of British capital in Canada. It has not taken that precise form to which you allude, but at the same time there has been an immense volume of money remitted here in recent years.

Q. I quite understand that. Would your bank have any trouble in the further flotation of shares in England if it wished to do that?—A. I could not say as to that, Mr. Maclean, I should think not, but the matter has not been before the board of directors, so far as I know.

Q. Would the double liability intefere in any way with that?—A. They have not got the double liability at all over there.

Q. Your bank issues notes under the law?—A. In Canada, yes.

Q. Would you, as a banker, have any objection to an increase of the notes in Canada for use in this country?—A. I think it may be desirable to consider the question of basing the note circulation on the total assets instead of on the capital.

Q. That is not quite an answer to my question. I was talking about the issue of Dominion notes?—A. Oh, I beg your pardon.

Q. Would you as a banker object to a substantial increase of the national note issue of Canada for use in connection with the banking business of this country?

Mr. MACLEAN (Halifax).—Do you mean gold?

Mr. MACLEAN (York).—I mean in any reasonable way in which it might be done. We do issue notes at present.

The CHAIRMAN.—Is there any need of such a thing?

Mr. MACLEAN (York).—What I gather is that in connection with this country there is a lack of banking facilities, a great lack, and in some way those facilities ought to be increased. I am trying to find out how the growing needs of the country can be met by changes, either by inducing more money to come out here—in the

shape of bank shares or in the way of deposits and failing that, to probably increase the available funds in Canada by an increase of Dominion Notes.

Q. Would you have any objection to an increase of Dominion Notes? —A. If the increase of Dominion Notes were made against gold it would not increase the amount of money in the country.

Q. By no means. But I believe a great many notes are issued against credit in some form or other, secured in some form or other. Now would that not increase the available funds of this country?—A. Secured in what way, Mr. Maclean?

Mr. MACLEAN (York).—For instance by a 25 or 25 per cent deposit in gold and secured by credit.

Mr. NESBITT.—How about endorsed notes, how would that affect you?

Mr. MACLEAN (York).—I won't put it that way. I say it is possible to largely increase the circulation of Dominion Notes in this country secured partly by a gold deposit, or altogether by the credit of this country. I say that they have done it in France, and they have done it in Germany. In that way a substantial increase could be made in the available funds for use in the country.

Mr. MCKENZIE.—I would not recommend any further addition to the Dominion note issue as at present except against an equivalent amount of gold.

By the Chairman:

Q. In your judgment is there any need of an increased issue of Dominion notes? —A. I do not know of any reason for an increase in the issue of Dominion notes at the present time.

By Mr. Maclean (York):

Q. Is there not a lack of money in this country at present?—A. There is a tightness of money. Whether it would be good for the country to get a further supply of money at the present time, I don't know.

Mr. MACLEAN (York).—A subject of that kind would be well worthy of the most careful consideration. And, to come to the point, Mr. Chairman, I say it is time that we had in this country, after the long experience we have had of the growing requirements of Canada, a Commission appointed to find out whether we could not deal through its medium with the scarcity of money that exists in this country to-day.

Mr. MACLEAN (Halifax).—The French Government does not issue notes as you suggest.

Mr. MACLEAN (York).—There are notes issued there.

Mr. MACLEAN (Halifax).—The Bank of France issues notes as against its assets.

Mr. MACLEAN (York).—Quite a number of up to date States in Europe have issued notes on the credit of the country secured in some shape or form.

Mr. NESBITT.—Tell us one.

Mr. MACLEAN (York).—I will give the answer later on. The point I want to get at is, if we have got this stringency in this country it may be possible by a very careful investigation to increase the available funds of Canada by way of getting shares taken in the old country, or getting deposits from the old country made here. Another thing I want to get the opinion of the witness upon is this: If we induced English banks to come here and do business in Canada would that not increase the available capital of this country?

Mr. MCKENZIE.—Undoubtedly if they brought out capital here it would increase the available capital.

Mr. MACLEAN (York).—Undoubtedly. That is the point I wanted to get some light on. Probably there is some guidance for this committee in that respect.

Q. If we can get the banks in England, and the banks in the United States, to come here and do business it would perhaps make money easier, certainly it would make the available capital larger, would it not?—A. It would, provided those banks brought

in money beyond what they collected in deposits. If they were net contributors to the amount of money in the country it would ease the situation, I believe. If they came into this country and took deposits and their deposits either equalled or exceeded the amount of the loans, that would not help at all.

Q. If they took their deposits and the available funds that they had in England and brought them into Canada it would increase the available funds in Canada?—A. Any money they brought in would of course be an increase.

Mr. MACLEAN (York).—That is the point I wanted to get at and that is the problem before this country.

Mr. MACLEAN (Halifax).—It would be just the same if the money came in for any other purpose.

Mr. MACLEAN (York).—Undoubtedly, but if we could give the banks of England some kind of encouragement so that they could come here and do business we would have more money. What I want to lead up to is that it is worthy of the attention of this committee and of the Minister of Finance to try by some means to increase the available capital of Canada.

Mr. MCKENZIE.—If you look at the returns of the English banks you will see that the rate of profit that they make is very much larger than the rate of profit we make here.

Mr. MACLEAN (York).—While the shareholders in the English banks have got the slightly increased profit, the men who deposit in the banks do not earn as much. The money with which the business is done does not earn as much as it does here. Therefore my object is to try and get that depositor's money, not the shareholder's money so much, which earns less in England, attracted to Canada. That is the point.

By Mr. Nickle:

Q. An increased circulation of capital in Canada would not do anything, would it, to relieve in any way the stringency of the money market?

The CHAIRMAN.—You mean an increase of circulation with nothing against it.

Mr. NICKLE.—I will try to make my question clearer. As I understand Mr. Maclean's point, he seems to have the idea that if the banks could issue against their assets —I assume he means by that their paid-up capital and their reserves—that the money stringency would be thereby relieved. I do not think that is sound economics.

Mr. MACLEAN (York).—I did not say that at all.

Mr. NICKLE.—I assumed that is what you meant. I ask Mr. McKenzie again would that increased power to issue circulation relieve the money stringency at the present time?—A. The money would have to be borrowed by somebody from banks before it could be available in that way, and that would involve an increase in the exercise of credit.

Q. Circulation then is only a medium of exchange, as I understand it?—A. That is all.

Q. And assuming there is enough circulation to do the business of Canada at the present time, the granting of power to increase the circulation would simply give the bank the right of having a number of their bills lie idle in the bank unissued.—A. Yes, at the present time.

Q. And in your judgment is the circulating medium of to-day sufficient to do the business of the country?—A. During the last two years there has been a shortage of circulation through the crop season.

Q. I am eliminating from my observations that particular period, and talking of the general business throughout the year. That is adequately done by the circulation power possessed by the banks, is it not?—A. I think the circulation power now possessed by the banks will have to be reconsidered, because although up to date it has been pretty satisfactory, it has been growing year by year less so.

Q. Then you agree with Mr. Henderson that, as the population of the country increases, it will likely be necessary to give to banks an increased power of circulation? —A. It will be necessary in some way to provide for an increased circulation.

APPENDIX No. 2

Q. Have you considered how the banks might do that?—A. I made the suggestion a little while ago that I thought it would be well for the plan of basing circulation on total assets to be considered.

Q. I suppose that is an indirect way of saying that the banks should be allowed to issue circulation in proportion to their capital and their reserve?—A. No. We are allowed to issue notes now in proportion to our capital.

Q. But not reserve?—A. But not reserve.

Q. Well, the reserve is part of the assets?—A. No, the reserve is a liability.

Q. I am speaking of the total assets as compared to capital reserve.

The CHAIRMAN.—The total appearing under the asset column here (indicating bank statement) is $1,499,553,000.

By Mr. Nickle:

Q. What do you think of the suggestion that the banks should be allowed to issue circulation to the amount of their paid up capital and say 50% of their surplus?—A. Well, that again is arbitrary and it will in time, I fancy, be found unsatisfactory just as the present system is. The arrangement under which we are allowed to issue notes up to the amount of paid up capital for many years was quite satisfactory because nobody had got near it, but with the growth of the business we have been getting nearer and nearer to it and now we are at a point where it is causing a little difficulty.

Q. Do you see any technical objection to the question I have just asked?—A. Except that it is an arbitrary amount and will not necessarily fluctuate with the growth of the country's business.

Mr. NICKLE.—I advance the suggestion as a method of relieving the so-called stringency.

By the Chairman:

Q. In your evidence are you speaking, Mr. McKenzie, of the special arrangement for bank note issue which the Bank of British North America has, or are you speaking of banks in general?

Mr. NICKLE.—I spoke of banks in general.

A. The Bank of British North America's arrrangement is exactly on the same footing as the others, except that we are limited to 75 per cent of our total paid up capital. We overcome that by depositing with the Dominion Government £250,000 of Canadian bonds.

By Mr. Nickle:

Q. You think the circulation of to-day is adequate for the business of Canada, but that the time is shortly coming when fresh provision must be made?—A. I would say, hardly adequate.

Q. Then we are on the verge of a necessity for further reduction?—A. I think it will have to be considered very shortly.

By Mr. Maclean (York):

Q. I would not wish the committee, or the witness, to understand when I spoke of available capital, that I had in mind a circulating medium. I want to ask the witness now what he means by—I think he said credit could be expanded in some way. Do you remember that, Mr. McKenzie? Would you explain what you mean?—A. No matter what addition you might make to the powers of issue of the banks, unless borrowers were able to get the money, that is by the exercise of credit, it would not relieve the situation.

Q. There is such a thing as credit which banks have at their disposal and which they sell. That is what I want to get at. How can we in this country expand the credit at the disposal of the banks for the use of the business of the country?—A. I would just like to hear that question again?

Q. You said the banks could expand their credit. That is, a bank, besides issuing notes, can sell or give to any one in any way they like a credit on their ledger, and those credits are just as available for business by reason of clearing house cheques and all that, a circulating medium. There is such a thing that we call credit, which banks have at their disposal and it is the great requirement of the country. How would the witness propose to act if I said to him: There is a lack of banking credit in this country at the disposal of the business of the country, how would you increase that, what suggestion would you make to increase that available credit at the disposal of the banks?—A. I am not sure that I would accept your statement that there is a lack. I think there has been an enormous inflow of money into the country.

Q. But there is from time to time, even granting that there is this inflow, a great cry in the West. Are you doing business in the West?—A. Yes.

Q. Has your bank stopped its advances in the West?—A. We have not put an absolute stop to advances anywhere.

Q. Caution is the word just now, and there may be reasons for it. But, in the West, there is a great need of money to-day or the thing we call bank credit, and it is being restricted. Has the witness any suggestion to make with reference to credit at the disposal of the banks or credit in any way to increase it in this country so as to assist the business of the country, granting for the time being that there is stringency of some kind?—A. I do not think the business of the country is suffering for the lack of any legitimate assistance.

By the Chairman:

Q. Is there any other way by which banking credits can be increased except by the increase of assets?—A. I do not know of any way, a bank cannot lend money unless it gets money first.

By Mr. Maclean (York):

Q. Then. you do not admit there is a thing called credit?—A. Oh, yes, I do.

Q. Which banks have at their disposal?

The CHAIRMAN.—Apart from assets?

Mr. MACLEAN (York).—Yes, and they can also increase it as you say by an enlargement of assets, and that is the thing I want to get before this committee and this country. How can we enlarge the assets of our banks, whether by attracting deposits from England, or other money from England, or from the United States, or having the banks of England come here with their money and do business? I would ask the witness what he thinks of that, whether some of these things would not increase the available assets of the country?

The CHAIRMAN.—How may we increase the available assets of the banks?

Mr. MACLEAN.—I would put it that way.

The CHAIRMAN.—In order that the available assets may increase the banks' power to give credit?

Mr. MACLEAN (York).—Yes.

Mr. MCKENZIE.—I think it is a matter that largely depends upon the banks themselves. The banks are all eager to make profits which depend on the amount of deposits they can get. Wherever they can get deposits at a rate to yield profits they will get them.

By Mr. Maclean (York):

Q. You have not been trying to increase your capital and you have not been trying in England to get increased capital stock. I would like to see banks increase their capital in the old country, especially yours in England, because it would bring capital into the country.

APPENDIX No. 2

By the Chairman:

Q. Have you any branches in foreign countries?—A. We have an agency in New York, and one in San Francisco.

Q. I mean branches taking deposits?—A. In San Francisco we do.

Q. What is your experience with your San Francisco office, do your deposits exceed your loans or vice versa?—A. It fluctuates sometimes on one side and sometimes on the other.

By Mr. Thornton:

Q. About what amount are your deposits in San Francisco?—A. I could not tell you what the amounts of deposits and loans are accurately, but at present I think they are as nearly as possible equal.

By the Chairman:

Q. You have a number of branches in the Northwest?—A. A number, yes.

Q. What have you to say with reference to the contention that the rate of interest throughout Canada on loans made by banks to customers should not exceed seven per cent?

By Mr. Sharpe (Ontario):

Q. Before you leave the question of foreign offices, are there any limitations either in your charter, or the Bank Act, to a bank loaning on call in New York?—A. Not that I am aware of.

Q. It is generally recognized that it is quite proper and legitimate for a bank to loan a certain amount on call there. Do you think it would be wise to limit that in any way? There is an impression here that they unduly loan on call to the detriment of Canadian business?—A. The amount loaned on call in New York is for the purpose of reserve and the object is for the better protection of depositors.

Q. What percentage would you say should be held on reserve either in the banks here or on call loan in New York?—A. What proportion of deposits?

Q. Yes?—A. I can give you our own practice. We keep twenty-five per cent of time deposits and thirty-three per cent of demand deposits.

By the Chairman:

Q. And as against your note circulation?—A. Twenty-five per cent.

By Mr. Sharpe (Ontario):

Q. Would there be any objection to loaning beyond that on call in New York?—A. I do not think it is a practical question. I do not think anybody does loan money in New York except to employ reserves. The return we get there is so low.

Q. The impression is that it is so large that you loan there to the detriment of Canadian business.—A. On the contrary, I do not think our loans in New York yield us a net return, year in and year out, of three per cent.

Q. But in times of great stringency here in Canada, when the people have great difficulty in getting loans, the impression is abroad that the banks loan beyond that safe reserve because of the large returns they get in New York?—A. I think you will find, if you look at those periods, that the movement is the other way. In those periods the banks withdraw money from New York.

By Mr. McCraney:

Q. I understand that the purpose of making loans in New York is to have a fund which is readily realizable in cases of stringency in Canada, and that those loans are call loans. Would you distinguish at all between call loans and time loans? The reason I am asking is because it strikes me that the time loan has the same objection, that it would not be realizable as a call loan would.—A. The time loan

that is made in New York is made for a specified time, say, 60, 90 or 120 days, and at its maturity, it is just as realizable as a call loan.

Q. Is there any market for call loans in Canada?—A. There are loans in Canada made under the name of call loans, but this is a very much narrower market and we could not call in a large amount of money in Canada without causing a disturbance, which in New York would not be felt at all.

By Mr. Nesbitt:

Q. Mr. Maclean asked you if there are restrictions at the present time on loans in Canada, especially in the West.

The CHAIRMAN.—Shall we take up that western question now?

By Mr. Nesbitt:

Q. Is the restriction enforced on what you would call legitimate business or against speculation?—A. For loaning money to business people for the legitimate purposes of their business there is enough money to go round. But there is on the part of banks generally a tendency to discourage loans for other than business purposes, and to call for the repayment of those which have been made for a specified time; and further to discourage the spending by municipalities of large sums on large public improvements before they have the money on hand.

By Mr. McCurdy:

Q. Do you think it is in the interest of the public to have that disposition on the part of the banks to discourage such expenditures?—A. I do not think it will do the country any harm.

Q. To your knowledge is there any basis for the statements made that banks are prone to make too extensive loans really on real estate security?—A. I am not aware of any loans being made on real estate security. There are loans made repayment of which will perhaps come out of real estate. All banks try to avoid it, but to be perfect in that respect is, I think, impossible.

Q. You are often asked to make loans on real estate security?—A. We are asked many more times than we make the loans.

Q. You said the English banks make much larger earnings on their capital than the banks in this country. To what cause do you attribute this?—A. They have a great deal more free money than we have.

Q. They do a larger business in proportion to their paid-up capital than the banks of this country?—A. Yes, a great deal larger.

Q. In your opinion, is there any ground for the statement that they conduct their business more economically and are content with less pretentious buildings?—A. I think undoubtedly they do have more modest premises.

Q. Only one other point. You made the statement that your bank, and Canadian banks generally, are not allowed to receive deposits in New York. They are allowed to make loans. What is the objection from the State authorities of New York, to allowing these banks to receive deposits?—A. I fancy the opposition must come from the bankers there.

By the Chairman:

Q. You do not think there is any opposition on the part of the State?—A. No

By Mr. Maclean (York):

Q. You spoke about business conditions in the West and the money stringency there. What rate do you charge your customers in the West at the present time?—A. There is no fixed rate.

APPENDIX No. 2

Q. Between what points does it range?—A. I could not answer that.

Q. Have pou charged anybody ten per cent?—A. I should think that quite likely.

Q. Have you charged anybody twelve per cent?—A. We charge twelve per cent in Dawson.

Q. But I was speaking of Alberta. What is the legal rate?—A. Seven per cent.

By Mr. Cockshutt:

Q. In case of stringency, which is supposed to exist to a considerable extent at the present time, is it caused by the incapacity of the banks to increase loans, or because the banks think it wise to exercise supervision when they think the people are running a little riot in, say, real estate booms, or something of that kind? Does the bank always lend up to its capacity or take that into account?—A. I think the banks would certainly take that into account, and if they felt it wise to restrict credit, they would do so, even if they had the funds in hand.

By the Chairman:

Q. Suppose a penalty were attached to clause 91, of such a character as to absolutely force the banks to charge not more than seven per cent interest, throughout the West. What would be the result, so far as your bank is concerned?—A. I think we should have to close up some small offices.

Q. Is that the way you would meet it?—A. I think that is the effect it would have.

Q. What is the proportion between your deposits and loans west of the Great Lakes?—A. I could not give you the exact figures, but the loans are very much in excess of the deposits.

Q. That means that you take the deposits received in other parts of the country and loan them in the West?—A. That is it.

Q. You have forty-three branches in the West?—A. I think that is the number.

Q. Have you any idea of the number you would have to close if you were held to the seven per cent interest rate?—A. I could not say exactly.

By Mr. Maclean (York):

Q. Do you know anything about a system of raising money that obtains now in Canada, whereby large firms of the highest standing get additional money for their business by the sale of their paper in New York or London? Would you tell us, in a few sentences, just how that business is conducted?—A. There are, in the United States, certain people who are engaged in business as note brokers. They buy commercial paper of what is supposed to be the very highest class, and then sell it where they find a demand for it. Occasionally these brokers come over to Canada and offer to people, in a very large way of business and of high credit, money cheaper than they can get it from their own bankers. That money is available only in times of plethora on the other side, and of course the borrowers have to be prepared to meet the notes as they become due.

Q. That is another way of increasing the available funds of this country, but there is a danger, as you say, of the money being called for suddenly?—A. If there is any stringency in the United States, of course the money will be called.

Q. They cannot be called, but the notes must be met at maturity?—A. Yes.

Q. There is another point in that connection. Those notes are practically interchangeable in the United States, as between banks. That is, they can be sold. What is the charge? Supposing a bank bought five of these ten thousand dollar notes and wanted to increase its available capital by selling these notes to another bank. What is the cost of the transfer?—A. It would depend on the discount rate of the day. I do not know just what amount.

Mr. MACLEAN (York).—These notes are almost inerchangeable at their face value.

By Mr. Sharpe (Ontario):

Q. There is a clause in the National Bank Act in the United States, limiting the amount of loans to a company or an individual, to a certain percentage of their paid-up capital. Do you approve of that general principle?—A. I am not sure that it would be wise to put any such restriction on loans.

Q. There is no restriction in your charter or by-laws of that nature?—A. No.

Q. You can loan to any amount, to a director or an individual?—A. Yes.

Q. If there was a limit set on the amount that could be loaned to a director or a company, would there not be a wider distribution of loans among the Canadian people?—A. We hardly loan at all to our directors. Here is the government return for the month, and you can see the figures are trifling.

Q. Do you think the principle of restricting loans to your own directors is a good one?—A. I do not know that that happens. As a matter of fact, our directors do not happen to be in business in Canada. If they were, the amount would, no doubt, be very much larger.

Q. The Sovereign Bank loaned a very large percentage of their paid-up capital to two institutions. Do you not consider it dangerous to loan two large amounts to one concern?—A. Yes, but at the same time I am not sure that it would be wise to restrict the bank's liberty in that matter by legislation.

Mr. SHARPE (Ontario).—I think we should have that letter of Mr. Hague's included with the minutes.

The CHAIRMAN.—I think that is about all, Mr. McKenzie.

Motion moved by Mr. Sharpe, seconded by Mr. Maclean (South York), and carried.

The CHAIRMAN.—I think that is about all, Mr. Mackenzie.

Witness retired.

Committee adjourned.

MEMORANDUM FOR THE COMMITTEE ON BANKING AND COMMERCE.

From Mr. George Hague, formerly Manager of the Merchants Bank of Canada, Montreal.

GENTLEMEN,—The fact that I was twenty-five years General Manager of the Merchants Bank and previously cashier (or General Manager) of the Bank of Toronto for about twelve years: and also, the fact that I had taken an active part in the discussions and conferences that lead to the framing of the present Bank Act, and amendments thereof,—must be my excuse for laying before you, even at an advanced age, of some observations on the amendments now proposed.

It has long been an axiom in British legislation that any new parliamentary measures, shall be of the nature of development and growth, and not of revolution. The suggestions I now make shall be based upon this now.

Of the amendments proposed in the very business-like memorandum prepared by the Finance Department, there are two that stand out conspicuously; and of these the most important is that related to audit or outside inspection of the banks.

When, in the time of Sir Francis Hicks, Finance Minister, the banks were first required to make returns to the government, it was evidently intended, that by means

APPENDIX No. 2

of these returns the government, should exercise, more or less of a constant improvision over what the banks were doing, it was certainly not intended that these returns should be simply tabulated, systemized and published, as has been done, and very well done, ever since, but that they should be carefully examined as to their merits and judgment passed upon the condition of banks from time to time.

All this is apparent from a very pregnant clause in the Act itself: that the government may call for additional information from any bank whenever they deem it desirable or necessary. I am not aware that this provision has ever been acted upon though I can recall instances when it would have been very desirable in the public interests for this to be done, but the fact is, I apprehend, that the department was too much occupied with matters of greater importance, such as the placing of loans and the general management of the national finances, to give proper attention to this.

I have, for some time, been of the opinion that there should be a subdivision of the Finance Department which should devote its entire attention to the banking matters, viz., to a careful and critical examination of returns from banks and the passing of judgment thereupon, also to corresponding with banks, as to any unusual features therein, and requesting, when necessary, that further information should be supplied. To this subdivision would naturally be referred all applications for new charters, and upon the responsibility of it, would be the important examination, as to whether the stringent provisions of the Banking Act has been complied with. This subdivision should evidently be in charge of a bank officer of sufficient ability and experience to carry out the above mentioned duties and energies, a man, indeed capable of managing, a branch office and of inspecting one, when necessary. Such a man, in fact, as my friend, Mr. Henderson was, some years ago, before he rose so high. Such a man, would be worth, say, four or five thousand a year and could well earn it. I am very sure that, had this subdivision of the department been in existence, and in charge of such a man, at the time when the Farmers' Bank attempted to obtain a charter, not even the astute Mr. Travers (for he was astute—as I knew well) could have bamboozled the department to grant him a charter. As it was, the examination was of a very perfunctory character—and a clever fellow like Travers easily got through it.—To this head of department, as a professional banker might be entrusted the power, not only of calling additional information, but of making occasional unexpected visits to banks, just as an inspector of the bank does at present. I use the word 'unexpected' advisedly, for examination at an appointed and well known time, even if made by experts brought from the old country, is of no value whatever. It would never have caught a clever rogue like Travers, and he would have laughed at it, if tried upon him. But this change in the Finance Department is not all I would suggest, although I think it by far the most important. The memorandum issued by the Finance Minister proposes the appointment of one or more auditors by the stockholders and I notice that provision is made that these auditors shall not be mere creatures of the general managers—so far so good. The American system of bank examination has been lauded before you very unreasonably—in my judgment. For these examiners find that things are right when they are right: but rarely find out things that are wrong. In nearly every case where an American bank has failed in recent years, it had been examined shortly before, sometimes only a few days before and reported to be in a sound condition.

The audit of banks by auditors appointed by the stockholders may be a useful provision if in the hands of capable men and carried out with judgment, but such an audit as that of one of our large banks by professional gentlemen brought from England for the purpose, was in my judgment little better than a farce—and that for several reasons: *firstly,* they were appointed solely by the general manager; *secondly,* the audit was at an appointed time—known before hand, and that could be prepared for, and *thirdly,* it was a mere fraction of the bank's business that the auditors

examined, although they report the whole to be in good order. There are, several kinds of audits; some may be useful, and others worse than useless—and the instance referred to is one of the last. An absolute and complete audit of any one of the banks, would be a matter of enormous labour; and would require, the simultaneous working of a staff, of, at least, one-hundred and fifty men. This idea may be dismissed, as utterly impracticable; but the plan I have suggested is both practical and economical. It would add a mere nothing to the cost of the civil service; yet, it could hardly fail to be of immense value, both of a detective and regulative character —but here, one word of caution: the appointment of the chief officer must be absolutely non-political, and the work done in harmony with the Finance Department. I rather think also, but this I only throw out as a suggestion, that the Deputy Finance Minister should always be an experienced banker. I refer to these matters of this Finance Department as matters I am somewhat familiar with, for the reason that I was chairman of a Royal Commission some years ago—for the overhauling of every branch of the Civil Service—the Finance Department included—a work on which we spent several months.

With regard to the important matter of the extension of the circulating powers of the banks, on the basis of deposits of gold—I regret to say, I do not approve of this scheme at all. The gold would have to be withdrawn from the stock of gold held as security against deposits, and so far, the security of depositors weakened. Now, to withdraw funds held as security for the great mass of depositors in order to secure additional liabilities—which are well secured already—is a most undesirable scheme of finance. For, let it be remembered, that all notes issued by the banks are doubly secured already—first by a preferential lien on all the assets of the banks; and secondly, by the 'Bank Note Redemption Fund' to which all the banks subscribe—and which is in the hands of the government. The idea of a central gold reserve is a very plausible one—but it will not bear examination. The banks have no gold to spare for the purpose of securing new liabilities; for every dollar they have at present, or are ever likely to have, is required to meet their largest liability of all—namely, to their depositors. (In speaking of gold I, of course, include legal tender notes.) If any additional circulating power is required—beyond what is already provided—it should be obtained either by calling up more capital or by a temporary extension of the emergency provisions.

All these issues would be doubly secured by the present arrangements—but above all things, I pray you, to avoid taking away gold, that is wanted for depositors—and placing it where it would not be wanted at all. The scheme of a vast bureau of supervision—as suggested by Mr. McLeod—would be, in my judgment, both costly delusive and impracticable.

All of which is respectfully submitted.

(Sgd.) GEORGE HAGUE.

Montreal, April 7, 1913.

APPENDIX No. 2

HOUSE OF COMMONS,

COMMITTEE ROOM No. 101,

THURSDAY, April 10, 1913.

Committee met at 10.30 a.m., the Chairman, Mr. H. B. AMES, presiding.

The CHAIRMAN.—Before we take up the morning's business, I may say I have received a short letter from Mr. McLeod, calling attention to some matters in his evidence, and I judge that it would be his pleasure that this be inserted in his evidence, as an appendix. Among other things, he wishes to correct an earning statement that he made, and as we shall necessarily have an appendix to our evidence I would suggest, if it be the wish of the Committee, that this letter be printed in the appendix.

Motion carried, to include Mr. McLeod's letter in the appendix.

Mr. JAMES B. FORGAN called, and examined.

By the Chairman:

Q. We have with us Mr. Forgan, President of the First National Bank of Chicago, a gentleman who has had experience in Canadian and American banking, and is especially here to discuss with us Sections 10 and 13, as to a system of smaller banks; also Section 56, on proposals as to audit, and such other matters as the committee may wish to question him on. For the information of the committee, will you tell us, Mr. Forgan, what is your position?—A. President of the First National Bank of Chicago.

Q. What is the capital of your bank?—A. $10,000,000.

Q. How long has it been established?—A. This is its fiftieth year.

Q. You have had experience in both Canadian and American banking?—A. Yes.

Q. Would you mind giving, for the benefit of the committee, a short outline of your banking experience?—A. I started as a boy in the Royal Bank of Scotland. I came out to this country in the service of the Bank of British North America. Leaving that, I went to the Bank of Nova Scotia. I was there twelve years, during a number of which I filled the position of inspector of branches, and afterwards represented them for a few years in Minneapolis, Minn. I then went into the National Bank system as cashier of the Northwestern Bank in Minneapolis, Minn. I was afterwards invited to go to Chicago as Vice President of the First National Bank, and when the president, Lyman J. Gage was made Secretary of the Treasury, I took his place as president of the bank. That was twelve years ago, and I have been president since.

Q. Your entire life, then, has been spent in banking, and you have had experience in Scotland, Canada and the United States?—A. Yes, but not much experience in Scotland. I was principally running messages there.

By Sir Edmund Osler:

Q. To what position in a Canadian bank does president of the National Bank compare?—A. The president of the bank is the principal executive officer, like a general manager here.

The CHAIRMAN. Mr. Forgan will first read to the committee a statement, and afterwards will be prepared to answer questions on that statement, or on anything else on which the committee desires information.

Mr. FORGAN.—Gentleman, I have read the draft of the proposed Act revising the Dominion Act relating to banking in connection with which you have done me the honour of asking me to express my views upon some of the new matters in it which you have now under consideration.

I have put in writing my views on some of the more important new features proposed in the Act and with your permission I will now read them to you.

If, as I proceed or when I get through, any questions occur to you that you desire I should answer I am entirely at your service.

First then, referring to Sections 10 and 13 as to whether a further system of local banks with small capital is desirable?

I think not for the following reasons:

1. Because I believe experience in Canada as in England and elsewhere, has shown that small local banks cannot successfully compete where the more economical system of branch banking has been established.

2. Because competition among the large banks with branches affords the legitimate business of all localities better service than can be had from small local institutions.

3. Because small local banks are usually organized and controlled by local borrowing interests which leads to borrowers lending the bank's money to themselves and becoming the judges of the limits of their own credit, than which there is nothing more dangerous in the banking business.

4. Because small local banks, unless they are affiliated with large central banks, are at a disadvantage in the matter of carrying adequate cash reserves against their current liabilities.

The weakness of the banking system in the United States and the cause of the periodical money panics there, such as with your branch banking system in Canada you have been happily exempt, are attributable to the difficulty a large number of small local banks experience in individually controlling and carrying their cash reserves. Such a wide distribution of the gold reserve of the country as is caused by more than twenty five thousand individual banks in the United States all undertaking to control and carry their own share of it is unscientific, wasteful, dangerous, and impracticable. Whenever anything occurs to shake public confidence the banks are the first to take alarm. Every bank proceeds to strengthen its own cash reserves, by curtailing credits and converting its loans into cash. The result is that the gold supply of the country, which if mobolized and properly controlled at the financial centres for the protection of all the banks would be ample for the purpose, when it is distributed all over the country into more than 25,000 small piles under as many separate ownerships, is insufficient for the individual protection of any. Not a bank in the lot can control enough gold to protect itself against that which they all fear, a run by their depositors, so they all suspend cash payments or seriously restrict them and panic ensues.

Under your established branch system these small local banks, even if legally encouraged, could never get a sufficient hold of the banking business of the country to become a menace to its general financial condition, but as this is what they tend to, as they are out of harmony with the principles on which your banking system is based and are quite unnecessary, why legalize them?

Referring to Section 34 as to the rate and terms upon which new bank stock may be issued.

This new problem it seems to me calls for a reasonable and equitable adjustment of the rights of the three interests involved in it. These interests are:

1. Those of the depositors, or more broadly speaking, the public,

2. Those of the shareholders, and

APPENDIX No. 2

3. Those of the banks themselves, as established institutions of the country of a *quasi* public nature.

Referring to these in their order, the interests of the public lie in having banking capital on which there is a double liability of shareholders, kept in proper proportion to the liabilities assumed, irrespective of the amount of the surplus or rest, paid in, or accumulated from earnings; also in the supply by the banks of sufficient circulating medium for the requirements of commerce, this being limited to the amount of the paid-up capital of the banks.

If, in the people's interest, their representative government imposes a double liability of shareholders on capital invested in the banking business, it seems to follow as a natural sequence that some limit should be placed on paid-in 'Rest' or 'Surplus' which can be used as capital, except that there is no note issuing privilege attached to it. But for the note issuing privilege attached to paid-in capital every dollar paid in by shareholders as 'Surplus' or 'Rest' would have to be regarded as banking capital, which by a system of bookkeeping and a change in name escapes the double liability of shareholders.

While this is true it should be borne in mind that the security afforded by a bank with a paid-in capital which does bear proper proportion to its deposit and note issue liabilities is materially strengthened if in addition to such adequate capital it carries a large rest account. It cannot be to the disadvantage of the public, but the reverse if in addition to adequate capital the banks carry large rest accounts.

The banks' privilege of note issue makes them responsible to the public for the supply of circulation in sufficient volume to meet all the legitimate commercial demands for it. To do this they must maintain sufficient paid-in capital, increasing it as the country develops and commerce expands. When increased capital is necessary for this purpose they should find it by offering their new stock issues at a price that will attract it. With daily redemption of their notes through the central clearing houses, with adequate cash reserves maintained for that purpose, and with their note issues limited in amount to the amount of their paid-in capital or covered dollar for dollar by a special deposit of gold, there should, it seems to me, be little or no fear of over-expansion of the currency.

So far as the shareholders are concerned their interests are undoubtedly conserved by the accumulation of large 'Rests.' The larger the accumulated 'Rest' in proportion to the capital paid in the farther is the shareholder removed from his double liability on the latter. There is, however, another feature which affects the interest of the shareholders. I refer to their rights to subscribe for additional stock when issued. If the 'Rest' is proportionately large and the new stock is issued at the book value of the old, the shareholders in exercising their rights are called upon to raise and pay in just so much more money than they otherwise would. Combined with their inability to borrow from banks on their stock this feature must materially affect the market value of their stock holdings. It seems to me that it must also sometimes be to the disadvantage of the banks themselves when they want to issue new stock.

In the United States new bank stock issues are as a rule offered to the old shareholders at a price which compared with the prevailing market price makes them a very attractive investment. If the old shareholders do not find it convenient at the time to increase their investment in the stock a market is created for their rights to subscribe so that they do not suffer by their inability to do so. This I believe is the principal reason why the value of the good will and franchise rights of the banks are not reflected in the market price of Canadian bank stocks to anything like the extent they are in the market prices of the more important banks in the United States. I think some of the Canadian banks have been rather hard on the rank and file of their shareholders in requiring from them practically the full value of the old stock every time they have asked them to subscribe for the new. The excuse is I presume that the main reason the banks have had for increasing their capital has been

to provide needed increased circulation privileges and as dividends have to be paid on the new stock from the time it is paid in, the earning capacity has had to be maintained in order that there should be no diminution in the established dividend rate. As a rule, however, I think Rests should be earned rather than contributed by shareholders. This process may be slower and more troublesome to the managers, but in the long run it redounds to their credit. It is certainly in the interest of shareholders that they should have an opportunity to subscribe for new stock issues at a reasonable rate. Such issues when made should therefore be regulated by the proportion of capital to liabilities and their price fixed by the proportion of Rest to Capital.

In considering the interests of the banks themselves they should be regarded as established institutions of the country, existing not alone for the benefit of their shareholders, but as the vital part of the nation's commerce as custodians of the people's money, in other words, as *quasi* public institutions. From this standpoint it is most desirable that they should be built up as bulwarks of strength. Adequate capital, properly proportioned to their liabilities to the public, plus large Rest accounts will accomplish this. The larger the 'Rests' the stronger the banks and incidentally the more comfortable the management. 'Rests' afford protection against encroachment on capital through disaster either general or specific.

From the standpoint of the banks themselves it is therefore desirable that there should be no limits placed on the 'Rest' accounts they may build up out of accumulated earnings. Reason and common sense however should regulate everything and the institutional interests of the banks should not be pushed to the disadvantage of the other interests involved when 'Rests' are built up by direct payments from the shareholders, but as the vital part of the nation's commerce as custodians of the the shareholders as a premium on capital stock issued, then not only their interests but those of the banks themselves and of the public become involved and should all have due consideration. There may be more sentiment than logic in the distinction I make between 'Rest' earned and 'Rest' paid in. When once a 'Rest' exists its use is of course the same whether it is earned or contributed. It seems to me, however, that if shareholders are willing that only moderate dividends should be paid on their capital employed, so that surplus earnings may accumulate in 'Rest' accounts to gradually strengthen the banks, such a policy should not be restricted. So long as the capital subject to double liability of shareholders is maintained in proper proportion to existing liabilities there would seem no reasonable ground for restricting the amount of the accumulated 'Rest.'

A reasonable adjustment of the rights of all the interests involved would therefore it seems to me be accomplished by permitting the banks to issue new stock on such terms as are fixed by the directors; provided that in no case shall a rate be fixed which will make the premium of any payable on the stock allotted exceed one-half of the percentage which the Rest or Reserve Fund bears to the paid up capital, nor shall such rate of premium in any case exceed 100 per cent of the new stock so issued. I would leave the fixing of the rate in the hands of the directors as now.

It is proposed to strike out from the bill Sections 43B and 77, the effect of which would be to abolish the bank's privileged lien on its own stock when held by a debtor of the bank.

In connection with this there should be considered the restriction contained in Section 76 which prohibits the banks from making advances on the pledge of their own stock or of the stock of any other bank.

This combination of the privileged lien given the banks on their own stock and restriction prohibiting them from making advances on the security of their own stock or on the stocks of other banks appears to be illogical in the one case and too drastic in the other. It must materially curtail the market for bank stocks as the practical effect of it is that no one can acquire more bank stock than he has the money on hand to pay for. I can readily see why banks should not make advances

APPENDIX No. 2

on their own stocks, but the reason is not quite so apparent as to why they should be entirely prohibited from loaning on the stocks of other banks.

I do not know to what extent, if any, the privileged lien held by the banks on the stock of their debtor shareholders may in practice nullify the legal restriction against their making advances on the security of their own stock, but I can see how this might be the case. I see nothing to prevent banks loaning money on some ostensible pretence to their own shareholders while they really rely on the security afforded them by the lien they hold on the stock standing in the name of the borrowers. If this be done the worst feature of loans on bank stocks, that of banks loanisg on their own stocks is accomplished while the less objectionable feature of loaning on the stocks of other banks is not permitted. The intention of the law was presumably to absolutely prevent speculation in bank stocks and this desirable result it has no doubt accomplished, but like most legal restrictions on intelligent business management, it pinches at the other end. When bank shareholders are called upon to subscribe for their proportion of increased capital stock, it would seem only fair and reasonable that they should be able to borrow temporarily somewhere on the security of their bank stock, to enable them to finance their privilege.

We have so many banks in the United States that as a rule their stocks are not regarded as a very desirable banking collateral. The market for them is very circumscribed. In the larger financial centres, however, the shares of the leading banks which are listed on the stock exchanges, have a regular quoted market value, and while banks are prohibited from advancing on their own stock, they are permitted and do to a moderate extent loan on the security of the stock of other banks. This is not done, however, to any large extent, and I have never noticed any evidence of speculation in bank stocks which as a rule are owned and carried as permanent investments by parties having money to invest in such securities.

The restriction against banks loaning on the security of their own stock is unquestionably a wise one. So far as loaning on the stock of other banks is concerned both the privileged lien and the general restriction against it would have to be removed before it could be done. I feel that I am not sufficiently in touch with Canadian banking conditions, nor am I sufficiently informed as to the working of the present law to urge the matter strongly, but I cannot but believe that some modification of the law in these respects would prove generally advantageous. I know of no good reason why the banks should not deal with their shareholders in the matter of loans just as they deal with other customers. It seems to me that in all legitimate borrowing transactions both the banks and the customers would prefer to have it so. If it is conceded that banks should not be permitted to make advances on the security of their own stock it would seem illogical that they should be given a privileged lien on it when they do otherwise make loans to their shareholders.

Section 56, alternate proposals as to audits: Whether they will be at the instance of the shareholders or under a system established and controlled by the government.

The external supervision of banks through audits and inspections has of late years commanded considerable public attention both in Canada and the United States.

In the United States such so-called supervision is undertaken by the government. Dissatisfaction among the banks themselves with ineffectiveness has in recent years induced the clearing house associations in some of the larger cities to organize their own bureaus of examination. This innovation had its origin in Chicago. Three banks failed there, the disclosures in connection with which were apalling and almost inconceivable. Two of the banks were under state and the other under federal control while all three were under the management of one man who acted as president of each. No question was ever raised as to the efficiency of the examiners. The trouble seemed to rest with the action or rather inaction of the government. Notwithstanding the reports of the examiners, which from time to time disclosed the facts, bad conditions were permitted to develop for many years through gross irregularities and mismanagement before action was taken by the department.

Without intending to reflect in the slightest degree on either the usefulness or desirability of external bank audits and inspections, the value of which I fully appreciate, experience compels me to say that it seems impossible to establish any system of external supervision that will at all compare in thoroughness and effectiveness with the organized internal supervision you now have in connection with your excellent banking system.

Bank supervision pre-supposes some degree of responsibility for existing conditions and in that sense is a misnomer when applied to external audits and inspections. Such responsibility cannot successfully be placed upon nor should it be assumed by any authority whose only prerogative is to make periodical audits and inspections of existing conditions. Control of the initiative management is the vital part of supervision which external authority does not and should not have and which therefore makes the supervision through internal general management, of which auditing and inspections are integral parts, so much more effective.

Internal general management supervision approves or disapproves business as it is done and is consulted in regard to all important credits, loans and investments when and as they are made. When internal inspections are made every loan account at the branch under inspection is reported on to the general manager whose instructions in regard to them are revised and new directions are given by him where necessary. Inspectors are kept familiar with head office instructions as they are issued and it is part of their duty to see that these instructions are carried out. It must be quite apparent, therefore, that in connection with internal supervision there exists an effective working organization kept in touch with the business as it is transacted, which it is quite impossible to have in connection with any external supervision unless a bureau duplicating the general manager's department is to be organized.

In the United States we have had some impractical suggestions for legislation to further restrict intelligence and discrimination in bank management, by providing rules and regulations with penalties for a stricter governmental supervision. The practical difficulty of all such legislation is that it misleads public opinion as to where responsibility for bank management really belongs. When banks fail public opinion is liable to hold the highest supervisory authority responsible for their condition. If government through a department assumes supervisory authority over the general management of the banks it will be held responsible for what it did not do, what it did not consent to being done and could not therefore prevent and what it could only discover, if it discovered it at all, through an inspection of conditions produced under other authority which would be too late. It might thus close the stable door after the horse had been stolen; it had no opportunity to do so before.

External authority assumes a heavy responsibility when it undertakes to supervise bank management, to pass judgment on existing conditions and to interfere by summary action when in its opinion conditions warrant it. Were bank management all good such responsibility would be light, but in the case of mismanagement the problems arising would be difficult to solve and the responsibility of solving them, heavy. Mismanagement has the unfortunate faculty of accumulating business which good management discards. Under good management desirable business is the rule and undesirable business the exception. Under mismanagement the case becomes exactly reversed, the accumulation of bad business fairly smothers out the good. No external authority will ever undertake to declare a bank's condition such as to warrant summary action to close it, so long as it can keep its customers afloat in business and itself in condition to meet its obligations as they are presented. The problem it faces in connection with bad management is the passing of judgment on the realizable value of doubtful loans and on the integrity of the values at which investments and other assets are carried on the bank's books, neither of which can in all probability be definitely determined except in liquidation. It is therefore no easy problem to solve as to when a bank's condition warrants such summary action. Conditions must be bad indeed and admonition and expostulation will have to be ex-

APPENDIX No. 2

hausted before any external supervisory authority will assume the responsibility of closing a bank's doors. Were such an action arbitrarily taken because of general unsatisfactory conditions found to exist in a bank, causing the failure of many of its customers, the authority taking it would be blamed for closing a solvent institution, by both depositors and stockholders in whose best interest it would doubtless be taken. In the last analysis responsible supervision must rest on the bank directors who control the management through their power to appoint the executive officers and to remove them for cause. Executive officers judiciously selected and wisely directed are thus readily controlled. You cannot legislate good judgment and honest purpose into their minds and hearts, but if they lack these essential virtues, the duty of the directors is to remove them.

While what I have said about the limitations of external supervision is undoubtedly true, external audits and inspections have a most valuable function to perform and are most desirable. They do the same for the banks that they do for corporations in other lines of business. They verify the statements of the banks to the shareholders and to the public, certify that they agree with their books and records, and that the cash and securities are in hand. Under government supervision in the United States neither the shareholders nor the public get any such external assurance. The government examiners' reports are made to the department and are not made public, nor does any certificate based upon them emanate from either the department or the examiners for the benefit of anybody. The head of the department is governed entirely by the mandates of the law as interpreted by the courts and he is so hampered by legal technicalities that so far as taking action is concerned his hands seem to be practically tied until conditions become so bad that there can be no doubt of a bank's insolvency when he places a receiver in charge. The department assumes no responsibility for the accurracy of the statements which the banks are required to publish five times a year although these statements are primarily made to it under oath and although its official examiners make examinations and reports to it on the conditions in which they find the banks twice each year.

Everything considered, therefore, and basing my advice much more on experience than on theory I would advise the Canadian Government to keep its hands off bank supervision or anything approaching it. The Minister's suggestion for a shareholders' audit seems to me to be what is wanted. With the excellent system of internal supervision now in force, including audits and inspections of practically everything outside the head offices of the banks, it should, from a practical standpoint, be quite feasible for experienced accountants, given free and full access to all the books and records to make satisfactory audits, inspections and reports and to certify to the annual statements of the banks without going outside of the head office. They should, of course, have the power as suggested in the bill to visit any of the branches when that is deemed necessary. The right given to the Minister to direct and require the auditors to make special examinations for his department when deemed necessary is also an excellent provision and seems to cover all that is necessary.

Section 61. The proposal to establish 'Central Gold Reserves' against which the banks may issue their notes in excess of the amount of their unimpaired capital seems a wise one. As I understand it bank notes are the popular and practically the only circulating medium of $5 and over in the Dominion. This being the case there should exist some method for the banks supplying with safety the legitimate demand for them when such demand exceeds the limits otherwise placed on the amount of the issues. Public attention is unnecessarily and it may be unwisely attracted to the fact that the banks have reached the legal limits of their issue if in consequence thereof they must pay gold instead of notes over their counter. They may just as well deposit the gold in the 'Central Gold Reserves' and continue to pay out their notes. There can, of course, be no over-expansion of bank note circulation that is thus covered dollar for dollar by a deposit of gold.

The further proposals that banks be taxed for their privilege of note issues and on monies loaned by them in foreign countries would seem inadvisable if not unwarranted.

I do not profess to be fully informed, but I doubt if their supplying the country with a satisfactory medium of circulation is not a 'quid pro quo' for the privilege they have of so doing. I further doubt if their profit in that branch of their business is unreasonably large for the services they give, or large enough to warrant it being subject to special taxation.

As to taxing them on monies loaned by them in foreign countries, I think such a policy would be narrow and short sighted. Their proximity to New York, the financial center of the continent, enables them to loan money there on ample security and generally at low rates of interest which they can depend upon getting when they want it. This keeps them strong in immediately available resources which may be regarded as a secondary reserve, protecting the cash in their vaults against any sudden or unusual home demands on them.

I do not know enough about their own foreign branches to speak with authority, but I do know that at most of them they receive deposits as well as make loans. I presume it would not be thought advisable to tax them on the loans they make at such branches against the local deposits they receive, but only, if at all, on the average net balances, if any, due by the branch to the head office. This balance it is quite conceivable, might turn the other way and the branch supply the bank with money to use at home.

The financial and banking relations existing among the great commercial powers are more and more uniting all the principal financial centres of the world into one great money market. It would seem to me ill-advised in view of these conditions and of future possibilities, that the great Canadian banks which have made for themselves a world-wide and enviable reputation should be handicapped by government interference, such as a tax on their foreign business would be. I think they may be fully trusted not to send money abroad to the detriment of their home markets.

These remarks also apply to the proposal to permit a Canadian bank to establish branches and open agencies outside the Dominion only in so far as it can be shown that these are advantageous to its Canadian business. Canadian banks have been permitted to establish branches or agencies outside the Dominion and have thus, it seems to me, acquired vested rights in that connection which the government should respect and should consider well before they interfere.

The only other new proposal on which I desire to express an opinion is that which places limitations on loans to companies or corporations in which bank directors or officers are interested.

This is a difficult matter to regulate by legislation. In some cases such restrictions might prove beneficial, while in others they would only place an unwarranted embargo on some of the best business done by the banks. We have a similar provision in the State Banking Law of Illinois. When its passage was under consideration, on the suggestion of some practical bankers 'directors' were eliminated from its operation, and the law as finally passed reads as follows:

'It shall not be lawful for any bank to loan to its President, or to any of its Vice-Presidents'—

Our Presidents and Vice-Presidents as a rule are executive officers drawing the highest salaries paid.

By the Chairman:

Q. Corresponding to our Bank Managers?—A. Corresponding to the Bank Managers here.

'Or its salaried officers or employees, or to corporations or firms controlled by them, or in the management of which any of them are actively engaged, until an application for such loan shall have been first approved both as to security and amount, by the Board of Directors.'

APPENDIX No. 2

After the passage of the law the Attorney General of the State construed it to include 'directors' claiming that they are officers who may or may not be salaried. Our experience is that the law works well in its application to the executive officers, but it has been found quite impractical to apply it to directors. As a rule, our bank directors are men of large means, interested in the control and management of railroads and other large corporations, whose credit is such as to induce the banks to enter into the keenest competition for it. If every time such corporations want to borrow money a special meeting of the bank directors must be called to pass upon their applications, simply because one or more of them may be interested as stockholders or connected with the management of the applicant company, an almost impossible embargo would be placed on some of the very best business that comes to the banks. The banks would face the alternative of losing some of their best business or some of their best directors.

So far our government authorities have not attempted to enforce the Attorney General's interpretation of the law and we have been permitted to adhere to our own interpretation of it, knowing that the legislature intended when it was passed, by striking out the word 'directors,' as they did, that it should not affect companies or corporations in which they were interested.

I would therefore strongly urge that if you adopt these restrictions at all, you should eliminate from them companies or corporations in which bank directors are interested and limit them to those with which the executive salaried officers of the banks are connected.

When Mr. Forgan concluded the reading of his written statement there was loud applause from the members of the committee.

The CHAIRMAN.—We are very much indebted to Mr. Forgan for his very able paper. He has also intimated that he is quite willing to answer any questions now that members of the committee may desire to put upon the matters which he has touched upon in his written statement, or any other matters, and I think we should perhaps take them up in the same order that Mr. Forgan did. The first matter Mr. Forgan spoke about was in reference to the small local banks, pointing out especially the features of the American system as compared with the Canadian system. Would any member of the committee like to ask Mr. Forgan further questions as to the experience with small banks?

By the Chairman:

Q. There has been a proposal submitted to the Committee which reads as follows, with respect to Section 10:—

'That Section 10 be struck out and the following substituted therefor:—Banks shall consist of three different classes: (*a*) Dominion banks with branches in more than one province. (*b*) Provincial banks with branches in only one province, and (*c*) City or County banks with no branches.'

'The capital stock of such banks hereafter incorporated shall be not less than $500,000 for Dominion banks; $250,000 for Provincial banks, and $100,000 for City or County banks."

'And the capital stock of any bank shall be divided into shares of one hundred dollars each.'

What would you think of the desirability of the committee adopting a clause of that character?—A. I would think it very unwise indeed with your present system. Looking back upon my own experience when I was connected with the Canadian banking system for Canadian conditions superior to the American banking system? had dealings with the Bank of Nova Scotia and at that time I was connected with the latter bank, I went up to Liverpool, where these banks were located and wound them up. I also remember an experience a few years later in Yarmouth, Nova Scotia, with the two local banks there. At that time the principal business of Yarmouth

was the building of wooden ships, but the introduction of steel vessels practically put that industry to sleep. They had all their ships insured in local companies, Mutual companies, one insuring the other. The local banks carried the ships by notes endorsed—the system was endorsed notes—and the condition that was developing there at that time, entirely owing to the change in the ship-building business to which I have referred, showed the desirability to me of local banking business not being dependent upon the local banks any more than the local insurance on the ships should have all rested on the same community. Of course, I am just talking off-hand. The next thing that occurs to me is a jump to Winnipeg, where the Bank of Nova Scotia started a branch. There was a boom on there at the time, and there were a lot of real estate transactions, and the bank lost so much money that the bank closed its branch in Winnipeg and moved it over to Minneapolis, where I became its manager. Now the idea that occurs to me there again is the reverse of what it was in Yarmouth. I do not remember just what the Bank of Nova Scotia's loss in Winnipeg was, but it was enough to absorb the capital of one of these small banks. The Bank of Nova Scotia never felt it, and Winnipeg never felt it—the hurt, I mean—and business went on.

Q. Had there been a small bank in Winnipeg it would have been wiped out?—A. It would have been wiped out entirely.

By Mr. Armstrong (Lambton):

Q. Have you any idea how many failures of small banks have occurred in the United States within the last few years?—A. The number of failures? They are comparatively small. I do not happen to have the statistics with me, so that I could not give you a reliable answer to the question.

By the Chairman:

Q. Generally speaking, from your experience, do you consider the Canadian banking system for Canadian conditions superior to the American banking system?—A. Oh, very much so. You know you got your system from the United States. We started it, and you took it, and then we abandoned it. We abandoned it in consequence of our necessities for the war. Our national banking system was organized not for the purpose of giving us a banking system at all, but for the purpose of making a market for government bonds.

Q. You are speaking as an American now?—A. Speaking as an American. I am an American citizen.

Q. The use of 'our' was a little confusing to the Committee, and I wanted to get the facts clear in their minds, that is all. Have you completed your answer?—A. No, I will say that our banks in the United States were organized for the purpose of making a market for government bonds, and they have been used for that purpose ever since. Every bank that is organized has to have a certain amount of government bonds as a basis for its circulation. The government have benefited because they have been able to sell their two per cent obligations to the banks at par, or better, and the banks have had to take them when their intrinsic value was probably 30 per cent less.

Q. In other words, it was an indirect way by which the American Government restored its financial equilibrium all over the country?—A. Yes, and in order to accomplish it it taxed all the State banks 10 per cent on their circulation, which prohibited State banks from issuing notes, and prohibited any bank from opening a branch anywhere and to have only one office. So that the number of individual banks was spread and multiplied for the purpose of maintaining that artificial market for government bonds. The banks now carry seven hundred and fifty millions of them.

Q. You consider that the main object was to create a maximum absorption of government bonds?—A. Nothing else. The government did not give us a banking system.

Q. Do they make any profits by the note issue?—A. The banks?

Q. Yes.—A. Yes, they make a profit in this way: it is very easily seen what the banks make in the United States on their circulation, because on the one side of their balance sheet is the asset of two per cent government bonds, and on the other side is the liability of a similar amount for note issue. It is a two per cent investment that the banks make in government bonds offset by a liability for their note issue. Therefore the profit is limited to the two per cent, and the profit is two per cent less the expense of printing the notes and redeeming them, and the half per cent tax on them paid to the government. So that there is a half per cent tax, a half per cent expense, and the profit is about one per cent.

By Hon. Mr. White:

Q. Having regard to the amount they must hold liquid in order to meet the obligations of their bank note circulation, should it be presented, is there any profit to the American banks on their note circulation. Is it sufficient to meet the public requirements?—A. They cannot meet the public requirements for circulation because their power to issue notes depends entirely upon the market for government bonds, and has no relation to the necessity for circulation.

Q. Is there a deficiency of circulation arising from time to time from that condition?—A. There has been a difficulty. We met it in 1907 by taking the law into our own hands and nothing has been done to us so far. We took the law into our own hands and issued what was practically a bank note circulation. We called them clearing-house cheques.

Q. You turned your system into a Canadian banking system in 1907?—A. Yes, to get over the difficulty.

By the Chairman:

Q. What is your opinion of the desirability of permitting the organization of local banks?—A. I think it would be unwise and I do not think it is necessary. It is quite possible that some genius—it does not need a genius to be a banker at all—but a man of extra ability might start a bank in a community, and having the confidence of the community might make a success of it. It would, however, be the exception.

Q. Why?—A. They may be started at the instigation of borrowers and not in the interests of the depositors. Some local borrowers might start a bank of their own and subscribe the capital themselves, but they would control the bank and be able to become judges of the limits of their own credit and lend to themselves. That is the way that it goes with us in some cases.

By Mr. Maclean (York):—

Q. I would like to ask Mr. Forgan, and he has already answered it practically, if he thinks well of the Canadian banking system as compared with that of the United States?—A. Very much, so long as I could stand it, I advocated it until I was smothered.

Q. In the United States they have a rather bad system?—A. Yes.

Q. Do you believe in the concentration of banking? A. To a certain extent.

Q. Do you believe there is a dangerous money trust to-day in the United States? A. No.

Q. You justify then—A. I will say—because I like to be dead honest—you know I am accused of being one of the trust.

Q. Is not the trust generally honest?—A. No, I do not think a money trust is honest, and I do not belong to one.

Q. And therefore you repudiate something that is in existence in the United States?—A. I do not think there is any dangerous money trust in the United States at all. I do not think so. I have had no experience of it.

Q. But there is a money trust in the United States which is concentrated?—A. Well, the money power is concentrated, naturally. It is concentrated in the financial centre of the country in New York. It means simply that money accumulates there the same as it accumulates at London, Berlin, Paris, Toronto or Montreal. And when anybody in any part of the country has any large proposition to put through they have to go to the financial centre because there is where it can be done, and there alone.

Q. The tendency of capital is to concentrate. You have mentioned the Canadian system and the American system. In a general way, how do they compare with the European system of banking, if we could say that there was a European system of banking?—A. There is nothing like the United States system existing anywhere. We were diverted from the legitimate development of our banking business by the necessities of the government. We were going along first rate. We would have had branch banking if it had not been for that.

By Hon. Mr. White:

Q. Who destroyed that?—A. I think it was Secretary Chase.

By Mr. Maclean (York):

Q. There is a European system of banking as there is an American and a Canadian system and the Americans have been studying the European system of banking. Would you say that the banking conditions of Europe are more modern than those of the United States and more up-to-date as a general thing?—A. Yes, in Germany, France, and Britain they are. Although, you know, you have to distinguish between systems and methods. We in the United States have pretty good banking methods. You know that our new President, Mr. Wilson, said he would not bring any indictment in against the methods of banking of the United States, and that there is no occasion for bringing an indictment against the banking system of the United States because it is already convicted. I agree with him. Mr. Carnegie published a pamphlet, the title of which was: 'The worst system of banking in the world.' He referred to our United States system and I agree with that, too.

Q. Therefore, It would not be bad policy for Canada in revising her banking system to study it in the light of the experience of the United States and of Europe? A. Yes.

Q. And if we went to Europe we might find something modern and improved in the way of banking? A. If you were going to investigate European banking I would go a little beneath the surface of simply looking at the systems and would find out their methods, which are not nearly as good as in the United States. The condition of Germany at the present time is an illustration of it. They tied up their money in what are not quick assets.

Q. But there is information undoubtedly to be got in Europe in regard to banking?—A. I will tell you where you will get it for nothing. We appointed a commission in the United States known as the Monetary Commission, with Senator Aldrich as chairman, and he has published a library of twenty-seven volumes on the banking systems of the European countries and of Canada. It will save you all the expense of going over it again.

By the Chairman:

Q. Then you do not think it necessary for Canada to go to the expense of investigating the European systems?—A. We have lost nearly $500,000 upon it in the United States. It may be of some use to you; it is apparently not going to be of any use to us.

By Mr. Maclean (York):

Q. Don't you think you ought to have your system revised?—A. Certainly.

Q. Do you think it was wrong for the American government to spend that money?—A. Not wrong to have spent it, but wrong to abandon the good results of it after they have spent it.

Q. Then it would be a good thing for Canada either to use that experience or have a monetary commission of our own?—A. I would advise you to use that experience.

Q. The question is worthy of study?—A. It is worthy of study, yes. We developed a very good suggested system out of it for our conditions; but you do not need that.

Q. Have we something better already?—A. Yes.

Q. You say the commission suggested something better, and you have mentioned the matter of the rest and the profits of the banks. You seem to be in favour of the banks building up a large rest, but you say not quite at the expense of the shareholders?—A. Not so much at the expense of the shareholders by direct payment, but rather out of the earnings.

Q. And the earnings are contributed by the public?—A. It makes no difference who contributed them they belong to the shareholders.

Q. You will admit the earnings are paid in by the public?—A. But the banks get them legitimately and they belong to the banks, they don't steal them.

By Mr. Turriff:

Q. Under our system there has been developed during the past ten years a tendency to merge our banks into extremely large banks. We have three now with capitals running from twelve to fifteen million dollars with reserves about equal. And that tendency has been growing very fast. If it goes on for another ten years we will have possibly three or four banks with capitals of $50,000,000 and the others practically absorbed. If this tendency keeps on in Canada would it not be necessary, in the interests of the country and the public generally, that we should have smaller banks established—I do not mean little town banks—with a moderate capital, to guard against two or three banks being able to control absolutely the financial interests of Canada? —A. I can see that there might be a danger of too large concentration, that is too few banks, and that the management of these banks would get into too few hands, and in that way give too limited a number of people control of the banking business of the country. From the standpoint of the banks themselves as institutions, if they could be properly handled, and if there was no bad effect to the public interest from the standpoint of having too few of them, I do not see any reason why they should not be just as large as the necessities of the business will make them. I do not see any occasion for limiting the capital of a bank if it can command the business to use it. But if this concentration which you speak of by amalgamation goes on so that the number of banks is reduced to what you may call a danger point, from the standpoint of the whole of the banking business of the country getting into the hands of too few men, and by being in such few hands giving those few men a control which should be wider spread in the public interest, I can see that danger very well. But how you are going to remedy it, I am not sufficiently acquainted with your present conditions to say—I understand it is pretty hard to start a new bank here now and to get it going on a profitable basis. Banking capital in new banks is not an attractive investment. There might be some good reason, therefore, for preventing any further amalgamations or to cause the government to take the matter of bank amalgamations into its own hands. But there is always this to be remembered: that if a bank gets into a bad condition, it sometimes becomes necessary for it to be absorbed by some other bank, thereby saving the public from the bad effects of a bank failure. That is a very proper thing in connection with consolidation.

Q. From your long and varied experience as a Canadian and American banker, I would like to ask which, in your opinion, would be the better of these two proposi-

tions: ten banks in Canada, with a paid-up capital of $5,000,000 each, with the ordinary rest account practically the same (there are a number of this kind at present in Canada), or, two banks with a paid-up capital each of $25,000,000, with a corresponding rest, or to go still further, one bank with a paid-up capital of $50,000,000 and a corresponding rest. Which would be most advantageous to Canada and the public generally?—A. There are two ways of looking at it from the standpoint of the bank and the banking business. It could be more economically managed in the two large banks. But, the idea sticks in the back of my head that it might be more advantageous to the public not to have such a concentration, where too few people would be in charge of the entire banking system of the country. That is the only reason I see why there should be some limitation on the reduction of the number of banks.

By Hon. Mr. White:

Q. What would you say as to the provision in the present Act, that no agreement shall be entered into between the directors of two banks which propose to amalgamate, without the consent either of the Minister or the Governor in Council, that is, the government of the day? Would that meet the case?—A. I think that would meet the case very well.

By Mr. Maclean (York):

Q. I would like to ask whether, in your judgment, in cases of amalgamation of that kind, the officials of the bank amalgamated should make a personal profit out of such a transaction?—A. Absolutely no.

By Mr. McCurdy:

Q. You referred to the more economical operation of large banks. In your country, is it not the practice of some pretty large banks to pay four per cent interest on deposits? I have noticed advertisements of large concerns in Pittsburg, Cleveland too I think, where four per cent was paid on deposits, and I know that is the case with several small banks throughout the south; and these banks lend at six per cent, so local people tell me. In other words, their margin of profit is two per cent. In your earlier experience in the east, you probably came across instances where small banks were paying four per cent interest on deposits. There is a large class in this country who are bank depositors and who would like, if it can be done, to have a system whereby they would receive more than three per cent interest on deposits. That is the fixed rate here. Would you say whether, in your opinion, sound banks in the United States are known to pay four per cent?—A. I would say it is unsound banking and probably produced by local conditions. There is nothing of that kind in Chicago.

By the Chairman:

Q. Is there a tendency on the part of small American banks to pay a larger rate of interest on deposits than in a branch banking system?—A. I think that is possibly so in some instances and the reverse in others. In some places some bankers will not pay interest at all and yet command the confidence of the community. It depends on the personality of the management.

By Mr. McCurdy:

Q. When a certain part of this country was served by small banks, those banks were able and glad to pay four per cent interest on their deposits. Now, when the district is served by very much larger banks, the depositor only gets three per cent, and consequently it is very difficult to convince me that the larger system is more economical. I want to ask whether, in view of that statement of facts, it is not possible for a small bank to do a restricted business in a particular locality at a lower rate of expense than the large banks?—A. It is the very reverse in my experience.

APPENDIX No. 2

Q. There was one other point you touched upon, in regard to the capital of banks. What, in your opinion, would be the proper percentage of capital to total liability?—A. I could only give an opinion, and I have a fixed opinion. We, in Chicago, think that the paid in capital on which there is a double liability should not be less than ten per cent of the liabilities assumed.

Q. Theoretically, what is the correct amount of cash to be held in reserve, in proportion to a bank's liabilities? It was stated yesterday that twenty-five per cent to thirty three per cent should be carried in cash or immediately convertible securities. —A. We find it necessary, under our law in Chicago, for the National banks to keep practically forty per cent in cash or eastern balances.

The CHAIRMAN.—The statement made was, twenty-five per cent liquid, as respecting notes; thirty-three per cent as regards call loans, and twenty-five per cent as regards time loans.

Mr. FORGAN.—Of course, you do not have to keep as large a reserve against time deposits as against demand deposits, because you can take advantage of the time, notice.

By Mr. McCurdy:

Q. There has been suggestion made that a bank's circulation should be based on a certain percentage of its assets, and not limited to the amount of paid up capital stock. What is your opinion on that?—A. That is a new idea to me and I have not a sufficiently definite opinion to express it intelligently. My mind reverts to the capital and surplus which is now the basis, as being the margin of assets in the banks over and above all liabilities, and therefore I cannot get my mind away from the fact that the liabilities assumed must bear some proportion to the capital, whether the liabilities are deposits or circulation.

By Mr. Cockshutt:

Q. I would like to ask your definition of a small bank. Does it mean a bank with small capital, or small premises, or operating in a small area?—The capital appeals to my mind first.

Q. Would a single agency be a small bank?—A. You mean just doing business in one office, without any branch?

Q. Yes.—A. Well of course you might have a big bank doing that. I have a good sized bank doing that in Chicago now.

Q. What would you call a small bank, as regards capital? A. It would depend upon the locality it was in.

Q. Would $25,000 be a very small capitalization?—A. Yes.

Q. Would you consider that a hundred small banks in a hundred different communities would be running more risk and the public would be running more risk than they would be with one large bank running a hundred branches in the same communities?—A. I think they would be running more risk with the individual banks, decidedly so.

Q. In your judgment, is a banking business that is confined entirely to one locality more risky than a business spread over a large area with a variety of interests? —A. I think so.

Q. I suppose, when a disaster strikes one locality, it strikes it hard and the bank is thereby affected?—A. The illustration that I gave in connection with the Yarmouth banks is very pertinent to that.

Q. A bank, then, with branches scattered all over the country and doing business in a manufacturing, commercial, industrial, mining, agricultural area, would have a better chance of recovery in case of loss than one doing business entirely in one line? —A. Yes, and if the community is large enough you will get competition by the opening of branches by other banks.

Q. You said there were twenty-five thousand small banks in the United States? —A. Over that, I don't know just what the number is.

Q. Have your small banks power to issue currency in any shape?—A. The National banks have power to issue currency secured by government bonds.

Q. Both small and large banks?—A. You cannot organize a National bank without first buying government bonds.

Q. An ordinary small bank, not National, has no power to issue currency?—A. Oh yes, but it is taxed ten per cent per annum by the Federal government, and that prohibits it.

Q. Would it be safe for Canada to increase to a large extent the number of small banks allowed, and to give them power to issue currency? Would that be safe?—A. I think it would be very inadvisable and risky. Besides, there would be confusion in having so many different bank notes. It could not be done very well, not so well as the large banks, because they would have to have redemption agencies in all parts of the country, to maintain the circulation of the notes at par.

Q. Do you think a limit should be put on the capital, both minimum and maximum, in forming our banks, that is to say, a limit of say $250,000, to the minimum and $5,000,000., $10,000,000, or $20,000,000, as the maximum? Do you think that would be a wise provision in the Act?—A. No. I think you might run up against a condition where you would have to revise it again. You do not see now where you are going to get your banking capital in the future, and you find it difficult to start new banks. The present banks have to keep on increasing their capital to meet the requirements of business as it develops and enlarges, and if you put a limit on their capitalization, you may come to the limit before you know where you are at.

Q. You are not in favour of imposing a maximum limit, say of $25,000,000? A. No. I think not. We have a bank in Chicago, capitalized at $21,500,000, and it does all its business in Chicago.

Q. You do not see any danger to the general public, in having a large bank, heavily capitalized?—A. I do not.

By Hon. Mr. White:

Q. Just one question about a large bank of that kind. In England, of course, there is The Bank of England, are there not in New York one or two large banks of enormous capitalization?—A. There is nothing I think in New York above $25,000,000. That is the largest.

Q. In your opinion, is a large central bank of high standing an advantage or a disadvantage in a period of panic? Is it able to afford assistance, and does it not tend to restore confidence?—A. You refer to such banks as The Bank of England and The Bank of France?

Q. Yes?—A. It is a decided element of strength.

Q. To put it alternately, let us assume that there were no banks of that kind. Suppose, in a time of panic, there were only small banks. In a time of panic, would there be a greater danger with these banks than under present conditions, where one or two large banks come to the assistance of other banks, if necessary, provided the standing of those banks is such as to justify it? What would you say as to that? —A. If I understand your question rightly that is what I had reference to when I spoke of the difficulty that local banks, scattered all over the country, have of controlling their reserves. If you distribute them that way, whenever there is a panic it is the banks that first take the scare. To show you how that is I would just like to take the case of a local bank with us to-day of $50,000 capital. Perhaps the only one in a small community. Probably it has $500,000 deposits, and on that $500,000 deposits the law requires it to keep $30,000 cash in its vaults. Something happens that alarms that community; every man in that community knows that the immediate payment of that $500,000 that the bank has on deposit depends upon that $30,000 cash in the vaults, and there is a strong temptation to the timid ones among them to get the start and to draw out their money whilst the $30,000 lasts.

APPENDIX No. 2

Q. Is this a correct statement or not, that in the year 1907, the year of the panic, your small banks, I understand that most of them are in the condition that you have described, having a small cash reserve and a much larger amount of deposits, I understand that these banks did then and do still keep a certain amount of reserve in the hands of their correspondents in New York, Chicago and other centres, that they try to keep their assets liquid in that way as the Canadian banks do, and when these small banks, or the bank managers get uneasy in time of panic, they all have the same idea that there may be a run, or demands made upon them, they get apprehensive and they call upon the centres for the reserves that are there, the result being to produce a condition such as was brought about in 1907?—A. In that case the large centres have to stop paying, they will not pay the money, they cannot give them the money.

Q. Because of this action of the smaller banks calling upon the larger banks to bring about the situation that exists, is not that one of the evils of the small bank system?—A. It is the greatest evil of the small banks system, it is a perfect menace to the country. Not only that, but when the banks in the centres do stop making cash payments they go on a clearing house certificate basis, and they tell the country banks, 'We will honour your cheques through the clearing house but will not pay you money for them.'

Q. In other words the clearing house certificates are against assets.—A. Yes, and the cheques that the banks draw become the circulating system of the country. You have provided for it by the banks having power to issue circulation, but we have not that power, our hands are tied, we have nothing but our reserve of gold or legal tenders to settle any demands on us. Whenever the banks begin to draw on that, if our legal reserve limit is 25 per cent, we may run down say to 23 per cent, and then we will not be able to sleep at nights because of the situation, so next morning we all come down and agree that we will not pay out any more of our reserve money but we will keep what we have for our own protection.

By the Chairman:

Q. Would these clearing house certificates that you speak of be accepted at par all over the United States, or would they be discounted at different points?—A. Clearing house certificates never go outside the members of the clearing house that issues them; they simply settle balances between clearing house members.

By Mr. Maclean (York):

Q. Mr. White, as Minister of Finance, gave the idea in his remarks that the big banks saved the situation more or less in the panic of 1907. As a matter of fact was not the situation saved in 1907 by the government of the United States rather than by the banks?—A. Saved by the government of the United States?

Q. Helped by the government rather than by the banks?—A. What the government did did not amount to a hill of beans.

Q. Then take a similar case, we had some disturbance in Montreal the other day, and the Minister assisted, it was not the big banks.

Hon. Mr. WHITE.—It was the bank that helped itself. Does my hon. friend mean to suggest that the government helped that bank?

Mr. MACLEAN (York).—I mean to say that the government should be considerate in a case of that kind.

Hon. Mr. WHITE.—That is a statement which should not be allowed to go uncontradicted, it is not fair to one of the best banks in this country. My hon. friend refers to a bank in Montreal upon which there was a run, a run that had absolutely no justification in fact. What were the facts in regard to government assistance. I can quite understand on account of some newspaper rumour that there is a misapprehension as to the facts. What actually happened might be misunderstood and I desire to clear that up here and now. The bank in question held a debenture of the Dominion government for no less a sum than $2,500,000. It was their own money,

they had purchased it in order that it might be an asset on which they could quickly realize, and held it as a part of their reserve. The Dominion government simply discharged its obligation and cashed the debenture; it was the bank's money, the debenture was about to mature and I paid off that debenture.

The CHAIRMAN.—Before its maturity?

Hon. Mr. WHITE.—Yes.

The CHAIRMAN.—In gold?

Hon. Mr. WHITE.—In gold, that is all there is to it.

By Mr. Maclean (York):

Q. The point I want to get at is that the idea sought to be conveyed here is that as a general thing it is the big banks that come to the rescue in a situation of panic, and there may be more or less in that, but I am under the impression that the government of the United States had a lot to do in ameliorating the panic of 1907 in the United States rather than the big banks?—A. The big banks helped themselves 95 per cent and the government did 5 per cent, and the banks did it by simply taking the matter in their own hands and settling their balances in clearing house certificates.

Q. But they had a conference with the Secretary of the Treasury?—A. The Secretary of the Treasury might have been a wise man to advise them. I do not know.

Q. And he was behind that settlement as much as possible?—A. I beg pardon, I know what he did in the way of depositing government money in the banks, and I know that it didn't amount to a hill of beans.

By Mr. Nickle:

Q. You stated that in connection with that panic of 1907 that your cash reserves, as I understood you to say, that was when it got down to about 23 per cent?—A. Pardon me, I was only using that as an illustration, I did not mean that that was where I got to.

Q. I understood you were only speaking figuratively, but when your cash reserves went down your banks all got together and agreed to stop paying in specie, is that correct? A. Yes.

Q. How did you do that? I might say I happened to be in the United States in 1907 when that happened?—A. You understand that every morning, we have a clearing house for clearing all the cheques, we settle our balance in gold.

Q. Yes. A. We simply stopped settling them in gold, and each bank comes to the committee appointed by the clearing house with a certain amount of the bank's assets, generally notes discounted, and the committee pass upon them, and they issue—

Q. Pass upon them as to their value? A. As to their value, and the committee issues to the bank that brings them there 75 per cent of their face value in the shape of clearing house certificates. These clearing house certificates are made payable to the bank that takes them out, and they are good in the hands of any member of the clearing house. They bear interest at a fixed rate, that year it was 7 per cent. So that if I was debtor this morning at the clearing house, and say I had to pay $500,000 to meet my balance, instead of paying that in gold I would pay in these certificates, which would be made in convenient denominations of five and ten thousand dollars, and these would be paid to the other banks who were creditor and they would get 7 per cent for carrying them over night. The bank that got them to-day might be behind to-morrow, and instead of paying in the amount of its balance in gold it would have the privilege of paying in those certificates, and so on from day to day until matters are adjusted and conditions become normal. It is the curtailment and liquidation of deposits that causes the trouble you know, as the deposits run down they are liquidated by these clearing house certificates instead of having to pay out the gold for them.

Q. I do not quite understand how that would operate in the case of a private individual putting a small cheque in the bank, how would you pay him? A. Oh we act according to our discretion, of course, we do not stop cash payments altogether, we

try to accommodate people and to be reasonable, but you see we have say 90 per cent of our cheques coming through the clearing house anyway and about 10 per cent perhaps would be presented at our counter and we might pay many of them as they were presented, but if the check was for a pretty large amount and we thought that it was being drawn simply because the customer was scared we would say, 'We are not paying checks in currency, put that check through the clearing house and it will be paid.'

Q. But in the ordinary case you would pay cash? A. Yes. We would ask the customer who brought in the cheque, say it was for a thousand dollars, what he was going to do with the money, and he might reply that he wanted to pay John Smith. We would theen say to him, 'Give John Smith the cheque let him deposit it in his bank and it will be put through the clearing house and paid.'

By the Chairman:

Q. I suppose arrangements were made by which cheques for pay-rolls were paid all right?—A. In Chicago we issued what we call clearing house cheques in denominations of $5, $10 and $20 and these cheques were secured by clearing house certificates. If a bank wanted circulation for paying pay-roll cheques, for instance if I had certificates in large demoninations of the Continental Commercial National Bank for $500,000, I could take them to the clearing house manager and say 'I need that split up into $5, $10 and $20 cheques, the manager of the clearing house would draw cheques on the bank in $5, $10 and $20, just as I wanted them, he would give me these and I would pay them out, over the counter. We would have an understanding that these cheques would not be presented to the bak, on which they were drawn for payment through the clearing house but would be received on deposit by all the banks, they would pay them out again and in that way keep them in circulation. In appearance they resembled bank notes. It was a make-shift circulating medium, in order to get around the law. We could not issue notes because they would be subject to a 10 per cent tax, so we put them in the form of cheques payable to bearer, drawn by the clearing house on a member bank against its clearing house certificate and ostensibly in payment of them to the bank that presented them.

Q. If such a condition of affairs arose in this country a bank would be practically forced into liquidation?—A. Such a condition could not arise in this country.

Q. How do you get the wheels of banking progress started again, how do you avoid being forced into liquidation under such conditions as you were then in?—A. Things adjust themselves gradually by liquidation of loans and reduction of deposits to a point where people and the banks themselves regain confidence.

Q. It is a sort of unwritten rule that members of the committee shall not ask leading questions. Would this be a fair question: In times of crisis you hang together, and when confidence is restored things go on again?—A. They go on again as before.

Q. And if you did not hang together you would be hung up separately?—A. That is about it.

By Mr. Armstrong (Lambton):

Q. The public are under the impression that the banks of the United States pay a great deal higher interest on deposits than do the banks in Canada. What is the standard rate of interest that the banks pay over there?—A. It varies in different localities. Mr. McCurdy spoke of what was done in Pittsburg and Cleveland. Of course these are very active centres and have not probably any too much banking capital. But take Chicago, which is the best banking centre in the country. The bank with which I am connected has never, since it was organized, paid over two per cent interest to anybody on any kind of money. When somebody asks us for a little more we make the excuse: 'We do not want to break the long record of fifty years, and if we did it for you we would have to do it for somebody else.'

By the Chairman:

Q. There are ample deposits?—A. Ample deposits. I am also at the head of a Trust Company which pays three per cent on savings deposits, in savings pass-books.

By Mr. Armstrong (Lambton):

Q. Would it be possible for you to give us an idea of the proportion of money you have on deposit that you pay interest on, and the proportion on which you do not pay interest?—A. Well, our figures are a pretty good criterion. One half of our deposits are what is known as bank deposits, representing the reserves of the country banks. They amount on the average to about $60,000,000.

By the Chairman:

Q. On which you pay interest? A. On which we pay interest at two per cent on the daily balances. The other half is made up of commercial deposits, on which we make it a rule not to pay interest, but competition has driven us so that we do not stick closely to the rule. We do not pay interest to a customer who makes arrangements to be a borrowing customer under any circumstances, but if we have a large account where the customer does not want to borrow and where the whole relations between him and the bank are that of a depositor, we will deduct from his balance sufficient to pay us for keeping the account. If say he keeps an average balance of $25,000, we might deduct $5,000 free of interest and pay him interest on $20,000 at two per cent. That is our practice.

Q. In other words you deduct $5,000? A. We deduct $5,000 for keeping the account and then pay him interest on his money that lies there in excess of a balance sufficient to cover the expense to the bank of keeping his account and a fair profit to the bank on it.

By Mr. Thornton:

Q. You pay him 2 per cent? A. 2 per cent on four-fifths of his money, or about that amount.

By Mr. Sharpe (Ontario):

Q. Speaking of small banks, or banks with small capitalization, Mr. H. C. McLeod, who has had a great deal of experience of our Canadian banking system, having been manager of the Bank of Nova Scotia for a number of years, said there was no reason why a small bank could not succeed if the capacity and integrity of the management is all right. Would you agree with that statement? A. I think the integrity would be all right, but the ability of the management would have to be exceptional.

Q. I suppose the ability for a small bank would not be so high as that required for a large institution? A. I do not know whether it could be called ability or not. There is a sort of banking sense that some people are born with. Others never acquire it.

Q. And men are always born with that banking sense in the cities and not in small communities?—A. A man born in a small town may be a born banker.

Q. And he would be attracted to the city? A. A man born in a small community might acquire the confidence of the community in such a way that he could manage the business and make it profitable, but from the standpoint of remunerative banking he would find it difficult to make as much profit for himself or to be of as much advantage to the community as would be a branch bank.

Q. Mr. McLeod made the statement that a bank with $200,000 capital is not more liable to disaster than a bank of $2,000,000 provided the management was characterized by ability and integrity. I suppose on general principles you are not disposed to disagree with that statement? A. I would say that under very exceptional circumstances that would follow. As a general rule, as I have already pointed out, local banks are organized by local borrowers. As a rule it is the necessity of borrowing that induces the local community to start a bank, and it is controlled by the borrowers.

APPENDIX No. 2

Q. In the case of a large bank with a large number of borrowers requiring larger amounts, the disaster would be all the greater in case of failure?—A. If the directors were going to help themselves it would.

Q. One of your arguments against a small bank in a local community is the eagerness of the men who started that bank to borrow from it? A. Not eagerness, but the necessity they have for borrowing money.

Q. If the same necessities arise in the case of banks in the larger centres the evils would be accentuated? A. Yes, but there you would have to have a larger capital and get more people interested in the bank. There you would have a large list of shareholders who would be looking after their interests and seeing that the proper kind of directors were elected.

Q. Are you aware, Mr. Forgan, that under our system of banking very few shareholders attend the annual meetings, in fact, according to the newspapers there are sometimes only about twenty shareholders present?—A. That would be a host in comparison with the attendance at ours.

Q. Then you would qualify your previous statement by saying that the shareholders manifest a great interest in the bank?—A. Oh, no. They can manifest an interest in the bank without going to the meetings. They watch the statements and they go to the meetings when they think there is anything wrong.

Q. Does the annual statement disclose that there is anything wrong?—A. They could form a pretty good opinion how the Bank is going from its statements as they are published from time to time.

Q. One of the criticisms of our banking system is the fact that a large bank, with a large capitalization, with head offices at Toronto or Montreal, and branches established all over the country from the Atlantic to the Pacific, have drawn the savings from our local communities without serving the interests of these communities. Would a system of unity banks supplementing our system be of advantage to this country?—A. I would not think it possibly could be, and I would not think that the conditions you have described would exist. I would be surprised to find that branch banks do not go in for lending money in the various communities here just as much as they do for getting deposits. I was a bank agent in several places in Canada—in Liverpool and Woodstock—and also in Minneapolis, and my instructions were, and the idea I had, when I went to establish a branch, was to secure all the business I could get both in loans and deposits, the same as an insurance agent would endeavour to get all the insurance business he could. I tried to do all the business I could lay my hands on, and I had supposed that is the way the managers of all branch banks did.

Q. Roughly speaking, what is the capitalization of the largest bank in Chicago? —A. $21,500,000 is our largest capitalization.

Q. What would you call the minimum capital of a large bank in the United States? How would you differentiate between a large and a small bank?—A. We have got so very many banks that it is pretty hard to differentiate between what might be called a large bank and what a small bank.

Q. What is the average capital of a large bank?—A. The capital runs all the way from $25,000 to $25,000,000.

Q. Roughly speaking have you any idea what the average capital of a large bank serving the general community would be?—A. You see with us the average does not mean anything because each bank just serves its own local community and no other.

Q. The percentage of small banks with small capitalization is far more numerous than the percentage of large banks?—A. Yes, because there are more small banks than large banks.

Q. Is there any limitation in regard to capital of the National Bank?—A. None whatever. The $25,000 above referred to would be the minimum.

Q. You would not deem it advisable for us to limit the capitalization of our Banks in Canada?—A. I do not see any occasion for your limiting them now, and,

as I said before, I think if you did, in a few years they might either have to go beyond the limit, or you would be up against a stone wall in your banking business. You have got to find some way of interesting banking capital as the country develops, if you cannot start new banks you must let the old banks increase their capital.

Q. If we lowered the capitalization and permitted the establisment of provincial banks or smaller banks, would it facilitate the establishment of more banks?—A. It would facilitate the establishment of banks but it would be open to the objections I have raised to the local institutions.

Q. Do you think it is wise for this country, in view of the history of the past and looking forward to the future development of Canada, to permit the concentration of wealth in the banking institutions in Montreal and Toronto?—A. It is a right and natural thing for money to flow to and concentrate in the financial centers, it cannot be prevented.

Q. Do you think it would be in the interest of the country to have more banks in local centres of wealth and credit established in say our provincial capitals in the various provinces?—A. I do not think you can take the business away from Montreal and Toronto.

Q. Would not that have the tendency to equalize the distribution of wealth in the country?—A. Not necessarily, no, I see no reason why it should.

Q. Do you not think that if we had provincial banks in British Columbia, Saskatchewan, Alberta and Manitoba, with local managers and local boards of directors, that these managers and boards would be more conversant with the conditions in these provinces, and better able to handle any situation that might arise there, than managers in Toronto and Montreal?—A. My experience goes to prove the reverse. I believe that a bank manager who is put into a community in the way I have already described, put in with the idea that he has got to go there and serve the interests of that community as a banker and do all the banking business that he can acquire, can do that better than any local board you can appoint, because that local board is liable to be a clique, and liable to be a borrowing clique. Now do not interrupt, but let me finish my statement. I was for four years—I do not know whether the Bank of Nova Scotia would like to hear this—I was for four years inspector of the Bank of Nova Scotia. During that four years we had not a single loss on a loan made by a manager.

Q. You mean a local manager?—A. A local manager under the direction of a general manager. There was a board of directors composed of five men that sat in the head office in Halifax, and all the paper that was discounted in Halifax had to be submitted to that board. The paper was put in a box every day—called a discount box—and the members of the board called on their way to the club to lunch and had a look at it and they passed upon it. There is where the losses come in every time. The reason is that the responsibility was distributed. One of these directors would examine the application for a loan and say: Who is this applicant? He would be informed that the applicant is George Smith. Then the director would say: 'He is a son of John Smith; I knew his father; I guess he is all right.' And the application would be marked O. K. Now the local manager has two sides to his management. He has to satisfy the head office, by getting all the business he can, and he has to make no mistakes in the credits he grants or if he does his head comes off. He will serve both the bank and the community better than any local board possibly can.

Q. You are opposed to borrowing cliques in local centres?—A. I said a borrowing clique would probably control the bank.

Q. You regard that as dangerous, as an evil? A. The evil exists: whenever you get into the position where the borrower is also the lender, where a man can pass upon his own credit.

Q. Could that not apply as well to the central management of a large bank? A. Certainly, if they allowed it.

APPENDIX No. 2

Q. If local banks were established, would you limit by legislation the borrowing powers of their directors? A. The borrowing powers of the directors—well, there you have it again. Loans to the directors individually should be restricted. But to corporations in which the directors are interested I do not see how you can put any limit that would not interfere with intelligent discrimination with the management of a bank.

Q. Would you suggest a limitation on loans to corporations in which the directors have a controlling influence? A. As a principle, the best bank management would be obtained when such matters are left to the intelligent management of the bank and to the intelligent discrimination of the management. Whenever you undertake to put limitations of that kind you are liable to interfere with the best business of the bank. In some cases it might do for good and it might be desirable, but in order to cover these few cases you interfere with the bulk of the bank's best business.

Q. Do you think a board or local manager of a small local bank would not be capable of intelligent discrimination and discretion as to loans to themselves or directors? A. I would leave it to their discretion of course. You would have to leave it to their discretion.

Q. Are there any features in connection with the unit system of national banks in the United States that you would recommend to Canadians? A. I do not know of any.

By Mr. Turriff:

Q. Did I understand that you thought $5,000 of a deposit was a necessary amount to pay a bank for carrying an account? A. Oh, no, I did not mean that. I simply used that as an illustration of a free balance on a $25,000 account. We have varying amounts according to the work we do for a customer.

Q. Some of your banks suggest charging the depositor a fee for carrying an account?—A. We do that now.

Q. What do you consider the amount necessary before he is charged a fee? How much has he to have on deposit on an average? A. That would be different in different localities and with different banks. We charge a dollar a month for keeping an account unless an average balance of $500 is kept on deposit. That is necessary to pay for the cheque book, the bank book and the book-keeping and all that sort of thing. If their balance does not average $500 we charge them a dollar for the work we have done.

Q. If a man is a borrower in your banks, do you insist upon him keeping a certain proportion of what he borrows on deposit free of interest? A. In a general way, without any specific percentage or proportion, we say he must keep a good account if he is going to be a borrower, and we frequently call him down if he does not, and tell him he will have to increase his account or reduce his loan.

Q. About what proportion is looked upon as satisfactory?—A. About 15 per cent.

By Mr. Maclean (York):

Q. If he borrows more money from the bank would that put him in good standing?—A. Sometimes it would, sometimes it would not.

By the Chairman:

Q. We will take up section 34, providing that the directors shall determine on what terms new stock shall be issued. There is an amendment that this power be taken out of the hands of the directors and placed in the hands of a court or commission, or, if there be no such court or commission, in the hands of the Treasury Board. What are your views on that?—A. It should be left in the hands of the directors.

The CHAIRMAN.—We will take up clause 56 regarding audit and inspection.

By Mr. Nesbitt:

Q. You have two systems of audit in your banking system in Chicago. I understand that there is Federal or State inspection.—A. Both. We have banks chartered under State laws and banks chartered under the Federal law. National banks are under the Federal system.

Q. You have also a clearing-house system of inspection. On which of these systems do you rely most?—A. We rely altogether on our own clearing-house, because we do not get any information from the other.

By Mr. Nickle:

Q. Do you make any distinction between the use of the words 'audit' and 'inspection?'—A. Well, I suppose an audit would simply be to check up the books, count the cash and go over the securities and see that the balance sheet was in accordance with the books. I suppose an inspection would go further and put a valuation on the assets, report probably on the credits granted and the general condition of the bank.

Q. As a general principle do you approve of an external audit and an internal inspection?—A. Just about that—yes.

Q. Do you disapprove of the external inspection?—A. I do not disapprove of an external inspection—no—so far as it can be carried out it is good and desirable.

Q. You are of opinion that the inspection would be subsequent to the ascertainment of the loss?—A. Always.

Q. Do you not think external inspection would have a tendency to prevent lawless banking?—A. Yes. The principal advantage to be had from external inspection on the minds of the managers is the fact that it exists. They know they are to be inspected and they will keep their affairs in order to meet it. That is a great advantage.

Q. It is preventitive rather than punitive?—A. We find a very decided advantage in the United States, even from the government inspection from the mere fact that we are inspected.

By Mr. Maclean (York):

Q. Or liable to be inspected?—A. Yes.

By Mr. Nickle:

Q. But you are opposed to inspection from the point of view of the government taking the responsibility of this inspection?—A. I think so, as I said in my opening statement.

Q. Would you give us the benefit then of any suggestion that you may have in relation to some substitute for government inspection that would carry with it the advantage of prevention?—A. That would carry with it prevention? Well——

Q. Yes, how can we attain the moral check, if I may use your words?—A. You cannot attain the moral check because that depends upon the way God Almighty made the man, and you have no control over him.

Q. Well, if the general manager is honest and the directors are honest, things will go right, but if the general manager is honest and the directors are dishonest the general manager will quit the job before he will commit fraud?—A. Or vice versa.

Q. Can you devise some machinery to circumvent fraud where the general manager is dishonest and the directors are also dishonest? That is what we want to get at in this committee. In other words, we realize that the majority of the banks in this country are adequately and properly managed, but we have been singularly unfortunate in Ontario in the course of the past few years in having several bank failures. Some of us have a real sincere desire to prevent a recurrence of these unfortunate things. Can you tell us how best to do it?—A. Well, I do not know that

APPENDIX No. 2

I have anything to suggest—I know I have not anything to suggest—by which through audit and inspection you can prevent dishonesty occurring. As to the extent that the fear that dishonesty is going to be discovered will prevent it, the fact that it is being looked for will very largely prevent it. The fact that an external audit and inspection is to take place will help to keep them in order.

Q. Then I understand your position to be this: you would be in favour of external audit and inspection, provided this committee could devise an adequate scheme that would prevent the State becoming involved through indirect responsibility?—A. Yes. I would agree to that.

Q. A suggestion has been made to this committee along this line; that certain auditors, preferably chartered accountants or other certified accountants, should be appointed either by the Minister of Finance or some independent authority, and that these auditors should, from time to time, make an inspection and report either to the Minister of Finance or a central authority.—A. I do not quite understand you.

Q. Well, it has been suggested that a board of managers from the Bankers' Association should choose a number of men, from whom a selection shall be made. The power of selection is vested either in the Finance Minister or in some tribunal to be constituted. A report is then to be made either to the Finance Minister or to this tribunal to be constituted, and through them to the board of directors of the bank. Of course, an elaborate machinery would have to be devised for carrying this out. Do you think it advisable that the report should be made to the Minister of Finance or to this independent tribunal that is to be constituted?—A. You mean a report of inspection?

Q. Supposing an inspector comes in and finds things unsatisfactory. He must report to somebody. To whom should that be?—A. It depends on what authority and responsibility of action you are going to place on the Minister of Finance or that tribunal.

Q. That is what I want to find out, what authority should be given?—A. I have gone into that very fully in my paper and shown the difficulties of any such external authority taking any action at all. Let me give you an example, for instance, of our government inspection. I referred to three banks that failed in Chicago. I said the condition was appalling. It was quite appalling. The president of the bank had his own schemes and was connected with railways and other concerns. He had borrowed the entire capital and surplus of the three banks amounting to $3,500,000 and forty-seven per cent of their deposits, amounting to $27,000,000. That had been going on for years. There were gross irregularities, fictitious notes in the bank that did not deceive anybody. On the face they were fictitious; the examiners knew they were. They knew the names of the makers had nothing to do with the real borrowing party; that it was really the president who was borrowing. This state of things was allowed to continue year after year, after it had been reported to the Comptroller of Currency. Suppose you had that condition reported to the Minister of Finance and he did not take any action on it, what are you going to do about that? The reason the Comptroller did not take action was that he was so hampered with legal technicalities that he could not interfere until his mind was made up that the bank was insolvent. This particular banker was building railroads, running stone quarries, a newspaper opposed to the government, and many other industries. He had four or five railroads. Under an irregular method of borrowing, he surreptitiously got these securities into the bank. But who is going to say that these railroads were not good? And just there let me bring out another point. This banker could have come out of his speculations more than once and made himself four or five times a millionaire, if he had liked to sell his railroads, but he did not want to do that. That was the condition that existed, and I say it is a pretty big responsibility to put on anybody to handle such a situation judiciously in the interests of all concerned.

Q. I appreciate that fact. A. I do not know how we can be made all over again and be made omniscient.

Q. I appreciate that. I am not quarrelling with the witness and do not want to bicker with him, but do you not think, Mr. chairman, he is evading my question? I am not saying that we can prevent every failure, but I am a reasonable optimist and I think it is possible to devise some machinery that would prevent failures like the Farmers' Bank and the Ontario Bank, which was practically insolvent for over thirty years. A. No doubt you could. I am entirely familiar with your conditions, but I will tell you this: we did help ourselves out after the failures of these three banks, to such an extent that I can tell you no such a thing can ever occur again in Chicago so long as our present system exists, and that system is the clearing house examination.

Q. You worked it out by a local clearing house examination because the banks are local? A. Yes.

Q. How are we going to work the thing out when the banks are not local? Can you help me with that? A. I would not undertake to give you any cut and dried proposition, but I would like to draw attention to what I said in my paper, that control of the initative and management in the daily transactions of the bank is the vital part of supervision which external authority does not and should not have; and it is that which makes the supervision through internal general management so much more effective. What we have in the way of external inspection is our clearing house system, and if you can work that into your system it will be of great advantage to you, and to that extent I will help you out. We worked it into our system: every bank connected with the clearing house has to make statements to the clearing house five times a year, at the same time they make them to the government. We have appointed a committee to pass upon these statements. We have an examiner to examine the bank and report to us upon any irregularities, any depreciated assets, or anything in the bank that will affect the correctness of that statement, as reported to the clearing house; but nothing else is reported to us.

By the Chairman:

Q. That examiner is a permanent official, with a staff?—A. Yes.

Q. Responsible to whom?—A. The Clearing House Committee.

By Mr. Nickle:

Q. Appointed by whom?—A. Our Bankers' Association. This is what he does. He goes into a bank and makes an inspection of it (We have a very good man. We were very fortunate in our selection.) He makes an inspection of every bank connected with the clearing house, at least once a year, and prepares a detailed report, just as a chartered accountant would do. He does not give that report to the Clearing House Committee, but to the directors of the bank, and he notifies every director of the bank that his examination has been made and handed to the president, and requests them to peruse it; so our directors cannot say they do not know the condition of their bank. We do not give the report to the members of the Clearing House Committee, because the banks in the clearing house are competing against each other and we do not think the whole business of any of those banks should be laid open to the rest.

Q. Applying that system to Canada, the report should be given to the general manager and directors of a bank, but not to the Bankers' Association?—A. Yes. The auditor could make a complete report, which might go to the general manager and directors of a bank. Only irregularities, depreciated assets or anything that affects the integrity of the statement, might be reported to the association authorties, and if the statement is not satisfactory, the bank would not be allowed to stay in the association, but just how much of a penalty that would be I do not know.

Q. Could not that system be changed to meet our conditions, so that there might be a head office audit and inspection, and if desired, an inspection and audit of the branch offices?—A. Yes. That is perfectly feasible. If the auditor gets the bank

inspector's reports of the branches to look through, along with the branch returns and the head office books and records, I think he would get the whole thing.

Q. You go so far as being in favour of audit and inspection?—A. Yes. I think so.

Q. When this report is made to the directors of the bank does the auditor and inspector specifically say what assets are unsatisfactory, and why?—A. Oh, yes. He shows it much more in detail to the directors than to us.

Q. And he would draw specific attention to any lawlessness or illegalities of the directors?—A. Yes.

By Mr. Maclean (York):

Q. In the case of Canada, we have sworn monthly statements filed with the Department of Finance and published in *The Canada Gazette*. The question I would ask is this: If there were a system of verification of those statements made to the government, would not the abuses that were existent in some of the banks be immediately discovered?—A. It would be a deterrent.

Q. We have not the right to verify them at present, and I want to see if we cannot verify them by some provision in the Act.—A. You could not verify them every month.

Mr. WHITE.—I have inserted a clause "that the Minister may direct and require any auditor appointed under the next preceding section of this Act, or any other auditor whom he may select, to examine and inquire specially into any of the affairs or business of the bank, and the auditor so appointed or selected, as the case may be, shall, at the conclusion of his examination and inquiry, report fully to the Minister the results thereof." This was expressly designed to meet such a case as arose in connection with the Farmers' Bank, when the manager (at Milton, I think it was) communicated certain information to the Finance Department. In the old Act there was no provision for the Minister to inquire into such a case, and I have inserted this clause especially to meet that condition, so that if some information is brought to the attention of the Minister or of the Department, the Minister shall have, by this clause, the fullest power to inquire into the matter complained of or into the affairs of the bank. I think the clause contains the widest wording possible.

By Hon. Mr. White:

Q. You have spoken about initiative and control, once or twice. I would like to ask where, in your judgment, that control or initiative must be lodged when making loans or giving credits. Who must exercise that initiative, in the first instance? Could that be done by an external inspector or a board of directors or by the bank management?—A. It must be by the management absolutely.

Q. You have no doubt as to that?—A. There is not the slightest doubt possible, it could not be done under any external authority, you could not call in an external authority every time you wanted to make a loan.

Q. Therefore, so far as the authorizing of credit is concerned which may afterwards turn out to be a bad loan, who must take the responsibility in the first instance? —A. The management.

Q. Is there any doubt in your mind as to that?—A. No.

Q. As I understand it you have in Chicago a local clearing house association which would naturally be familiar with loans made in that locality, now supposing that instead of a local situation such as you have there you have the branch bank system of Canada, under which a bank may have 200 or 500 branches, and under which you have important offices such as Montreal, Toronto, Winnipeg, Vancouver, Seattle, San Francisco, Mexico City, West Indies and London, England, could any government inspection be effective or thorough that did not duplicate the internal system of inspection which I understand you to say is used by the banks themselves?—A. It will have, just as I said in my paper, to duplicate the general manager's office.

Q. You have no doubt as to that at all, if it is to be effective and thorough?—A. I have no doubt at all. I haven't the slightest doubt about it, and in order to emphasize that fact I would say that I have organized the first National Bank of Chicago in that way. I have the business of that bank divided into divisions in accordance with the business of my customers. I have one officer managing the lumber business from the taking the logs out of the woods right down to the manufacture of everything that is made out of lumber, furniture and all that sort of thing; he is a specialist in those lines, perfectly capable of handling that line of business. Another one has charge of the steel industry, from the taking of the ore out of the ground to the manufacture of the steel, the hardware merchants business and everything of that kind. Another one has charge of the drygoods business all the way through. I train experts and make them responsible managers of these branches of business. I have seven divisions, and I am running practically seven branch banks, with a specialist for each special line of business, and I am the general manager.

Q. And you considered all that essential in order that you may know the condition of your loans. A. If I had not done so I could not know the condition of all these loans, I have these men report to me, I have the same kind of reports from them that come to the head office of one of your banks.

Q. I ask you to consider yourself for the moment in the position of Minister of Finance, and having supervision of the Canadian banks with deposits of $800,000,000 and all the branches distributed as I have indicated. Would you think you had made a thorough inspection of these banks unless you had at your command all the practical machinery that the banks have themselves established in order to assure themselves that everything is in order?—A. I would not take the position, I would not assume the responsibility, there is no salary on earth would induce me to do so.

HOUSE OF COMMONS,

ROOM 101, April 10, 1913.

The Committee met at 3.35 o'clock, p.m., the chairman, Mr. Ames, presiding.

The CHAIRMAN.—The Minister of Finance will not be able to be here this afternoon. As I understood that a number of members wished still further to obtain the views of Mr. Forgan, I will ask him if he will be good enough to again take the stand. We have practically gone over the topics of Mr. Forgan's evidence and he is really now at the disposal of any member of the committee who wishes to prosecute any line of investigation.

Examination of Mr. FORGAN resumed.

By Mr. Maclean (York):

Q. I was trying to get your views in regard to the Canadian banking system as compared with the United States system, and I gathered from your evidence this morning that you considered the Canadian system superior to the one in the United States?—A. Yes, sir.

Q. Are there any sections of what you would call the European system of banking that we might with advantage adopt in Canada?—A. In connection with the European system?

Q. Yes. Let me try to put the question in another way. We are here to try and improve our general banking system, and some of us think we have a lack of banking facilities in Canada, or in other words, there is not enough of money to do the business of the country. The country is rapidly growing, our banks are trying to grow. Could you suggest anything that we might do in this Act, or otherwise, that would give Canada more money for her banking requirements?—A. Do you mean give her more actual money?

APPENDIX No. 2

Q. You are in the banking business?—A. Yes, I know, but you might define what you mean by money.

Q. By that I mean the available banking resources or credit?—A. A bank cannot have available resources except its capital to start with.

Q. Its capital and its deposits, that is what it does business with?—A. Its deposits are its liabilities. You are talking about its resources.

Q. Every country has a certain amount of money, or credit, for doing its business. It is alleged that there is a money stringency in Canada and it is by reason of the fact that the country is growing as rapidly as it is growing. I want to get from you, if I can, any suggestion that you could make that would place this country in more funds for its business than it has at the present time?—A. I do not know, Mr. Maclean, of any way of getting money except by earning it.

Q. You can get money. The banks of Canada are all trying to increase their capital stock. Nearly every bank is ready to put out more stock and apparently they cannot get it out.—A. Well, the only way they could get it——

Q. Pardon me for interrupting you, but take the double liability for instance. Is that a hindrance in the getting out of capital in this country?—A. I do not believe there is much in that.

Q. There is not much in that?—A. I do not think so.

Q. And we have not been able to get our bank stocks taken up much in the old country; we subscribe for most of our bank stock here in Canada.—A. That is because your banks do not earn enough on the market price of their stock to make it an attractive investment.

Q. It is not, you think, attractive enough to cause an Englishman to put his money into it?—A. That is the only reason there can be for that.

The CHAIRMAN.—I think Mr. Forgan made a suggestion in his evidence that is worth following, by Mr. Maclean, and perhaps it is in his mind—that the new bank stock should be issued at a price that would not exceed par plus 50 per cent of its existing surplus or rest.

Mr. FORGAN.—And in no case exceed 100 per cent.

By Mr. Maclean (York):

Q. If our bank stock were made more attractive it might attract money in the Old Country for banking purposes in Canada?—A. I think so, if it were made more attractive. The money markets of the world are pretty wide now and pretty general. If there is money for investment in London and you offer Canadian bank stock at an attractive price, you can get it taken up there, or you can get it taken up in Chicago.

Q. In this country the capital of the banks and the deposits that are in the banks are called liabilities?—A. They are absolutely nothing but liabilities.

Q. Still they help to carry on business and if we had more deposits in the banks and more capital——A. The capital in the banks is paid in for the purpose of being used as capital, and the deposits are liabilities based on the capital for which the capital is the margin of security.

Q. But the business of the country is carried on largely by the deposits of the bank?—A. Well?

Q. You don't dispute that?—A. Suppose you were to do what you suggested this morning you might like to do, borrow some money—borrow $100,000 from the bank in order to increase its deposits by leaving $15,000 on deposit. That deposit that you have would be entirely created by your borrowing. Is that what you are driving at?

Q. You are conducting a bank in Chicago, are you not?—A. Yes.

Q. And you have a great many millions at your disposal?—A. Yes.

Q. For banking business? Every bank in Canada is in the same position, but apparently the banks here have not got enough money in Canada to conduct its business?—A. Yes, but you cannot manufacture money.

Q. I do not see how you can manufacture it, but you can get it to our banks. They have some money now but they have not enough for the business of the country? —A. What do you mean by money?

Q. I mean what you lend to the public, whatever it is.—A. We do not lend money to the public we really lend them credit. That is the distinction.

Q. Then you have credit for disposal?—A. The credit of the bank as far as its credit goes.

Q. You are doing credit?—A. We are dealing in credit.

Q. We have not sufficient money for the requirements of this country. Now, can you advise us how to increase this credit at the disposal of the banks?—A. That is a thing that comes by natural growth and development. You cannot force it.

Q. Could not a policy possibly be adopted in connection with the Bank Act that would develop our credit?—A. I do not see any policy that could be created to develop it that you have not now.

Q. You cannot make money by legislation?—A. You cannot make money and you cannot develop business by legislation, but legislation may help or hinder both.

Q. But what I want to impress upon you is that our banks cannot get sufficient capital for the transaction of the business of the country?—A. There is only one way they can get it: they have got to offer their bank stock at a price that will induce capital to come in. That is the only way that I know of.

Q. But still bank capital is not the only thing that makes credit?—A. It is all that a bank's credit, except its reputation for good management, is based on.

Q. Suppose our banks here got deposits from Great Britain and they had those deposits on some reasonable arrangement as to the time when they might be called, would there not be more banking credit in this country?—A. Some of your banks do take deposits from Great Britain now. The Bank of Montreal issues its certificates, or did some years ago. I saw some over there.

Q. If we had more bank deposits and more capital we would have more bank credit at the service of this country. What I want to get at is this: is it possible, in view of the statement that there is a stringency of capital in this country, to do anything to increase that capital?—A. The only thing I know of that you can do is to have some security that will be attractive enough to induce outside capital to come into the country to be used in the banking business.

Q. Would it be a good thing for Canada if the English banks came here with their credit and did business in Canada, that is if there is here a money stringency? Or could we modify our Bank Act so as to make it attractive to the English banks and other banks to come here and do business?—A. I do not know how you could do it. Could they not come here and do business now?

Q. They could not issue notes?—A. No, they could not issue notes. The Bank of British North America is practically a foreign bank, the one I originally belonged to, with its Head Office in London.

Q. It is, and probably half of its capital is held in Great Britain and that is a distinct advantage to this country, and if in some way we could have our own banks bring a lot of bank capital and deposits from Britain, we would have more credit in this country for its business?—A. You talk about two things, the capital and the deposits coming from Britain. There is only one way you can get either. The only way you can get capital is to offer bank stock at an attractive price to induce capital to be invested in your banks, and the other way is to go over there and start an agency to receive deposits, advertise them and offer an attractive rate of interest on them.

Q. What could the directors of a bank do to make their stock more attractive if they wished to do so? As far as I know there is nothing in the Act to prevent them from offering the stock at an attractive price?—A. I suppose they would have to compete with the banks over there, and it would be an expense to keep up an agency and bring money across. They would have to take deposits on the same terms, or better terms, than the banks over there are doing.

APPENDIX No. 2

Q. Is there not a disposition on the part of our banks here to keep the capital for themselves, that they are afraid of allowing the new shareholders to be participants in the immense rest that they have created?—A. Well, I discussed that this morning and made a recommendation in regard to it.

Q. What was that recommendation?—A. I recommended that the banks, instead of doing as they have been doing when they are issuing new stock, requiring the shareholders to pay practically the book value of the old stock, might offer it at a less price.

Q. I would like to see the Bank of Montreal and the Bank of Commerce $50,000,000 banks. But they could not put out their shares now at a figure attractive enough, and apparently the existing shareholders do not wish to let in further capital to participate in this immense rest fund.

Mr. NESBITT.—Anybody can buy bank shares.

Mr. MACLEAN (York).—But they are not attractive. The other shareholders are a bar to increasing the capital stock of the banks.

The CHAIRMAN.—If I understand rightly, your contention is that hitherto additional bank stock has been issued at a price that represented par plus rest, and that the directors have been unwilling to issue it at a lower rate which might have proved attractive to bring in additional capital.

Mr. MACLEAN (York).—In other words our banks have not been able to expand their capital proportionately with the business requirements.

The CHAIRMAN.—You regard the directors or the directors as representing the shareholders as being a barrier.

Mr. MACLEAN (York).—Somewhat of a barrier to the increase of the banking capital of the country, and Mr. Forgan has certainly given us a suggestion in that respect. If the Bank of Montreal, for instance, wanted to put out $25,000,000 at say, 150 I believe the Bank of Montreal could get that capital at 150 from Great Britain.

Mr. FORGAN.—Yes, but the present shareholders would oppose it because it is their property.

By Mr. Maclean (York):

Q. The shareholders will not allow that?—A. Well, they can do as we did in the United States. As I suggested this morning, they can sell their rights to subscribe for new bank stock, and they can thus get the difference between what the old stock is worth on the market and the price at which the new stock is issued.

Q. But the rights do not make it attractive?—A. You sell your right to somebody else that is willing to take the stock at which he is willing to give you for it.

Q. But it is not attractive to the new stockholder. He has to pay the rate and pay the calls?—A. But you cannot give away another man's property.

Q. Now I come to the point—because our banks have built up large reserves?—A. But they are their shareholders' reserves.

Q. Technically, yes?—A. But not technically—absolutely, no? But you must not put a word like that, technically, if you are an honest man. If a bank earns a dollar the dollar belongs to it, not technically but actually.

Q. I will approach that from another point of view. You have told us that the rest of a bank is the strength of a bank. It is the great thing to get a rest?—A. Rest and capital, yes.

Q. In Europe, they have banking systems where the law is that the rest shall not exceed 25 per cent of the capital?—A. What bank?

Q. In Germany, in connection with some of the banks there, there is a limitation of the profits, and the banks in several countries in Europe, when their rest increases above 25 per cent, have to divide it by sharing it with the government or reducing the costs that they impose on the public for interest and other services performed; and they cannot increase their rest beyond 25 per cent. My contention is, in substance—and I want it presented to the Committee—that a bank's accumulation of rest ought to be limited because it is made up of earnings they get from their customers, and

these earnings may be based on exhorbitant or high charges. Should there not be a limitation upon the earnings of the banks in the interest of making the price of the capital attractive, and in the interest of the public?—A. I do not see why you should put a limit on the accumulated earnings of a bank any more than on the accumulation of your own earnings, Mr. Maclean. These earnings belong to the bank, if they earn them they are their own and you cannot divert from them property that belongs to them.

Q. You do not regard a man carrying on a bank as exercising a great public franchise?—A. Yes. I do.

Q. If he earns too much in the exercise of that franchise?—A. But he does not.

Q. Perhaps some others might think that he ought to be regulated in his charges. We have regulated railways in this country by a commission, and it would be in the public interest to regulate the accumulation in the shape of the reserves of the banks?—A. Well, the way the banks would regulate it, if you put a limit on it, would be simply to divide it.

Q. If they gave it back to their shareholders, and the shareholders put it back in the bank as capital, and the bank had the right to issue notes against that capital, the credit fund of the country might be largely increased that way?—A. But that all depends upon the conditions, and whether the conditions warrant such an operation. You cannot do that arbitrarily.

Q. I do not propose to do it arbitrarily?—A. It has to be done naturally.

Q. Is there any way whereby banks can increase their capital, and this rest that they create be limited? You think there should be no limitation?—A. I see no occasion for limiting a bank's rest. The more rest they have the stronger they are for the public.

Q. And the more charges they put on the public in the way of interest and discount?—A. I think the higher the rests the less they charge the public.

Q. But do you accumulate a rest unless you have big profits?—A. The bigger the rests they have the more money they have got from the standpoint of the management to use, and as they do not pay any dividends on it it helps them pay the dividends on their capital and the tendency will thus be to reduce charges, the higher the rests, the lower the rate of interest is likely to be.

Q. On the contrary, in Europe, where they regulate these rests, the rate of interest is lower and the charges to the public.—A. Where are they lower?

Q. Up until very recently the interest rates in Europe are lower than in America?—A. Do you know that German banks have, within the last two months, paid over seven per cent for money on deposit?

Q. The German banks have been limited by the regulation of the state as to what they charge the public for loans?—A. But they will have to charge more than they give in order to live.

The CHAIRMAN.—At the present time Mr. Maclean is really giving testimony. He might confine himself to questions.

By Mr. Maclean (York):

Q. Some in the committee say they are satisfied with our present banking system. I am not quite satisfied with it because it is not providing enough money for the business of this country, and I would like to see our banks greatly increase their capital and to reduce the charges that they impose upon the public, if at all possible.—A. The one goes against the other. Until you increase the charges you won't get the capital, because the thing that attracts the capital is big earnings in the banks and nothing else.

Q. If banking is made very attractive in this country perhaps we will have more money in the country?—A. The only way to make it attractive is to make high charges and big earnings.

Q. On the public?—A. Yes, from the capitalist's standpoint.

Q. If we are prepared to give higher interest in this country, and the banks, more facilities, we have more money in this country. Is that your conclusion?—A. Well, I do not know. I have said already——

The CHAIRMAN.—The committee at present do not want Mr. Maclean's views, but to hear the evidence of Mr. Forgan.

Mr. MACLEAN (York).—But his views are hard to get out.

The WITNESS.—It is hard to understand just what you want to know.

By Mr. Maclean (South York) :

Q. Probably, your point of view, with all due respect, is not mine. Do you regard the Bankers' Association in connection with this Act a source of strength to our banking institutions in this country?—A. I would so regard it on general principles, but I am not sufficiently familiar with its operation to say how much an advantage it is.

Q. What do you think of the Canadian post office-savings bank system? Would you encourage that?—A. The post office saving bank system—well, we have it in the United States.

Q. Do you approve of it in the United States?—A. It is working along all right.

Q. Did you oppose it when it was proposed?—A. I did not.

Q. Did you favour it?—A. I kept quiet.

By Mr. Sharpe (Ontario):

Q. What is the rate of interest paid by the post office savings bank?—A. Two per cent I think; but they have a way of paying two-and-a-half per cent if the deposit amounts to, I think, $50, by exchanging the deposits for practically a government two-and-a-half per cent bond.

By the Chairman:

Q. Is the bond negotiable?—A. No.

By Mr. Maclean (York):

Q. You would not abolish the post office savings banks in Canada?—A. I do not know any reason for suggesting such a thing.

Q. You did not do anything to get a post office savings bank system in the United States?—A. I will tell you why. Because I have about 1,500 country banks keeping accounts with my bank in Chicago, as the great majority of them thought that a postal savings bank was encroaching on their rights. So far as our bank was concerned it did not encroach on our rights; but I did not want to appear to be antagonizing the interests of my clients.

Q. Your views of banking then, are perhaps modified by the views of your clients?—A. You come in and try me for a loan and I will let you know how much influence you will have.

Q. Just one other question: Are you in favour of the conclusion of the Aldrich Monetary Commission to have a Bank of the United States, somewhat similar to the Bank of France, or the Deutche Bank?—A. Not in that sense, but I am of opinion that the Aldrich plan, as it was proposed, is the best thing that has ever been suggested for the United States in its present condition of over 25,000 individual banks.

Q. Would it be a bad thing for Canada if we had a great national bank here?—A. I do not see as much use for it with your large banks.

Q. But there might be use for a great national bank in this country?—A. I am not sufficiently posted as to the conditions of the country to warrant my saying so.

Q. You are very well posted on banking?—A. But not on the necessities of the large banks for re-discounts, for instance. I do not know whether they need them or not. I know that out of twenty-five thousand banks, fully half of them need re-discounts in the fall.

By the Chairman:

Q. What possible function could a very large additional bank here perform?—A. I do not know what function it could perform. Your banks are so large that they are in a position to control their own reserves and keep the custody of their own reserves and protect themselves. Their business is distributed all over the country. The principal reason why we need what we call The National Reserve Association, is, as I described this morning, that all our banks start scrambling for their own small portion of the reserves of the country whenever there is any excitement. It has been vividly described as a reserve army of the country where every local banker was the captain of his own company and absolutely refused, in time of war, to come to the assistance of any other company, with his reserves. Not only that, he drafted from all the others to get his reserves up to full strength.

By Mr. Maclean (Halifax):

Q. The Aldrich system would mobilize the gold reserves of the United States?—A. Yes. It would lie there in a large pile and would produce what is the right thing in connection with the reserves of the country: a large mass of gold, the operations in which only cause a ripple on the surface, but our system goes to the very bottom of our tills every time we are stirred up.

By Mr. Maclean (York):

Q. Do you approve of the issue of national notes in the United States?—A. Secured by government bonds?

Q. As they are no. Would you advise Canadians to extend their issue of national notes in this country? We use largely bank notes in this country, for circulation, plus notes issued by Canada. Would you advise an increase in the issue of our Dominion notes?—A. I would not.

Q. Would you wipe out the issue?—A. I do not know that. There is a certain amount of it that can be safely kept in use by the banks.

Q. Why would you limit the issue, then?—A. Because of the evils of fiat money.

Q. It is not fiat money.—A. Isn't it?

Q. The credit of the country is behind it and backs it up with gold.—A. If that is so, that makes it fiat money. How much gold have you there?

Q. A lot of it, dollar for dollar.—A. What about the rest of it?

The CHAIRMAN.—Mr. Ross, the Deputy Minister, will explain that point.

Mr. ROSS.—Thirty million dollars is issued by the Dominion government in notes, three quarters of which is on the public credit, and every dollar of Dominion note circulation is based on gold, dollar for dollar. There is a hundred million dollars now outstanding.

The CHAIRMAN.—About $22,500,000 is covered by gold, and for every additional dollar, there is a dollar of gold.

Mr. FORGAN.—That is not a bad condition at all.

By the Chairman:

Q. If there was a greater increase of Dominion notes in this country, would it increase in any way the credit of the country?—A. If the government issues notes, it has got to be ready to redeem them on demand. If it does not, there is trouble.

By Mr. Maclean (York):

Q. You suggested a system, this morning, whereby the clearing house took largely the place of a circulation medium.—A. That was a makeshift to meet an emergency.

By Mr. Barker:

Q. This morning you spoke about an external audit in Chicago, at the instance of, as I understood it, the clearing house. Mr. McLeod, in No. 11 of the Proceedings,

at pages 7 and 8, dealt with a similar question and made a proposal in connection with it. Have you read that?—A. No, but I will read it out loud to the committee, if you will permit me: 'Among the provisions that should be introduced for the protection of depositors there ought to be included a most rigid and thorough external inspection of the general management of each bank. A less efficient inspection, or one where the smaller banks are inspected and the larger ones, through influence, go free, would be a mockery of the depositors' rights. The system proposed in the Bank Act is an acknowledgment that external inspection is necessary, but only by the utmost activity of the Department of Finance can this plan be made effective. No stipulation is made as to the proper qualifications required of the auditors, and it is open to any bank to have its balance sheets duly signed by auditors that are nothing more than "dummies" of the general manager. I am glad to observe, in the list of main questions, a suggestion that a more rigid system be introduced (*see* Exhibit A of main questions). Having given very great attention to this subject, I believe the appointment of members to the Board of Bank Inspectors therein proposed should be by vote of the general managers of all the banks, I will quote one paragraph from the suggestion made to the Canadian Bankers' Association in November, 1909:—

> 'The board shall consist of not less than seven full members, of whom four shall form a quorum, and of not less than seven associate members, all of whom shall be elected by vote of the general managers of all the banks, and one-tenth of such vote being recorded against a candidate for either full or associate membership shall exclude him from election. The chairman of the board shall be appointed from the members of the board by a vote of the general managers of the banks.'

'This method of electing auditors would eliminate political influence, and would also avoid the objection that has obtained in the Canadian Bankers' Association, viz.: that the association is sometimes controlled by one or other of the large banks.

'External inspection will clear away false accounting and have a salutary influence, but there are causes of failure that it may not obviate.'

By the Chairman:

Q. What is your opinion on that?—A. I think that is all right. I do not know, just at the moment, about the details of the appointment of auditors, but they certainly should be selected in such a way as to ensure their being competent and trustworthy.

By Mr. Barker:

Q. You do that by the clearing house?—A. Yes.

Q. What is your board of directors in the clearing house?—A. A committee appointed by the clearing house itself.

By the Chairman:

Q. The clearing house is really a bankers' association.—A. It is an association of banks who originally got together for the purpose of clearing their cheques. As it is the only organization we have, we attached this new function to it, and when any bank applies to become a member of the clearing house, it has always been the rule that an investigation or an inspection of its affairs be made by the committee, and it has to be recommended as being satisfactory, before being admitted to clearing house privileges. This system of audit that we have simply carries out Mr. McLeod's idea. A bank cannot continue to have clearing house privileges if its condition and published statements are not satisfactory to the clearing house committee.

By Mr. Sharpe (Ontario):

Q. Is the list published, of the banks that belong to the clearing house?—A. Yes. I made an address before the Bankers' Club, Detroit, on December 7 last, on clearing house examinations. It gives a full account of how they were organized and draws attention to the weakness of the government system of inspection, and the necessity for this clearing house examination. It then goes on to give an account of the operation of the clearing house examination.

Mr. Forgan then read some extracts from this speech, which, on motion of Mr. Armstrong, is to appear in the Appendix. The reference in the pamphlet on clearing house bank examinations which I have just read is in regard to bad debts to the provision in our Banking Act practically in these words, as I remember them, that no obligation of a bank shall be considered bad until the interest on it is six months past due, and not then if it is in course of collection or is secured. If the legislators had undertaken to get language for the purpose of enabling a bank to carry along a bad debt indefinitely they could not have chosen better language than has been employed in the clause to which I refer.

By the Chairman:

Q. They have over-legislated in that respect?—A. They have over-legislated.

By Mr. Barker:

Q. Practically Mr. McLeod's suggestion and yours are alike except as to the body that appoints the inspectors?—A. Yes, except as to who shall appoint the inspectors.

By Mr. Maclean (York):

Q. How much does that inspection cost your association?—A. We pay our examiner $15,000 a year, and he has a staff of seven or eight men who are paid, from the stenographer who gets about $700 a year, up to say $3,000 a year.

Q. It is possible to get a checking system like that for $15,000 a year?

By the Chairman:

Q. What is the total amount of business of the banks who are associated in your clearing house, what does it amount to?—A. I could not tell you that.

Q. I want to see how it compares with the amount of business done by the combined Canadian banks?—A. The banks connected with the clearing house have a capital of over a hundred millions.

By Mr. Nesbitt:

Q. Do I understand you to say that a salary of $15,000 is paid to the examiner? —A. To the examiner, yes. The examiner gets $15,000 a year, and he has a staff of men who get from $700 for the stenographer up to $3,000 for experts.

By Mr. Maclean (Halifax):

Q. What is the total cost?—A. About $30,000 a year.

By the Chairman:

Q. Let me just press this question. I want to get an idea of the volume of business that is looked after for $30,000 a year. You say the capital of the combined banks connected with the Clearing House is $100,000,000?—A. Yes.

Q. What would be the volume of the deposits or loans?—A. There are banks in Chicago that are not connected with the clearing house.

Q. I mean of those that come under this special system of audit?—A. I cannot remember, but they must be somewhere between $600,000,000 and $700,000,000, about $700,000,000, I should say.

APPENDIX No. 2

By Mr. Nesbitt:

Q. Will that item give it to you (handing paper to witness)?

The CHAIRMAN.—My object is to ascertain whether this staff which Mr. Forgan has described as sufficient to cover the business dealings of banks of about the same size as the combined business dealings of the Canadian banks.—A. (Reads): 'Nineteen Chicago National banks show the following condition on April 4: deposits, $470,000,000; loans, $341,000,000; resources, $174,590,000.' Of course these figures are absurd, there is something wrong with the figures, because the loans are part of the resources, and they are more than the resources shown here.

By Mr. Nesbitt:

Q. Their capital is very much the same as ours?—A. This I have no doubt gives the correct deposits, $470,000,000 in Chicago National banks. There are only, I think, seven National banks in the Clearing House and there are nineteen members of that association altogether, the rest of them are State banks, but then there are sixty banks besides that, mostly State banks, that clear through other members, and they are examined and reported on the same as the members. That brings it to just about what I said, the deposits would be certainly over $700,000,000 in the banks connected with the clearing house.

By Mr. Rhodes:

Q. How many offices does this inspection staff have to inspect?—A. Close on eighty.

By Mr. Maclean (Halifax.):

Q. All within the city of Chicago?—A. Yes.

Q. How long has the system been in operation?—A. Five years.

By Mr. McCurdy:

Q. Judging from your experience in inspecting and managing banks, do you think that an external bank examiner could reasonably determine, having free access to all the returns and the agency reports, the true condition of a bank without leaving the head office?—A. I should think so, from my experience, but my experience of Canadian banks goes back to a period when they were not anything like they are now; but from my knowledge of the system I think that an expert could go into the general manager's office at the head office of the bank, take his books, take his returns from the branches supported by their own internal reports of inspection, and prepare a reasonably accurate statement of the bank, that will give as good assurance as necessary that the figures are right.

By the Chairman:

Q. Would that require much time in the average bank?—A. I do not think it would take very much time owing to the way in which they keep their books.

Q. Would it take weeks or months?—A. No, a week, perhaps.

By Mr. Maclean (Halifax.):

Q. How long does it take to make an inspection in Chicago?—A. It takes our man all his time to get round the banks once a year, but in cases where we are not satisfied we put him back the second time.

By Mr. Sharpe (Ontario):

Q. Do your banks make monthly statements to the government?—A. We make them when the government department calls for them.

Q. Are those statements verified by affiadavit?—A. They are verified by affidavit.

Q. Have you found any objection to that method of verification?—A. Well, the only objection is this, take what occurred last summer; there was a bank in a large central city with $10,000,000 capital, and $7,500,000 surplus that had been from year to year publishing statements to the public, the statements published to the public being copies of the statements rendered to the comptroller under oath. That city adopted a system of clearing house examination, and the clearing house became aware of conditions, the same as the comptrollers of the department did, and the result was they took hold of the situation and told them they would have to clean out, and they charged off $5,700,000 to clean up.

Q. Is that any objection to the verification of statements by affidavits? As a matter of fact in that case they made full statements and verified them by affidavit? —A. That shows that their affidavit was not worth much, it seems to me.

Q. Is there any prohibition in the United States of your banks loaning out of the United States?—A. No.

Q. You can loan outside of the United States if you wish?—A. There is nothing in the Bank Act about it, and we do loan outside when it is profitable or desirable to do so.

Q. Are you aware of the percentage of failures among the United States National banks as compared with the number of failures in Canada?—A. I do not think that any comparison of that conveys any correct idea to anybody; the percentage of failures in a country under a system where the business is carried on by twenty-five thousand banks with capital of various sums from $10,000 up compared with a system where you have so few banks, I believe is 26.

Q. But for whatever the comparison is worth, have you any idea?—A. No, I have not.

Q. Would the percentage be greater in the United States than in Canada?—A. I should not think the percentage would be greater. There are so many banks there that it would reduce the percentage.

Q. In the case of the Canadian banks, with so many branches and so many depositors all over the country, the results of a failure are so much more disastrous than for the unity banks in the United States.—A. Yes, of course.

Q. Mr. Macleod, who gave evidence before this Committee, has made a comparison, and I would ask you what your opinion is with regard to that comparison. During the period from 1881 to 1908 the Bank failures in Canada ran over 41%, while the failures record of traders and manufacturers showed for the same period less than 29%.

The CHAIRMAN.—That would be that out of 40 Banks in Canada, 16 failed.

By Mr. Sharpe (Ontario):

Q. Later on Mr. McLeod states as follows:

> Our system follows that of Scotland and Ireland, and is similar to the Australian system. In each of these countries banks have numerous branches widely scattered, yet there is inspection of the head office of every bank by independent auditors. There have been no failures in Scotland or in Ireland for 31 years. In Canada within that time, nineteen banks have gone to the wall, most of them with records of fabricated balance sheets. Twenty-nine banks remain. Australia despite the crisis and suspensions of 1893, has a failure record less disastrous than that of Canada. Bank failures in the national system of the United States, under government examination, shows a percentage of 5.14 of the total number of national banks, some time in business since 1864; against 36.2 per cent for Canada in the same period.

A. Of course when a bank fails in the United States it is only one in 25,000. Here it is—

Q. Would you think that was a remarkable difference in the percentages?—A. Well it seems remarkable.

APPENDIX No. 2

Q. Has it occurred to you that this is a remarkable percentage for a system which has been praised so highly as the Canadian system?—A. Yes, it has.

Q. You are rather surprised?—A. Yes.

Q. Would you ascribe it to the lack of external inspection in Canada? Before you answer that, are you aware that most of the failures in Canada have been failures in connection with the head offices? Are you aware that the Canadian failures have resulted from the losses due to bad management or illegal management at the head office?—A. I have heard severe criticism of some of them.

Q. You were formerly an inspector of the Bank of Nova Scotia. From your knowledge of the system of inspection in Canada are you not aware that the Canadian banks inspect their branches now and there are no money losses at these branches? Now, do you think that if you had any system of external inspection at the head office it would have lessened or mitigated the losses by the failures in Canada?—A. I think the tendency would certainly be that way.

Q. Have you written any other articles, or any other pamphlets on an external inspection?—A. Not recently. I wrote a pamphlet on bank supervision a while ago and I think I brought a copy of it here, but that is not especially on inspection.

(After making search). No, I have not got it here. The work I have here is "A guarantee on National Deposits."

Mr. MACLEAN (Halifax).—Give us that while you are at it.

Mr. SHARPE.—(Ontario).—Surely you are not going to interrupt me with my examination by interjecting something irrelevant?

The CHAIRMAN.—Go on with your evidence, Mr. Forgan. We will come to the other work later.

Mr. FORGAN.—I gave an address before the American Bankers' Association in Chicago a few years ago on bank supervision and management.

By Mr. Sharpe (Ontario):

Q. Did that include external inspection?—A. Yes.

Q. Would it be trespassing too much on your generosity to ask you to favour the committee with a copy of that work?—A. No, I have a copy at the hotel here and I will be very glad to lay it before the committee.

Mr. SHARPE (Ontario).—I would suggest, Mr. chairman, that the work be printed as an appendix.

By Mr. Sharpe (Ontario):

Q. How would you reconcile your statement that an inspector could go into the head office and ascertain the condition of a bank in a very short time by the returns that are made to the head office by the various branches with the statement made by the Finance Minister that an external inspection to be thorough would have to inspect branch offices in foreign countries or in Canada?—A. Because I have confidence in the internal inspection. If an inspector goes out to inspect a branch he does it just the same as an outside man would do, and the outside man would have the advantage of his inspection. There would be the balance sheet and there would be the criticism of every loan in the bank made by a competent man, right open to him.

Q. But it would not be necessary to duplicate the bank's own management to get at a substantial knowledge of the condition of the affairs of the bank?—A. Not to get at the knowledge, but to be responsible for the conditions as they exist and to undertake to keep a bank always in good condition.

Q. You think it would be absolutely necessary to inspect the remotest branch?—A. No, I do not think so.

Q. In the event of an external inspection it would not be necessary then to duplicate the bank's own general managerial organization if you wanted to get substantially at the condition of the bank?—A. Not to get at the condition as it exists at a special time. The inspector would not be responsible for that condition, and it would be up to

some one if the conditions were bad, to see what should be done with them. If they were taken and criticized and made public, while it might not result in causing the bank to fail, it might have serious results at the time and even more serious results might follow.

Q. Would you recommend the abolition of the external inspection now undertaken by the United States government?—A. No, I would not.

Q. You believe in that?—A. I believe it does a very great deal of good.

Q. Do the people of the United Statse, when a bank fails, look to the government to recoup them? Or does the government recognize any claims?—A. They never have, but that does not prevent the people nor the bank authorities themselves from blaming the government. Clearing House Associations' examinations are now in force in a great many cities. I have a list of the cities where the clearing house examination has been adopted since the city of Chicago adopted it, embodied in a pararagraph at the end of this pamphlet (indicating pamphlet). They are Cincinnati, Cleveland, Columbus, Kansas City (Mo.), Los Angeles, Milwaukee Minneapolis, St. Paul, New York, New Orleans, Nashville, Oklahoma City, Philadelphia, Portland (Oregon), San Francisco, St. Louis, and St. Joseph (Mo.). Three of these cities, viz.: Kansas City, Milwaukee, and St. Joseph, instead of having their own examiners, employ public certified accountants to make their examinations. So far as I have learned, these clearing house examinations have proved eminently satisfactory to all the banks in them.

Q. So it is generally agreed by bankers all over the country that some system of external inspection independent of the directors themselves is advisable?—A. Yes, it is desirable.

Q. You spoke of the government tax on the United States national banks; how long has that tax been in existence?—A. The tax on their circulation?

Q. Yes.—A. Ever since they started. It was reduced. It used to be 1 per cent when the government bonds were issued at 4 per cent, and it was continued at 1 per cent when the government issued 3 per cent bonds. When they issued 2 per cent bonds they reduced the tax on circulation secured by them to one-half of one per cent. We still have to pay 1 per cent on 3 and 4 per cent government bonds. On the two's we only have to pay one-half per cent.

Q. On whom does the incidence of the tax fall?—A. On the bankers. It reduces their profit on circulation.

Q. And the bankers lose that much profit?—A. Yes, it reduces their profit on circulation.

Q. It does not in any way fall upon the consumer, so to speak, or the bank's customers?—A. The banks use the circulation in their business. It has to be covered in some way but there is a profit in the transaction to the banks.

Q. Do you see any objection to the Canadian banks being taxed to that amount on their circulation?—A. Well, as I said in my paper this morning, my opinion is that the banks in Canada give a 'quid pro quo' for the privilege they get in issuing circulation without being taxed.

Q. On their currency they make a profit approximately, it has been said, of five or six or seven million dollars a year. Would there be any serious objection to making them pay a small tax?—A. I would want to know what the total circulation is before I could answer that question.

The CHAIRMAN.—Mr. Henderson gave us the facts in his evidence.

By Mr. Sharpe (Ontario):

Q. Assuming that they make four or five million dollars out of their circulation is there any reasonable objection why they should not pay a small tax?—A. If they make four or five millions on a hundred millions of circulation, clear of all expense, of printing, handling, shipping, and all that sort of thing—it would surprise me very much if they do make that amount—but if they do they might stand a little tax.

APPENDIX No. 2

Q. If they were taxed, would the tax fall on them or would it be shifted on the public?—A. They shift all the expense on the public; so does every business.

Q. Is not that taken into account in the profits they make?—A. Certainly.

Q. If the profits were abnormally large, they would pay the tax themselves out of these profits instead of the public?—A. They would probably adjust their charges to the cost of doing business if they are managed right.

Q. If they make too large a profit more banks would come into existence and compete with them?—A. There is no doubt about that.

Q. Speaking about smaller banks, is it the policy of the national bank system of the United States to encourage national banks of small capitalization?—A. It has been for the last four or five years, since the law was passed reducing the limit to $25,000, it has been their policy apparently to encourage small banks.

Q. With local officers?—A. Yes.

Q. Have you found that to result in borrowing cliques organizing banks for the purpose of making loans to themselves?—A. I think generally it is borrowers that start the banks. It is the borrowing interests in the community that start them.

Q. Are you aware that the regulations of the national banks do compel local men to be the officers of the local banks? I will just read you an expression of opinion:—

> 'Being of the opinion that the bank which does not fail is one whose directors are representative men of the community, the comptroller materially strengthened the system of directorial control by issuing an order that no new national bank should be chartered unless a majority of the directors were local men.'

A. Oh, well, that applies, I think, more to the large banks than it does to the small ones. Some of our directors live in New York and some in St. Paul and all over the country, and the comptroller wanted a majority of them at home so that they could attend the meetings.

Q. Was not that made to check the tendency of large banks controlling the banking obligations of country districts?—A. I do not think so.

Q. Instead of having the officers at a few central institutions, they have the officers in the local centres?—A. I cannot imagine what it means, because there is no doubt that in every local centre where there is a bank the directors are local men.

Q. And that is the policy encouraged?—A. What Mr. Murray had reference to was the larger banks in the larger centres that went all over the country to get directors. Such banks would say: We want business in St. Paul; we will have a St. Paul man on the board; or, we want business in Kansas City, and we will put a Kansas City man on the board. The law requires that three-fifths of the directors shall reside in the State in which the bank is organized. That enables us to have two-fifths of the directorate scattered around the country. But these men, in order to attend a meeting, have to come a long way and their services are not of as much value to the bank as those of local men.

Q. Would their knowledge of local conditions be of value?—A. Their knowledge of local conditions would help.

Q. Another comment of this writer is as follows:—'This itself is a big step toward curtailing the activities of those who would control a chain of banks through a central institution, which is so often dangerous as well as detrimental to those committees where the various links are situated.'?—A. There are companies started in different places—there was one in Minneapolis—where a holding company of bank stocks was organized under a State law, and they were going to control a whole chain of banks throughout the country by owning the stock in them, and that is what this refers to. It is a very hard system.

Q. There was an article in the Toronto *World* speaking about the limitation of loans. You are not in favour of the limitation of loans in any way?—A. Well, in a certain way I am. I do not think that the executive officers of banks should be

allowed to loan money to themselves under any circumstances without the knowledge and consent of the directors.

Q. This was a correspondent that wrote an article to the *World,* and he instanced a case where there was a million and a half dollars loaned to a one million firm, six of whose directors were bank directors, while farmers were denied advances on wheat covered by bills of lading. Is that a proper condition of affairs, bank directors lending to the company in which six of their number were directors?—A. I do not think it was a good condition of affairs at all. I do not think honest men would do it.

Mr. ARMSTRONG (Lambton).—I move that the address as presented by Mr. Forgan, to the annual meeting of Group Two of the bankers' Association of the State of Illinois, be also placed on our records.

The CHAIRMAN.—What is the subject?

Mr. ARMSTRONG (Lambton).—'Should National Banks' deposits be guaranteed by the government, or by a deposit with the government, in either case the necessary fund to be raised by taxing all the banks on their deposits?' Mr. Forgan gives not only his own ideas but also the statements of prominent bankers and business men in the United States, and he also makes a number of quotations from the Hon. A. H. Revell, who is supposed to be an authority in the United States on banking matters.

Mr. FORGAN.—Mr. Revell wrote a book on the guarantee of deposits, and that is a criticism of his arguments.

The CHAIRMAN.—Perhaps the committee would like to hear briefly Mr. Forgan's views about the guaranteeing of deposits, whether banks should collectively guarantee one another's deposits or whether the government should make some arrangements to guarantee deposits up to a certain extent.

By Mr. Maclean (Halifax):

Q. What are the fundamental objections?—A. The objections are, in the first place, it is an imposition on the honest and capable bankers of the country, reducing them to the level of the worst. If the public do not have to discriminate as to which bank they will make their deposits in, as every bank is guaranteed, why that is the spur that a banker has to succeed and the whole inclination he has to make a reputation for himself in building up his bank is gone, because his bank will not be regarded by the public as being any better than the poorest. It has a tendency to reduce the quality of the management and to encourage dishonest people to go into the business, seek deposits, and mismanage their banks; and they can get their friends to go in because their friends know they do not have to rely upon them but upon the guarantee for the deposits.

Q. You stated that you had 1,500 customers of your bank in Chicago who were other banks rediscounting with you.—A. Keeping deposit accounts with me. They do not all rediscount. The trouble is when they do want to rediscount they pretty nearly all want to do it at the same time.

Q. Would those banks be scattered throughout the Union pretty widely?—A. Principally in our section of the country, the banks west of us, southwest and northwest of us keep accounts in Chicago.

By the Chairman:

Q. Does not that in a way approximate our system of branch banks?—A. No, but the very reverse, because the country banker is the boss and I am their servant; and in the other case I would be the boss and the local manager the servant.

Mr. KNOWLES.—It occurs to me that it is very desirable that we should have Mr. Forgan's pamphlet printed.

The CHAIRMAN.—It is proposed by Mr. Armstrong, and seconded by Mr. Knowles, that Mr. Forgan's pamphlet on the 'Guaranty of National Banks Deposits' should be printed. Carried.

APPENDIX No. 2

By Mr. Maclean (Halifax):

Q. Under your banking unit system outside banks when having a surplus on hand place it to their credit at some bank or central reserve?—A. They do not do it only when they have a surplus. They need the account for exchange purposes; just the same as branches have to have an account with the head office because their customers want drafts on central cities, where they are buying goods, and the banks have to have accounts at these centres.

By Mr. McCurdy:

Q. You stated this morning that your maximum interest on deposits was 2 per cent?—A. In the First National Bank, yes.

Q. And that in active centres as high as 4 per cent was paid by sound banks?—A. Principally trust companies. I do not think a national bank can afford to pay 4 per cent on deposits anywhere.

Q. What would be a fair rate of interest for a sound bank to pay? Would you say as high as 3 per cent?—A. It depends on what kind of deposits you are speaking about.

Q. Thirty days' notice deposits?—A. National banks do not take time deposits; they are all demand deposits. They are not allowed to take time deposits. All the liabilities of the national banks are payable on demand.

By the Chairman:

Q. Is it so with a State bank?—A. No.

By Mr. McCurdy:

Q. Would a company like the Illinois Trust and Savings Bank take time deposits?—A. Yes.

Q. At what rate?—A. About 3 per cent.

Q. Have you any statistics to show the average rate charged commercial borrowers in Chicago, for a period extending over some years?—A. We try to keep it as near 5 per cent as we can. I think 5 per cent would be about the average.

Q. So that practically the difference between the rate paid on time deposits and the commercial rate is 2 per cent. That is a fair average?—A. On commercial deposits?

Q. On money left on deposit; it is worth 3 per cent?—A. Yes, but the banks that pay interest, like the Illinois Trust and Savings Bank, that you referred to, do not buy commercial paper. Our Trust Company does not. We loan entirely on collateral.

Q. What would the average rate received on collateral loans be?—A. It would be less than 5 per cent.

Q. You stated a few moments ago that any tax placed on banks would necessarily be passed on to their customers?—A. I did not mean directly. What I mean is that the bank management has to get enough to pay its expenses and give itself a sufficient margin in the business, and in that adjustment the tax would finally fall on the borrower.

Q. So that, if a bank were conducted extravagantly, with non-productive branches or general extravagance, the cost of that would fall on the bank's clients?—A. Competition will regulate that to a great extent.

Q. But assuming that the bank was extravagantly conducted, it could not exist in face of competition?—A. Without getting a higher rate of interest. It is just there where bad management comes in. Supposing the management negotiated bad loans then when losses stare them in the face they cannot do a good business because there is not enough in it to enable them to make a sufficient profit to cover the losses on their bad loans, and they go floundering on from bad to worse looking for business that yields abnormal profits.

By the Chairman:

Q. I want an expression of opinion on this point, where there is extravagant bank management, the clients are the people who have to suffer?—A. Undoubtedly, and the stockholders after them.

By Mr. Cockshutt:

Q. Mr. McCurdy partly foreshadowed what I was going to ask. Is there a limitation on the rates you can charge in the United States for loans?—A. We are not allowed to charge more than the law of the State in which we do business allows. That is as regards national banks.

Q. What rate is that?—A. Different rates with different States. In Illinois the rate is 7 per cent.

Q. Is that law faithfully observed by the banks?—A. Yes.

Q. Is there a penalty for going beyond that 7 per cent?—A. The penalty is that you cannot collect the interest.

Q. Suppose it is collected before you make the loan?—A. I think there could be a suit brought for usury.

Q. In the outlying districts of the United States, are the rates as low on loans as in well established centers?—A. No. Bank rates vary in different localities.

By the Chairman:

Q. What are the rates in some of the typical western States; say Kansas, Nebraska and Dakota, the rates fixed by law, I mean?—A. I do not know what the rates are in the different States. Every State has its own law in regard to usury and some of them are very drastic.

By Mr. Cockshutt:

Q. If the rate was limited to 7 per cent, say, in your own country, do you think the effect would be that the banks would withdraw from the outlying districts?—A. These local banks are started with a full knowledge of what they can charge. They have to conform to the laws of the State in which they do business.

Q. Does the State exact a penalty if they exceed the rate designated?—A. You understand that the law is not made in connection with the bank law; it is a separate law in connection with usury.

Q. The banks are not limited by their charters or any other Acts of the legislature.

By the Chairman:

Q. I will ask that question, Mr. Cockshutt, in this way. Have you anything like this clause 91 in the Bank Act in the United States?—A. There may be, in some States, I am not familiar with all the State laws, but no national bank doing business in any State has any such restriction as that. It would be restricted, however, by the usury law of the State in which it did business. It would not be allowed to charge a usurious rate if the law of the State had a usury law to restrict it.

By Mr. Cockshutt:

Q. I understand that practically you cannot go beyond 7 per cent in the United States for loans, either in new or old districts?—A. Well, some western States have no usury law; others have.

Q. If an eastern bank is doing business in a western state, it can collect the interest that is usual in that particular State without any penalty?—A. Yes.

By the Chairman:

Q. The laws of the different States define what constitutes usury?—A. Yes.

APPENDIX No. 2

By Mr. Cockshutt:

Q. The discussion, you will have noticed, rather seeks to place certain restrictions upon our banks, or rather in regard to banks that are not at present in existence, in regard to inspection, a possible tax on circulation limitations in various ways, and so on. Do you think we can enact such clauses as that, without in any way interfering with the possibility of new banks starting or old banks extending?—A. That was in regard to a tax on circulation. I should think, in view of your desire, or rather the apparent necessity to have increased banking capital for use in your country, that the profits banks are now making would not warrant your imposing these restrictions. You want to leave the banks in such a condition that they will be making enough profit to have a good chance of attracting capital to be invested in banks.

Q. You think further restrictions on our banks would have a tendency to prevent the increased credit we are looking for?—A. I think so.

Q. In connection with real estate holdings by the banks in your country, is there any law limiting the amount of money you may invest in bank premises, or preventing banks from having larger premises than is necssary for their own needs?—A. The national bank law prohibits us from owning real estate other than is necessary for our business, and if we acquire real estate through a bad debt, we have to dispose of it within five years after we acquire it. The limitations on our investments in buildings are not sufficiently definite. It is pretty hard to say just how elaborate an establishment a bank may acquire, and the comptroller has always to be consulted, and his consent obtained when a bank wants to put up a large building which is to be used for other purposes than its own offices. If the building, however, is to be used exclusively by the bank, there is no restriction, and it is left entirely to the management.

Q. You are not allowed to erect larger premises than you actually require?—A. No. I will tell you what we did in Chicago, in connection with the First National Bank. We have an eighteen story sky-scraper, which cost, including the land, $6,000,000. We organized a company with $2,500,000 capital and we issued $2,500,000 of 4% bonds. They gave us $5,000,000, and the rest we had to make up out of profits later. We took half of the stock in that company, $1,250,000. The company is the National Safe Deposit Company, organized under the State laws of Illinois.

Q. It has nothing to do with the bank?—A. Except that the bank owns half the stock. The company owns the building and we have, that is the bank, $1,250,000 invested in it. That has been construed and passed upon as reasonable for a bank of our size.

By the Chairman:

Q. Have you bonds to that extent?—A. The bonds are sold.

By Mr. Cockshutt:

Q. In making up your statement, I suppose that appears as an asset?—A. It appears as follows: 12,500 shares, National Safe Deposit Company stock; (Bank building) $1,250,000. Other people own the other half of the stock.

Q. Would the bank get a dividend on that $1,250,000, or is it counted as rent?—A. I will tell you the situation to-day. We are sitting, rent free, in that big office, with an acre of floor space, and making between five and six per cent on our original investment besides.

By Mr. Nesbitt:

Q. Would it be an impudent question if I were to ask you what dividend your bank pays, and how many stockholders you have?—A. We have between seven and eight hundred shareholders, and have been paying twelve per cent regular dividends for a long time; but we have, during the past two years, paid five per cent extra, and for this reason: We have affiliated with us a trust company, the First Trust and Savings Bank. It does a regular trust business, handling bonds, savings-deposits and that sort of thing. That company started with only a million dollars capital and

grew very fast, and we are letting the profits accumulate so that we will get enough capital in the business to keep pace with the deposit liabilities. We are paying no dividends there. We started out to do so, but then stopped, so that in place of paying dividends on the trust company, we are paying it all out of the bank. The bank has a $10,000,000 capital; $10,000,000 surplus and $1,500,000 undivided profits. Last year we paid a dividend of seventeen per cent, but it takes $1,700,000 to do that, and as we only earned about $1,800,000 we only had a margin of $100,000. We would not pay out anything like this if it were not that we were building up this other company.

By Mr. Sharpe (Ontario):

Q. Are the directors in the bank and the trust company identical?—A. Yes.

By Mr. Cockshutt:

Q. I thought you said your capitalization was $20,000,000?—A. I said the largest bank in Chicago had that capital, the Continental Commercial Bank.

By Mr. Sharpe (Ontario):

Q. Is the trust company a promoting company?—A. We promote nothing.

Q. It does purely a trust business?—A. Yes. We do not deal in stocks, we deal entirely in bonds, and nobody can sell us a bond unless the property against which it is issued shows an earning capacity of several years' standing, sufficient to pay the interest on bonds three, four or five times over.

By Mr. Aikins:

Q. Your State law permits your bank to hold stock in other companies?—A. No.

Q. Your bank apparently holds half of the stock in that building company?—A. The reason is that we are allowed to invest a certain amount of money in order to secure premises in which to do business. Instead of owning the building entirely, we took an interest in it.

By the Chairman:

Q. You would have been allowed to have a building of that same value?—A. Yes, but we would have been allowed to pay $6,000,000 and own the building and land entirelly.

By Mr. Sharpe (Ontario):

Q. Does the trust company that is allied to the bank work on its own capital or borrow money from the bank?—A. It never borrows money from the bank. It is rather the other way around. We would like to borrow from it sometimes but we don't. You see it has not regular borrowing customers. This trust company takes only savings deposits and other special deposits from people who do not borrow.

By the Chairman:

Q. Have you a savings bank department connected with your bank?—A. Not with the First National Bank.

Q. Savings departments, as we have in all our banks, do not then exist with you?—A. No, and that is the reason we started this company, to compete for this line of business. We saw that we could control considerable of it.

By Mr. Sharpe (Ontario):

Q. Seeing that the boards of the bank and the trust company are identical, would it be a proper transaction for the trust company to negotiate loans from the bank?—A. I do not know about that. So far as I can see, that condition could not arise.

Q. If the trust company was not doing a purely trust business, but was addicted to promotions, would it not be undesirable for the bank to loan to a trust company, for speculative purposes, when the boards of the two were identical?—A. That would not be proper banking, from my standpoint.

By the Chairman:

Q. As a question of appreciation, how do you characterize the relationship which exists between the bank and a depositor? Is the bank, as regards a depositor, a trustee, or is the relationship, in your mind, simply that of lender and borrower?—A. I would say, lender and borrower, or, debtor and creditor.

APPENDIX No. 2

Q. When you have deposits placed with you, do you regard yourself in a fiduciary capacity at all?—A. We have to regard ourselves in a fiduciary capacity, especially with savings depositors.

Q. You told me you had no savings department in the bank.—A. No, not in the National Bank. When we receive deposits in it, we become debtor to the depositor.

Q. Is that the relationship that you, as a bank president, hold towards the depositor, merely the relationship between lender and borrower? Is there any trustee relationship in your mind?—A. Of course I have felt the responsibilty in a fiduciary capacity.

By Mr. Nesbitt:

Q. But only in the same sense as any other liability?—A. Yes, except that a depositor comes in voluntarily and puts his money in the bank. The bank is a sort of quasi public institution. Certainly, something of the trustee relationship comes in there, but from a legal standpoint we are regarded only as debtor and creditor .

By Mr. Barker:

Q. But you are at liberty to use the money for your purposes?—A. We look upon the money as ours as soon as we get it, and we owe it to the depositor.

By the Chairman:

Q. There came to my notice the other day a summary of the general financial and business situation, published by the Bache Company of New York (J. S. Bache & Co., Bankers). There is a clause in that I want to read, because I want to ask whether its point is well founded. In referring to the death of Mr. J. P. Morgan, it says:

> 'Our scattered and unordered army of banks, grown up, voluminous and unrelated, under a faulty and unsound system, is grievously incompetent to meet the fluctuating needs of the country or to cope with critical conditions sure to develop. At such times of danger it has been necessary for some dominant leader commanding powerful resources, to stand as a bulwark against threatening financial disaster, such a leader must have been possessed of invincible courage and the highest integrity, especially the latter, in order to gather the financial interests around him completely subject to his orders. Mr. Morgan, thoroughly qualified for the task, took this place, confidence in him was absolute and he fully met all its requirements.'

The idea I have in mind is this: Does the American system of banking, described as it is here, voluminous and unrelated, tend to make one or more men enormously wealthy and possessed of very great financial power in the United States?—A. I do not think the banking system tends to make them wealthy, but in regard to what it says there about Mr. Morgan being the dominant factor at the time, it seems to me that all there was to that was this that he was the most powerful man. He came from abroad, the bankers got into consultation with him, he looked the situation over, and they allowed him to dictate, he simply advised them as to what to do and they acted on his judgment and advice.

Q. His enormous power was owing to his capacity?—A. To his capacity.

Q. Do you think that our Canadian system lends itself to the placing of such enormous power in the hands of an individual?—A. The Canadian system?

Q. Yes?—A. No, I do not think it does.

Q. In other words you think that our Canadian system tends so to speak, to develop a number of men of competitive, semi-great men, rather than one or two great men?—A. Well, I do not know. Mr. Morgan was great on that occasion because of the weakness of the system, he was there and he sized the situation up; it was the weakness of the system that required some dominant man to come in and say, 'Do this,' or 'Do that,' to a number of nervous men who did not know what to do in order to get through. He said, 'Do this,' and they did it and he thus re-established confidence.

By Mr. Barker:

Q. He would probably have dominated wherever he was?—A. Yes.

By the Chairman:

Q. Does their system in the United States tend to the aggregation of enormous wealth in one man more than it does in Canada?—A. I do not think that the banking system of America tends to make a man like Mr. Morgan; it was the whole general business of the country he was interested in. He was not interested in banks especially except down there in New York, and he got a good slap as you know, when he went outside and invested in your Sovereign Bank.

Q. Have you any special knowledge about farmers' loans in the American west, more especially in the earlier days? You know what the farmers of Dakota, Kansas and Nebraska had to pay for their banking facilities in the earlier days?—A. Oh yes, they had to pay a pretty good rate, 10 per cent, I expect, and more; one per cent a month.

Q. Had they small local banks at that time?—A. Oh yes.

Q. And these rates were exacted by the small local banks?—A. Oh yes.

Q. In the early days in the American west?—A. Yes.

By Mr. Loggie:

Q. I would like to ask if the United States banking system provides for making loans to manufacturers on their raw material and to assist them in marketing their products?—A. Not especially, no.

By Mr. Sharpe (Ontario):

Q. Does it provide for any secret liens?—A. No secret liens, no, but there again, in that particular, we would be regulated by the law of the State in which we are doing business, and not by the national law. If we were dealing in warehouse receipts or liens of any kind we would be in just the same position as any State citizen, we would have to conform to the laws of the State the same as companies or individuals doing business in that State.

By the Chairman:

Q. Do you not find it confusing to have a multiplicity of banking laws?—A. Why, in some States we scarcely know how to word a note so as to make it conform with the law.

By Mr. Loggie:

Q. Have you any other provisions to aid manufacturers by loans on their raw material?—A. We haven't any in connection with the national law, nor we haven't any in connection with any Illinois law by which we can help manufacturers, except just on their own credit.

Q. On their credit?—A. But we have developed the system you know of lending to men on their own credit. Most of our loans are made on what is known as single name paper nowadays.

Q. When a manufacturer is entitled to a loan he is granted credit on his own name?—A. On his own name.

Q. Without endorsement?—A. Without endorsement. We have developed that very largely in the United States.

Q. You do not ask manufacturers for endorsers?—A. We do not ask them for endorsers. But if a manufacturer was not properly organized and not properly capitalized it would not be possible for him to borrow on his own name, he would have to get some other name or some other security. If he is properly organized, properly capitalized, and his business is a successful concern he can borrow on his own name.

The CHAIRMAN.—I think Mr. Forgan has displayed the utmost patience in answering the questions that have been put to him during the sittings of this morning and this afternoon. I know I am expressing your wishes when I extend to him our hearty thanks for having come here from Chicago, involving much loss of time and considerable trouble, and for the very patient and careful way in which he has answered all questions. On behalf of the committee, I tender to you, Mr. Forgan, a very hearty vote of thanks. (Loud applause.)

APPENDIX No. 2

Mr. FORGAN.—Let me say that I thoroughly appreciate your thanks, and I have enjoyed being here. When I was invited to come I felt great pleasure at the thought of renewing my old associations in Canada, and my connection with Canadian banking. I felt quite honoured to be asked to come back and give you my views as they had developed through doing business in another country, and if my views have been of any service to you I shall be very much gratified.

Committee adjourned until to-morrow.

HOUSE OF COMMONS,
COMMITTE ROOM No. 101,
FRIDAY, April 11, 1913.

Committee met at 10.30 a.m., the Chairman, Mr. H. B. Ames, presiding.

The CHAIRMAN.—We have with us this morning several gentlemen from the western provinces who are here to give us the benefit of their experience and that of their friends in connection with certain of the clauses of the Bank Act and certain of the amendments proposed. First of all I would like to ask Mr. Chipman, editor of the *Grain Growers' Guide*, published in Winnipeg, to take the stand.

Mr. GEORGE F. CHIPMAN, called and examined.

By the Chairman:

Q. Will you tell us, Mr. Chipman, as to the circulation of your paper and the class of people who read it?—A. Thirty thousand a week; read by grain growers.

Q. In what part of the country?—A. Manitoba, Saskatchewan and Alberta. It is the official organ of the Manitoba Grain Growers' Association, the Saskatchewan Grain Growers' Association, and the United Farmers of Alberta.

Q. As editor of that paper are you in close touch with the sentiment of that class of the community?—A. I think so.

Q. And you receive correspondence from them?—A. Yes, regularly.

Q. In view of this examination I understand that you have issued in the *Grain Growers' Guide* several invitations to your readers to supply you with information on certain pertinent matters. Is that so?—A. That is correct.

Q. You are here this morning to give us the benefit of these replies?—A. That is right.

Q. I may say that Mr. Chipman has indicated to me some eight or ten provisions of this memo. that he would like to speak upon. Not upon technical banking subjects. First as to whether bank charters should be continued in force for a longer period than ten years. There is a proposition before the Committee that in this present case the charters will be extended until 1920, that is to say for seven years. Have you any opinion to offer in that respect?

By Mr. Sharpe (Ontario):

Q. Perhaps Mr. Chipman might care to make a statement as other witnesses have done?—A. No, I have no general statement prepared.

By the Chairman:

Q. I had a chat with Mr. Chipman this morning, and he indicated the clauses on which he would like to give evidence. What remarks have you to make on Section 4?—A. Of course, on that section I could not give very much information; but it would seem from the standpoint of the laymen that it would be desirable to leave the Bank Act in such shape that it could be amended more frequently than once in ten years. For instance, the western provinces are developing so rapidly that it seems altogether likely that there will be changes required inside of ten years and

as I understand it, although it is not distinctly stated in the Act, the Bank Act is to be revised only once in ten years. That is the general understanding and the banks justly feel that it is more or less an interference with their business; but if it were provided that a revision could be made more frequently, say every five years, the bankers would expect it and be prepared for it.

The CHAIRMAN.—I may say the Prime Minister, when this bill was introduced in the House, pointed out that while in practice the Bank Act was thoroughly revised only every ten years, yet there was nothing in the Statute to prevent a revision taking place any time the House was in session, on any point.

Mr. CHIPMAN.—These changes, I presume, would be more to suit the requirements of the banking business, rather than the result of outside suggestions.

Mr. NESBITT.—Not necessarily.

Mr. SHARPE (Ontario).—Substantially, because changes such as the amending of a charter only made on the initiative of the government. No private member can introduce such a bill without the permission of the government.

Mr. PAPINEAU.—A change was made in the Act in 1908, to meet conditions in the West.

The CHAIRMAN.—In the emergency period, to provide note circulation for moving the grain.

By Mr. Nesbitt:

Q. As a matter of fact, all legislation is the result of pressure from somebody. If the people in the West wanted the Act amended, there was no reason why it should not be done. I would like to ask you, why should not the banks have a charter continuously, like any other company that gets a charter?—A. I do not see any objection to that, provided revisions in the Act can be made at any time.

By Mr. Sharpe (Ontario):

Q. You see the advisability, however, of having a time fixed for a general revision?—A. I think that would be desirable.

Q. If continuous charters were granted, there would not be an opportunity, such as this, for general discussion every ten years?—A. Quite so.

By the Chairman:

Q. Sections 10 and 13. The committee, as you are aware, has been devoting a good deal of attention to the section which deals with the incorporation of new banks. There has been an amendment proposed, having for its object the creation of smaller banks than those which we can legally create to-day. What is your opinion as to the needs of the West for a system of small banks?—A. I do not know that my opinion would be very valuable upon that point. From what I have been able to learn of the system across the line, where they have small banks, it seems to me that the system as organized in Canada at present is more economical than a system of smaller banks. I presume you mean, by smaller banks, provincial banks and not chartered banks with smaller capitalization.

Q. I will read the amendment proposed to Section 10. It is proposed:

'That section 10 be struck out and the following substituted therefor:—

'Banks shall consist of three different classes: (*a*) Dominion banks with branches in more than one province, (*b*) Provincial banks with branches in only one province, and (*c*) City or County banks with no branches.

'The capital stock of such banks hereafter incorporated shall be not less than $500,000 for Dominion banks, $250,000 for provincial banks, and $100,000 for city or county banks.

'And the capital stock of any bank shall be divided into shares of one hundred dollars each.'

The provincial and city banks that are mentioned here would be in addition to the present banking system?—A. And they would not have power to issue notes.

Q. I presume not. That was your idea, I think, Major Sharpe?

Mr. SHARPE (Ontario).—I did not go into details, but just dealt with the general principle. I do not think it necessary to ask the witness as to any particular plan but simply the general question, 'Are you in favour of smaller banks?'

By the Chairman:

Q. You have had a good deal of experience with correspondents of your paper which have come from the United States and have given you their comparative idea relative to the merits of the Canadian and American systems. In the United States they have this system of small banks, we do not. Do you think the American system is preferable to ours?—A. Occasionally that feature creeps into the correspondence from our readers but not often. The feeling seems to be that the Canadian system in itself is better suited to the requirements but perhaps there may be some complaint against the methods employed by some of the banks.

Q. Then as I understand your view it would be to the effect that you think the Canadian system is good for the needs of the West, but you have something yet to say as to whether the methods might be improved?—A. Yes, I think probably that will cover it. Of course, it must be taken this way, that I am not very closely in touch with the system but so far as I understand it I think it will.

By Mr. Aikins:

Q. Might I suggest that possibly the witness may have some thoughts or ideas that will not be brought out by questions and I should like him to feel entirely free to express those views, even if they are not in reply to a question?

By the Chairman:

Q. I have already made that perfectly clear to Mr. Chipman and he has promised later to give us a statement which I think will raise most of the western questions. These questions are only preliminary.—A. The question you asked was, I suppose, with reference to centralized banks versus local banks?

Q. That is it. Do you think that from the western point of view there will be anything gained by substituting local banks for the general system we now have? That is practically the question.

Mr. TURRIFF.—I do not think that idea was in the minds of anybody to substitute local banks for the present system. If I understood Major Sharpe correctly, his idea was that these local banks would be in addition to the present system we now have. It was thought it would be advisable to also make it possible to start provincial and local banks.

Q. I think your point perfectly well taken. My statement did not absolutely and accurately explain the proposal which contemplates the engrafting upon our present system of provincial and local banks. Do you think there are places in the West where a small bank system could be, with benefit to the community, inaugurated?—A. Would that include such as are known as co-operative credit banks?

By Mr. Sharpe (Ontario):

Q. That is a different proposition.—A. Of course, I presume that this would not include the question of whether the government should issue all bank notes. That would be a separate question.

By the Chairman:

Q. Shall we leave this then and turn to 54? What suggestion have you to make, Mr. Chipman, as to the inclusion of any further details in the annual statement which is ordinarily submitted by the directors at the shareholders' meeting. This statement, as you know, contains the liabilities and assets as classified under various heads. Is there any further detail you think should be included there?—A. I think it would be of advantage in local communities to have pretty nearly the same report supplied from the local branches as is supplied now only from the head office for all the branches of

each bank in bulk so that it may show the volume of business, the amount of deposits, the amount loaned in each community, and also the different classes of loans should be specified. For instance if it were known how much was loaned for agricultural purposes and how much for general purposes, and the amount of call loans, and the securities also the loans made by the branch banks for foreign enterprises or upon foreign security.

By Mr. Nesbitt:

Q. You would want the branches to cover such information in their returns?—A. I think it would be very valuable information to have in regard to the branch bank.

Q. That is the general office should publish what each branch bank does?—A. Yes.

Q. What particular good will it do, will you tell me that?—A. I think the general public want to know more about the banking system, where the deposits came from, where the loans are made and if there were any feeling that there was discrimination it would be cleared away, or substantiated if this information were available.

Q. What particular good could the publication do to me as one of the general public except as to general result, the general security of the bank? That is what we want to know. In my particular case I never have any deposit so what value would that information be to me? What good would it do any man to know just how many of his neighbours were borrowing?—A. I think the publicity would be of great value in connection with the banking system, inasmuch as the banks hold public franchises.

By Mr. Sharpe (Ontario):

Q. Would not that be compelling the banks to disclose their business to competitors? If they had a large business in any particular branch the publication of that information would disclose to their rivals the fact that there was an opening where they might step in. Does that strike you as being unfair to the banks?—A. Well, it might interfere with the banks somewhat, but so far as I can see at present, it appears to me that the advantage to be gained would be equally as great, if not greater, than any difficulty it might create.

By Mr. Nesbitt:

Q. That is what I wanted to get at. I would like to know what benefit the people would derive from the publication of such statements. Would it not be a matter rather of curiosity on their part? If they know as to the general stability of the bank that is the main thing. Would it not be rather to satisfy curiosity than any business benefit that might be derived?—A. Of course people in the West would like to know more about these matters in connection with the local branches.

By the Chairman:

Q. There are, for example, 375 branch banks in Saskatchewan, 252 in Alberta and 204 in Manitoba, making altogether about 800 branch banks. Is your idea that each of these branch banks should make a separate report for the use of the public?—A. Yes.

Q. Well now take the case for example of the city of Brandon which has branches of the Banks of British North America, Commerce, the Dominion, the Hamilton, Imperial, Merchants, Northern Crown, and Union. Would you expect each of these eight banks to publish a complete statement of their business at that place?—A. Yes, in so far as I have mentioned.

Q. In so far as you mention?—A. Yes.

Q. That is as to the amount of the deposits and loans?—A. And the character of the loans.

Q. Whether to farmers, merchants, &c.?—A. Yes, not necessarily very finely subdivided, but in general classes as is now done, as I understand it, by the local banking system across the line.

APPENDIX No. 2

By Mr. Aikins:

Q. Would you explain to the committee what particular purpose that would serve?—A. One purpose is this, that it gives the general public an idea of the business being done in each community, they know what is on deposit and how much is loaned, and it gives them something to work upon. I think the general public are becoming very much interested in the banking system of Canada, and the more information they have of a reliable character the more likely they are to appreciate the true situation. It has been mentioned here that public opinion is a very important factor in making the decennial revisions of the Banking Act.

By Mr. Sharpe (Ontario):

Q. Your idea is that if a bank was unduly loaning to commercial institutions and discriminating against the farming class that would be rectified by the publication of this information?—A. Yes, that is one point, it would be rectified.

By the Chairman:

Q. Had you anything in your mind like the equalization of business to be done in that locality, deposits and loans. That a branch bank receiving $500,000 deposits, and making loans to the extent of $250,000, would your contention, following that, be that there should be $500,000 loans made in Brandon because there was that amount of deposits?—A. No, I do not think it would be wise to force loans on people if they did not wish to use them.

Q. You believe in a liquid flow of deposits from one part of the country to another, do you?—A. Oh, I would think it would be necessary if there were great deposits in one place I do not see how it would be possible to keep them there and pay interest on them if they were not being used.

By Mr. Thomson (Qu'Appelle):

Q. Do you think it would be desirable to have one column or classification for speculative loans?

Mr. TURRIFF.—The banks would never allow that any one loan was speculative in character.

The CHAIRMAN.—I am afraid we would have to ask for a definition of the word 'speculative' before your question would be admissible.

Mr. THOMSON.—I should imagine that loans on city lots twenty-five miles out of the town would be speculative, and I think it would be a good thing for the people in the East to have that information published in the statement.

The CHAIRMAN.—I think we will move on to section 56 B, that relates to government audit, and Mr. Chipman, I think, wishes to be heard in respect to the system of government audit and inspection. What are your views on that? As to audit and inspection of the banks: do you wish to say anything on that?

Q. With reference to the proposal to tax the banks for the issue of bank notes, what have you to say?—A. I take it for granted that any tax placed upon bank notes will be simply handed over to the ultimate consumer, so to speak, or very largely so, and if the facilities provided by the banking system were satisfactory to the consuming public——

Mr. AIKINS.—That is to the customer?

Mr. CHIPMAN.—That is the customer. I do not see that anything in that event would be gained particularly by taxing the note issue. If the charges made to the customer are higher than would seem to be warranted then it seems to me that some return should be made to the treasury for the privilege of issuing the notes.

By Mr. Clark (North Bruce):

Q. Have you figured out, or have you any idea what that is worth to the banks? —A. No, I have not.

By Mr. Sharpe (Ontario):

Q. You do not know whether the bank or the bank's customers would pay that tax? That, I suppose, would depend upon the profits; if the bank had had an abnormally profitable year it might pay the tax, especially if it were only a small amount. In other cases the incidence of taxation might fall upon the customer?—A. If the charge were very high to the customer I suppose in that case it would. Where the profits are made from the customers, they probably would have to bear whatever is placed upon the notes.

Q. All the profits are made out of the customers?—A. Yes.

By the Chairman:

Q. Mr. Chipman, we will proceed to section 83. Now, all through the West—through the new provinces of Manitoba, Saskatchewan and Alberta—when a new bank goes in it usually buys an expensive site, and oftentimes puts up a building. Do you think that is an advantage or otherwise to the towns in the West?—A. Well, in the West there seems to be a shortage of money, it is natural to assume that if a great deal of money is invested in large buildings, that much money is taken away from the uses of the public.

Q. What effect does it have on what you might call speculative land sales in western towns?—A. Of course it enhances the value of land whenever a good building is put up. That building would not be erected unless there was money and people to be attracted, and the coming of people enhances the value of land.

By Mr. Aikins:

Q. As I understand it, to the extent to which capital is withdrawn from the benefit of the public and tied up in that building, the public finds a detriment.—A. I would think so. You cannot show any specific result from it, but it would simply look that way. If the money is used in that way it cannot be employed for the convenience of the public.

By Mr. Turriff:

Q. Do you think the banks have been responsible to a very considerable extent for raising the price of lots in the various towns where they have bought their sites for bank buildings, in paying for a site from 25 to 100 per cent more than the lots have been selling for before?—A. I had not given that subject very much consideration, but any institution that moves into a town and brings business and puts up a large building must certainly have a share in enhancing the value of land.

By Hon. Mr. White:

Q. Have they been willing to pay any more than they have to pay?—A. I imagine that banks are very much the same as other people in that respect, Mr. White.

The CHAIRMAN.—The point on which Mr. Chipman especially desires to address the committee is with respect to the banking facilities afforded to farmers in the West. Section 88 deals with what is proposed to insert in the Act about permitting banks to lend farmers upon the securities of their fresh grain. Section 91 deals with the rate of interest. I thought perhaps the best way for Mr. Chipman to commence his remarks on that line would be to give us a sort of imaginary sketch as to the many difficulties that a new farmer going into a western section experiences. I think Mr. Chipman can describe an experience of that kind because he knows the conditions very thoroughly. Take for example a man with a comparatively small capital who wishes to go into scientific farming. He goes to the West and takes up farming. Where and from whom does he have to get money and what are his difficulties in connection with it?

Mr. NESBITT.—Your example is not a good one. There are very few people without money who go into scientific farming.

APPENDIX No. 2

The CHAIRMAN.—Suppose he is an ambitious man who wants to go into farming and needs more capital than he possesses?

By the Chairman:

Q. Say such a man went into farming what class of accommodation would he get and where would he get it?—A. He would need accommodation to secure his improvements and machinery and stock according to the class of farming that he was going into. If his land were in such shape that it could be mortgaged I presume one of the first things he would do would be to place a mortgage on it. He would approach a local agent—an agent probably for some mortgage company with a head office in one of the larger cities—and he would pay 9 per cent—at the present time in most cases 8½ per cent or 9 per cent—on that mortgage, and he would have what the farmers regard as rather heavy costs attached to the mortgage. I have one or two examples of this that I can show you perhaps later on.

The CHAIRMAN.—We want to try and see the situation from the farmer's point of view, and will be glad for you to tell us anything that pertains to it.

By Mr. Nesbitt:

Q. What you have said does not apply to banking.—A. The farmer has to buy agricultural machinery also. He would buy from the local agent of a large manufacturing concern in the larger cities, and he would naturally have to buy that on time—generally on quite a long time if he were a new farmer—and he would pay from 7 to 10 per cent on his notes before due, and 10 to 12 per cent after due. The price of the implements would be enhanced by from 5 to 10 per cent before the note was issued.

Q. Does he pay interest before the notes are due?—A. Yes, before the notes are due in nearly all cases.

By the Chairman:

Q. What form of credit would he give to the implement company?—A. A lien note.

Q. A lien on what?—A. On the machinery. I think the Saskatchewan legislature has enacted a statute preventing the giving of notes for any additional liens in such cases.

By Mr. Douglas:

Q. You say that from 5 to 10 per cent is paid before issue?—A. Yes. Of course the credit price is greater than the cash price.

Q. Where the implements are sold on time, from one to two and three years, what you mean is that the company puts an extra price on?—A. Yes.

Q. It charges more?—A. Yes.

Q. And charges interest besides?—A. Charges interest besides.

Q. Then they have a credit price and a cash price?—A. Yes.

By the Chairman:

Q. For example, if you bought for cash at $95 you would buy on credit for $100?—A. $100 or $105.

Q. Suppose a farmer with insufficient capital has gone out there and borrowed money on his mortgage and on his loan, and has given notes on the security of those implements, what has he got to do if he wants additional money?—A. I was going to say that if he wanted lumber to build a house he would also have to get that on credit. For this he would pay 10 per cent on his note before it was due and 12 per cent after it was due.

Q. What would he give as security?—A. He would give a lien note.

Q. On what?—A. On practically all his property.

Q. Go on and state them. He had purchased lumber from a lumber company, what security would he give the company?—A. A lien note on any property he had that was not already tied up.

Q. Supposing he wanted an additional loan and went to the bank for it what security would he offer?—A. Not very much. He would not get very much money, if indeed he got any.

Q. Suppose that he had threshed grain in his possession?—A. It could not be accepted as security at the present time.

Q. Suppose this clause in the Act, permitting banks to lend on the security of fresh grain were passed, do you think that would be helpful to the farmers in the west?—A. It must assist to some extent, but I do not think it will be of any great assistance immediately for the reason that the general standing of the borrower would be taken into consideration the same as it is at the present time.

Q. You think that the loan would be granted on the strength of the man's integrity no matter whether he had threshed grain or not?—A. Possibly with that additional security there may be some extra money to the borrower, but the information I have gathered from the men who have grain and who have discussed the matter with the bankers is that it will not make very much difference.

By Mr. Douglas:

Q. Is it not a fact that the grain growers themselves have asked for the insertion of this clause in the Bank Act?—A. If you will pardon me, there are witnesses yet to be heard who are secretaries of grain growers' associations, and I would rather you sought information from them on that point.

The CHAIRMAN.—Mr. Chipman, although closely associated with the grain growers, is not an officer of their organization, but Mr. Fream, secretary from Alberta is here, also Mr. Green from Saskatchewan and Mr. McKenzie from Manitoba. We shall therefore have ample opportunity of learning the opinions of the grain growers on that point.

By Mr. Nesbitt:

Q. If a man went to a bank in the condition you have desecribed—with his farm mortgaged, a lien on his implements, and his stock mortgaged to the full extent of the money advanced for lumber—would you think it advisable to lend money for which there was no security except the fresh grain?—A. Naturally he would not be able to get so much, if any.

By Hon. Mr. White:

Q. I think it is very important to get the benefit of your view as to whether the clause referred to will be an advantage to the farmers or not. It was wholly by reason of the western situation, as I understand it, that I introduced that clause into the Act, because there are a great many objections to it from the standpoint of the creditors, and there is very much to be said against it from that viewpoint. Now, if this is not going to be of substantial benefit to the West, I think possibly we might give the whole matter reconsideration. I might say I did not expect that banking methods would be revolutionized by it, but I did think it would probably accomplish some useful purpose in assisting the farmer to get more ready credit than he has enjoyed in the past notwithstanding the fact that the grain is in his possession and not in the possession of a third party; but if it is not going to be a substantial benefit there are considerations against it that should be given very careful attention. I therefore want to get your view as to what you think of the whole situation generally? —A. Well, I am glad you asked that question because the remark that I made was intended to apply to the matter of security more in general, whereas I think by widen-

ing the power of the banks to take security on grain, and live stock on the farm, that it will result in the bankers and farmers getting closer together and having a better mutual arrangement and understanding, which will eventually work out to considerable advantage to the farmer, but I should have said in that other remark that I meant in the very near future. I meant that I did not see any very considerable immediate relief but I think in the future it will be of considerable relief.

By Mr. Edwards:

Q. Is it not a fact that throughout the West that the farmers in buying machinery or other articles make their notes payable as a rule after the marketing of the crop, that is in fall after their grain is threshed ready for market? I understand that is the fact as a rule.—A. Those notes are nearly always made payable on the first of October or the first of November.

Q. Does not that put the farmer in this position, that his notes are coming due about the first of November and therefore at the present time he has to sell his grain at that time in order to make his payments? He has to take the ruling price at that time, and is it not a fact that the grain buyers understand the position that he is in perfectly well, and that he must dispose of his grain, at whatever price they offer, whereas if he got a loan on that grain it would enable him to wait for three or four months, for the rise of the market. Would not that be a very great advantage to the farmer to have that privilege?—A. Yes, of course there would be that advantage to the farmer, but you must take into consideration what banks look upon as a speculative venture. A great many of them look upon the loaning of money for the holding of grain in that light.

By Hon. Mr. White:

Q. The grain of course remains in the possession of the farmer. It will have to remain there and a great deal will depend upon his character, because the risk of fraud would be diminished or eliminated if he were an absolutely honest and reliable farmer, who would not defraud the bank by disposing of that grain in that way. But what I want to ask you is whether at the present time if a man is in good standing, and has the grain in his granary, does he, under normal conditions, obtain a loan from the bank if he is in good credit and standing, without giving a lien?—A. Under normal conditions I suppose he does to a certain extent.

Q. We will leave the abnormal condition out for the present, but take the Act as it is proposed to be amended; if he were able to give the bankers a lien upon that grain would, or would he not, be more likely to obtain a loan than if he had not that power, provided his character and standing were good?—A. I can only speak from my own viewpoint, of course I would say he should be able to secure a loan easier if everything else were satisfactory and he were in good standing.

Q. So that a farmer who is an honest and reliable man, in your judgment would be in a better position to obtain a loan than if he could not give this lien, wouldn't he?—A. I would think so.

By Mr. Broder:

Q. The condition there is such that the men who need the money worst are the men that are not known, and have been only a few months there. Those are the people who want some help and they cannot fall back on their reputation either good or bad?—A. That is right.

Q. But is there any way of reaching those people? Supposing the loan companies have the double liability put on them and were allowed to take deposits, could they reach this class of people?—A. The only trouble with the banks is that they change managers frequently if they want to squeeze the fellows; that is the way they do it now.

By Mr. Aikins:

Q. I would like to emphasize what Mr. Broder has stated with reference to a settler who comes into the country who is a stranger and is not known, would he not be very much more likely to get a loan from the bank if he could offer security other than his own reputation?—A. I suppose he would, but the banks not knowing the man there would still be the question of leaving the grain on his farm under such circumstances.

By Mr. Sharpe (Ontario):

Q. Would not the insertion of this clause in the Act hamper his other credits with the storekeeper and the merchants? They would have the fear in their minds that the bank would gobble up everything, and is it not a fact that farmers out west carry large store accounts from year to year? Would not this injure their credit with the storekeepers?—A. All this would have to be taken into consideration.

By Hon. Mr. White:

Q. No doubt you are aware there are these objections that Mr. Sharpe has mentioned, and it would be necessary in order to justify this legislation that by it we are meeting a real need, and that it will really help in the West having regard to the peculiar situation which exists there.

By Mr. Knowles:

Q. I really do not think that Mr. Chipman is just as well qualified to speak on this line, as he has never been a pioneer farmer, and I do not think that his training or experience is such as would qualify him to be a good witness along these lines?—A. That is quite right.

Q. There are several men here who are practical farmers, having experience along these lines and who would be able to give us evidence from their own experience in reference to machinery and grain loans.

By the Chairman:

Q. Do you think that if the farmers were permitted to borrow on the security of their threshed grain it would in any way relieve the congestion of grain in its movement out of the country? Would it tend to distribute the time of the year in which the grain would go out?—A. Eventually, I would think so, anything that would relieve the financial stringency, relieve the economic burden upon the farmer and not force him to market his crop so rapidly, would tend to produce that result.

Q. In the Bank Act, schedule C, you will find a form of unregistered liens. When this was ordinarily put in the statute it was intended to be used by manufacturers giving a lien on the material going through their manufactory towards completion. Now it is proposed that if the farmers are to have loans upon the security of their fresh grain this lien should also apply to the farmers and their fresh grain. What do you think would be the result on the West if the farmers had registered liens upon the fresh grain in their granaries?—A. That is a question that is going farther than I would care to speak upon. I think there are two or three witnesses who are farmers of wide experience in the pioneer field, and I would rather leave it to them.

Q. What have you to say in regard to co-operative banks? Do you think they should be established throughout the West and that they would offer any relief to the situation?—A. From my study of the question I would not think they could be established generally there now, but that is one of the reasons why it is suggested that information should be published in regard to branch banks. It would give general information on loans and deposits, and those who had any intention of moving in that direction would be able to obtain valuable information for their guidance.

Q. You think that would serve a useful purpose in giving information throughout the West as to points where co-operative banks could be established?—A. Yes, that would be one useful purpose.

APPENDIX No. 2

Q. That is one of the chief objects in getting that information?—A. Yes, that is one of them.

Q. I might say that the principal question that Mr. Chipman wants to deal with is the rate of interest to borrowers?—A. In that connection I asked for information from the readers of our paper and this information came too late for me to properly digest it. I asked different questions, I asked the farmers whether they were able to secure money required for their actual needs from the local banks, when they presented what they believed to be sufficient security, and what the rate of interest the banks required from farmers, and the rate of interest on mortgage loans, and from machinery notes, and I asked them also to send in cancelled notes showing the rate of interest charged upon bank loans. I further asked them if they had experience of banking systems in other countries, and if so to compare it with the Canadian system as regards facilities to the farmers, and to make suggestions for improvement of the present system.

Q. In response to that article and invitation in your paper to 30,000 subscribers did you get very much correspondence?—A. Yes, I got several hundred letters, and a larger number of cancelled bank notes, machinery notes, lumber notes and mortgage documents.

Q. Do you find any inclination on the part of your correspondents to desire that their names should not be mentioned in respect to this matter?—A. Yes, I did not count them but I should think that one-third of them asked that their names be withheld in case the documents were used.

Q. What was their reason, or did they give any reason for asking that?—A. Generally they said it would interfere with their credit at the local bank; in fact a great many of them said it would destroy their credit entirely at the local bank.

Q. Have you tabulated this correspondence in order to ascertain the general views of your correspondents:—A. As a matter of fact I did not have time to do so. Most of the information came just before I left Winnipeg, and I haven't had time to tabulate it, I barely had time to read the letters over.

Q. Would it be possible while you are here, or on the way back to Winnipeg, to prepare a statement for the committee of that information which could be filed with our records?—A. Yes, I will endeavour to do so, probably it will be after I get back to Winnipeg where I will have the necessary clerical assistance.

The CHAIRMAN.—Will you give us in a general way the results of that information? Just here, might I have the permission of the committee that when Mr. Chipman prepares this statement it may be inserted in the record.

The Chairman's suggestion concurred in. (*See* pages 389-396).

By the Chairman:

Q. Now give us the general result, Mr. Chipman, of your inquiry along these lines?—A. The rate of interest charged was 8, 9, 10, 12, 15, 18 or 20 per cent and higher.

Q. Suppose you deal first with banks alone?—A. I am talking about the chartered banks.

By Mr. Turriff:

Q. Do you mean to say, Mr. Chipman, that chartered banks have charged 20 per cent and higher?—A. I want to make some explanations on that. That is short time loans, where the minimum would be a dollar. A great many of the banks have a minimum charge of a dollar if a man borrows $25 a month, or $10, it is $1 for interest.

Mr. TURRIFF.—That is different.

By the Chairman:

Q. Take the regular loans on larger amounts?—A. Eight to twelve per cent.

Q. That would be the rate on the medium business?—A. Yes, eight to twelve per cent.

Q. Do you think that is a practice of all the banks or of only certain banks?—A. I am referring now to the rates charged on the cancelled notes I have here. It is not the practice of all the banks.

The CHAIRMAN.—Do you care to deal with the banks individually as showing what your replies brought back?

Mr. SHARPE (Ontario).—I do not think that would be fair.

Mr. EDWARDS.—Why would that not be fair? If it is fair for a bank to charge that rate of interest, and you think it is fair, all right. If we think it is not fair, why should the names be held back?

Mr. NESBITT.—I for one would like to know the conditions, Mr. Edwards.

Mr. EDWARDS.—I would like to hear the Minister as to his views.

Hon. Mr. WHITE.—I did not precisely catch what was being stated. We are enacting here general legislation, and particular cases are useful only in so far as they will assist us in enacting that general legislation. The only objections I see would be, it would seem to me to be hardly fair to single out individual banks unless we knew absolutely that all other banks had done the same thing. Apart from that, I think that before any statement should be made affecting a particular bank, probably it would be advisable that bank should be represented here, in order that their views might be before us and that the conditions under which the loans were made might be before the Committee.

Mr. EDWARDS.—Are we to understand from the Minister of Finance that under section 66 it is perfectly proper for a bank on regular loans to charge 12 per cent interest?

Hon. Mr. WHITE.—No, I put myself on record to this extent, I should imagine 12 per cent to be an extortionate rate. That is the language I used.

Mr. EDWARDS.—Then there is no reason why the names of banks should not be given if they have been charging an extortionate rate?

Hon. Mr. WHITE.—I grant that. Probably you do not appreciate this other point of view; if only one or two banks have been charging as high rate as that upon loans, if you single out individual banks it seems to me to be rather invidious.

Mr. SHARPE (Ontario).—We might ask the witness if this applies to all the banks.

Hon. Mr. WHITE.—Possibly that might do.

Mr. EDWARDS.—If one bank which has been doing this over-charging is named, possibly they will get busy and name the others.

The CHAIRMAN.—As a matter of fact the question came up in this way, and the judgment of the Committee will of course be given on this point: Mr. Chipman classified his replies according to banks. He has a synopsis of this classification. Now, do you wish to have it as general information, or do you wish him to state the names of the banks?

By Mr. Sharpe (Ontario):

Q. Are all the banks charging that rate of interest?—A. Not according to the returns I have.

By Hon. Mr. White:

Q. How many banks have you in your classification?—A. Fourteen banks.

Hon. Mr. WHITE.—If Mr. Chipman's returns as to the practice of the banks show that we can ascertain what that practice has been, I do not think there is any objection to the evidence. The point I was making was that if we refer only to two or three banks, the practice of the others not being known, it might be invidious, that is all.

Mr. CHIPMAN.—The number of these returns is about in proportion to the number of the branches of the various banks throughout the province.

APPENDIX No. 2

Hon. Mr. WHITE.—If the information is general I have no objection to its going on the record.

By Mr. Broder:

Q. What was the nature of the replies you received?—A. I have some of the replies here. Some men say they have no complaint, that everything is satisfactory.

Q. Could you give us any idea of the nature of the loan on which 12 per cent was charged?

The CHAIRMAN.—Would it not be better to allow Mr. Chipman to make his statement in that respect? He has compiled it with special care.

By the Chairman:

Q. How many replies did you receive that you have classified, roughly speaking?—A. I received something like over 200, perhaps nearly 300 replies. I did not count them.

Q. With reference to the bank rate of interest?—A. Very largely, and with reference to the general questions that I have tabulated and shall give here. I have not counted these either. But in some letters there would be seven or eight cancelled notes. In others there would not be any.

Q. You have classified them according to banks?—A. According to banks.

Q. In fourteen different groups?—A. Yes.

By Mr. Sharpe (Ontario):

Q. I understood he had classified all the letters. You have not read the letters over?—A. I have finished the reading of them now.

By Mr. Beattie:

Q. What is the amount of the notes?—A. They run anywhere from $7 up to $3,000.

The CHAIRMAN.—We had better take these several classifications in alphabetical order, beginning with 'A,' and Mr. Chipman will give his experience in regard to each of them.

Mr. NESBITT.—When we only get the amount and the time we cannot come to any fair judgment. For instance, take the note for $7.

Mr. CHIPMAN.—I gave that as the minimum.

By the Chairman:

Q. Taking the matter up in the way I suggested, give us the facts with regard to Bank A.—A. I have only got one note there. It is for $45 for three months, 7 per cent.

By Mr. Douglas:

Q. Where is that?—A. Neepawa.

By the Chairman:

Q. Yes. Now give us Bank B.—A. Bank B. is a bank that has recently been merged. These are $300, six months, at 8 per cent.

By Mr. Douglas:

Q. Is that in Manitoba?—A. That is in Stettler, Alberta.

By Mr. Aikins:

Q. In each case give us the name of the place and the amount.—A. Stettler, Alberta, $300; 6 months, 8 per cent, interest charged $13.

By Mr. Douglas:

Q. Were there any renewals on these notes?—A. In the case of some of them there are. Another note: Stettler, Alberta, $408.45, 2 months, 8 per cent interest charged $5.80. Now that note was a renewal of one that was given for $400 for 3 months, 8 per cent. The interest was $8.45, and that was added on when the note was renewed.

By the Chairman:

Q. Now give us Bank C.—A. Stettler, Alberta, $550, 3 months, 8 per cent, interest collected $11.75. This is the same bank.

Q. Now give us the next.—A. Stettler, Alberta, $400, 2 months, 8 per cent, $5.60 collected.

By Mr. Sharpe (Ontario):

Q. Are they all by the same man?—A. I believe so. They are all attached to the letter of the same man.

By Mr. Nesbitt:

Q. Are there any paying 8 per cent?—A. I have nothing about 8 per cent.

Mr. HENDERSON.—How many banks are there in Stettler?

The CHAIRMAN.—There are two.

By Mr. Edwards:

Q. The notes you have there are for two and three months?—A. Yes.

Q. At about what time of the year were these notes made, in the crop growing time?—A. June was one for six months. January 5 for two months. October 2nd for 3 months.

By the Chairman:

Q. Were they all renewals of the same note?—A. No, there is only one renewal. November 11, for three months. December 2nd for three months. Some of these were in 1911, and others in 1912.

By Mr. Douglas:

Q. Did I understand you to say that the notes were drawn at six months?—A. Yes.

Mr. DOUGLAS.—That is contrary to the banking practice as a rule.

By the Chairman:

Q. Now give us Bank C.—A. Bank C. I do not know. There are some notes here; I do not know whether I should mention them as I go on.

Q. You can mention them, it will be all right.—A. Here is one of the letters I referred to a minute ago from a farmer at Findlater, Saskatchewan, alluding to the bank. He says that the banks are O.K. and most of the complaints made against them are the fault of the farmers themselves.

By Mr. Sharpe (Ontario):

Q. Is he a grain grower?—A. He says he is.

By the Chairman:

Q. What is the name of the place?—A. Findlater, Saskatchewan.

Q. Now give us the next. Remember this is on Bank C.—A. I have a note for $250.40 at Plenty, Saskatchewan.

APPENDIX No. 2

By Hon. Mr. White:

Q. Did you say Plenty?—A. Yes, it is for one month. The interest is not given on that. I will have to find one that is given. In a great many of these the interest is not marked on them, the interest is deducted in advance.

By Mr. Marshall:

Q. Are these notes endorsed?—A. No, they are one name notes, practically all of them.

Q. The money was borrowed from banks?—A. Yes, all notes of banks.

By Mr. Sharpe (Ontario):

Q. What is the highest rate of interest?—A. The highest rate of interest is 8 per cent.

By the Chairman:

Q. They are practically all at 8 per cent, are they not?—A. Yes. Here is a letter from a farmer who says that since September 1, the farmers are practically unable to borrow any money,—and this man especially,—with which to buy seed grain.

Hon. Mr. WHITE.—Very likely. The members and the ministers are sufferers in that respect.

By Mr. Douglas:

Q. On the notes you have given us up to date, are they all endorsed or simply drawn by one man?—A. Simply drawn by one man.

Q. No endorser is required?—A. No.

The CHAIRMAN.—One name, it needs no endorsement.

By the Chairman:

Q. Just a moment, will you take cognizance of this, Mr. Chipman, your resumé of this bank here shows that you have notes from Rosetown, Sask., Milden, Sask., Lumsden, Sask., Bounty, Sask., Erskine, Alta., Halkirk, Sask., and Bethune, Sask.?—A. Yes.

Q. And that the rate of interest in practically every case is 8 per cent?—A. And the lowest note is $88, and the highest one is $1,400.

Q. There is no case here of more than 8 per cent being charged?

Mr. BRODER.—Are the men who borrowed the money farmers or business men?

The CHAIRMAN.—I think the bulk of these are farmers because the *Grain Growers' Guide* is read mainly by farmers who raise grain.

By the Chairman:

Q. We will now take Bank D. You have notes here from Tisdale, Sask., Rouleau, Sask., and Emerson, Man.?—A. I have a letter from a reader at Rouleau, Sask., who was getting his money at 8 per cent from Bank D and says that it is giving him fairly good service. This note is from Tisdale, Sask., for $280 at one month, and the interest was deducted in advance, and he puts a note on it to say that he paid 10 per cent.

Q. You have one instance at Tisdale of a note for $280 at one month on which 10 per cent was paid in advance?—A. There were two names on that note, also there is only one name on this note for $100 for one month at Tisdale, no interest marked on it, but he put a note on it to say that 12 per cent was deducted in advance.

Mr. TURRIFF.—How many banks are there in Tisdale, Mr. Chairman?

The CHAIRMAN.—Tisdale, Sask., has one bank.

Mr. SHARPE (Ontario).—Might I call the attention of the Minister to the fact that all these banks have practically deducted interest without putting it on the face of the note. Would it not be advisable to require that the rate of interest be stated on the face of the note and to allow interest to be collected on that basis only.

Hon. Mr. WHITE.—I should think if a man makes a bargain on the rate of interest that would settle it, of course he may not be so good at calculation as the bank, and might not actually know what he was paying. I had a letter from a man in the West not long ago stating that he had agreed upon a certain stipulated rate of interest, and that afterwards something else was filled in, and I advised him that in that case it could be repudiated.

By Mr. Douglas:

Q. Is it not a fact that if a man borrows $100 and gives a note for it he receives only $95, the interest is deducted before he gets his money at all.

Hon. Mr. WHITE.—Of course that is the usual practice, I understand.

By the Chairman:

Q. Mr. Chipman, will you take cognizance of your resumé here of Bank D, and out of ten notes one paid 12 per cent, one 10 per cent, and the balance 8, is that right?—A. That is correct. There is a point I want to make here in regard to the note for $50 for ten days at Emerson, Man., by the way this was in 1908, he was only charged 25 cents interest, and in a great many other cases that come up $1 is the minimum charge.

Q. On a very small loan a dollar is the minimum charge?—A. Yes.

Q. We will take the notes of Bank E.

By Mr. Nesbitt:

Q. Before leaving that, Mr. Chairman, with reference to the 12 per cent and the 10 per cent charges, they were calculated by the people, were they not, they were discounts?—A. Yes.

By the Chairman:

Q. Now in respect to Bank E, Mr. Chipman has 31 examples, Oakville, Edgerton, Alta., Neepawa, Man., Acme, Alta., Russell, Man., Unity, Sask., Hughenden, Alta., Pincher, Alta., Islay, Alta., and Wetaskiwin, Alta., all small places scattered through Saskatchewan and Alberta; of those cases one is at 12 per cent, one 11, six are at 9 per cent, and the balance at 8 per cent, 23 are at 8 per cent; is that correct?—A. It is only fair to say in this respect that the interest marked upon them is 9 per cent, but these amounts of interest actually collected marked upon the note works out at 10 and 10½.

By Hon. Mr. White:

Q. The first 12 per cent loan was $249.20 for one month, that is one per cent for that month, $2.70, that is what he paid. The note on the face of it is for $249.20, but as he paid interest collection of $2.70, it is apparently for $250. The eleven per cent loan was for $304.50, I suppose it was $310, and it is for two months, and the amount of interest paid was $5.50. The 9 per cent loans are for one month, three months, four months, six months, two and a half months, one month, and the 8 per cent loans were for one month, another for seven weeks, another three months and four months, fifteen days and so on.

By the Chairman:

Q. There are no specific instances with regard to Bank E you want to bring before the committee?

APPENDIX No. 2

By Mr. Thomson (Qu'Appelle):

Q. You said that in some cases they evidently charged considerably more than called for by the note, is that a very common thing?—A. Well it seems to me quite frequent, I did not have time to run over them all in that respect, but I have noticed some where 8 per cent is marked on the note and it works out at nine, and some where 9 per cent is marked on it, but the amount collected worked out at 10 per cent.

Q. Would the amount of the overcharge be very large?—A. I do not know but what the extra charge was for notification; I do not know that it was actually made up that way, although I hear it is quite frequently done.

Q. If the amount of the overcharge was two or three dollars it would be readily noticed, but if it were only five cents it would not be so easily detected.

By Mr. Turriff:

Q. If he took into consideration the three days of grace on a small note it might make a difference of one per cent.—A. Yes, on a small note it would, there will be some instances of that crop up, no doubt.

By Mr. Loggie:

Q. Are you sure that in these cases the notes were not overdue?—A. We have the cancelled note here and we can see the day it was drawn and the day it was paid.

By the Chairman:

Q. In the case of Bank F you have fifteen instances here where you have collected the rate of interest. They are at Kennedy, Sask., Cartwright, Man., Swan River, Man., Wolseley, Sask., and Glenavon. There are three notes at 10 per cent, two at 9 per cent and the balance is at 8 per cent, is that correct?—A. I didn't count them but I think it is right.

Q. Will you follow me and see if I am right? There are three cases at 10 per cent, two at 9 per cent and the balance, ten, at 8 per cent.—A. There is one point here, whether it is significant or not I do not know, but in some cases on a one month's note the charge is 50 cents and in another case, a two weeks' note, the charge is one dollar. A great many farmers tell me that they cannot get money for more than one month without renewing, and then the charge is $1, and here are some at fifty cents, and when the farmers see that one bank can do it at that rate they want to know why another bank cannot.

Q. That may be a friendly act on the part of the bank to a friendly customer?—A. Although fifty or seventy-five cents may be a comparatively small amount if the borrower has to pay that for a small loan it is a large percentage.

Q. Do you wish to call attention to any specific instances in Bank F?—A. Yes. You see here was a note for $84 drawn at Swan River for six months and the charge is $5, and the note was not paid but was renewed and the interest is added on; it is renewed from May to December, for eleven months altogether.

Q. How much did he pay for the whole eleven months?—A. $7.

Q. For the use of $84 for eleven months and the interest was added on and it was renewed for another three months. Now Bank G does very little business, apparently, in the territory covered?—A. There are five notes from this bank. Three of them are at 10 per cent and two of them at 12. The 10 per cent notes run from $35 to $1,300. Six are at 10 per cent. The 12 per cent note is $800 for three months, practically 12 per cent, and the other is $1,300 for 23 days.

Q. You have the notes there?—A. Yes.

Mr. DOUGLAS.—In what province did that transaction take place?

The CHAIRMAN.—That is a transaction at Albright, Saskatchewan.

Mr. CHIPMAN.—All those notes come from Saskatchewan.

The CHAIRMAN.—Southern Saskatchewan. It is no injustice in this case to give the information because the banker is here himself to deal with it.

In the case of Bank H. there are ten notes: one, $41.10 for one month at $1, at a minimum charge of $1. Another $50 one month at a minimum charge of $1. Then there are four notes at 10 per cent and two at 9 per cent. The 10 per cent notes are $361.90 for 4 months at 10 per cent; $350 five months at 10 per cent; $274.25 for one month at 10 per cent; $100 six months at 10 per cent; $125 three months at 10 per cent and a small note of $50 at 10 per cent.

Mr. NESBITT.—Where is that?

The CHAIRMAN.—Bulyea and Young, Saskatchewan.

By Mr. Nesbitt:

Q. Do you know what the mortgage rate was?—A. I think it would be safe to say it is 9 per cent at the present time.

The CHAIRMAN.—At Bulyea, Saskatchewan, there is one bank only.

Mr. CHIPMAN.—Renewals on mortgages, practically all the letters tell me, have required the payment of ½ per cent and in some cases 1 per cent additional interest.

The CHAIRMAN.—At Young, Saskatchewan, there is only one bank. In each case the same bank.

By Mr. Turriff:

Q. At the time these notes were given and paid the mortgage rate would not be as high as this?—A. No, it would not be as high as that.

By Mr. Steele:

Q. Did I understand you to say that the farmers object to pay $1 interest on a small note for one month?—A. Yes, where other banks only charge 25 or 50 cents.

By Mr. Nesbitt:

Q. Why do they not go to the other bank?—A. It does not happen to be in that community.

By Mr. Steele:

Q. I believe there is just as much time involved, and bookkeeping done, in connection with putting a note for $50 through the bank books for one month as there is in putting through a note for $10,000 for three or four months?—A. If that be so it would work the same way.

Q. Taking the time of the staff and the risk combined, do you think a charge of $1 would be exorbitant?—A. If you take it in that way. Compare it with the rate of exchange and it would not be any more expensive on a small sum than on a large one. But there is a difference.

By Mr. Nesbitt:

Q. Do I understand you to say that you are complaining about the $1 charge?—A. Yes, I thought as a minimum that it was rather excessive.

Mr. NESBITT.—Down here in the East we are suffering with the same trouble. You are not singled out in the West for exceptional treatment.

By Mr. McCurdy:

Q. What rates have been paid on agreements of sale?

Mr. NESBITT.—I asked him that question.

A. I did not understand the question that way. Do you mean agreements for sale, Mr. McCurdy?

APPENDIX No. 2

By Mr. McCurdy:

Q. What can they be purchased at?—A. I believe eight and ten per cent, 8 per cent before due and 10 per cent after. That was paid in one case that I have in mind, and 10 and 12 per cent has been paid in other cases.

Q. Is that the standard rate?—A. Buying an agreement for sale?

Q. Yes?—A. It is according to how hard up the man is. I have known plenty of them at 16 and 18 per cent.

Q. Have you known any at 30 per cent?—A. I have not the slightest doubt that you can get that.

Q. If you can get 30 per cent for agreements for sale would you regard 12 per cent at the present time as excessive?—A. That 30 per cent is exceptional, and it is not running around after you.

Q. It is the rule?—A. It is not going around looking for you.

Q. Suppose you could get 20 per cent?—A. 16 I would say. Ordinarily they are discounted at 10 per cent and carry on their face 6 per cent, so 16 is the usual rate.

Q. And those are regarded as pretty fair security?—A. They are if there is enough paid on them.

Q. So when a bank lends money at 10 per cent it is really putting it out at 6 per cent below the normal rates for agreements of sale?—A. I suppose those figures would show that.

Q. In your experience, or in the correspondence you have received, are there any cases where farmers' loans have been called up before six months?—A. Yes, quite a number. I do not know that I could put my hand on them at the present time without going through the correspondence, but I can state a case like the following. A farmer has a note, and he wishes to keep the money for some time and has been told that he can. The bank says it needs the money and tells him that if he pays up in a couple of months he will be able to get the money again. Accordingly he pays up, but when the two months are over and the farmer needs the money again, he has not been able to get it.

Q. In cases where the farmer cannot pay the loan, the rate is raised because the bank does not consider him a desirable man to give credit to?—A. Among these letters there is the case of a man who says he had a credit of $10,000 at the bank. The bank insisted on his paying it, but he wanted the money and eventually they compromised by allowing him to keep the money on his paying 10 per cent.

Q. They asked for their money first and would have preferred to have got it?—A. I could not say as to that.

The CHAIRMAN.—I would suggest that he keep to this general statement on the interest rate first and then deal with some of these other matters. With reference to farm loans here is Bank I. There are twelve cases: one at a minimum rate of $1, on a loan of $50. One at 12 per cent, that is $103.15, the amount paid was $3.15 for three months. One at 11 per cent. That is a case of $500 for one month at $4.85. Two at 10 per cent, one of $55 on demand at 10 per cent, one for $7 for three months at 10 per cent, five at 9 per cent and two at 8 per cent, making twelve in all. These places are situated at Carievale, Saskatchewan; Heward, Saskatchewan; Dundurn, Saskatchewan; Creelman, Saskatchewan; Vulcan, Alberta; Loreburn, Saskatchewan; Dunrea, Manitoba, and Loreburn, Saskatchewan.

Mr. MORRISON.—What rate was charged by the Carman Bank?

The CHAIRMAN.—Twelve per cent. The note was for three months, $103.15, and the amount charged was $3.15.

Mr. CHIPMAN.—Here is one of $200 at Heward, Saskatchewan, for thee months, and the interest marked is 9 per cent. The sum of $5.25 was collected.

By the Chairman:

Q. Yes, go on?—A. That is for three months, which for the year would be $21, and figure considerably over 9 per cent. It really would be 10½ per cent.

By Mr. Steele:

Q. In the course of a year that would be four terms of three months each?—A. That would make a difference.

Q. So it would not figure out as much as that?—A. No, not quite for a year.

The CHAIRMAN.—Now, taking Bank J there are twelve cases where the interest rate is computed. There is one of $175, 2¾ months, $4.25, rate of interest 10½ per cent. There are two at 10 per cent, one being, however, a small note of $50. There are two at 9½ per cent, four at 9 per cent, and four at 8 per cent, all at Grenfell, Saskatchewan, and Gurnsey, Saskatchewan, at those two points.

By Mr. Steele:

Q. Will you read one or two of these letters dealing with these high percentage rates?—A. There is one from Grenfell, Saskatchewan, in which the farmer says that he could not get an advance of $150 from the bank though he had nearly $30,000 of land deeds in the bank, and also two thousand of wheat and two thousand of oats, and some in the elevator.

By Mr. Sharpe (Ontario):

Q. What time is that?—A. This is written on March 4, 1913, from Grenfell Saskatchewan. (Reads)—

> 'The Dominion Bank here is taking interest at from 9 to 10 per cent and turning farmers down at that. I know that for a fact. They would not advance me $150, although I have nearly $30,000 worth of deeds for land in their bank, and also two thousand of wheat and two thousand of oats for sale, some in the elevator also. If needed I can prove this statement with the bank's own statement. If you wish you can use my name.
>
> (Sgd.) WILLIAM WELSH.'

By Mr. Marshall:

Q. There must have been some reason why the bank would not lend him the $150.—A. There must be some explanation of it, surely.

The CHAIRMAN.—We will get the cause.

Mr. CHIPMAN.—You have the man's name and address.

Hon. Mr. WHITE.—A great many people in the East have been unable to get accommodation. It is owing to money conditions.

By Mr. Edwards:

Q. You have taken ten different banks?—A. Yes.

Q. Are we to understand that these represent ten different banking institutions, competitive institutions throughout the West?—A. Different chartered banks.

Q. There seems to be quite a sameness in regard to the rate of interest and I do not see any particular reason for withholding the names or the particulars of the cases you have referred to.

By Hon. Mr. White:

Q. If all the banks are represented there I do not see that there could be any harm in giving the names, they are all about the same.

By Mr. Steele:

Q. Have you heard of any cases where more than twelve per cent was charged? —A. Not marked on the notes, but short loans.

Q. There are not many instances of twenty per cent?—A. No. There is a letter here from Stockholme, Sask., from a man who will not permit his name to be used and the chairman says that the letter cannot be read, but the substance of it is that he had to pay $25 bonus to get $400 loan at 10 per cent, and he has $15,000 security but cannot borrow any money from the bank.

APPENDIX No. 2

By the Chairman:

Q. Here is probably one of the best, that does the largest business through the West, we will call it Bank K. Mr. Chipman has seventy-two cases here, and the interest charged on these seventy-two cases are two at 12 per cent, twenty-four at 10 per cent, twenty-four at 9 per cent, and twenty-two at 8 per cent. This is the note for $600 at Scott, Sask., it was only for ten days on which $2 is paid which works out at 12 per cent. Now the next is Bank L, in this case there are forty cases and the ruling rate is 10 per cent, nearly every case 10 per cent is the interest rate.

Mr. SHARPE (Ontario).—What is the amount of the notes?

The CHAIRMAN.—$264, a ten per cent loan for seven months and $16 interest collected, another one for $200 at three months, 10 per cent rate, $5.25 collected; $231, three months at 10 per cent, and there is $364 on demand at 10 per cent. The uniform rate of this bank seems to be 10 per cent and the loans are made at Seamans, Ituna, Sask., Raymore, Sask., Punnichy, Sask., Kelliher, Sask., Reston, Man., Bow Island, Alta., Davidson, Sask., Estevan, Sask., Battleford and Forward, Sask.

The next is Bank M, and in respect of this bank there are 55 cases of which ten are 10 per cent, twelve at 9 and the balance at 8 per cent.—A. In this connection there is a printed form showing 10 per cent per annum, and 12 per cent after the note is due, showing that the practice of charging 10 per cent is fairly general.

By the Chairman:

Q. At Wadena, Sask., on August 26, 1912, there is a note for $15 for five weeks. (Reads) 'November 1 we promise to pay ——— at the Canadian Bank of Commerce, Wadena, $15.50 with interest at 10 per cent per annum, and 12 per cent per annum after due.' That is a private note, not a bank note at all.

Hon. Mr. WHITE.—It is a printed form showing that it is the practice to charge 10 and 12 per cent.

By Hon. Mr. White:

Q. Have you looked very carefully, and I have no doubt you have, over all the notes which you have received in order to ascertain that it is the banks that have been making these charges?—A. They are all mixed up together here, each man said he wanted to have his returned.

Q. Can we assume conclusively that the figures you have given here represent the rates of interest that have been actually charged by the banks and not upon private notes like that?—A. Oh yes.

Mr. SHARPE (Ontario).—It is generally admitted that they charge 8 and 10 per cent.

By Mr. Steele:

Q. Are there many farmers borrowing from private individuals?—A. I have practically none, I do not think I have any.

Q. To your knowledge are there any loans made to the farmers by private banks? —A. Not by private banks to any extent, but there are some private banks there.

Q. What rates do they pay when they borrow from private individuals?—A. I think possibly they pay higher. Some of the witnesses who are following me can give you more information in regard to that matter.

By the Chairman:

Q. Take Bank N here, with branches at Imperial, Manor, Dundurn, Waldeck, Brock, Lockwood and Harris, Sask., there are 35 instances and the bulk are at 9 and 10 per cent, nearly all of them, a few small notes were at much higher rates.—A. There is one case here, the writer does not wish his name to be used, but speaking of the rate he has been paying to the bank he says he is also paying 10 per cent for money on the school district. Here is a man who has had experience in other countries and he favours the English system where he could borrow money at 5 per cent.

Mr. EDWARDS.—Mr. Chipman, I understand, is going to make a statement, and I think it would be a good idea for him in making out these statements to keep in mind the time at which these loans were made. The idea passing through my mind is this, that out of this great number of loans that have been made you will find in the dates something to justify the clause in the Banking Act permitting the banks to make loans to farmers on their grain.—A. I can put in the tabulated statement one column showing when the notes were drawn. (*See* page 397).

The CHAIRMAN.—I think that the members of the Committee, knowing that Mr. Chipman has all the information from which he can draw pretty fair conclusions, might ask him to place in his report which he is going to give us, anything that he feels would be useful to them in arriving at a conclusion.

Mr. SHARPE (Ontario).—And he might give us the percentage of refusals if he can.

By Mr. Cockshutt:

Q. Do you think it would be in the interest of the West if the banks were compelled to charge not more than 7 per cent while the loan companies and mortgage companies charge 10 and 12 per cent? Would that assist the farmers?—A. Certainly it would.

Q. But would the banks loan at 7 per cent if the mortgage companies and loan companies got 10 per cent?—A. The mortgage companies would have to come down if the banks loaned at 7 per cent.

Q. But if that provision were put in the Bank Act would it have the effect of the banks withdrawing their money from the West?—A. I do not think they could withdraw all their banking system from the West now.

By Mr. McCraney:

Q. With regard to mortgages do I understand you to say they are all charging 10 per cent on mortgage loans? I have a great deal of experience and I did not think they were getting more than 8 or 9.

By Mr. Cockshutt:

Q. Mr. Chipman says they were charging 10 and 12 per cent and sometimes up to 18 per cent?—A. Oh no, no, if that is the impression any gentleman has I have been misunderstood. I think I said that 8 and 9 per cent was being charged and the cost brought it up to 1½ or two per cent higher.

Q. Then it amounts to about 11 per cent?

By Mr. Turriff:

Q. I think that answer of Mr. Chipman's is rather misleading, that is the usual cost of the mortgage may amount to 2 per cent?—A. Yes.

Q. On the mortgage, but that would be only for one year, it would not be 2 per cent on the full term of five years?—A. Some mortgages are not drawn for five years; some of them are and some are not, and some are for small amounts of $400 and $500.

By Mr. Cockshutt:

Q. I was trying to get at the difference between the bank rate and the mortgage loan rate. I have taken Mr. Chipman's statement that they charge from nine to ten per cent interest, and the cost would bring it up to 11 per cent, but Mr. Turriff explains that being spread over a period of five years it would reduce the cost. That is his evidence?—A. Yes.

APPENDIX No. 2

Q. Would it be in the interests of a farmer—I am speaking with a desire to help the farmer in this so far as I can—would it be in the interests of a farmer if we were to insert a provision in this Bill that no more than 7 per cent interest shall be charged in any part of Canada on loans?—A. I suppose a strict yes or no is the kind of answer you are looking for?

Hon. Mr. WHITE.—No, we will not tie you down to such an answer as that.

MR. CHIPMAN.—I have no doubt that it might stop the opening of bank branches in the very scattered districts—the frontier settlements of the West—but if such a provision would tend to curtail settlement in the frontier districts and direct it to the districts nearer to the railway, it would be a splendid thing in that respect. I think that on the whole it would be a good thing for the farmers of the West if the interest rate were restricted to 7 per cent.

By Mr. Cockshutt:

Q. You would not confine that to the bank, but include the loan companies and mortgage companies also?—A. I would curtail the rate of interest in their loans also if possible.

Q. But they are not included in this Bill.—A. No, we are only dealing with the banks.

Q. If you limit a bank to a 7 per cent rate of interest, would it not have the tendency to prevent the establishment of branches not only in the new districts but also in the older settled districts where current loans of other concerns are bringing 10 and 12 per cent?—A. They would have to dispose of their money.

Q. But there is a big demand for that money in the East, and there might not be enough to go round, and then I am afraid some farmers would not get any. As you say now some of them cannot.—A. Well, I live in the city of Winnipeg and the banks there are charging as high as 8 per cent.

Q. They are charging practically as high rates to the citizens in the small towns as they are to the farmers, I mean in certain given districts.—A. I have not looked into that. I was speaking of the city of Winnipeg and I know where they have even there charged 8 per cent.

Q. You do not think the farmer is being charged more by the same bank than was being charged citizens of equal credit, and possibly of equal means?—A. I have no evidence as to that.

Q. You have not got any replies from citizens at all in the towns and villages of the West?—A. I have one from a citizen in one of the large towns in the West.

Q. Never mind, I thought, perhaps, you would answer off hand. I thought probably you lived in some western town and could give us the current rates.—A. I live in the city of Winnipeg.

Q. That is not a fair example because it is a metropolitan city.—A. I think other witnesses would be able to give you better evidence on that question if you want to go into it. I think on the average the residents of the towns would be getting a lower rate of interest.

Q. You think it would advantage the farmers of the West if we adopted a 7 per cent clause, as to the rate of interest, and made it operative?—A. I do.

Q. That is your view?—A. Yes.

Mr. BRODER.—Would not the result be that the banks would reduce the loans in many cases?

By Hon. Mr. White:

Q. I think I would voice the sentiment of the Committee in saying while we sincerely desire to have the rates of interest as low as possible, we also desire to know what the effect of a provision of the Bank Act would be by which rates would be fixed, let us say, at 7 per cent absolutely. What I want you to consider is this, and give us the benefit of your advice: We have been informed and I think the evidence has been given here, that banks would withdraw from certain places where they are now estab-

lished in the West, and that they would not open, as they have done in the past, branches in new districts if they were limited to 7 per cent. Now would it be in the interest of the West—never mind consideration of the East or the banks at all—that a man should not be allowed to borrow, let us say, at 8 per cent or 9 per cent, if they would not be able to obtain banking facilities at say 7 per cent? Having regard to the whole situation would you, or would you not, do more harm than good by limiting the rate absolutely to 7 per cent if that result in the opinion of the Committee, utimately would flow from it?—A. Of course it is a very large question.

Q. Precisely?—A. It is a very large question to express an opinion upon without any more knowledge of the banking system of Canada than I possess.

Q. Then let me put the question in this way: Suppose the Committee after hearing all the evidence here came to the conclusion that some banks would be withdrawn, and that new branches would not be established in the future as in the past, if the 7 per cent rate were fixed in the Act—would it be your opinion, if that were shown, that the 7 per cent rate should be enacted, or not?—A. Well, now, perhaps——

Q. Suppose they came to that conclusion, we will say justly after hearing all the evidence as to what the banks would do, would it be in the interests of the West to have the rate of interest limited to 7 per cent?

The CHAIRMAN.—If you had to choose between a low rate of interest and between a high rate of interest and scattered banking facilities, which do you think would be the best for the West?—A. I would rather not answer that question until the alternative was absolutely placed before me.

By Hon. Mr. White:

Q. You understand the point involved?—A. Yes, I appreciate the point.

Q. It is a complex question?—A. I think it would assist towards forcing a solution of the situation in the western provinces. At the present time the economic burden is so heavy that there has got to be a break in the wall somewhere, and if we broke in the bank wall it would break in the walls of the other financial institutions. Something has got to break in order to relieve the present situation.

By the Chairman:

Q. Do you think the farmers are paying a higher rate of interest than the implement manufacturers can borrow money for in the city?—A. The implement companies are borrowing money to-day at 6 per cent, and as someone here said, in eastern Canada they are borrowing at 5½ per cent.

By Mr. Sharpe (Ontario):

Q. What are the implement manufacturers charging?—A. I was just going on to say that the implement companies are borrowing that money at 6 per cent and even at 5½ per cent, and lending it to the farmers at 12 per cent, and with credit prices considerably higher than cash prices, that makes the burden very, very heavy and the farmers cannot just understand why there should be that spread in getting money to them.

By Hon. Mr. White:

Q. Let me ask you one other question, a little outside of banking: You count on companies doing business in the West in making loans upon mortgages. Am I right in saying there are loan companies, trust companies, insurance companies, private individuals and agents representing these companies doing business in the West?—A. Yes.

Q. Is there, or is there not a pretty keen competition among these people for good loans?—A. I cannot give you any important evidence on that.

APPENDIX No. 2

Q. Have you thought of this—I would like you to give the Committee your views upon this point—would it have any influence upon the flow of money brought from England, from Holland, from France and other places outside, either through insurance, trust, loan companies or agents, or parties abroad who desire to lend money upon mortgage in the West—would it have any influence upon the flow of that money to the West for the purposes of mortgage investment, if this fixed rate were adopted? —A. I see the point. This is a question more for a financier, Mr. White, than it would be for me. Still, here is a point: The Manitoba Government the other day floated a loan on 4½ per cent bonds that brought 102 or 100 laid down in Winnipeg. Now, the farmer in Manitoba is paying 10 per cent to the bank to get money, and paying 8 per cent on his mortgage.

Q. Do you know what he is paying in Toronto?—A. On what?

Q. On a first mortgage?—A. No.

Hon. Mr. WHITE.—He is paying from six to seven per cent to-day in Toronto, money is so tight.

By Mr. Clark (Bruce):

Q. Mr. Henderson, of the Bank of Toronto, in his evidence here gave the difference in the rate between the West and the East as about 2 per cent, and he said that represented exactly the increased cost of doing business in the West.

Hon. Mr. WHITE.—Let me ask you this: The crux of the question—and it is difficult to answer, and we are all seeking for light—the real question it seems to me is this : Is it to the advantage of the West to have money such as it is at present and such as it may count upon in the future, at prevailing rates, or, if there is any danger of a curtailment of that supply of money, would it be more in the interests of the West and cut the interest rate and bring about that curtailment if the result would follow? That is the real question.

The CHAIRMAN.—Is it advisable to have more money at a high rate of interest, or less money at a low rate of interest?

Hon. Mr. WHITE.—That is the view, that is the alternative question I would like the witness to answer.

Mr. CHIPMAN.—That would mean, if I were dictator over the banking system, what I would do.

By Hon. Mr. White:

Q. If you were dictator would you compel them to make loans at a certain rate of interest?—A. I think the moral pressure coupled with the information that I suggested should be given in regard to the branch banks, would give the public an opportunity to use pressure. There would be the pressure of public opinion. Of course, in many places such as you referred to in the West there would not be deposits amounting to anything.

By the Chairman:

Q. As I understand you, for an improvement of conditions you look rather to public opinion than to legislation?—A. Yes. Public opinion, I think, would crystallize into legislation.

Q. Your idea would be that fuller details in bank statements——?—A. Would help, yes.

Q.——Would result in public opinion bringing about the reform you have named? —A. Of course there is a speculative movement prevailing throughout the West, and when it is curbed will be greatly for the benefit of the West.

By Mr. Aikins:

Q. Might I suggest another condition of affairs ? We would assume that it is desired to have competition among money lenders. If by reason of the compulsory

7 per cent clause various banks withdraw from certain districts, would that not also lessen to some extent competition among the money lenders and might not the rate in consequence be raised?—A. I suppose there would be hardships, I do not doubt that, but there have got to be hardships, in my judgment, before easier times set in.

By Mr. Clark (Bruce):

Q. You would not care to express an opinion on the hypothetical question put to you?—A. I would rather not.

By Hon. Mr. White:

Q. Have you any information as to the interest rates in the United States—in the States just across the line—at any period, within, say twenty or twenty-five years?—A. I have never gone into that question fully. I was talking with a man in Minneapolis inside of a week, who had investigated the situation, and he drew for me a map of the State of Minnesota, showing the 6 per cent district, the 7 per cent district, the 8 per cent district and the 9 per cent district in the other States.

Q. Have you any information as to the rates of interest in those States that are in a similar stage of development to western Canada?—A. Well, I think it was possibly just as bad over there as it is now with us, but we think that in Canada with our banking system, conditions should be a little better.

By Mr. Nesbitt:

Q. Were these different rates in the States brought about by legislation, or did they come as the result of competition in money?—A. I could hardly give expert evidence on that point.

Q. Well, what do you think? I understand you to say you would legislate that the banks should lend money at 7 per cent?—A. I would.

Q. To carry that to its logical conclusion you would have to legislate in some form that you should not charge me more than a certain price for your advertisements?—A. If I got a special charter from parliament and had a monopoly of the business, I might.

Q. What is that?—A. If you got a special charter from parliament giving you a monopoly of the business, you might.

Q. They have no monopoly of the business?—A. The banks?

Q. You could start a bank to-morrow if you want to?—A. I cannot issue any notes.

Q. Yes, you can, under the provisions of the Banking Act?—A. I mean that the banks which have a charter, can do so.

Q. Because they have a charter, but they have no monopoly; we will give you a charter and incorporate you if you want to be incorporated. Supposing we were to legislate that the men in the West should deliver their cattle at four cents, would that be fair?—A. It would benefit us.

By Mr. Turriff:

Q. I want to ask one question of Mr. Chipman. It has been reported that the banks punished the newspapers that have been criticising their acts. You are a newspaperman and I would like to ask you if there is any truth in that report?—A. For criticising the Bank Act?

Q. Yes?—A. I do not know that they have been punished for criticising the Bank Act, but we have been punished for criticising the institutions in which the banks are very deeply interested, by the withdrawal of the advertising contracts of those companies by the half dozen and the dozen.

By Mr. Sharpe (Ontario):

Q. By the banks?—A. No, not by the banks.

APPENDIX No. 2

By Mr. Nesbitt:

Q. Because they criticised the monopolist institutions, that is what you mean, isn't it?—A. Yes.

By Mr. Barker:

Q. I would like to know if you have ascertained from Mr. Chipman how many notices he sent out and how many replies he received?—A. I think it was four notices.

By the Chairman:

Q. How wide is the circulation of your paper, to how many people does it go?—A. I just put the notice in the paper and 30,000 copies went out.

Q. How many replies did you get?—A. I said that while I hadn't counted them the total replies would run 250 or a little more, perhaps.

The CHAIRMAN.—I think on behalf of the Committee I can thank Mr. Chipman very heartily for his trouble in collecting all this information that he has given us and for coming down here and giving it to us.

Committee adjourned to meet at 3.30 p.m.

MR. CHIPMAN'S STATEMENT RE PROMISSORY NOTES GIVEN TO BANKS BY WESTERN FARMERS.

Mr. HERBERT B. AMES,
Chairman, Banking and Commerce Committee,
House of Commons,
Ottawa, Ont.

DEAR SIR,—As per your request at the close of my evidence before the Banking Committee on April 11th, I have prepared a tabulated statement of the information I had with me on that occasion. You will find attached herewith the information required in connection with 361 cancelled bank notes, which were sent to me by our subscribers from different parts of the three prairie provinces. Some of these notes do not show on their face either the rate of interest charged or the amount of interest collected, and others are of short terms with a rate of interest running anywhere from 15 to 25 per cent, so that I have not counted these. There are, however, 299 notes with the rate of interest indicated from 7 per cent to 12 per cent. Of these, 8 draw 12 per cent interest; 2 draw 11 per cent; 123 draw 10 per cent; 53 draw 9 per cent; 112 draw 8 per cent; and only one draws as low as 7 per cent. It is only right to say that in many cases the actual interest charged is greater than that indicated on the note; sometimes the difference being one-half or as high as 1 per cent.

I will briefly summarize the rates of interest charged by the various banks.

Bank of Toronto: 23 notes show 3 at 10 per cent, 1 at 9 per cent and 11 at 8 per cent.

Royal Bank of Canada: 10 notes show that all are drawn at 8 per cent.

Bank of Quebec: 11 notes show that 7 are drawn at 10 per cent. and 2 at 9 per cent.

Bank of Ottawa: 11 notes show that 1 was drawn at 12 per cent, 1 at 10 per cent and 9 at 8 per cent.

Union Bank of Canada: 75 notes show that 1 was drawn at 12 per cent, 25 at 10 per cent, 18 at 9 per cent and 23 at 8 per cent.

Northern Crown Bank: 56 notes show that 1 was drawn at 12 per cent, 31 at 10 per cent, 8 at 9 per cent and 2 at 8 per cent.

Merchants Bank of Canada: 30 notes show that 1 was drawn at 12 per cent, 7 at 9 per cent and 20 at 8 per cent.

Dominion Bank of Canada: 16 notes show that 2 were drawn at 11 per cent, 3 at 10 per cent, 2 at 9½ per cent, 4 at 9 per cent and 4 at 8 per cent.

Home Bank of Canada: 4 notes show that 3 were drawn at 8 per cent and 1 at 7 per cent. This is the lowest rate of interest charged by any bank in the prairie provinces so far as I am able to judge by the cancelled notes submitted by the subscribers of our paper.

Bank of Hamilton: 18 notes show 1 drawn at 12 per cent, 3 at 10 per cent, 4 at 9 per cent and 2 at 8 per cent.

Canadian Bank of Commerce: 54 notes show one drawn at 12 per cent, 9 at 10 per cent, 11 at 9 per cent and 28 at 8 per cent.

Bank of British North America: 48 notes show 42 drawn at 10 per cent and two at 8 per cent.

Weyburn Securities Bank: 5 notes show 3 drawn at 12 per cent, and 2 drawn at 10 per cent.

In tabulating the information contained in these notes, I have given in each case the name of the Bank, the name of the branch, the date when the note was drawn (several members of the Committee requested this information), the amount of the note, the term, the rate of interest, and the amount of interest collected.

After I had given this evidence before the Banking Committee on April 11th, I heard some doubt expressed as to whether there could be any mistake about farmers in the prairie provinces paying as high as 9 per cent interest on mortgage loans. For that reason I think it is only fair that I should put upon the records indisputable proof of my statement. I am, therefore, attaching several exhibits which are exact copies of the original documents now in my possession, which have been sent to me by our subscribers, and on the condition that I return them as soon as I have used them. For that reason I have had copies made and submit them herewith:—

Exhibit (a)—This is a receipt given by Messrs. Osler, Hammond & Nanton, showing 9 per cent interest paid on a $1,000 mortgage loan.

Exhibit (b)—Is a letter from Messrs. Osler, Hammond & Nanton, of Winnipeg, showing another mortgage of $800 on which they are charging 9 per cent.

Exhibit (c)—Is a letter showing that 9 per cent interest was charged on a mortgage loan of $400.

Exhibit (d)—Is an exact copy of the solicitor's costs in connection with a $1,000 mortgage loan, totalling $32.61.

Exhibit (e)—Refers to the same case as exhibit (d) and shows an additional cost of $7, so that the total costs upon the farmer for securing this loan was $39.61. This will verify my contention that mortgage loans cost as high as 10 per cent in the prairie provinces.

Exhibit (f-g-h)—Also show the costs attached to the securing of a mortgage loan.

Exhibit (k)—I think might be of interest to the Committee to show the extra costs paid by a farmer who was sued by a bank for an overdue note. I am not permitted to give the name of the farmer, and of course that prohibits giving the name of the bank.

I herewith attach the exhibits mentioned above:—

APPENDIX No. 2

EXHIBIT 'A.'

95973. Loan No. 12182.

THE NORTH OF SCOTLAND CANADIAN MORTGAGE COMPANY, LIMITED.

OSLER, HAMMOND & NANTON, General Managers.

$105.

WINNIPEG, January 16, 1913.

Received from Pher Pehrson.. .. ..of Battle River, Alta., the sum of One Hundred and Five.. .. .. $\frac{xx}{100}$ Dollars, by .. ..Post Office Order .. .. , the proceeds when paid to be applied on account of .. .. his .. ..Mortgage to this Company on.. ..S.W. .. ..Sec. .. 2 .. ..Twp. 46.. .. Rge. 22 W. 4.. ..as per details below:.. .. ..full.. .. ..interest on $1,000 .. .. ..@.. ..9.. ..per cent.

to 1 January .. .. 1913 .. .. $90.. .. ..

.. ..Interest on overdue.. .. ..

.. ..on account of principal .. ..

Insurance Premium due.. .. ..$15.. .. ..

$105

Countersigned:

G. D. LINCH, *Auditor.*

C. M. NANTON, *Secretary.*

Receipt to.. ..Pher Pehrson.. .. ..of Battle River, Alta. .. .. P.O.

All letters on the business of the Company should be addressed to the General Manager.

EXHIBIT 'B.'

THE NORTH OF SCOTLAND CANADIAN MORTGAGE COMPANY, LIMITED.

OSLER, HAMMOND & NANTON, General Managers.

T. L. PETERS, Chief Inspector.

WINNIPEG, 24th Nov., 1909—19...

Address reply to the General Managers and quote

No. 10996.

ROBERT W. MAGWOOD, Esq.,
Box 3, Radisson, Sask.

Re S. E. 22140-10-W, 3rd.

DEAR SIR,—We are in receipt of your favour of the 17th instant advising us that you have purchased this property on which we hold a first mortgage.

Our mortgage stands at $800, with 9 per cent thereon from the 26th December, last, and is repayable $200 on December 1st, 1911, 1912, 1913, and the balance on December 1, 1914, and does not contain any clause making it repayable before due date, and we are not prepared to accept repayment except on terms of the mortgage. The interest is payable yearly on the 1st December, the amount owing on the 1st December next being $67.05 which we should receive promptly on due date.

Yours truly,

OSLER, HAMMOND AND NANTON,
Per
General Managers.

E. & O.E.
M.

EXHIBIT 'C.'

JASMIN, March 10, 1913.

To the Editor of The Guide,

DEAR SIR,—Enclosed you will find some bank notes at 10% interest. You will also find a receipt for interest on a $400.00 dollar mortgage, this is 9%, $36.00 per year. You will also find a bill showing how this $400.00 mortgage was made up.

These are the property of a farmer named A. Gerrard near Kelliher. The banks around here never let us have money at less than 10%, and often they will not let us have it for that. I hope these documents will be of some use to you to show up these robbers.

Yours truly,

ROBERT WELSH,
Jasmin, Sask.

APPENDIX No. 2

EXHIBIT 'D.'

Exact copy of charges on $1,000 Mortgage loan.

Re loan of WESLEY N. BIRKETT.

To The Manufacturers Life Insurance Co.—

Solicitor's fee putting through loan	$5 00	
Drawing declaration of Mortgagor	0 50	
Drawing seed grain declaration	0 50	
Drawing order to pay	0 50	
Paid for search-title		0 25
Paid for search as to executions		0 50
Paid for tax certificate		0 56
Paid for registration of mortgage		1 50
Paid for abstract		0 50
Paid for certificate of charge		0 50
Paid for general register certificate		1 50
Postage		0 50
Fee on transfer	2 00	
Paid regn		8 80
Paid Rejection fee		1 00
Fee removing caveat	2 00	
Paid regn. (2 quarters)		1 50
Paid A. W. Routledge fees re caveat		1 50
Fee removing Messecar mtge	2 00	
Paid reg. & abst		1 50
	12 50	20 11
		12 50
		$32 61

Dated at Regina, in the Province of Saskatchewan this 4th day of February, A.D. 1911.

EMBURY, SCOTT, GRAHAM & BLAIN,
Solicitors for The Manufacturers Life Insurance Company.

EXHIBIT 'E.'

Investment Department.

THE MANUFACTURERS LIFE INSURANCE COMPANY.

REGINA, SASK., February 6, 1911.

Messrs. WATKINS & EMBURY,
Barristers, Lumsden, Sask.

Re Loan W. N. Birkett.

DEAR SIRS,—Our solicitors have reported on this loan and we are disposing of the proceeds as follows:—

Solicitor's costs as per enclosed statement	$ 32 61
Valuation fee and mileage	7 00
Paid *re* Messecar mortgage on January 21	724 00
To mortgagor in full of loan	236 39
Total	$1,000 00

The latter mentioned cheque is enclosed herewith; also cheque in your favour for $10 in full of commission. Kindly have Mr. Birkett sign and return to us the enclosed receipt for the proceeds.

Your truly,

J. T. FRANKS,
Treasurer.

EXHIBIT 'F.'

DE TREMAUDAN & CO., FINANCIAL AGENTS.

MANOR, SASK., December 31, 1909.

Mr. T. RUEL,
Manor, Sask.,

Re Ruel, No. R. 1001.

DEAR SIR,—We have at last received the proceeds of this loan, and enclosed herewith you will now find cheque and statement of the solicitor's costs and disbursements. The amount of the loan has been disbursed as follows:—

Amount due under prior mortgage	$992 88
Paid Northern Trusts mortgage	786 00
Paid seed grain liens	147 38
Solicitor's fee and disbursements	37 53
Valuation fee	7 00
Proceeds due you	$529 21

We need not repeat that we regret exceedingly the delay which has taken place in connection with the completion of this loan, and we trust that you understand that we are not to blame in any way in this matter. As stated before in conversation with you, the company and their solicitors appear to be throwing the blame back from one to the other, and our opinion is that both are to blame.

Yours truly,

DE TREMAUDAN & CO., LTD.
(Signed) Per A. H. DE TREMAUNDAN,
Managing Director.

G.
Enc.

APPENDIX No. 2

EXHIBIT 'G.'

SOLICITORS STATEMENT OF COSTS.

Re LOAN OF TREFFLE RUEL

FROM

THE HOME LIFE ASSOCIATION OF CANADA.

	$ c.	$ c.
Sols' fee putting through loan	5 00	
Drawing declaration of morgagor (2)	0 50	
	0 50	
Drawing seed grain declarations	1 00	
Paid search titles		0 50
Paid for tax certificates		0 50
Paid search executions two names		0 50
Paid for approval of assignment Ins		0 53
Paid for reg. mortgage (two titles)		2 00
Paid for reg. transfer and assur		8 00
Paid for abstract and cert. *re* executions		1 50
So. fee paying off Northern Trusts Company	2 00	
Drawing order authorizing payment	0 50	
Drawing order authorizing payment seed grain liens	0 50	
Sol. fee discharging seed grain liens	2 00	
Drawing discharge of caveat T. Ruel	1 00	
Paid reg. caveat and discharge of mortg		2 00
Paid for two abstracts and cert. of charge		1 50
Paid for general reg. certificate		1 50
Postage		1 00
Paid for abstract and cert. of charge and G. R. certificate showing liens removed		3 00
Solicitors fee disbursing loan	2 00	
	15 00	22 53
		15 00
		37 53

Dated at Regina this 27th day of December, A.D. 1909.

EMBURY, WATKINS & SCOTT,

Solicitors for the Home Life Association of Canada.

EXHIBIT 'H.'

Mr. A. GERRARD,

In Acct. with D. H. MCDONALD & Co.,

Bankers, Financial, Real Estate and Insurance Agents.

FORT QU'APPELLE,

SASK., CANADA.

R. D. & Co., 2780.

Date 1908.	Particulars	Dr. Cr.	Balance.
June 1.....	By. Mortgage	$ 400 Cr.	400.
	To. Insurance	7 80	392 20
	Val. fee & Mileage	10 00	382 20
	Mortgage & Reg. fee	8 00	374 20
	Taxes certificates	1 00	373 20
July 6.....	Order to I. Gimpel	258 00	115 20
	Seed grain lien	38 52	76 68
	Interest from 30 March	0 55	76 13
	Discharge of lien & ren	2 00	74 13
	Lipton Lumber Act	10 49	63 64
	Paid I. Gimpel on account of $82 order	63 64	
		400 00	400 00

EXHIBIT 'K.'

IN THE DISTRICT COURT OF THE DISTRICT OF MCLEOD.

BETWEEN:—

and

Plaintiff.
Defendants.

BILL OF COSTS.

	$ cts.	$ cts.
Instruction to sue	3 00	
Letter to each defendant	1 50	0 06
Dwg. statement of claim	2 00	
Copy for each defendant	0 90	
Copy to keep	0 30	
Counsel fee revising		5 00
Writ of summons	2 00	
Three copies	3 00	
Paid clerk in the court for writ		3 00
Paid Sheriff service fees		22 25
Dwg. affidavit of service, Toone	1 00	
Engrossing	0 30	
Dwg. affidavit of service, D. Mulholland	1 00	
Engrossing	0 30	
Dwg. bill of costs	0 60	
Copy	0 30	
Dwg. discontinuance	0 60	
Letter enclosing bill of costs	0 50	0 04
Attending to file discontinuance and paid	0 50	0 10
	17 80	30 45

Disbursements	$20.45
Fees	17.80
Total	$38.25

APPENDIX No. 2

Herewith is attached the tabulated information secured from the cancelled notes of various banks. I have taken the notes just as they came to hand and made no special selection of them.

BRITISH NORTH AMERICA.

Branch.	Date.	Amount.	Term.	Interest Rate.	Interest Collected.
		$ cts.			$ cts.
Seamans, Sask	May 12	200 00	4½ months	10	9 00
" "	Oct. 12	209 00	1 "	10	2 00
" "	Nov. 12	211 00	1½ "	10	2 70
" "	Dec. 12	213 70	1 "	10	2 15
Tait "	Feb. 13	208 90	3 "	Not marked.	.....
Estevan "	Aug. 11	378 80	2 "	10	Not marked.
" "	May 11	361 90	3 "	10	10 20
Seamans "	Apr. 10	264 75	7 "	10	16 00
Ituna "	Sept. 12	185 00	1 "	10	1 85
" "	June 12	200 00	3 "	10	5 25
" "	Mar. 12	231 00	3 "	10	6 00
" "	Dec. 11	225 00	3 "	10	6 00
Raymore "	July 12	120 00	4⅓ "	10	4 60
Punnichy "	Feb. 12	61 90	3 weeks	10	1 00
Raymore "	Oct. 12	364 95	Demand	10	1 90
" "	July 12	102 60	2⅓ months	10	2 20
" "	Apr. 12	100 00	3 "	10	2 60
" "	Aug. 12	50 00	5 weeks	10	1 00
" "	June 12	100 00	3 months	10	2 65
" "	June 12	103 40	3½ "	10	3 10
" "	Feb. 12	100 00	4 "	10	3 40
Reston, Man	Dec. 10	250 00	4 "	8	6 95
" "	May 12	100 00	4¼ "	10	3 70
" "	Aug. 12	495 30	2 "	10	8 80
" "	Nov. 11	475 00	4 "	Not marked.	Not marked.
Ituna, Sask	Mar. 12	200 00	1 "	10	2 00
" "	Feb. 12	200 00	1 "	10	2 00
" "	Dec. 11	200 00	2 "	10	3 75
" "	Sept. 12	100 00	3 "	10	2 60
Raymore "	Apr. 11	51 40	2 "	10	1 00
" "	Feb. 11	237 35	2 "	10	4 30
Bow Island, Alta	Mar. 12	60 00	6¾ "	10	3 50
" "	June 10	30 00	5 "	10	1 50
" "	Aug 10	30 00	2 "	10	1 00
" "	June 10	28 60	4 "	10	1 00
" "	May 10	183 00	3 "	10	5 00
" "	Aug. 10	188 00	2⅔ "	10	4 75
Davidson, Sask	Jan. 13	90 00	1 "	8	1 00
Estevan "	Mar. 11	100 00	3⅓ "	10	3 20
" "	Aug. 11	205 75	2 "	Not marked.	Discount.
" "	Aug. 11	610 70	2 "	"	"
Forward "	Mar. 10	368 00	3 "	10	9 75
" "	June 10	377 75	2 "	10	8 25
" "	Apr. 10	100 00	6 "	10	5 25
Reston, Man	June 11	260 60	4 "	10	9 00
" "	Oct. 11	269 60	1 "	10	2 60
Kelliher, Sask	Feb. 10	100 00	2 "	10	1 70
" "	Nov. 9	200 00	3 "	10	5 30

DOMINION BANK.

Grenfell, Sask	Nov. 12	600 00	3 months	9	14 15
Guernsey "	Sept. 12	440 30	1 "	10	3 90
" "	June 12	204 50	3 "	9½	5 00
" "	Mar. 12	200 00	3 "	9½	4 75
" "	June 12	50 00	3 "	10	1 30
" "	July 12	175 00	2 mo. 22 dys	10	4 25
" "	Oct. 12	225 00	1 month	11	2 20
" "	Nov. 12	444 20	1 "	11	4 10
Grenfell "	Nov. 06	100 00	2 "	8	1 80

DOMINION BANK —*Continued.*

Branch.	Date.	Amount.	Term.	Interest Rate.	Interest Collected.
		$ cts.		p.c.	$ cts.
Grenfell, Sask	Jan. 06	101 80	1 month	8	0 80
" "	June 06	350 00	1 "	8	2 70
" "	Nov. 06	350 00	2 "	8	5 00
Guernsey "	Oct. 11	204 75	1 "	Not given.	1 90
" "	July 11	200 00	3 "	9	4 75
" "	April 11	173 95	3 "	9	4 25
" "	Jan. 11	170 00	3 "	9	3 95

CANADIAN BANK OF COMMERCE.

Medicine Hat, Alta	May 12	748 60	27 days	10	5 90
" "	Nov. 11	422 00	2 weeks	8	1 60
" "	Dec. 11	723 85	5 months	8	24 85
Watson, Sask	Dec. 12	115 80	26 days	Not marked	0 65
Carman, Man	Feb. 11	161 70	1 month	9	Not marked
" "	Jan. 07	282 65	1 "	9	2 60
" "	Dec. 06	279 65	1 "	9	3 00
" "	Nov. 06	279 65	20 days	Not marked	Not marked
" "	June 06	237 50	3½ months	"	"
" "	Oct. 06	273 65	1 "	8	"
Elbow, Sask	May 12	159 00	3¾ "	9	4 85
North Battleford, "	Oct. 12	459 35	2 "	8	6 20
" "	July 12	42 60	2¾ "	8	0 90
" "	July 12	200 00	2¾ "	8	4 00
" "	June 12	206 10	4 "	8	5 75
Radville "	Nov. 12	25 00	2 weeks	10	0 50
Melfort "	May 12	200 00	3 months	8	4 20
Weyburn "	Aug. 07	225 00	2 m. 26 dys	9	5 10
" "	Oct. 07	300 00	1 month	9	2 50
" "	Nov. 07	37 60	1 mo. 7 dys	9	1 90
" "	Sept. 07	200 00	3 months	9	4 70
Milk River, Alta	Nov. 12	350 00	3 mo. 5 dys	Not marked	Disc.
Vonda, Sask	Nov. 11	100 00	4 months	8	2 75
" "	Apr. 12	300 00	4 "	8	8 30
" "	May 11	50 60	4 "	8	1 40
" "	Aug. 12	133 60	2 "	8	2 25
" "	Mar. 11	60 00	4 "	8	1 75
" "	May 11	210 00	4 "	8	5 80
Gleichen, Alta	May 12	250 00	1 "	8	2 00
" "	June 12	252 00	24 days	8	1 60
" "	June 10	30 50	4 months	8	0 85
" "	Aug. 10	600 00	2¾ "	8	12 35
" "	June 10	473 65	4 "	8	13 00
" "	Nov. 12	300 00	19 days	8	1 50
Lloydminster, Sask	Feb. 12	104 35	4 mo. 7 dys	Not marked	Disc.
" "	Apr. 11	44 00	6 months	12%	2 70
Monarch, Alta	May 12	483 60	2 months	8	6 90
" "	Mar. 12	430 00	1 month	8	3 00
" "	Feb. 12	200 00	1 mo., 12 dys	8	2 20
" "	Jan. 12	230 00	2½ months	8	4 15
" "	Dec. 11	180 00	2 "	8	2 70
Biggar, Sask	Jan. 13	100 00	2 "	10	1 90
Kerrobert, Sask	Nov. 12	205 65	26 days	10	1 70
" "	July 12	200 00	3 mo., 5 dys.	10	5 65
" "	April 12	200 00	3 months	10	3 60
" "	Feb. 12	200 00	2½ "	10	4 35
Gleichen, Alta	May 12	181 50	2 " 19 d.	8	3 40
" "	Jan. 12	1,200 00	3 "	8	25 05
" "	April 12	1,346 30	3 " 23 d.	8	33 90
Elbow, Sask	July 12	1,595 50	1 month, 7 d.	9	16 30
Provost, Alta	Dec. 12	300 00	2 months	9	4 80
Weyburn, Sask	June 12	211 84	4 "	9	6 96
Radisson "	Nov. 12	358 30	1 month	10	3 40
" "	Aug. 12	739 00	3 months	10	19 30

APPENDIX No. 2

UNION BANK

Branch.	Date.	Amount.	Term.	Interest Rate.	Interest Collected.
		$			$ cts.
Weyburn, Sask.	Nov. 7	292 45	1 mo. 9 dys.	10	3 45
Bow Island, Alta.	July 12	300 00	3 mo. 5 dys.	not given.	disc.
Vanguard, Sask.	Aug. 12	100 00	3 months	9	2 50
Fillmore "	Oct. 12	53 35	15 days		0 25
Baldur, Man.	June 11	26 00	2 months		disc.
" "	April 9	200 00	4 "	9	12 80
" "	Aug. 9	412 80	2 "	9	6 50
" "	Nov. 9	568 05	30 days	9	5 80
" "	Jan. 9	500 00	2 months	9	7 90
" "	Jan. 10	600 00	2 mo. 7 dys.	9	10 30
Togo, Sask.	Jan. 12	150 00	3 months	9	3 65
Dauphin, Man.	Feb. 13	175 00	1 "	8	1 25
Adanac, Sask.	Aug. 11	25 00	2 "	10	0 65
" "	Aug. 11	88 10	3 "	10	2 30
" "	Nov. 10	400 00	1 "	10	disc.
Maryfield "	July 12	300 00	2 m. 25 dys.	8	6 80
Wawanesa, Man.	Oct. 12	416 25	1 month	8	3 20
" "	Nov. 5	975 00	1 "		disc.
Gull Lake, Sask.	May 12	34 25	1 "	8	0 50
" "	Mar. 12	43 25	2 "	8	1 00
" "	Dec. 11	52 00	3 "	8	1 25
Birtle, Man.	Nov. 12	500 00	2 "		disc.
" "	Oct. 11	100 00	3 "	9	2 50
Southey, Sask.	Oct. 11	129 20	2 weeks	9	1 00
Seven Persons, Alta.	July 12	140 00	3 months	10	3 65
" " "	April 12	140 00	2 "	10	2 50
" " "	Jan. 12	140 00	3 "	10	3 60
Landis, Sask.	Feb. 11	31 00	1 "	10	disc.
" "	Oct. 12	22 46	1 mo. 8 dys.	9	1 00
" "	Jan. 11	30 00	1 month	10	
Adanac "	Feb. 12	550 00	1 "	10	4 85
" "	Mar. 12	554 85	3 "	10	14 60
" "	June 12	569 45	4 "	10	20 50
" "	Oct. 12	469 40	1 "	10	4 45
Plenty "	June 12	252 40	1 "		2 40
" "	Dec. 11	76 50	1 "	10	1 50
" "	Oct. 11	509 00	2 "	10	9 00
Lumsden, Sask.	Nov. 10	955 00	2 weeks	8	3 55
Bounty "	Nov. 12	1,468 10	3 days	8	10 75
" "	Aug. 12	960 75	3 months	8	20 00
" "	Apr. 12	935 00	4 "	8	25 75
" "	Nov. 11	1,045 20	1 "	8	7 60
Wawota "	Dec. 12	269 65	2 "	8	3 85
" "	Aug. 12	1,118 00	3 mo. 25 d.	9	34 50
Langdon, Alta.	Oct. 09	31 00	2 months	10	
Wawota, Sask.	Dec. 12	125 00	2 "		2 25
" "	Feb. 13	52 25	1 "		1 00
Eyebrow "	Jan. 13	139 50	1 mo. 8 dys.	10	
" "	Jan. 13	102 75	1 month	10	
" "	Nov. 12	100 00	2 months	10	1 75
" "	Sept. 12	100 00	1 mo. 3 dys.	10	1 25
" "	Jan. 12	50 00	1 month	10	1 00
" "	Aug. 10	102 60	1 "	10	1 40
Rocanville "	Dec. 11	608 55	2 "	8	8 80
" "	May 10	24 00	2 "	8	1 00
Moosomin "	Nov. 07	101 03	2 "	10	1 75
Rocanville "	Nov. 12	204 30	1 "	8	1 90
" "	Mar. 09	42 10	7 "	8	
" "	June 09	125 00	5 "	8	
" "	Jan. 13	50 00	2 "	12	1 00
" "	Feb. 13	51 00	1 "	10	
Scott "	June 09	100 00	59 days	10	1 75
" "	Mar. 09	600 00	10 "	9	2 00
" "	Nov. 09	792 65	1 month	9	6 75
" "	Feb. 10	950 00	4 "	9	
Gravelbourg, Sask.	Nov. 12	500 00	3 "	9	
Simpson, Sask.	Mar. 11	105 00	1 "	9	1 00
" "	Mar. 11	200 00	1 "	9	
" "	Mar. 11	475 00	17 days	8	0 75

UNION BANK—*Continued.*

Branch.	Date.	Amount.	Term.	Interest Rate.	Interest Collected.
		$ cts.			$ cts.
Simpson, Sask	Mar. 11	60 00	2 months	9	
" "	Feb. 13	559 65	11 days	8	1 85
" "	Feb. 13	557 70	10 "	8	1 95
" "	Dec. 12	552 95	1 month	8	4 75
" "	May 11	285 00	10 days	8	0 85
" "	May 11	602 50	10 "	8	1 75

MERCHANTS BANK

Wainright, Alta	Nov. 11	100 00	6 months	9	4 65
Edgerton, "	Oct. 12	350 00	4 "	9	11 20
" "	Nov. 12	165 00	1 "	9	1 48
" "	Nov. 12	100 00	3 "	9	2 40
Acme, "	Sept. 12	100 00	3 "	8	2 25
Hughenden, "	Dec. 12	249 20	1 "	12	2 70
Pincher Stn. "	Apr. 12	175 00	3 "	8	3 70
" "	Apr. 12	1,850 00	4 "	8	50 90
" "	Nov. 12	500 00	1 "	8	3 70
" "	May 12	350 00	4 "	8	9 75
" "	July 12	200 00	3 "	8	4 25
" "	Aug. 12	1,000 00	3 "	8	20 95
" "	Aug. 12	900 00	1 "	8	7 00
Acme, "	July 12	400 00	6 "	9	18 55
Edgerton, "	April 12	250 00	6½ "	9	13 20
" "	Nov. 12	525 00	1 "	9	4 40
" "	April 12	200 00	6 "	8	8 60
Islay, "	Oct. 12	217 75	1 "	8	1 75
" "	Sept. 12	650 00	15 days	8	2 75
" "	Nov. 12	110 30	1 month	8	0 95
" "	Dec. 12	20 00	1 "		0 50
" "	Aug. 11	316 40	3 "	8	6 60
" "	Oct. 11	100 00	2 "	8	1 50
Wetaskiwin, "	July 12	150 00	1 "	8	1 20
" "	April 12	350 00	3 "	8	7 25
Neepawa, Man	June 07	100 00	4 "		3 20
" "	Nov. 06	100 00	1 "	8	0 90
Hughenden, Alta	Aug. 12	300 00	2 "	8	4 50
Wetaskiwin, "	July 12	150 00	1 "	8	1 20
" "	April 12	350 00	3 "	8	7 25

NORTHERN CROWN BANK.

Dundurn, Sask	Dec. 10	160 00	4 months	10	5 75
" "	Mar. 11	50 00	1 "	10	1 00
Earl Grey "	Aug. 11	76 95	1 "	10	1 00
Arden, Man	Mar. 12	100 00	3 "	12	3 00
" "	June 12	106 00	3 "		3 00
Dundurn, Sask	May 12	924 50	2 "	10	17 90
" "	Feb. 12	900 00	3 "	10	24 50
" "	Nov. 11	900 00	3 "	10	
Harris "	Jan. 13	100 00	1 "	18	1 50
Viscount "	Oct. 12	82 00	1 "		1 50
" "	July 12	81 00	2 "		1 00
" "	Mar. 12	79 00	4 "		1 00
Imperial "	Dec. 12	300 00	5 weeks		3 00
Manor "	June 12	30 00	1 months	10	1 00
" "	July 12	31 00	1 "	10	1 00
" "	Oct. 12	33 00	2 "	10	1 00
Dundurn "	June 12	605 00	1 "	10	5 90
Waldeck "	Sept. 12	50 00	1 "		1 00
Brock "	Jan. 13	100 00	1 "		1 00
" "	May 11	50 00	4 "	9	1 70
" "	Sept. 12	50 00	2 "	10	

APPENDIX No. 2

NORTHERN CROWN BANK—*Continued.*

Branch.	Date.	Amount.	Term.	Interest Rate.	Interest Collected.
		$ cts.			$ cts.
Lockwood, Sask	May 11	28 05	7 months	8	1 25
" "	June 12	86 20	3 "		Discounted.
" "	Aug. 10	51 30	3 "		"
" "	Oct. 11	51 00	15 days		1 00
" "	May 11	60 00	4 months	10	
" "	July 11	200 00	3 "	9	4 70
Harris "	July 12	300 00	4 "	8	8 30
" "	Nov. 12	315 00	2 "		Discounted.
Manor "	May 12	200 00	1 month	10	
" "	April 12	500 00	1 "	10	
" "	Mar. 12	500 00	1 "	10	
" "	Feb. 12	500 00	1 "	10	
" "	Jan. 12	500 00	1 "	10	
Brock "	Dec. 12	202 00	1 "		1 75
" "	Nov. 12	200 00	2 months		Discounted.
Manor "	Nov. 9	413 75	2 weeks	10	2 00
" "	Nov. 9	415 75	1 month	10	
" "	Sep. 11	60 00	3 "	10	
" "	Feb. 12	25 00	3 "	9	
" "	Oct. 11	219 75	1 "	10	2 05
" "	July 11	214 60	3 "	10	5 75
" "	Mar. 11	214 00	3 "	10	5 75
" "	Feb. 11	410 50	1 "	10	3 50
" "	Nov. 10	400 00	3 "	10	10 50
" "	Sep. 12	100 00	2 "	9	1 70
" "	Oct. 12	247 25	1 "	9	2 10
" "	July 12	240 95	3 "	9	6 30
" "	Apr. 12	333 25	3 "	9	7 70
" "	Dec. 11	350 00	3 "	9	8 25
" "	June 10	67 20	3 "	10	1 80
" "	July 10	105 25	2 "	10	2 00
" "	Apr. 10	102 55	3 "	10	2 70
" "	Apr. 10	100 00	3 "	10	2 55
" "	June 10	250 00	3 "	10	6 35
" "	Jan. 10	150 00	3 weeks	10	
Neepawa, Man	Nov. 11	622 00	1 month	8	4 65
" "	Oct. 12	2,000 00	2 "	8	28 55
" "	Aug. 12	100 00	2 mo.-24 dys	8	2 10
" "	Sep. 09	250 00	3 months	7	5 30

BANK OF HAMILTON.

Loreburn, Sask	Dec. 11	3,084 36	2 months	8	50 24
Heward "	July 12	70 00	3 "	10	2 00
" "	Aug. 12	103 20	2 "	9	1 80
" "	July 12	200 00	3 "	9	5 25
Dundurn "	April 12	50 00	1 "		1 00
Creelman "	Feb. 11	304 85	2 "	Not given.	Not given.
" "	Oct. 10	300 00	4 "	"	"
Vulcan, Alta	Sept. 11	42 06	2 "	"	Discounted.
" "	June 11	41 06	3 "	"	"
Dunrea, Man	Oct. 12	500 00	1 "	"	4 85
" "	Feb. 12	201 70	1 "	"	Discounted.
" "	Nov. 11	302 75	1 "	"	"
Loreburn, Sask	Nov. 12	300 00	3 "	9	7 20
" "	June 12	999 65	1 "	9	8 20
" "	Jan. 12	152 50	3 "	8	3 00
Carman, Man	Mar. 12	103 15	3 "	12	3 15
Champion, Alta	Dec. 12	700 00	3 "	10	17 65
Carievale, Sask	April 12	556 10	Demand	10	

WEYBURN SECURITIES BANK.

Branch.	Date.	Amount.	Term.	Interest rate.	Interest collected.
		$ cts.			$ cts.
Halbrite, Sask	Dec. 11	1,348 55	Demand	10	
" "	July 12	824 40	3 months	12	
" "	Feb. 12	1,377 25	23 days	12	
" "	June 11	1,285 84	3½ months	10	
" "	April 12	817 75	2 "	12	

BANK OF TORONTO.

Wolseley, Sask	Dec. 07	300 00	2 months	10	5 50
" "	Feb. 08	310 30	1 month	Not given	Discounted
" "	Feb. 07	140 00	1 "	8	0 95
" "	Jan. 07	63 60	1 "	8	0 50
" "	April 07	40 00	1 "	8	0 50
" "	Dec. 12	25 00	21 days	8	0 50
" "	Dec. 09	200 00	2 months	8	2 90
" "	Dec. 09	520 00	2 "	8	7 45
" "	Sept. 09	100 00	3 "	Not given	2 25
" "	June 09	100 00	6 "	8	4 50
" "	May 08	200 00	6 "	8	8 75
Glenavon "	Mar. 12	170 21	13 days	8	1 00
" "	Mar. 12	500 00	1 month	8	4 20
Rossburn, Man.	Dec. 11	40 00	5 months	8	1 35
Youngstown, Alta	Feb. 13	28 00	24 days		1 00
" "	Feb. 13	29 00	7 weeks		1 00
" "	Nov. 12	101 00	1 month		1 00
Kennedy, Sask	Nov. 11	667 90	1 week	10	2 00
Cartwright, Man.	Dec. 10	450 00	3½ months	9	12 60
Swan River "	Nov. 11	84 00	6 months		5 00
Kennedy "	Jan. 12	16 00	1 month		1 00
" "	Feb. 12	17 00	1 "		1 00
" "	Feb. 11	300 00	6 months	10	16 00

ROYAL BANK.

Stettler, Alta	Dec. 12	150 00	3 months	8	3 25
" "	Feb. 11	400 00	2 "	8	5 60
Rosetown, Sask	Jan. 13	102 00	demand.	8	
Milden "	Aug. 12	88 00	5 weeks	8	1 00
Erskine, Alta	Jan. 13	176 00	2 months	8	2 75
" "	Sept. 12	367 25	3 "	8	8 75
Halkirk "	Jan. 13	320 00	3 "		6 50
Bethune, Sask	Mar. 10	553 80	3 "	8	12 20
Lumsden "	July 10	200 00	3 "	8	4 25
Bethune "	Dec. 09	250 00	3 "	8	5 40

QUEBEC BANK.

Bulyea, Sask	Aug. 12	154 65	3 months	9	3 65
" "	Apr. 12	150 00	4 "	9	4 65
" "	June 12	361 90	4 "	10	12 35
" "	Feb. 12	350 00	4 "	10	11 90
" "	Oct. 12	274 25	1 "	10	2 55
Young, "	Apr. 12	100 00	6 "	10	Discounted.
" "	July 12	125 00	3 "	10	3 35
" "	Sept. 12	50 00	1 "		1 00
" "	June 12	50 00	3 "	10	1 45
" "	Sept. 12	41 10	1 "	Not marked.	1 00
" "	June 12	40 00	3 "	10	1 10

APPENDIX No. 2

BANK OF OTTAWA.

Branch.	Date.	Amount.	Term.	Interest Rate.	Interest collected.
		$ cts.			$ cts.
Tisdale, Sask	Nov. 11	100 00	1 month	12	Discounted.
" "	Apr. 12	280 00	1 "	10	"
Rouleau, "	July 12	200 00	2 "	8	"
" "	July 12	200 00	1 "	8	"
" "	Apr. 12	200 00	2 "	8	"
" "	Feb. 12	200 00	2 "	8	"
Emerson, Man	Oct. 8	50 00	10 days	8	0 25
" "	Aug. 10	255 30	1 month	8	0 95
" "	May 10	250 00	3 "	8	5 30
" "	Dec. 9	250 00	5¼ "	8	8 90
Rouleau, Sask	Sept. 10	147 96	1 "	8	1 05

As you have permitted me to make any further suggestions in regard to amending the Bank Act, I should like to take advantage of the opportunity. I consider the greatest need to-day in connection with the banking system is a more intelligent knowledge of the working of our banking system or, in other words, publicity. There are complaints, not so much against our centralized banking system as against the methods adopted by a number of large banks. Full publicity would be of great benefit in giving the public greater confidence in our banks and also in correcting whatever evils may grow in. At the present time it is difficult for farmers to understand why it is that when there is $1,000,000,000 now on deposit in our banks drawing upon an average of 2 per cent interest, that it should require an additional 6, 8, or 10 per cent to bring the money where they can use it. It is also difficult for farmers to understand why they are not able to secure loans from the bank at the season of the year when they are most needed. I believe that a wider knowledge of the banking system would bring about a better understanding between the farmers and the bankers and enable them to be of greater mutual assistance. It is general knowledge that the men at the head of the great transportation, industrial, commercial and financial institutions in Canada are very frequently directors of one of the large chartered banks. It is also known that these big concerns require extensive credit, and the impression is general that through this interlocking system of directorates these big concerns are securing very large loans from the banks at the lowest rates of interest. If this is a mistaken idea it would be well to have it cleared up and have the public mind disabused of the error from which it is suffering. On the other hand if this is a correct statement of conditions it should be remedied.

It is partly with this in view that I suggested in my evidence that more complete information should be given in the monthly statement of the banks. I believe it would be advisable in addition to all the information contained in the present monthly statements that there should be a separate and distinct statement from each branch bank in Canada, and also from the head office, and these statements in addition to being published, I believe, should be posted up prominently in the bank office itself, where the public may see it. The only opposition I have heard to this is that it would place too much information before competitors. I cannot see any force in this argument, inasmuch as very nearly the same thing is done by 25,000 or more banks in the United States. On the other hand, if everything is being conducted satisfactorily in each of the banks, there should be no objection to giving the public full information.

In these branch reports I think there should be all the information now contained in the general report (that is applicable to the branches), also considerable additional information. It would be of great advantage to the public in each community to know the amount of money on deposit, both interest and non-interest bearing, as well as the total amount of loans, specifying as far as possible, the purpose for which

the loans were made, for instance, agricultural, manufacturing, wholesale and retail, as well as the amount of call loans, and the security upon which such loans were made. There is also an impression that a number of our large banks have loaned large sums of money for the development of Mexican and South American enterprises, which should have been loaned for the development of Canadian enterprises. For this reason I think it is highly desirable that the report from each branch bank should show the amount of money loaned for foreign enterprises or upon foreign security.

Each statement, I think, also should show the amount of money loaned to directors of that bank, or of other chartered banks and the average rate of interest charged. Another statement, I think, should contain the amount of money loaned to firms in which the directors of that bank are directors or large shareholders, together with the average rate of interest charged, and a further statement should contain the amount of money loaned to firms in which the directors of other chartered banks in Canada are either directors or large shareholders, together with the average rate of interest charged.

Each report also I think should contain the average rate of interest charged on the total loans, as well as the average rate charged on the various kinds of loans made.

In the interest of the public, also, I think there should be some restriction on the rate of interest charged, in any previous evidence I advanced restricting the interest rate to 7 per cent. However if it were a choice between leaving clause 91, as it is, which is useless, or of having it changed to 8 per cent and a penalty attached for charging or receiving a higher rate of interest, I would much prefer to see it made 8 per cent. It is easy that the highest rates of interest are not all charged in what might be called the outlying districts and a study of the tabulated statement I have submitted, shows that some of the banks do not charge over 8 per cent, and I have had it stated to me by one of the general managers of the banks which do quite a business in the West, that he considers 8 per cent is as high as should be charged anywhere. Even if the banks were restricted to 8 per cent, it would afford great relief to many of our western farmers, as you will notice that nearly half the notes I received draw 10 per cent interest or more.

In connection with the rate of interest, if any restriction is made, I think it would be well to have a minimum of 25 cents provided for as it is on the short term loans where the farmers pay the highest rates of interest, and though it may be an overcharge of 50 cents or $1, yet that is a considerable amount to many a farmer on the plains.

It is a common practice by many of the banks in the West to discount notes and no interest rate shown on the face of them. A large percentage of our western population is unfamiliar with the English language and also with banking methods. I think it would be well to have a provision made that each note should show on the face of it the actual amount of money advanced to the borrower, the actual rate of interest charged and the amount of interest collected. Young bank managers, who are anxious to make a good record, are frequently tempted to charge "all the traffic will bear", and these regulations would prohibit the doing of injustice to borrowers who are not able to protect themselves.

The enactment of a satisfactory co-operative banking law would afford an opportunity to farmers to use their own savings to finance their own business, and would thus provide an avenue by which real competition could be established in any community where the local bank was not giving satisfaction.

Another method by which farmers might be relieved from their present financial pressure would be through the establishment of societies for co-operative purchasing, selling and distribution of farm products and commodities used on the farm. This work would be stimulated very much by the enactment of a co-operative bill by the Federal Parliament.

GEORGE T. CHIPMAN.

WINNIPEG, April 25, 1913.

APPENDIX No. 2

The Committee met at 3.30 p.m.

The CHAIRMAN.—Before we commence with the evidence this afternoon, I have asked Mr. Ross, Assistant Deputy Minister of Finance, to give us, briefly, a summary of the Act regulating interest in Canada, so that it may go on the record as part of the evidence.

Mr. BARKER.—That is, at present.

Mr. AMES.—Yes. There is, as you know, a Dominion Act on interest and a Dominion Act on usury, and as these are indirectly applicable, it might be well to get it on the record.

Mr. ROSS.—I need scarcely say that the British North America Act, in Section 91, provides that interest is one of the special matters over which the Dominion has jurisdiction to legislate. The first provision is, that any rate of interest may be charged where there is no specific statutory restriction. The next provision is that the legal rate of interest, where interest is payable by agreement and no rule is specified, shall be 5 per cent. On a promissory note, for example, payable with interest, the rate will be 5 per cent. Except as to mortgages on real estate no rate of interest is payable if the rate per day, week, month, or per half year, set out in the contract is in excess of the rate per annum, which has also to be set out on the contract. The rate per annum, set out on the face of the contract, governs, and if the rate per month or per day should exceed the rate per annum set out on the face of the contract, the former shall not prevail, but the latter.

Then in case of mortgages where the interest and principal are blended in repayment, there shall be set out on the face of the mortgage the actuarial equivalent of the rate on the principal, payable annually or half-yearly; and if, when the calculation is made actuarially, the interest payments should amount to more than is set out on the face of the mortgage, per annum, the latter shall govern, as in the former case. Fines, in the case of mortgages, are not allowed to swell the interest rate. They are not collectable.

The CHAIRMAN.—What statute is that, Mr. Ross?

Mr. ROSS. Chapter 120 of the Revised Statutes.

Hon. Mr. WHITE.—Does that mean this, that the object of that Act is that any party borrowing money may know the rate of interest, per annum, he is paying?

Mr. ROSS.—Yes, on the face of the instrument.

Hon. Mr. WHITE.—That is, it is set out that he shall pay so much a month, so that he may not be misled as to the rate of interest he is paying; and if there is any chance of a conflict between the amount he is paying per month and the rate he is paying per annum, then the rate per annum shall prevail. Is there anything to interfere with freedom of contract, provided the annual rate of interest is stipulated?

Mr. ROSS.—Nothing that I have observed on the face of the statute. Then there is a Moneylenders' Act, which many of you will remember was passed in 1906. It only applies to people who make a practice of lending money at a rate in excess of 10 per cent per annum, but it does not comprise registered pawnbrokers as such. The limitation put on moneylenders is that they cannot charge more than 12 per cent.

Mr. COCKSHUTT.—That holds good all over the Dominion?

Mr. Ross.—Yes. It is generally applicable.

The Chairman.—Would you judge, from that Act, that anything above 12 per cent was regarded as usurious?

Mr. Ross.—If he is a moneylender, within the meaning of this Act, it would be, but if he is not a moneylender, the general Act would apply.

Hon. Mr. White.—Moneylenders includes: 'Any person who carries on the business of money-lending, or advertises, or announces himself, or holds himself out in any way, as carrying on that business, and who makes a practice of lending money at a higher rate than 10 per cent per annum, but does not comprise registered pawnbrokers as such.' So we have to establish that he was a moneylender

The Chairman.—Is a bank a moneylender?

Mr. Ross.—Not within the meaning of the Act.

Mr. Knowles.—Does that mean a private bank could not make a note at a higher rate than 12 per cent?

Hon. Mr. White.—You would have to establish that moneylenders made a practice of loaning above 10 per cent before this statute would apply. If a moneylender, as defined by this Act, loans at over 12 per cent, he forfeits everything.

Mr. Edward J. Fream, called and examined.

By the Chairman:

Q. You are Secretary of the United Farmers of Alberta?—A. The Honorary Secretary.

Q. Do you hold any other position?—A. I am also Secretary of the Canadian Council of Agriculture.

By Mr. Sharpe (Ontario):

Q. How long have you been in the West?—A. Twenty-one years.

Q. What is the Canadian Council of Agriculture?—A. The Canadian Council of Agriculture consists of the executive of four Provincial organizations: the Dominion Grange of Ontario; the Manitoba Grain Growers' Association; the Saskatchewan Grain Growers' Association, and the United Farmers of Alberta.

By the Chairman:

Q. So that you speak as a representative of the farming interests, both East and West?—A. I am not very well conversant with Eastern interests, but to that extent I do.

Q. I think perhaps you had better make your statement in your own way.

By Mr. Sharpe (Ontario):

Q. Have you discussed this question with any Eastern organizations?—A. No.

Q. So that you really could not be held to represent Eastern interests?—A. No.

Q. How long have you held this position?—A. I have been connected with the United Farmers of Alberta since the middle of July, 1908, and with the Canadian Council of Agriculture since the 15th of February, 1912.

By Mr. Thornton:

Q. Do you devote all your time to those organizations?—A. No. I am also connected with the Grain Growers' Grain Company, of which I am an officer.

By Mr. Knowles:

Q. Are you a farmer?—A. I was a farmer until I got into this kind of business.

Q. How long have you been engaged in farming?—A. I have had nearly fifteen years experience in Western Canada.

APPENDIX No. 2

By Mr. Sharpe (Ontario):

Q. Just as a farmer?—A. In various ways, working on ranches, farming and also doing work in the town.

Q. How long is it since you ceased actual farming operations?—A. Six years.

The CHAIRMAN.—I would suggest that Mr. Fream now make his statement, and he will afterwards be submitted to questioning on anything that may have been said or any other matter on which the Committee may desire to question him.

Mr. FREAM.—I would say that the matter which affects us most in the West, what we have mostly been discussing, is that which is found in Section 88, authorizing the banks to loan money to farmers on the security of threshed grain, and to ranchers on the security of their cattle. I might say there is a very strong demand in the West for something of this kind. The farmer feels that he is considerably handicapped at present, no matter which way he turns, and for a long time he has been casting round to find some way of getting out of the difficulties under which he is working. The big trouble that has to be met first of all with us is in the fact that the farmer is compelled to close his financial year, as it were, on the 1st of November in each year. The West has been a big borrowing country, and has been, to a large extent, dependent upon the machine companies for credit.

By the Chairman:

Q. Agricultural implement companies?—A. Yes. These companies make a practice of having their notes come due on the 1st of November in each year. The result is that the farmers are compelled to throw their produce on the market in the months of September and October, as soon as threshed, if they are going to meet their payments. If they do not do that, as has been evidenced these last few months, they are simply hounded to death by the collectors of those same machine companies. The result of that unfortunate position is that we have to face a grain blockade every year. We run up against the same thing every year; there is a shortage in money and the banks shut down and tell the farmers they have nothing for them, and the farmers are compelled to throw their grain upon the market at a time when it brings the least possible price to them. The farmers have felt that some step could be taken, whereby it would be possible for them to carry their grain say for two, three or four months, so that it could be shipped out gradually and become absorbed in the world's market, as required, instead of causing a glut, as at present; and at the same time, put them in a position where they can pay what bills they owe. That cannot be done to-day. Under our conditions, as they are in the West, the farmer goes to the local banker and asks him for an advance. A statement is put up to him to sign. It shows the amount of his assets and the amount of his liabilities. If that farmer has a pretty good line of credit anyway and the bank is loaning, he can get some money; but no matter how good his credit is, sometimes, and quite often in the fall, the answer is received, 'We are very sorry, we have orders from the head office to get in all the money possible as it is required somewhere else." He is then decidedly up against it. He cannot pay his machine notes or his threshing bills, and he forces his grain on the market. As soon as the farmer loads his grain into a car and receives the bill of lading for it, he can send that bill of lading to any grain commission firm, elevator company or any company of that sort he desires. He can give instructions to that firm that he wishes to hold the grain until further orders, and that he wants an advance on it. The commission firm will immediately send that man an advance of from 50 to 75 per cent of the value of the grain, charging him 6 to 7 per cent per annum interest on it. The only trouble is that that grain is on the world's market, it is in sight, and it has a deterrent effect on the prices generally. The farmer cannot understand why some scheme cannot be worked out, whereby it would be possible for him to give some specific security, say, to the bank, whereby they also would be the owners of the grain the same as the commission firm, and he could get money to enable him to pay the necessary bills and to

hold the grain until such time as there would be no glut on the market. The way it works out to-day is that if the farmer is in difficulties generally, if he does not pay his bills within a certain time, he is served with a writ or the company that is pressing him will demand that he give them a bill of sale or a chattel mortgage on his grain; and under the statement given to the bank it is impossible for the bank to hold a specific lien upon that grain, although possibly a loan might have been given on the grain in the first place. The result is that if a writ is issued against that man and judgment and execution secured, the bank simply becomes an ordinary creditor and will probably have to take only a proportionate share of what might be coming to them. On the other hand, when an advance is made by a grain firm, until such a time as that advance is repaid, with the interest at the rate of 6 or 7 per cent per annum, the grain firm is really the owner of the grain, subject only to the orders of the farmer as to when it shall be sold. And no matter what garnishees or orders may be given to that grain firm when settlement is made with the farmer, a deduction is made of all charges incurred through the loan or the advance given on the grain in the first place. The thing that is bothering the farmer is why cannot something be provided whereby he can get something from the banks—put the banks in that position.

By Hon. Mr. White:

Q. You say that in the fall, in November, the banks shut down on the farmers?—A. Generally.

Q. Does that occur every year, or only in abnormal years when money is tight?—A. I think it is pretty generally taken for granted that it is done every year. The same answer is received: We have to clear up.

Q. Do they call in loans? Would you say that there is a substantial diminution of the amount of money loaned to the farmers, say in November, or is it only a curtailment of credits ordinarily extended? Do you think there is a great reduction in the volume of loans to the farmers outstanding or not?—A. I would not like to say definitely, although it is the general impression among the farmers that there is a big curtailment.

Q. It is not suggested they draw in all their money?—A. Yes.

Q. So that in the fall, as I understand your view, new loans are not likely to be made and old loans are reduced to some extent. Is that it?—A. Yes.

Q. The chairman wishes to know if you have any information as to whether that money is being used to move the crop, or to pay out over the counter in circulation to the farmers and others?—A. My own experience is that quite a lot of the money used in handling the crops comes from New York and London.

Q. As the banks draw it in?—A. As the London and New York banks provide the money.

Q. Are you quite sure of that?—A. I am sure of it.

Q. That the New York and London banks supply the money?—A. Yes.

Q. And that our banks do not supply the money?—A. A good percentage of it comes from outside countries.

Q. It is not a case of our banks calling in their call loans from London and New York banks, but a case of London and New York banks actually sending their money to Canada for the purpose of moving the western crop?—A. The Canadian banks use their credit to bring it here.

Q. That is through the Canadian banks?—A. It has to be done. The bills of lading and warehouse receipts and the general securities for the grain are deposited in Canadian banks who act as agents for the other banks.

Q. Who advances the money?—A. The firms or companies have to wait for a week or ten days until the money comes back from New York, until the bank has received it.

APPENDIX No. 2

Q. The chairman mentions that in the fall call loans of Canadian banks in New York are usually substantially reduced during the crop moving period, and the understanding has been that the banks call in these loans and use that money, that is their own money, for the purpose of assisting in the crop moving?—A. It might be with some banks. I can only talk from my own experience.

Q. Have you any definite information that a large proportion of the money used either in extending credits in the West or in crop moving periods is supplied by foreign banks?—A. Yes.

Q. You have definite information?—A. Yes.

By the Chairman:

Q. As an official of the Grain Grower's Grain Company?—A. Yes.

By Hon. Mr. White:

Q. What in your own opinion is the proportion brought in by the banks from foreign countries?—A. 75 per cent.

Q. And those are London and New York banks?—A. The Bank of Scotland and New York banks.

Q. Through our banks as agents?—A. Yes.

Q. That is, the banks would obtain this money as agents?—A. They hold the collateral.

Q. They make advances on this collateral?—A. Yes.

By the Chairman:

Q. Your experience is with the Home Bank?—A. With the Home Bank.

By Hon. Mr. White:

Q. Would it be 75 per cent of the advances made by one bank or two or three banks?—A. I can only talk of our own experience with our own company.

Q. With regard to the lien upon grain that is provided by this Act is it your view that this will be a substantial advantage to the western farmer or not?—A. It would be a most decided advantage to the western farmer if it were so worded, and if the lien were so prepared that it would be taken advantage of by the banks.

Q. I do not quite understand. Have you any objection to the form of lien given in the Act? As I understand it the bankers' lien is simply a hypothecation of the grain, and goods, wares and merchandise, in which the bank acquires an absolute lien, notwithstanding any provincial law, that would enable it to exercise the rights of an assignee of that by way of security?—A. I would go a step further and provide a separate schedule to be used for that class of business.

Q. Have you had any legal advice, or have you looked at that point, to be able to say whether the schedule in the Bill would not cover the case? The opinion of the department is that any lien upon grain made under that would be similar to the lien the bankers obtain from any wholesaler or manufacturer?—A. The point I take is that the schedule as framed is rather complicated in so far as a farmer would understand what he was giving, and besides that it would be such that I do not think the average local bank manager would take advantage of it.

By the Chairman:

Q. Would you be willing to draw up for the consideration of the committee an alternate schedule which you think would be specially adaptable to liens on grain?—A. I would simply modify it by leaving one reference to goods and chattels and other securities, and simply have one schedule specifically used for grain and live stock.

By Hon. Mr. White:

Q. The amendment you will propose would probably cover the difficulty you have in view?—A. I would suggest that you simply make it read as follows:—

In consideration of an advance of.....dollars made by the .....Bank to A. B., for which the said bank holds the following security.

Simply describe the grain or the live stock, and where it is, and cut out all the rest of it except the necessary provisions.

The CHAIRMAN.—You might, if you will, redraft what you consider to be in conformity with your ideas and let that be incorporated in your evidence.

By Hon. Mr. White:

Q. I am coming to the question of the possession of the grain. The farmer, of course, who borrows now in the way you indicate after his grain has reached the elevator borrows upon a warehouse receipt?—A. On his bill of lading.

Q. The grain is then in the possession of a presumably responsible third party. The grain upon which he will obtain a loan under the new provisions of the Act will remain in his possession?—A. Yes.

Q. Are you of opinion that he will be able to obtain from the bank a loan, or a greater loan, than he would otherwise be able to obtain if he was enabled under the Act to give a lien upon the grain?—A. If provision is made so that the door to the granary or to the storehouse where the grain is stored had a seal, and the key given into the possession of the bank, I do not see why that could not be worked out.

By the Chairman:

Q. You would really make of the granary a bonded warehouse?—A. Yes.

By Hon. Mr. White:

Q. The farmer is in possession of the grain himself?—A. Yes.

Q. If he were disposed to make way with the grain in one way he would in another?—A. There is always a chance of fraud. That is one of the reasons I suggest a separate schedule to handle this business, so that a man who is giving an assisgnment will know that so far as that advance is concerned the grain is absolutely out of his possession, though still stored on his farm.

Q. He has given a lien upon it?—A. To all intents and purposes he has disposed of it, and simply acts as bailee.

By the Chairman:

Q. How would you padlock the cattle?—A. That is different I am just speaking of the grain.

By Hon. Mr. White:

Q. The question has been raised as to the effect upon the farmer's credit if enabled to give a lien upon his grain to the bank. It has been pointed out that the farmers obtained credit from storekeepers and others, and loans from mortgage companies, the interest upon which is sometimes paid by the power of sale under a chattel mortgage on their crop. Would this privilege of giving a lien to the banks adversely affect the interests of these other creditors? A. The money is required to meet the payments to these people, and it is when the payments are not made that the others step in and swoop up everything a man has.

Q. Would the storekeepers and other creditors, so far as you understand public opinion in the West, object to a clause of this kind?—A. I think not; I think it would be to their benefit.

Q. So that, subject to the lien being a simple and effectual lien under the Act, I understand that you are in favour of it?—A. Most decidedly in favour of it.

APPENDIX No. 2

By Mr. Nesbitt:

Q. If I understand you, you said your experience was through the Grain Growers' Grain Company?—A. Yes.

Q. And you deal yourselves as regular grain companies do?—A. Yes.

Q. And you deal through the Home Bank?—A. Yes.

Q. And the advances are largely made by Scotland and by New York. Would the advances be made after sales or before sales?—A. Before sales. It is made on grain held in trust by our company on warehouse receipts in our possession.

Q. For the farmer?—A. Yes.

Q. On warehouse receipt in your possession?—A. Yes.

Q. And the grain has not been sold by you?—A. It might be. Some of it has been sold and not shipped. Others will be simply in our possession awaiting instructions from the owners of the grain as to when it will be sold. We hold the warehouse receipt.

Q. You do not advance the full amount?—A. No, and we do not get the full amount.

Q. But it is advanced on the credit of the Home Bank?—A. The money is on the credit of the warehouse receipt.

Q. From the Home Bank?—A. Yes.

Q. The Home Bank directly advances it to you?—A. No, and necssarily because arrangements are made for payment, say in New York, when we sell the grain.

Q. Through the Home Bank?—A. Direct.

Q. To the New York Bank?—A. Yes.

By Mr. Aikins:

Q. Do I understand that you think the clauses of the bill are complicated in so far as they relate to the security of threshed grain?—A. The objection is to that sub-section, that it could be strengthened considerably by making it say right there just the security which is to be given.

Q. I understand your objection is that sub-section 8 of section 88 refers to the third sub-section in order that you may understand what security is really being given, and that you would sooner have that compiled in one section, and relating only to the security given by the farmer?—A. Yes.

Q. Otherwise you were of the opinion that it is in the interests of the farmers of the West that they should have the facility of procuring money from the banks on the security of threshed grain?—A. Yes.

Q. You have spoken about the delay in getting money back from marketing the grain, and the flooding of the markets with grain. Would a system of interior examining or terminal elevators to any extent relieve that situation? Supposing the elevator were placed nearer the farmer so that he could deposit his grain there and receive immediately his bill of lading?—A. There are two or three things which have to be taken into consideration there. In the first place there will be two handling charges on that grain, and, in the second place, there will be two hauls to get it there and take it to the terminal, and before it will be possible to see whether that will work out in practice it will be necessary for the Grain Commission and the Railway Commission to get together and so frame things that the charges will be cut down to a minimum.

Q. The extra expense would be reduced?—A. There would be practically no extra expense. Besides, no guarantee will be given by the railway company for the delivery of cars within a stated period; and it might so happen that an exporter, or a man requiring grain at a certain point for shipment on a boat, has to get it from an interior terminal. He cannot go to the railway company and say: I want 100,000 bushels out of that interior house delivered at Fort William, or, if in the winter at St. John, Portland, or Vancouver; I want it there by a stated date, the railway companies will not give him that guarantee. The exporter has to complete all his

contracts and sign for the space, arrange for insurance and everything else. If he is not there with the grain he is up against very heavy demurrage charges. He is responsible if the boat goes light, and for any damage that arises to the boat owing to its light vowage on the trip over. And the exporter will take all that into consideration when making his bid on the grain in the interior terminals and will bid a corresponding less price for the same kind of grain than he would if it was stored at a terminal.

Q. Assuming, however, there are better railway facilities, it would remove the difficulty to some extent?—A. Yes, but I do not see how we can work it out.

Q. The farmer who stores his own grain eliminates the expense of an interior elevator?—A. The only real place of storage is on the farm.

Q. You have spoken about the locking of the granery or the warehouse to the farmer in which grain may be stored. Assuming that the farmers know generally that it was an offence against the Act to remove that grain, it is not likely that he would touch it.—A. No.

By Hon. Mr. White:

Q. What would you say as to a system of terminal elevators at certain points? Supposing you had them at important points in the West that gave the advantage of alternate shipping routes by the Pacific or by the St. Lawrence route or otherwise. Let us assume that on Hudson's Bay you have only a transfer house, and that you had a terminal elevator, in the technical sense of the term, at Saskatoon, Calgary, Regina, Edmonton or some other place, where you would get the advantage of alternative shipping routes. Would that be of any advantage or not?—A. That is, a place where you get the alternate routes.

Q. As Saskatoon or any of those cities?—A. It would be an advantage.

Q. Just elaborate that a little.—A. Take, for example, Calgary to-day. Calgary is the logical spot for a terminal elevator, placing it in the same position to Vancouver that Fort William is to Montreal.

Q. That is the idea I want you to speak on.—A. The position to-day is that Calgary is the one route to the west. There is an inspection division there, the government grain inspectors are there. It is a grain route to the coast because from that point it so happens that a lot of grain reaching there—every man thinks his grain is considerably better than it is, and he will ship it westward—on arrival is found to be a kind of grain which is absolutely useless for the western trade at that present time. There being no storage either at the coast or at Calgary, no public storage, the result is that man has either to go to the expense of rebilling his grain east and paying the differential in the freight rate back over probably the same route that it came, especially to Fort William, or else possibly hold it there on track under demurrage charges until the grain is sacrificed to somebody that thinks he can buy it and make use of it in some other place.

Q. Supposing you had a terminal elevator such as you speak of when you have all the varities of grain, would that be a natural adjunct for a milling industry?—A. Yes.

Q. By whom should the terminal elevator be owned?—A. By the government.

By Mr. Knowles:

Q. Do you say that Calgary is the best place in the West to establish a terminal elevator? A. I make that statement for the reason that it is the only through route to-day.

By Hon. Mr. White:

Q. So, if I understand rightly a terminal elevator such as I have suggested for your consideration should be at a point at which you have the advantage of alternative shipping routes. That is a sine qua non in your opinion?—A. Yes.

Q. Would such a terminal elevator issue certificates as to out turn and so on? —A. Yes.

APPENDIX No. 2

Q. Would such an elevator be an advantage to the farmer in getting settlement for his grain more quickly?—A. It would be a decided advantage, not only that way but in placing responsibility for leakage afterwards upon the railway company.

Q. Was a commission appointed some years ago to report on the question of interior storage?—A. The Board of Grain Commissioners have already recommended the establishment of houses such as that. That board was appointed about a year ago.

Q. But go back to 1907. I understand a commission reported against that. Why?—A. Simply, as I understand it that this matter of charges for the handling of grain, the extra handling charges going through the house, the extra freight charges, and the short hauls, and matters of that kind, and the fact that grain in the interior, when it had got really to the waterfront for purchase by the exporter, the cost would be too heavy upon the producer.

Q. I understand that either the conditions have so changed that a different view might now be reasonably taken, or don't you agree with that?—A. At that time I think they were right, but the conditions have materially changed since then. Take for instance when we at that time talked of the Western shipment of grain to Vancouver to go via the Horn, through the Panama Canal or to Japan they laughed at us, saying it was impossible.

Q. So that having regard to the changed conditions your view is that terminal elevators would be an additional advantage?—A. A most decided advantage.

By Mr. Aikins:

Q. You draw a rather unfavourable contrast with respect to the storage as between an elevator situated on the water route and an interior elevator?—A. There is no difference at all for storage, the only trouble is going to commence with delivery.

Q. So that storage at Port Arthur or Fort William in the winter time would be no better than in an internal elevator?—A. Not at all.

By the Chairman:

Q. You were speaking of the grain being practically safe in a farmer's granary with a padlock on the door. As a matter of fact how many farmers through the West have storage accommodation, really good storage accommodation for grain on their farms?—A. I would not like to give the percentage.

Q. Is it general?—A. It is becoming general just as fast as they are in a position to get it.

Q. In what form is it?—A. In special granaries, and in many cases in portable iron granaries.

By Hon. Mr. White:

Q. I was going to suggest, if I might, that Mr. Aikins might consider that question, if he would, or some of the other lawyers on the Committee the form of that lien note. I am advised and believe that it is a very simple form, and that it would work out in the case of the grain as it has worked for twenty years in regard to the manufacturers. It should be as simple a form as possible, having regard to what it is designed to do, to identify the security and the place where it is stored, and so on; if there is any modification necessary so that it will better lend itself to the purpose it is desired to accomplish we will consider it.

Mr. AIKINS.—I will be very glad to confer with the witness on that point.

HON. MR. WHITE: I do not want to change it unless it is necessary.

By Mr. Knowles:

Q. Would not the reasons given against internal storage elevators at Saskatoon and other places that it would increase the cost of handling and holding the grain, apply equally to an elevator at Calgary?—A. No, not to the same extent, because the

grain comes in there now en route to Vancouver and stopover privileges can be arranged for at one cent a hundred pounds. As soon as the Hudson Bay route is ready it can go on there, and when the southern route is open there will be need of storage at the convergent points whence it can be sent in every direction.

Q. One of the reasons given why the witness favoured elevators at Port Arthur was that the grain was more available for delivery at that point, on the same line of reasoning would not an elevator be needed at Vancouver?—A. An elevator at Calgary without an elevator at Vancouver is not what is required at all.

By Hon. Mr. White:

Q. Supposing the transfer was at Vancouver and at point A there was a terminal elevator, would that work?—A. Providing there was choice of routes.

Q. To transfer points, and there will also be the advantage of a quicker return to the farmer on his certificates of inspection?—A. Yes, that is right.

By Mr. Knowles:

Q. Taking into consideration the limited portion of the country that is devoted to grain growing in Alberta and the fact that the country is universally used for grain growing in Saskatchewan, do you not think that more grain would converge in Regina than would converge at Calgary both at the present time and for some years to come, and consequently that there would be greater justification for an elevator at some towns on the main line in Saskatchewan than in Alberta? Do you understand my question?—A. Yes. The position I take is this that under our present conditions the grain coming through Regina has got to come further east anyway. The difficulty is for western shipments, the whole of Alberta practically has one rate. The same rate is given to the coast for almost the whole province, but it is often found at the points where the diversion has to be made that the grain going into that town is useless for western shipments at that particular time of the year, although probably in 1, 2 or 3 months time there will be a great demand for it in storage.

Q. A big demand for it in the West?—A. Yes.

Q. Well then it can wait in Vancouver for the two or three months?—A. It is wanted between Vancouver and point A.

By the Chairman:

Q. This discussion as to the best points for the elevators is certainly not under the Banking Act.

By Mr. Nesbitt:

Q. The object of allowing the farmers to warehouse their crop and to get an advance on it has, I think, been stated to be for the purpose of allowing them to get money and hold the grain for an advantageous market?—A. Yes.

Q. Do I understand by that that the market in the West is much better in the spring than it is in the fall?—A. Yes.

Q. Do you say that just at present it is better than it was last fall?—A. Considerably better.

Q. How much?—A. Probably ten cents.

Q. Is that controlled by the warehouseman, the men who buy the grain?—A. It is controlled by the men who want the grain in the Old Country.

Q. Or is that controlled by the world's demand?—A. By the world's demand.

Q. Because if it is controlled by the world's demand that affects us in the East just as much as it does you in the West?—A. Yes.

Q. Well now, as a matter of fact, I found it far better to market my grain early in the season year in and year out.—A. Your threshing season is earlier than ours. You can get your grain to the market and take advantage of the price when there is a good market. When our grain reaches the market there is a glut from all over the world.

APPENDIX No. 2

Q. I sold my wheat last fall better than I could sell it now.—A. If I could thresh so as to market my grain and get it on to the markets in September I would do it everytime, but after that, when the supply gets to be so large the price keeps on dropping, there is a falling market for wheat until after the close of navigation. And starting in, say from late October, the commission merchant or the grain dealer has to take into consideration the fact that the grain in the country on which he is bidding will probably not reach Fort William before the close of navigation, and if it does not reach there before that time he will probably have to keep it in store for five or six months subject to storage charges of five or six cents a bushel.

By Mr. Robb:

Q. When you say that grain is 10 cents higher now than it is at threshing time, what grain are you talking about, wheat or oats?—A. I made that statement, taking the price in the early part of December about the time when navigation is closed, and the price now, there is a difference of ten cents anyway. I mean wheat.

Q. How about the farmer getting a loan on his grain in the warehouse, does not the man who buys the farmer's grain now go to the bank and get an advance on that grain? Does he give a certificate he has 5,000 bushels of wheat in the warehouse? —A. He gets it on the bill of lading he receives from the farmer.

Q. Without any certificate of inspection?—A. Certainly.

Q. To what extent can he get an advance on it? For instance in a year like that of 1911, how much would the bank advance without having a certificate of inspection? —A. In a year such as 1911 was, it depends entirely on the generosity of the bank. That is not a fair criterion.

Q. Now would it not depend a little more on the reputation of the buyer as a fair judge of grain?—A. As far as the men who are actually engaged in the buying of grain are concerned they all have the reputation of being pretty fair buyers. They are all buying on the basis of grade.

Q. Do you think that a man who manages a bank would give a farmer an advance on, say 5,000 bushels of wheat when wheat was selling at 80 cents a bushel, would they give an advance within nine-tenths of the margin of price for that wheat? —A. Most decidedly not, neither would a commission firm.

Q. What margin would you expect to get?—A. I would never consider it advisable to give a margin of more than 50 per cent on that.

By Mr. Knowles:

Q. You have spoken of the banks advancing money on grain in the granary of the farmer, and you have suggested that the cheapest way is to have it in the granary on the farm and then forward it direct to Port Arthur or Fort William, thus saving the expense of handling in the interior elevator. Is it not true that the added expense to the farmer of putting that grain into his granary on the farm, and the added expense of his own time, at the high price of labour, which he has to pay in handling that grain twice putting it into his own homemade elevator and out of it, is far more than the added cost would be of putting it through the internal storage elevator?— A. There is the expense which the farmer has got to pay in storing in his barn or granary anyway.

Q. But if you had the internal storage elevator there would only be the expense of drawing to it from the threshing machine?—A. Under your plan you would put the internal storage in every part of the country and at every station?

Q. You misunderstood me. With these added facilities in the West there would only be the cost of hauling to the internal storage elevator?—A. That might be. It is a matter of theory at the present time.

Q. Is it a matter of theory where these elevators are very cheap, and the farmer himself handles his grain in a much more expensive way?—A. It is expensive, but it

is going on to-day. I am comparing it further from the fact that the minute that man puts his grain into an interior storage house, or terminal storage house, it is visible supply.

Q. Even in internal storage?—A. Even in an interior terminal elevator, as you are talking of here, it will be taken into consideration as visible supply.

Q. You do not understand me, do you? I said there would be expense in handling it into interior storage?—A. I called attention to several factors.

Q. Listen to my question. Would not the added expense of handling it in his own granary be much greater?—A. I am not prepared to say that.

By Mr. Maclean (Halifax):

Q. That grain is insured by the farmer before he applies for his loan?—A. Yes.

By Mr. Thornton:

Q. Referring to the question put by Mr. Knowles, isn't it a fact, speaking of farmers' granaries, that the storage capacity is increasing rapidly?—A. Yes.

Q. Is it not a fact that a large percentage of these granaries are set right where the thresher empties the grain in, and there is no expense in storing?—A. None whatever, no expense of that kind.

Q. Now then as to the cost. He does not require extra teams and men and does not incur expense in hauling at that particular busy season?—A. That is right.

Q. So it is a decided advantage from the money point of view for a farmer to store his own grain?—A. Yes.

Mr. KNOWLES.—Ask him how he gets his grain out of the farm granary. He gets it in easy enough.

By Mr. Thornton:

Q. Is it not a fact that he can take that grain out after his busy season is over, say along in January?—A. Yes.

Q. If your plan was followed out could he not take his grain out a great deal cheaper then, and take it to the market, than he could, say in September, October or November?—A. Yes, he could.

Q. I think that is quite plain to any person who has been in the West, I am a little surprised at Mr. Knowles. Now, in the statement you made you said—please correct me if I am wrong—that the thing that disturbed the farmer most was the notes that he gave for agricultural instruments?—A. Yes.

Q. The fact that they were usually due about the 1st of November?—A. They all fall due about the 1st of November.

Q. Has any effort been made by the United Farmers in the western provinces to get the agricultural implement men to give them a fairer show in that respect?—A. Yes.

Q. And make their notes payable, say on the 1st of January or the 1st of February?—A. Several attempts of that kind were made.

Q. Is it to the advantage of the agricultural implement men that these notes should be due on the 1st of November?—A. I do not know, unless it is that they are probably close to the 31st of December, and want to make as good a showing as they can for the year.

Q. It would look as though it were to the advantage of the manufacturers of agricultural implements to have their notes fall due on the 1st January or the 1st February rather than on the 1st November?—A. It would be to the advantage of the farmers.

Q. And also the advantage of the agricultural implement manufacturers?—A. I do not think it would make much difference to them, they would get a few months more interest.

Q. But is it not in their interest to give a better show to the farmers?—A. I should think so.

Q. You are asking for this concession from the agricultural implement manufacturers. Don't you think you could serve the manufacturers' interest better if they were to have their notes fall due on the 1st of February, say, rather than on the 1st of November?—A. Yes. I may say the answer we received to the request which was made was that if the date was so advanced to the 1st of February it would not be long before another request would come for an advance to the 1st of May and then to the 1st of July, then to the 1st of November, and a whole year would have gone for the manufacturers.

Q. Another point. You said that the farmer got advances on his grain that he had shipped out, and that he was charged six or seven per cent?—A. That is right, six or seven per cent per annum.

Q. For what time?—A. From the time that the advance is sent him until the grain is sold.

Q. Whether that time be long or short?—A. Whether that time be long or short.

By Mr. Nesbitt:

Q. Just to the order of the farmer?—A. The grain is in nearly every instance shipped to the order of some grain firm.

Q. But it was held to the order of the farmer?—A. It is held to the order of the farmer.

By Mr. Thornton:

Q. But if the grain was only held in that shape for, say 30 days, would it cost the farmer six or seven per cent?—A. It would cost at the rate of six or seven per cent per annum. This is all on a per annum basis.

Q. That is the point I was trying to get at. It is that much per annum?—A. That much per annum.

Q. You do not call that an excessive rate?—A. No.

Q. You are not complaining of the rate?—A. No. It is the same rate that the grain firms are paying to-day.

Q. I wanted to have that matter made plain. You say that under present conditions the bank would only loan their credit?—A. Yes.

Q. And when the farmer is distressed then the bank would be the loser?—A. Yes.

Q. You would prefer that the bank should have a preference?—A. If the bank made a specific advance on a stated quantity of grain, I see no reason why that bank should not be given exactly the same privilege that a grain firm has given to it for the same quantity of grain.

Q. Would you say that the farmer should inform the bank what he wants to do with the money?—A. Certainly, in an instance of that kind.

Q. And he really ought not to get an advance on his grain from the bank—supposing he does get a loan—unless he can pay his other obligations which were contracted previous to producing the grain?—A. That would depend entirely upon the standing of the man.

Q. Then I understood you to say that the price of the grain was controlled or fixed by the world's market?—A. Yes.

Q. Which would be the English market?—A. The English market.

By Mr. McCraney:

Q. On this question of liens on grain. The statement has been made before the Committee that the banks are not likely to loan on liens to farmers to whom they would not loan anyway. I want to ask you if you have any information as to the probability of banks loaning on liens to persons that they would not loan to on their own character?—A. No.

The CHAIRMAN—Isn't that a question to put to a banker?

Mr. MCCRANEY.—There is an agitation amongst the farmers, I have heard a great deal of it, who have been led to believe that there are advantages to them in getting this lien.

The CHAIRMAN.—Will you ask that question when a banker is on the stand?

Mr. SHARPE (Ontario).—That question has been asked the bankers and they gave an answer.

Mr. MCCRANEY.—The reason I am asking the question is because I think the agitation has been brought about by local bank managers. They would say to farmers: 'We would be very pleased to let you have this only the law does not permit us to.'

Hon. Mr. WHITE.—Just a moment, because I want to understand this. Do I understand you to say in answer to Mr. McCraney, that in your judgment under the new Act with this provision in that banks will not loan to parties who gave them a lien under the Act where they would otherwise give them a loan if no such provision existed? Do I understand that to be your answer to Mr. McCraney?

Mr. FREAM.—I did not understand Mr. McCraney's question to be quite that way.

Mr. SHARPE (Ontario).—He asked for any specific instance.

Mr. FREAM.—I said no, that I knew of no specific instance. But I see no reason if the machinery is provided whereby that security can be taken up by a bank, why, if that man has the grain in store, he cannot get an advance upon it.

By Hon. Mr. White:

Q. When he might not otherwise—when he might not otherwise get that credit from the bank?—A. The reason that form of expression has been chosen is that it takes too much delaying through the Bank Act at present to find out what is required. I might put it this way: there is a general feeling among many of the local Bank managers that the Bank Act limits their operations, and rather than take the trouble to look up anything unless it was very specifically stated, they would say to a farmer requiring a loan: 'Under the Bank Act we cannot loan you anything.'

By Mr. Sharpe (Ontario):

Q. I understand you to say that when you ship your grain you are charged six or seven per cent on your money?—A. At the rate of six or seven per cent per annum.

Q. It is held to your order and you sell it when the market is advantageous? —A. Yes.

Q. What advantage is it to borrow from the local bank then?—A. The advantage that will result from it comes from the fact that every year, whenever there is a car shortage, it happens so at some towns, there will be four, five or six hundred names upon the car order book, and the railway company may only be providing on the average, two cars a day. A man signs his name on the car order book in the expectation of getting a car in the month of November, and under ordinary circumstances he might stand a pretty fair chance of getting his car in the month of March. At the present time he is tied up completely. The advantage coming in at that time would be that he saves on his storage one cent a bushel per month.

Q. And you would have to pay the local banks a little more?—A. But the difference would not be one cent a bushel.

Q. Do you think the security should be filed as notice to all other creditors?— A. You will find that it is pretty generally known in the district how a man stands and what advances he is getting.

Q. How can that be publicly known?—A. I do not know. It is just gossip.

Q. Then you think there ought not to be publicity given by filing the lien?

The CHAIRMAN: That is by registration.

A. I do not see why there should be the additional expense of registering it.

By Mr. Sharpe (Ontario):

Q. It is only a matter of ten cents.—A. The bank will charge another fifty cents for writing a letter to have it filed, which will make sixty cents.

By Mr. Thomson (Qu'Appelle):

Q. Some time ago you spoke about storing grain on the farm, or teaming the grain out from the threshing machine to the elevator. Now, if a farmer lives six miles from the elevator, in your opinion would it pay him to team that grain direct to the elevator?—A. No.

Q. I suppose you are not prepared to say what proportion of farmers in the West live more than six miles from the elevator? To the man so situated it would not be of any possible advantage to team to the elevator?—A. No.

By Mr. Morrison:

Q. Do I understand you to say that the agricultural implement manufacturers insist on the notes being made payable on the 1st of November?—A. You will find with the bigger notes that it is printed right in, 'Payable November 1st, 191 ,' and the exact date is filled in afterwards.

Q. I have never had any difficulty in getting an extension from the 31st of October to the 1st of April if I required it.—A. I think you are in a position of being a preferred debtor to the implement companies.

Mr. MORRISON.—I am in the position of having started at the bottom, away back in 1878, and I never had any difficulty. I can tell you more than that. I am not at all ashamed of it, but I borrowed the money that brought me to this country.

By Mr. Cockshutt:

Q. You spoke of the usual squeeze that takes place every autumn?—A. Yes.

Q. About the first of November?—A. Yes.

Q. You hold the view that the banks, the manufacturers and the implement dealers are responsible for that trouble?—A. I have never tried to place the trouble anywhere. I have stated simply that it occurs.

Q. You said that those three were the ones that caused the squeeze at that time. Is your difficulty more in getting advances, or does it lie in the rates charged for extensions or advances. Which is the greater difficulty?—A. In the fall of the year our difficulty is in getting advances.

Q. You do not object so much to the rates charged then, but to the difficulty of getting advances?—A. Well, it is a puzzle to me to try and find out why it is that money that costs the bank 2 per cent cannot be secured by the farmer except at a spread of from six to eight per cent.

Q. Isn't it 3 per cent the banks pay?—A. They have a large amount on call that they are paying nothing on. If you add the two up I think you will find that it averages 2 per cent.

Q. You represent a large number of grain growers and farmers?—A. Yes.

Q. Generally in the Association with which you are connected?—A. Yes.

Q. Do you consider that all these farmers and grain growers are money borrowers?—A. No, some of them have happily reached the stage where they are money depositors.

Q. Don't they occasionally loan to brother farmers and grain growers when they are in a position of that kind?—A. I do not know.

Q. You do not know whether anything of that kind is carried on?—A. It has not come under my notice anyway.

Q. You could not therefore tell whether the farmer who loans money is an easier creditor than the bank, or other money institutions, or an implement dealer?—A. No.

Q. You have had no experience in that way?—A. I have had no experience.

Q. The farmer in Ontario, I think, is occasionally called a depositor and a money lender. You are aware of that?—A. Yes, I have read of that.

Q. And farmers in the eastern part of the country occasionally give credit to their brother farmers, are you aware of that?—A. No.

The CHAIRMAN.—I do not think the experience of the witness covers that ground at all. If you want to make an assertion to that effect you are at liberty to do so.

Mr. COCKSHUTT.—I thought probably the conditions in the West were somewhat the same as they are in the East in that respect.

The CHAIRMAN.—He says no.

Mr. COCKSHUTT.—The intimation is made by the witness I understand, that the farmers are unduly crushed by their creditors, particularly in the East.

The CHAIRMAN.—In the West particularly.

Mr. COCKSHUTT.—I mean the creditor who lives in the East.

By Mr. Cockshutt:

Q. You think the eastern creditors have squeezed the farmers in the West at a given time each year?—A. Yes.

Q. And you think the best way to obviate that would be to get advances or to extend the term of credit?—A. If I had my way I would obviate it a little earlier in the game.

Q. In what respect?—A. I would cut down the indiscriminate selling of farm machinery which causes the trouble.

Q. That is you would prohibit the farmer from buying or the manufacturer from selling?—A. No, but I would put some of the solicitors who are travelling through the country out of business.

Q. Do you mean solicitors in a legal sense?—A. No. They are bad enough, but in this instance I mean farm machinery solicitors, or special agents, if you like to call them that, who are considerably worse.

Mr. COCKSHUTT.—I thought you had reference to a legal solicitor.

The CHAIRMAN.—That country is oversold in farm implements.

By Mr. Cockshutt:

Q. I understood you to say that notes almost invariably are due on the 1st of November?—A. Yes.

Q. How do you arrive at that conclusion?—A. From the number of notes of the Massey-Harris Company and the International Harvester Company that have come under my notice.

Q. You are aware that all implements are not sold on the same terms of credit?—A. In what way do you mean?

Q. They are sold on time which varies from six months to two years?—A. Yes, but the six months note is generally arranged to fall due in October or November, and the longer term notes likewise.

The CHAIRMAN.—While I do not want to curtail you, I would like to point out that the implement business is not exactly covered by the Bank Act.

Mr. COCKSHUTT.—The implement business has been put in with the banks, and I am questioning the witness as to how he knows that these notes fall due on the 1st of November.

By Mr. Donnelly:

Q. Has it occurred to you that the advancing of money under such a lien as we are discussing might have a tendency towards dishonesty? For instance, a tenant farmer, who, on the strength of a large crop, had obtained considerable credit, might

thresh his grain, and, under the lien, defraud his other creditors?—A. I suppose all lines of business tend towards dishonesty sometimes, but I do not see why this particular line of business should be worse than any other. The farmer is just as honest as any other business man.

Q. In effect, it gives the bank a preference over other creditors?—A. It does that in many cases now.

By Mr. Aikins:

Q. I hold in my hand a letter from the Hon. Minister of Municipal Affairs for Saskatchewan, in which he says that our farmers are not in a position to pay the taxes until quite late in the year, and it was to meet this condition that borrowing power was granted to the municipal councils. There is only one source, he says, to which application can be made for the money: the various branches of the chartered banks doing business in the province. These institutions have, to all intents and purposes, gone on strike and are refusing to grant accommodation to the municipalities, that will enable the public affairs of the province to be carried on. What would you say in respect to that?—A. I think I can agree with Mr. Langley.

Q. There is that feeling in the West?—A. Yes. It is general through the West.

Q. And a knowledge of the fact that the municipalities cannot get money from the banks?—A. Yes.

Q. Do you know any reason why they should not?—A. No.

Mr. FREAM.—In sub-section 3, section 88, I understand one amendment has been proposed and adopted, allowing the bank to lend money to a rancher on the security of his cattle, horses and sheep. I think, in the Proceedings, No. 3, an amendment to add the words 'horses and sheep' was accepted.

The CHAIRMAN.—It has not been accepted yet, but stands for discussion.

Mr. FREAM.—The position we take on that is that as it is proposed to lend money to a rancher on the security of his cattle, and taking the interpretation which says that cattle means 'bulls, cows, oxen, steers, bullocks, heifers and calves' we think that hardly covers the ground. In the first place, we would like to know why that class of security is to be given only to a rancher, who is a very vanishing quantity in western Canada, and why cattle only is suggested as security.

The CHAIRMAN.—I may say that Mr. Sharpe has also proposed 'the bank may lend money to a farmer upon the security of his livestock.'

Mr. FREAM.—That would be better.

HON. MR. WHITE: Let me explain to you. This is a very large question and I might say that it is not a new question, but has been discussed, I think, on the occasion of every decennial revision of the Bank Act. There has always been a very strong reluctance to authorizing the giving of a secret lien to the bank, because the theory is that the personal element, the personal integrity, is the very basis of good banking. In other words, that the security is secondary and the personal character and ability of the man is primary. Now, up until the present revision of this Act—although this question of giving permission to the farmer to pledge his livestock and grain to the bank has been under consideration and discussed in the House—the only exception whatsoever that was made was in the case of the wholesale dealer. No retail dealer to-day can hypothecate his goods to the bank under a secret lien; no individual can hypothecate under a secret lien. The only party who can give a secret lien to the bank, under existing legislation, is the wholesale dealer in any goods, wares or merchandise. That is since 1890. The reason why that power has not been given to anybody else was the regard given to the rights of creditors. This legislation is general all over Canada and includes storekeepers or any others that may become creditors. Now I inserted this provision in the Act, having regard to the transportation and other difficulties of the West that have been mentioned by the witness, and I did not think it advisable, nor do I now, that individuals should be given the right of giving a secret lien, which may be greatly to the prejudice of creditors throughout the country,

upon all the chattels they may possess, including livestock. The reason it was confined to ranchers is because the rancher is, in a sense, a wholesaler. In the United States a rancher who has a number of cattle gets advances from the local banks, and the banks to-day, in the West, assume to take a secret lien upon cattle from ranchers; but there has been a decision handed down in Alberta by Judge Sifton, I think, casting some doubt upon the validity of such a lien, and the result is that we wanted to give the rancher the power to obtain a lien upon his cattle, as defined by the interpretation of the clause in the Act. As far as I am concerned, I do not want to widen that secret lien, contrary as it is to the principle adopted by all the provinces in the Chattel Mortgage Acts, any further than is absolutely necessary to facilitate business in the West.

Mr. FREAM.—As far as I am concerned, I might say if the clause was left there, but extended by allowing farmers to pledge their livestock and having in view conditions generally and the fact that many of the farmers of western Canada are now trying to go into mixed farming business and are not in a position to do so because of lack of financial assistance, that if relief could be granted them in that way, it might be done by making the clause read 'that the security could be taken by the bank in the shape of a chattel mortgage.'

Hon. Mr. WHITE.—I may say that while that is worthy of consideration, since this Bank Act has been in existence it has absolutely been contrary to the principle of the Act to permit a bank to take a chattel mortgage. I am saying that for what it is worth, but it has unquestionably been the principle.

Mr. FREAM.—Is it not a common practice for the banks, probably in the name of the local managers, to take additional or collateral security in the shape of chattel and land mortgages?

Hon. Mr. WHITE.—Additional security is a different matter. I am simply indicating what has been the principle underlying the Act.

By Mr. Wright:

Q. How are we to distinguish with a rancher with a couple of hundred head of cattle and the farmer with the same number?

Hon. Mr. WHITE.—I gave it a great deal of thought. The Committee will realize now that the drafting of the Bank Act was not such a very simple matter. In 1890 they had to consider the definition of a wholesaler in the Act. I discussed the matter with the man who drafted the Act, and he said that after seeking a long time to ascertain what a wholesaler was, he had come to the conclusion that the best thing was to call him a wholesaler; because when you attempt to define, you are apt to limit. I came to the conclusion that I could not very well define a rancher. The idea I had in my mind was that he would be a man in the cattle business, that is to say, in the sense of a cattle ranch in the United States, where there are big herds of cattle on which the rancher gets advances. In other words, he is a sort of wholesaler. It would be pretty difficult to say where the farmer ceases and the rancher begins. I should think, myself, that a rancher is a man who is principally engaged in the business of raising cattle on the ranches, as distinguished from a man who is a grain grower and incidentally has cattle, just like the mixed farmer in Ontario.

Mr. THORNTON.—A farmer with two hundred head of cattle would be a rancher.

Hon. Mr. WHITE.—I do not know that.

Mr. DONNELLY.—A man may be a farmer and a rancher as well. Many farmers in our part of the country have two or three hundred head of cattle. A rancher and mixed farmer of some twenty-three years experience, I would say the farmer would be a much better risk than the rancher.

Hon. Mr. WHITE.—That might be so. What I was trying to point out to the Committee was this: That it had been, up to date at all events, against the principles of the Act to permit anybody to give a secret lien upon chattels, goods, wares or merchandise, other than a wholesaler. The theory is that creditors are prejudiced

by reason of the secret lien, and consequently we have, in all the different provinces, the Chattel Mortgage Acts. Under the present Act, the banks in the West can take a lien from ranchers, on their cattle, but it is not clear, by reason of the decision given by Judge Sifton, in Alberta, that they have that right; and we want to make it clear that when a man is engaged in the rearing of cattle on a large scale, that being a wholesaler in a sense, he can get his lien and avail himself of it. But of course, before the banker would take the lien, he would have to be well acquainted with that man's financial position and have the utmost confidence in his integrity.

By Mr. Warnock:

Q. Would not a farmer with two or three hundred head of cattle be as much a wholesaler as a rancher with a hundred and fifty?

Hon. Mr. WHITE.—It might be held to be so. I could not say. You see the difficulties in attempting to define a rancher.

By Mr. Clark (Bruce):

Q. Do you object to the interpretation of the word 'cattle' as being too limited? What would you add to it?—A. I would make it livestock, generally, and at the very least, add 'horses' and 'sheep.'

The CHAIRMAN.—There are just two more points on which Mr. Fream wishes to say a word: the proposed system of smaller banks and the annual tax for issuing bank notes. Just let him give his evidence on that.

Mr. FREAM.—In regard to the proposal for smaller banks, I should say it would not be in the interests of the people generally to provide legislation which would permit the establishment of a large number of small banks throughout the country. It might be of great interest and advantage to the West if provincial banks were provided for, with headquarters in the different provinces and with power to do business in those provinces. There is a general feeling in the West that one of the big troubles we have to contend with is the fact that the great majority of the men controlling the financial interests of Canada reside in the East, many of whom still have the impression that we, out in the West, are still pioneering. Instead of that, we are just about as much up to date, or more so, as the different places in the East.

By the Chairman:

Q. You have two banks with headquarters in Winnipeg?—A. Yes, and one with headquarters at Weyburn, and another with headquarters in Vancouver.

The CHAIRMAN.—And we have just incorporated a bank with headquarters in Moosejaw.

By Mr. Sharpe (Ontario):

Q. You believe in allowing banks to be incorporated with a smaller capitalization than is provided by the present Act?—A. Provincial banks, yes; although from what I have been able to gather from different sources, I would like to see the time come when we would have the same system of small banks that they have in the States.

By the Chairman:

Q. You are opposed to them?—A. Yes. I would like to see something provided whereby it might be possible for the co-operative credit banks to be brought into existence.

By Mr. Douglas:

Q. Do you know whether the unit system in the northwestern States has been of much service?—A. From what has been told me by men who have come from there, I cannot see that it was any great advantage.

The CHAIRMAN.—Mr. Forgan told us yesterday that, prior to the American civil war, they did not have the unit system of banking.

Hon Mr. WHITE: I think those banks had a good deal of influence in building up the Northwest, but in comparing the unit system with our branch bank system, you come to the conclusion that one system is more advantageous than the other. The unit system had a large record of failures.

By Mr. Clark (Bruce):

Q. What you want is another system of banks with local charters?—A. What I would like to see is a system whereby men who are familiar with conditions there could have the controlling voice.

By the Chairman:

Q. Would not a local Dominion bank with headquarters in Moosejaw meet conditions?—A. It might, but the conditions in the West, at present, are pretty hard to fill.

Q. Let us now take 61B., with reference to the annual tax on the privileges of issuing bank notes. What have you to say to that?—A. As far as that is concerned, I think it would be better for all parties if no tax were placed on the issue. If a tax is imposed, it will eventually come back to the consumer, that is, the borrower, generally, in that he will have to pay a larger rate of interest on loans.

The CHAIRMAN.—That covers the point pretty well, about which Mr. Fream was going to speak, and unless there is any reason for detaining him longer, we might hear Mr. Powell next. Meanwhile, with your permission, I will thank Mr. Fream and tell him we are very glad to have him with us.

Mr. HARVEY O. POWELL, called and examined.

By the Chairman:

Q. You are the general manager of the Weyburn Securities Bank, Weyburn, Saskatchewan?—A. Yes.

Q. How long has that bank been in existence?—A. It was started two years ago last January and is now in its third year.

Q. What is its capital?—A. $315,500.

Q. And what dividends do you pay?—A. Five per cent.

Q. Are the directors Canadians or Americans?—A. The majority are Canadians. We have two Americans.

Q. Who live in Canada?—A. Who live in the United States.

Q. You have two living in the United States?—A. We have seven directors, five living in Canada and two in the United States.

Q. Are your shareholders mostly Americans or Canadians?—A. Mostly Americans.

Q. How many branches have you, and where?—A. We have ten branches, at Colgate, Griffin, Halbrite, McTaggart, Assiniboia, Midale, Pangman, Radville, Yellow Grass and Weyburn.

Q. Your branches are all in the province of Saskatchewan?—A. Yes.

Q. Will you discuss, Mr. Powell, the rate of interest that the banks charge, or should charge in western business?—A. I know nothing about what the other banks charge, except what I hear. Evidently they charge about the same price as we do or we would get most of the business.

Q. About what is the average rate that you charge to your customers?—A. We divided our business partly according to the class of the customer, that is, not according to the business he is in but according to the class of customer he is to the bank. We have some loans at 7 per cent, but the majority of our loans are 8 per cent. That means that the man getting the money at 8 per cent will be a depositor, and he must

give evidence of being a first-class customer in the future. A man that only borrows and does not deposit a lot we charge 10 per cent. A man that we would rather have pay us up, and whom we cannot get to do so, we oftentimes charge 12 per cent. I have a card in my office made out for every customer of the bank. This card, on one side, has general information of the class of business he is in, whether married or single, where he came from, who introduced him, what rates we charge, &c., and in another space we put down comments on the man. On the other side the card is ruled to cover about ten years time, with a summary at the bottom; and there are three columns for each year, going down for the twelve months. The first column shows his average credit balance at the bank for the month. We practically refuse to have an overdraft; we consider it poor banking; we do not want it. Occasionally we get the figures in the red, but it is the exception. The other two columns show his highest borrowings through the month, and his lowest borrowings through the month, so we keep track at the end of the year of the average. If a man does not pay up the first year, and there is a good reason why he has not, if he has had some misfortune, if he has been hailed out, we would take his particular case into consideration. But suppose he has run along for two years without paying us, and at the end of the second year owes us a little more, than he did the first year, we want the manager to take his case in hand to have a little heart to heart talk and find out at once what the trouble is. This is on the theory that the bank, having all temporary deposits practically dealing in temporary funds, should keep its loans liquid. Banks should do temporary business; they should not go into partnership with their customers. Suppose we loan a man $1,000 for a temporary purpose and in place of requiring him to pay it back we allow him to keep it from year to year, what happens? He incorporates that into his business in a fixed way in such a way that if we found it necessary to call him we would put him out of business in order to pay up, because he is extending his business in a fixed way on our capital and we become a partner in place of a lender. It is theoretical but you have to have some theories in these things and live up to them as near as you can or get into trouble.

By Mr. McCurdy:

Q. You are a partner with limited profits?—A. I may simply explain why we do these things. The farmers oftentimes—and not only the farmers, but it is the farmers who have been making the most complaints about the banks—do not understand why this is. And that is where I say the little heart-to-heart talk comes in. Half of my time is occupied in talking to customers that the manager has sent to see the old man. I put in an hour or two talking, and as a rule the man sees why before he goes out, and thanks me and becomes a better customer. Of course, much of the trouble comes from a misunderstanding. As I said, a man that only borrows and does not deposit is expected to pay 10 per cent as a rule. These are only general. There are exceptions to all cases. He may be a valuable customer in some other way, but these are the general rules we go on. As to the loaning of money we always give the small farmer the preference over every one else. He is the man we figure is going to be our customer in the future. That is the business we are working for, and we want to satisfy him and keep him because he will be our customer probably as long as he lives, and his sons after him. A big farmer we do not care much about, as a rule, because if he makes good he moves off the farm. You are only working for the present and not for the future. There has been a good deal of talk about the loaning of money in the fall to the farmers. I put all of our business on a chart, and it appeals to our directors and tells them in a glance of a few minutes more than they could find out in a week of figures. I use engineer's cross section paper, and the lengthwise lines represent time and the up and down lines represent fluctuations of the business. In the fall our loans, about the time that it freezes up, start straight up this sheet. In place of starting down they start almost straight up. You can tell when the farmer is doing the threshing, ploughing and so on.

By Hon. Mr. White:

Q. Do you diminish your loans then or increase them?—A. We increase them. Now, this is caused, it is very easy to see, by the fact that the farmer has not been able to get away some grain. He is a good customer, and comes in and says: I have a payment of interest to make, or the threshing bill to pay, or the hired man to pay off; can you let me have $50 or $100? And we try to do it as far as it is within our power. Prior to this time our deposits almost invariably strike their highest point, that is deposits subject to cheque. It is easy to see because the farmer hauls off some grain and sells it and has an advance on it, and deposits the money, the proceeds of the grain come back to the bank and go to his credit, and he has not got to the point where he is settling up. As soon as the ground freezes up, and the storms stop the operations of the farmer, the deposits start straight down.

Q. Your deposits are growing less and your loans increasing?—A. Always, every year, it is invariably so with the farmer.

By Mr. Loggie:

Q. At that time of the year?—A. When the farmer pays his interest. Everything is made due in the fall, as a rule. You can see somewhat of a bankers' perplexity, especially as we are a local bank in the West, with deposits running down subject to cheque, and the bills receivable running up. We have some difficulties in doing all we would like to for our customers.

By the Chairman:

Q. Do you take in as large deposits in that season as you loan?—A. No, sir, we do not.

Q. Where do you get the money to make loans?—A. The bank was started in 1902 by six men from the States. It was started rather as a matter of necessity. Do you wish me to tell you more of its history?

Q. Yours is the smallest of the Canadian banks and has oftentimes been held up to us as a very notable example of a successful small bank, so that anything pertinent to that will be interesting to the Committee?—A. The six men bought a block of land and one of the six men came to Canada to live. Our vice-president had charge of the Canadian end of it. There was no bank, and for their own convenience and that of the neighborhood they found that some banking facilities were necessary. They did not start it for the purpose of borrowing any money from it themselves, and none of the six men have ever owed the institution a dollar, nor has any of the companies that they are directly interested in. The business grew. There was a demand for branches in places around the country and they started branches.

By Mr. Sharpe (Ontario):

Q. How many branches did you have when you first started?—A. Just the one at Weyburn. The Weyburn Security Company was practically taken over by the bank. These six men were men of means, and it is rather a pet scheme of theirs. They are very anxious to have it succeed, and they want to make it a success, and they want to have it of service to the community. They are interested in that country, and they have made money there, but they never have taken it out of the country—just as in this bank and the new lumber company. When there is a shortage of money to loan the Weyburn Security Company advance amounts—and I do not think it is necessary to explain in what way—according to what is necessary to accommodate the customers up to the point that we feel is reasonable.

Q. You bring in additional money to what the depositors leave with you?—A. These six men simply take care of it. Now, we try as hard as we can not to abuse our customers by loaning them too much money. You cannot do a friend a greater injury than to loan him more money than he should have to use in his business or anything

else, and as you see we try as hard as we can. We take his means into consideration. We know his local needs. If we do not, we ask him to come and tell them to us and if he is hailed out we will help him from one fall to the next but we do expect him, when he has been hailed out, to so plan his business that the next fall he can pay any part of it off.

By Hon. Mr. White:

Q. You believe in thrift?—A. We believe in thrift and we believe our system, our theories. I might say this card originated in Mr. Forgan's bank and it is one of his methods. I got it from Minneapolis, but it originated with Mr. Forgan. We are all borrowing good ideas wherever we can get them. You ask where we get the money.

By Mr. Knowles:

Q. That means that the private bank is still existing and doing business?—A. Not in the banking business. No. We do not claim that a private bank is in the banking business. These six men are willing to back this institution up with two million dollars worth of capital.

By the Chairman:

Q. You are a regular Canadian Bank under the Bank Act, and in every respect like any other bank as far as your local business is concerned.—A. And we are trying as hard as we can to follow the Bank Act.

By Hon. Mr. White:

Q. You have paid just 5 per cent dividends?—A. The first year—a year ago—we only paid 2½ per cent dividend on the last six months. But last year we paid two 2½ per cent dividends. And I might say that this is all of the money that these six men—of course there are quite a number of other stockholders—have ever taken out of the banking business since the year 1902 in Canada.

By Mr. Sharpe (Ontario):

Q. What is you capital?—A. $315,500.

Mr. Maclean (Halifax):

Q. Could you have got along with any less?—A. No. I do not think it would be wise to run ten branches on any less capital.

By the Chairman:

Q. What is your subscribed capital?—A. We have paid in just fifty per cent.
Q. And your authorized capital?—A. $1,000,000.

By Mr. Sharpe (Ontario):

Q. When you organized did you open up the ten branches at once?—A. We have only opened one branch since we took over the Weyburn Security business. They had nine branches.

Q. With ten branches you could not get along with any less capital?—A. I do not think so.

By the Chairman:

Q. Your bank as a matter of evolution has come from a Security company into a bank.—A. It came from a necessity into a bank. We started to accommodate the public.

By Mr. Maclean (Halifax.):

Q. Did you have experience in American banking before you came to Canada? —A. Yes. I started as a boy in 1885 in a State Bank in Wisconsin. There were very few at that time; the law required a paid up capital for a National bank of $50,000. That was afterwards changed to $25,000. So that the State banks were really in the small towns.

Q. With your limited experience of the Canadian banking system what is your judgment as to the branch system as compared with the American unit banking system?—A. You mean as servants to the community?

Q. Yes.—A. I would presume you are referring largely to loaning capacity. I might say that afterwards I had ten years experience in Dakota where conditions are very similar to what they are in Saskatchewan; and I have been here six years. As near as I can compare it a borrower here borrows practically double what he does in the United States. A man will come in and think you are abusing him if you do not loan him $2,000, whereas he would think he was being treated as a prince if you loaned him $1,000 in the United States.

By the Chairman:

Q. But as to rate of interest charged in Dakota and Saskatchewan?—A. I will go back to Wisconsin, because I am a firm believer that supply and demand regulate most of these things, and they will take care of this if you leave them alone. Now in 1885 when I went to the bank there in River Falls, Wisconsin, the regular rate was 10 per cent, it was a state bank. The biggest part of the money was loaned on chattel mortgages, that is to farmers and merchants on collateral. These loans were made largely from thirty to ninety days, and occasionally there was a four months' loan. A charge was also made—we drew the chattel mortgages in the banks ourselves—of $2 or $3 for drawing the chattel mortgage, and a new chattel mortgage was drawn every time the note was renewed. Now this country is one of the best parts of Wisconsin, fifty miles from St. Paul and Minneapolis, and was settled largely in the late forties and early fifties. The rate to-day, I have a friend in the banking business there that I think a great deal of, and I have some knowledge of the facts, the rate in that same community to-day is 6 and 7 per cent, 7 is the outside. At the time we were there in the bank we were paying 5 per cent for six months' deposits, to-day the current rate is 3; and the banks are making more money to-day than they did when I was working in the bank there. I went from there to Baldwin, Wis., and was there till father was killed, and I went back on the farm and ran a dairy farm from 1888 to 1896 when I went to Dakota to take charge of a bank there for a man who thought I was capable of doing it. In 1896 when I went to Dakota the current rate on farm loans was 10 per cent. The rate for short time loans was 12 per cent plus the fees for making out the papers. This was done very largely on chattel mortgage. I am still a stockholder of the First National Bank of White Rock, my brother is running it, and one of our directors is the vice-president. Some men that used to pay us these rates are now depositors with us, and the rate of interest is now seven and eight per cent. We paid 6 per cent for six months' deposits in 1896, and we continued that until the black rust cleaned out the wheat crop and forced them to go into diversified farming. This caused them to reduce the deposits and loans and we now pay 4 per cent.

By the Chairman:

Q. Is that broadly corresponding south of the boundary to Weyburn north of the boundary?—A. No, but these conditions practically cover the whole state, 12 per cent is the rate to the farmer on special loans unless there is some special condition.

Q. Did the farmers in Dakota and Wisconsin in those days have the facilities that the western farmer has to-day?—A. The facilities were very small. To-day at

White Rock, where we still do business, with the farmers in a better condition and depositing more money for temporary purposes they would think they were treated like princes if they got $1,000 where the farmer in Saskatchewan would think he should have $2,000 for the same security.

By Mr. Clarke (Bruce):

Q. How do you account for the different point of view?—A. It is simply your different banking system, that is all. I consider that the Canadian banks to a certain extent have done a positive injury to the farmers by loaning them too much money.

Q. It has been too easy to borrow?—A. That is it, but they should not kick on the ground they could borrow, but they should go home and kick themselves for borrowing so much when they didn't need it.

By Mr. Turriff:

Q. Did I understand you to say just now that in Dakota your bank there paid depositors 4 per cent and loaned money at 7 and 8?—A. Yes sir, now.

Q. And at the present time in Canada where the depositors only get 3 per cent, why should the loaning rate to the farmers be 7 per cent here?—A. It is certainly a case of supply and demand. As the rate of interest went down on loans they could not make dividends, and reduced the rate on deposits. They did not reduce it exactly by the same amount, because there were very small deposits a few years ago, while to-day the deposits are increasing. Another point I want to make is, I got a little pointer coming up on the train, I came through Michigan and I met a man, got into conversation with him, and he asked me my business. I told him I was a banker and he told me he was a doctor and a director of a bank in Michigan. I informed him what rate of interest we paid, and he replied, 'We are paying 3 per cent at our bank in Southern Michigan but we cannot make any dividends and we have to reduce it, we cannot pay 3 per cent, it is not worth it.' It is a case of supply and demand, they have no outlet.

By Mr. Sharpe (Ontario):

Q. What rate of iterest do you pay on your deposits?—A. 4 per cent.

Q. And your bank is in Canada?—A. Yes sir.

By Mr. Maclean (Halifax):

Q. Would you suggest that the law be amended to permit of the incorporation of small banks of $150,000 capital? What is your judgment about that suggestion? —A. There would be only one advantage, and really it is the only disadvantage that I see to the branch bank system, and it is a very hard thing to overcome, that is in the unit bank system the men running the bank are part of the community, and know the local conditions and although they are part of the community and know the local conditions I do not think they are in the position to serve the community as well in case of need, as Mr. Forgan pointed out; calamity in that place would put the bank out of commission. Unless they could get into closer touch, if you can work in a little more personality between the borrowers and depositors it would do away with the greater part of the fault that is now found; it is simply that the two ends do not get close enough together.

Q. Is it possible to get capable men for branch managers?—A. It is possible to get good men, that is what everyone is looking for those days, good men.

Q. I do not think you answered my question fully as to the wisdom of permitting the incorporation of banks with a small capital.—A. I thought I covered that in saying that there was only one phase where in my opinion the unit bank might be pre-

ferred or had an advatage over the branch bank system, all the other points are in favour of the branch bank system, so that you have one point out of a hundred in favour of the unit bank system.

By Mr. McCurdy:

Q. You told us that in Dakota to-day the ruling rate is 7 and 8 per cent?—A. That is in the part of the country I came from.

Q. And that the deposit rate was four per cent where you are doing business, or loaning at ten per cent, and the rate on deposits here is three per cent?—A. No, we are paying four per cent. We are purely a western bank and the money is worth that to us out there.

Q. You are still receiving 2 or 3 per cent more on your loans, that is so, is it not?—A. Yes, sir, I have some figures here, this was the statement I made out for use at the annual meeting, and while I haven't anything here that I care to leave, because they want it at the head office, I can give you the information. Your idea is that we are making too much out of our interest.

Q. No, I wanted to compare the two systems. You say that the Canadian bank system is the best, but you report a spread between the deposit and loan rates in Saskatchewan of 6 per cent. Whereas the banker in White Rock is satisfied with 3 or 4 per cent. Is it because the Canadian system is more expensive to operate or what?—A. When we went to White Rock the conditions there were very similar to what they are now in Saskatchewan; that is the development of the country was practically in the same stage at White Rock in 1896 as it is in Weyburn to-day. We paid 6 per cent on deposits, and we got 12 per cent plus the cost of making out papers and chattel mortgages, and now the rate has come down on both. Competition regulates that, and it is very keen in the United States as well as in Canada, but I find that it is stronger in Canada than in the United States.

Q. Competition on loans or deposits?—A. On good business, we are all looking for good business, but there is lots of business offered which is no good.

Q. When you are paying 4 per cent for money deposited in the country where you are doing business what effect will that have if the bank is charging 10 per cent on business from some other parts of the country?—A. The deposits that we pay interest on are not very plentiful. Very few people have much to put on deposit.

Q. But you would be glad to get a great many more deposits at 4 per cent?—A. No, not a great many more; we will have to reduce our rate of interest as soon as the country gets more wealthy. We paid 4 per cent as a private bank and we did not change it when we became a chartered bank.

Q. Are the largest chartered banks at a disadvantage in the matter of lending money compared with your bank?—A. In what way?

Q. Can they get money as cheaply as you can? You can understand why deposit money would not be worth as much to them as to you?—A. Yes, I can. They would not be able to pay higher than 3 per cent in Manitoba any more than they could in Michigan.

Q. But if the Michigan bank to which you have referred had a branch in Saskatchewan where they could loan at 10 per cent they could afford to pay that rate?—A. Yes, but they have to reduce their rates because they cannot make anything without this outlet. They cannot loan it at 6 per cent.

Q. But they could loan it in your country?—A. Yes, but it would cost something to do it. I can tell you what it costs to run branch banks if you want to know.

Hon Mr. WHITE.—You might give us that information.—A. I'll also give you the gross amount of interest that we have received at each branch and the running expenses of each branch, plus the interest that we paid on deposits. At Assiniboia at the end of steel on the Lethbridge branch, we received in the seven months during which we have been running out there, we started last June, in interest $2,065.38,

APPENDIX No. 2

and it cost us for running expenses $2,769.46. At Colgate we received $4,655.61 in interest, and the cost of running the business was $3,855.68. At Griffin we received in interest $3,485.73, and the cost of running the business was $3,737.68. At Halbrite, the point that was brought in question here to-day, we received in interest $4,759.75, and the cost of running the branch was $4,067.51. At McTaggart we received in interest $3,251.76, and our expenses were $3,225.74. At Midale we received in interest $5,026.47 and the expense of running the branch was $3,565.76. At Pangman we received in interest $6,507.58 and the expenses were $3,101.01; I may say that is not exactly correct, because he has put into his interest account a lot of his other profit accounts, exchange, &c., so that is not correct. I did not discover that he had left out a lot of other items until just before the meeting and I have not had time to correct it. At Radville the interest received was $4,972.32, and the expenses were $4,272.88. At Yellow Grass we received in interest $6,630.56, and the expenses were $5,754.68. At Weyburn we received in interest $26,308.28 and the expenses were $15,237.78, making a total of interest received at the ten branches of $67,663.44 and the total expenses of running all the places was $49,588.18, leaving the bank practically five per cent profit on that number of branches.

By Mr. Sharpe (Ontario):

Q. What does the item of expenses include, I do not want the particulars for each bank, but the general items, class of items?

By the Chairman:

Q. What makes up the expense account?—A. Well, here are the totals, salaries, freight, express, postage, stationery, light, water, fuel, rent, stable account, we furnish some of our managers with a horse and buggy where we think it will be of advantage to the business; fire insurance, insurance of currency, telegraph messages, taxes, miscellaneous. The total expense of running the branches last year, outside of interest was $45,246.99, and the year before that when we were running nine branches, it was $35,925.76.

By Hon. Mr. White:

Q. I want to ask you a question that is I think pertinent at this stage. It has been suggested that the rate of interest in the Bank Act should be fixed at 7 per cent. What would happen in connection with your particular banking business if such legislation were enacted, that is to say if you were unable to charge more than 7 per cent?—A. We would be running our business at a loss, we would have to go out of business, that is all there is to that.

By Mr. McCurdy:

Q. Why could not you reduce your deposits?—A. We could not reduce them enough to pay the difference. The deposits are not there, Mr. McCurdy. We have not got to that stage.

By Hon. Mr. White:

Q. Having regard to the conditions that exist in your district, have you in your mind any ideas as to what the result would be if we limit the rate of interest to 7 per cent?—A. We could not do it, and the experience I have been through in the States shows that if it is left alone it will take care of itself.

Q. What is the total amount of your loans and discounts?—A. I could tell you if there was a copy of our last banking statement here.

By Mr. McCurdy:

Q. If you could amalgamate two of these branches doing a loaning and borrowing business, would not that reduce your expense of carrying on operations?—A. Then it would increase the expenses of the borrower too. He would have to drive twelve to fifteen or twenty miles to get to you to do business.

Q. You could use the postal service.—A. It would not be very convenient to do a banking business through the post.

By Hon. Mr. White:

Q. I want you to make a little calculation for me. According to the bank statement your current loans and discounts amount to $894,000?—A. Did you take in the past due?

The CHAIRMAN.—It is about $910,000.

Mr. POWELL.—About $910,000.

By Hon. Mr. White:

Q. How much interest would you lose on these if they were on a 7 per cent basis? What is your average?—A. I would say our average is 9 per cent.

Q. Then you would lose 2 per cent?—A. Yes.

Q. What is 2 per cent on $900,000?—A. $18,000.

Q. How much per cent is that on your capital?—A. About 6 per cent.

Q. How much dividend do you pay?—A. 5 per cent, well, now we make more than that.

Q. If a 2 per cent reduction in interest were made, what in your opinion, would be the effect?—A. It would wipe out our profit on the loaning business. You might as well go out of the banking business.

By the Chairman:

Q. From your experience on both sides of the line, comparing the Western States with Saskatchewan at the same stage of development, what would you say comparing the conditions in each country?—A. Well, I think that to-day, by the stage of development in Saskatchewan that the farmer would think he was pretty well treated to get his loans made at 12 per cent—the good farmer. In Dakota—let us say go straight south across the boundary line, where you have the same stage of development—the farmers there cannot get what money they need at 12 per cent. They would be tickled to death if they could get what they want at that rate of interest.

Q. You think our farmers in the Canadian West are very much better treated?—Yes, and it is due to the branch bank system.

By Mr. McCurdy:

Q. You said it would be impossible to conduct the business of two offices at once. Let us take a different illustration: suppose you have a town where two branch offices are doing business such as you state there. If the business of that town were all done by one bank, would it not be better to save useless expense?—A. There you come to the point of over-competition and that is something you cannot regulate.

Q. Would it be fair to ask you this question: if in your opinion, from your observations, there is over-competition in small places?—A. I know several places where there are two banks where there only ought to be one. But it is hard to fix that.

Q. And some places where there are six, where there really only ought to be two?—A. Yes, no doubt.

By Mr. McCraney:

Q. There is one element that seems to enter into banking with Mr. Powell and his associates and that is the personal element. Would you give us an opinion as to the degree of the personal element that enters into the success of your Bank, and

whether without that personal interest a Bank of the same capital as your own would be able to get money?—A. You say the personal element. You mean whether a western bank could succeed unless it had this backing from these six men?

Q. Yes.—A. Not in the West at the present time unless you can find six more men that are in the same position that have money to put into a bank and do not want to borrow any. Now if a bunch of dissatisfied borrowers start a bank with the idea that they are going to correct the evils that they think exist, they are badly mistaken because they cannot do it.

By Hon. Mr. White:

Q. Does it not get down to this: that it depends upon the men connected with the institution, their resources, and whether they earnestly and sincerely take up the question of banking?—A. Why, no bank is ever better than the man back of the counter, that is the whole thing. It is the man back of the counter who makes the bank.

Hon. Mr. WHITE.—I never heard the point stated so graphically before, but it is an undoubted truth.

Mr. Maclean (Halifax):

Q. From your experience in the United States were the directors considerable borrowers?—A. No, not in my experience. The men who were the directors of the bank at River Falls were most of them farmers, and they were not men that borrowed much money.

By Mr. Sharpe (Ontario):

Q. Surely if you could run a bank in that way in the United States you could do the same thing in the Canadian West?—A. I say if you can find six men who are not dissatisfied borrowers that want to right the law.

Q. There is no reason why they should not start in the same way as they have in the United States?—A. They have got their job cut out.

By Mr. Thomson (Qu'Appelle):

Q. It has been stated here, Mr. Powell, that it takes from three to four years to put an ordinary branch of one of our banks on a paying basis after that branch has been established in a given community. I would like to ask if that has been your experience?—A. No, sir, it has not.

By Hon. Mr. White:

Q. I want to get your view as to whether the provision in the Act which will permit a farmer to borrow against the security of his fresh grain in his own custody and possession, will be of material advantage or assistance to him, and if the methods of the bank in loaning to farmers will be changed by that provision, and if so, to what extent? State frankly what your views are.—A. Well, I will go back to a little experience on both sides of the line. In the United States there is no limitation on a bank taking a chattel mortgage. They cannot take real estate mortgages—there is the same limitation as to real estate mortgages that we have in Canada—but there is no limitation on banks taking chattel mortgages.

By Mr. McCraney:

Q. You are speaking now of national banks?—A. Of the state and national banks. Take the State of Wisconsin. They have a law which allows a bank to invest a small percentage of its money in real estate. The banks are given the right to take a chattel mortgage on a farmer's grain in the bin or anywhere else. In carrying on private banking in Saskatchewan there is no limitation in our taking a chattel mortgage either.

Now, my experience has been that there is nothing that you can put on to a bin of grain that will make it leak as quickly as a chattel mortgage. I have known farmers to come to me and claim that their neighbours stole it. A very common excuse is that it was short. They thought it was there and it was not there, and the minute you talk about beginning to carry his grain for him, then you have to face the difficulty of carrying him over until another fall. That is the almost invariable rule both in the United States and Canada.

Q. I gather from your point of view that you would look to the character of the borrower in making a loan?—A. It is to the character of the borrower that we look. We have men who will say to us that they have a thousand bushels of grain at home, and they will pay when they sell it. These men will do exactly what they agree to do. That is the kind of men we are looking for; we take care of them.

Q. Would you be likely to loan any more to them?—A. No, not a bit. May I tell you how that will work out? We make a loan to a farmer. He should have paid up in the fall or early winter when he got his grain out. We will say that he did not. He comes along again in the spring and needs a little more money to get his harness into shape, or to do something else. We grant him a little money and so it goes on during the year. We lend him money to produce his crop. After the crop is produced then it has to be threshed and we advance him a little more to pay his threshing bill. Then you have a fresh loan made covering the whole of the sums advanced set forth in a printed form which he signs.

By Mr. Sharpe (Ontario):

Q. That covers the whole indebtedness?—A. It covers the whole indebtedness. You are forced to do that. If you did not some other bank would do it and you would not get any business at all. There is another serious trouble I see ahead——

Q. Would it not be of any advantage if this lien were given to cover all past advances?—A. I cannot see that it would be. How would it be? It would only cover new advances.

The CHAIRMAN.—Let the witness finish his story.—A. There is another difficulty that I see: you put something into the Act whereby every Tom, Dick and Harry all over the West thinks you have given him something. He would go into a bank with this thing that he thought you had given him and demand something under it, which we would not give him. Now, that is where the trouble comes in. He would think he is getting something when he is getting nothing, and we would have to turn him down whenever his credit was not good.

By Hon. Mr. White:

Q. You heard the evidence of the secretary of the Grain Growers' Association this afternoon? You disagree with him as to the value of the loan.—A. I disagree with him. I do not think it would be of any particular use.

By Mr. Warnock:

Q. You have no objection to loaning a farmer on his live stock?—A. We cannot loan to a farmer on his live stock with a chattel mortgage. We have no ranchers in that part of the country.

By the Chairman:

Q. Would you do any more loaning to farmers if the proposed clause were inserted in the Bill?—A. It does not apply to our section of country anyway.

By Hon. Mr. White:

Q. Supposing it were a farmer, would you use the same kind of arguments as to a lien on live stock?—A. No. I might say there is a very large movement going on among the banks of the Western States to encourage mixed farming. I had a state-

APPENDIX No. 2

ment covering the banks all over the West as to what they thought of the idea, and with one or two exceptions they were strongly in favour of advancing the farmer money for the purpose. One small bank said it reserved $25,000 the year before for the specific purpose of advancing the farmers money to buy cattle, and this year that banker said he was going to double the amount. The thing is to get the farmer to pay a little more respect to the hog, the cow and the chicken. The banks will be able to come to his assistance to do this.

By the Chairman:

Q. Would you think it desirable for a bank to lend money to a farmer upon the security of his live stock?—A. Yes, sir, I think it would be a help to him.

By Hon. Mr. White:

Q. How would you loan to him?

By the Chairman:

Q. With a chattel mortgage I mean.

By Hon. Mr. White:

Q. Or a lien?—A. I do not like the secret lien proposal. It is not fair to the rest of the community.

Q. If you do not like the secret lien, taking Canada as a whole, would you think a secret lien upon the farmer's cattle or other chattels would be advisable?—A. I think it would be inadvisable. If it has got to be done secretly I do not think it is best to do it.

By the Chairman:

Q. If you had the power under the Bank Act to lend to a farmer on his live stock, would you make any loans which you are not making to-day?—A. Yes, to a certain extent. If we loaned the farmer money for a specific purpose we would expect him to put it into that particular thing, and it would encourage that line of business.

By Hon. Mr. White:

Q. Would you still look to the standing and character of that farmer?—A. Oh, yes. There is another trouble. Everything in Canada is done on the property system, practically. The practice has been of looking too much at what the farmer's property is supposed to be worth instead of looking at what he is producing. The result has been that every year the farmer marks up the price of his land five or ten dollars an acre. He has probably given a mortgage for all he could get and he comes and says: 'I am worth so much, and I ought to be able to borrow so much more than I was able to borrow last year,' although it is the same property only with a bigger mortgage on it. That farm will not produce a bushel more of grain, but if it was worth $40 an acre then the farmer has added another $5 an acre to it. The farmer puts on it another mortgage and he has to pay that much more interest.

By Mr. Maclean (Halifax):

Q. What have you to say on the question of external inspection?—A. I think that the men in the bank are the biggest feature of any kind of inspection, but I am not going to express comments as to what kind of inspection. I am in favour of some kind, but the biggest thing is not to catch the thief or the rascal, but to prevent him from becoming the thief and the rascal. If a man was tempted this inspection would have a tendency to keep him from starting wrong. In place of his getting into trouble this would keep him out of it. It is the moral effect you have to consider. It is the effect of keeping the men who may be tempted to go wrong from starting wrong. That is the main thing—it is the moral effect.

By Mr. Sharpe (Ontario):

Q. The moral effect would not be present if the inspector was appointed by those who were committing these wrongs?—A. Well, I am not going to make any comment as to what the system of inspection should be. There are men who know more about it than I do.

By Mr. Maclean (Halifax):

Q. What is your view as to the value of government supervision as compared with any other form?—A. My view is entirely made up from the experience of the United States. Mr. Forgan has described that in a very much better way than I can. There is a system of clearing house inspection, and the system of government inspection, they have both of them in Chicago. As to which is best other men can speak on that much better than I can.

By the Chairman:

Q. You concur in Mr. Forgan's views?—A. I do. Mr. Forgan has a pretty good knowledge of the banking business.

By Mr. Steele:

Q. Do you make use of much American money?—A. A good deal, yes.

Q. What advantage is that?—A. You ask if I make use of American money?

Q. Yes, instead of Canadian bank notes?—A. You are not speaking of money, you are speaking of printed paper.

Q. We are in the habit of calling it money?—A. No, we do not use any American money. I came through the United States the other day on the way here, because it is a pleasanter trip. I had hard work to find enough American money in our principal bank at Weyburn to pay for the expenses of the trip. That will give you an idea of the amount of American money we keep in our banks. We are not using American money to any extent.

By Mr. Sharpe (Ontario):

Q. Do you believe in the limitation of a bank's loans according to the paid-up capital?—A. I do not see how you can under our system. I will tell you what our rule is. We are not looking for any loans of over $10,000.

Q. Mr. McLeod said that loans limited to twenty-five per cent of the paid-up capital would be very liberal?—A. That works out very well in some states. That has been one of the greatest reasons for amalgamation of banks so that one large bank could furnish a big customer with what he needed. It is almost impossible to regulate the percentage.

Q. You have $10,000 loans?—A. We have some, yes.

The CHAIRMAN.—I think that is about all. I desire on behalf of the committee to thank you, Mr. Powell, for your evidence.

Witness retired.

Committee adjourned.

APPENDIX No. 2

HOUSE OF COMMONS,
COMMITTEE ROOM, No. 101,
TUESDAY, April 15, 1913.

The Committee met at 10.40 o'clock, a.m., the Chairman, Mr. Ames, presiding.

Mr. NICKLE.—Before you begin this morning. I was not here on Friday, but some person told me that the representative of the American Inspectorate System had signified his inability to be present. Is that correct?

The CHAIRMAN.—Do you mean Mr. Murray?

Mr. NICKLE.—I don't know what his name is.

The CHAIRMAN.—His name is Mr. Lawrence O. Murray. I have a letter from Mr. Murray saying he could not come.

Mr. NICKLE.—Who is taking his place as representative of that point of view?

The CHAIRMAN.—No one has been invited to attend.

Mr. NICKLE.—You have a very much broader knowledge, but I would suggest to the Committee that it should have a suitable person to represent the Inspectorate attitude.

The CHAIRMAN.—Mr. Murray is Controller of Currency for the United States.

Mr. NICKLE.—As I understand it this Committee would like some representative of the American Inspectorate system. Now, Mr. Murray, I thought, was to be the spokesman from that point of view, and if the substitution of another man is necessary, I would move that Mr. Murray be communicated with and requested to send some fit and competent person to explain to this Committee the American system of inspection, drawing attention to its vices and its virtues.

The CHAIRMAN.—There is just this feature which arises in connection with Mr. Nickle's motion. I understand there are several other members who desire to ask for additional witnesses who are not at present on the panel. Perhaps we might take that whole question at one time and determine what additional witnesses are desired by the Committee.

Mr. NICKLE.—I have no desire to press for an immediate discussion, but I would not want the matter to go so far that my concurrence in the postponement of a discussion might be attached in this way: that we were getting on so far that we had no longer time to hear witnesses.

The CHAIRMAN.—As far as we can at present see, the witnesses from the West will take up to-day's session, and to-morrow Sir Edmund Walker—who is really our last witness—is to be heard. Some members of the committee have intimated to me that they wished to hear Mr. Pease. I saw Mr. Pease on Saturday and he said that he would be willing to come up any evening this week—that he could not be present in the day time, owing to his manager being absent—but any evening the Committee would suggest he would be willing to come up and give such evidence as the Committee might suggest. A request has also come from Montreal, on behalf of the Chambre de Commerce of that city, for a witness to be heard on the subject of guaranteeing deposits. These are the three requests—to replace Mr. Murray and to hear Mr. Pease and Mr. Ducharme, the latter on behalf of the Chambre de Commerce.

Mr. NICKLE.—Perhaps you had better let the matter stand until we adjourn this morning.

The CHAIRMAN.—At a quarter to one we might take the matter up and determine what additional witnesses we shall want.

Mr. BARKER.—I move that notice be given to all members of the Committee that to-morrow morning we will decide this question of additional witnesses.

Motion agreed to.

The CHAIRMAN.—Mr. Murray was examined before the Pujo Committee and all his evidence is available, but if the Committee think it is desirable to ask the United States Government to designate a member of their staff to give evidence before us we can discuss that later. Our first witness this morning is Mr. McKenzie.

Mr. MCKENZIE, called and examined.

By the Chairman:

Q. Your full name, please.—A. Roderick McKenzie.

Q. Your home is where?—A. In Winnipeg, Manitoba.

Q. Will you tell the Committe what business you are engaged in?—A. My business connections are with the Grain Growers' Grain Company. I am secretary of the Manitoba Grain Growers' Association, and a director of the Grain Growers' Company.

Q. How long have you been in the Northwest?—A. Since 1877—35 years.

Q. Have you been a farmer?—A. Yes.

Q. Have you been a borrower, depositor or lender?—A. I have been both a borrower and a depositor.

By Mr. Nickle:

Q. In the order named by the Chairman?—A. I have not been a lender. You can cut that out.

By the Chairman:

Q. You speak specially from what point of view?—A. I want to take up first subsection (*i*) of section 54.

The CHAIRMAN.—Gentlemen, please turn to section 54—the annual and special statements that are rendered by the directors to the shareholders.

By the Chairman:

Q. Is it subsection (*i*) of the assets, or subsection (*i*) of the liabilities to which you refer?—A. Subsection (*i*) of the assets.

Q. Call and short loans in Canada on bonds, debentures and stocks?—A. Yes.

The CHAIRMAN.—Line 43, loans, is what Mr. McKenzie wishes to speak on.

Mr. MCKENZIE.—I want to suggest an amendment to that so that it shall read—'call and short loans in Canada on bonds, debentures, stocks and terminal warehouse receipts for grain.'

The CHAIRMAN.—Mr. McKenzie's amendment is that section 54, line 44 read: 'call and short loans in Canada on bonds, debentures, and stock and terminal warehouse receipts for grain."

Mr. MCKENZIE.—Banks necessarily have to keep a certain amount of their funds on call loans, and it is stated—I believe with considerable truth—that in order to fill them they have to go to the United States to get that kind of investment. Now, we suggest that in addition to the call loans they can give in Canada to-day, terminal warehouse receipts for grain should be added so that some of the money that goes to New York on call loans may be used in Canada by banks for the financing of our grain, during the busy season especially.

Mr. NESBITT.—That has reference, I think Mr. Chairman, to the annual statement.

The CHAIRMAN.—Yes, that is so stated.

By Mr. Nesbitt:

Q. Do you want that addition made to the annual statement?—A. What I want is that the banks should be put in a position by this Act that they would be enabled to do this.

Mr. SHARPE (Ontario).—They have that power now.

Mr. NESBITT.—They can put what they like in the annual statement.

APPENDIX No. 2

The CHAIRMAN.—Mr. McKenzie apparently desires that what he has mentioned be shown in the annual statement.

By Mr. Nesbitt:

Q. Is that what you wish to have done?—A. The object in my mind is that the banks may have the privilege of investing their money in such loans.

Mr. SHARPE (Ontario).—They have that privilege now.

Mr. MCKENZIE.—The banks told me that they have not got that privilege now.

By Mr. Aikins:

Q. If the section under consideration does not cover the point, let me draw your attention to section 86:

'The bank may acquire and hold any warehouse receipt or bill of lading as collateral security for the payment of any debt incurred in its favour, or as security for any liability incurred by it for any person, in the course of its banking business.'

Does not that section cover what you want?—A. No. That covers the usual loans. It does not cover call loans, I think.

Q. What distinction do you raise between call loans and the usual loans?—A. Well, a usual loan has a fixed time of payment, but the call loan may be taken up at any time.

Q. Without notice?—A. Without notice. That is my distinction.

Q. Just let me call your attention to the section to which you have referred. Reference is made there to call and short loans——

Mr. NESBITT.—Elsewhere than in Canada.

Q. Sub-section 'i' is call and short loans in Canada, and 'j' is call and short loans elsewhere than in Canada?—A. Yes.

Q. How do you distinguish between call and short loans?—A. It depends what distinction you put on the term 'short'.

By Mr. Nesbitt:

Q. A thirty-day loan may be a short loan?—A. Yes.

Q. Then your suggestion would be to create a difference between a call loan and short loan in respect of terminal warehouse receipts?—A. My object is to place terminal warehouse receipts in such a condition that banks would be at liberty to use them as security on call loans.

Q. As security for call loans?—A. As security for call loans.

Q. Because you think that those are securities that can be immediately realized? —A. At any time. There is no bank asset that we have that is more liquid than terminal warehouse receipts.

By Mr. Nesbitt:

Q. Banks already have that power by this Act. Supposing at the last call when navigation closed a bank had loaned about $10,000 on a warehouse receipt, and in January they wanted that money, how would the bank get the money from you? —A. By selling the warehouse receipt. You can sell it at any time.

Q. To whom?—A. There are always purchasers for terminal warehouse receipts.

Q. Oh, but my dear sir, supposing such a time as this would happen: that money in England itself is just as scarce as it is here, they could not get relief.—A. Oh, yes, they could. I think that a terminal warehouse receipt is more liquid than debentures or stocks.

By Mr. Barker:

Q. Do you know what the object of a call loan is to the bank? Do you know why a bank lends on call?—A. So that it can use its resources that the law requires it to hold in readiness for any emergency.

Q. And be absolutely sure in two days or a week they would be able to get the money back again?—A. Exactly.

Q. Do you think this is safe?—A. Yes. That is my judgment. We find in practice that banks will not invest the money they have on call in warehouse receipts, and they give as the reason that they have no power under the Bank Act to do so.

Mr. NESBITT.—Yes, but while I personally agree with you, Mr. McKenzie, that it is all right for them to have the right to loan under these respects, you could not possibly construe it as a call loan.

By Mr. Robb:

Q. Do you know whether any person from Minneapolis or St. Paul was in Winnipeg earlier in the year offering money on call loans?—A. No, I do not. I have not heard of that.

By the Chairman:

Q. Your idea is, Mr. McKenzie, if I rightly understand you, that if this could be classified as a liquid asset it would increase the market, and therefore lower the rate of money on that class of security?—A. The Banks now object to placing any of that proportion of their capital which they keep on call loans as a loan on a warehouse receipt.

Q. I see your point.—A. What we want, briefly, is this: to put warehouse receipts in the same class as bonds, debentures and stocks in relation to call loans.

By Mr. Aikins:

Q. That is warehouse receipts on grain?—A. Terminal warehouse receipts.

By the Chairman:

Q. When a banker considers it necessary to keep a certain amount of his assets liquid you want these also classified as liquid assets so that they may feel justified in reducing by so much their liquid assets for that purpose.—A. That is it.

Q. What is the next point you wish to speak on?—A. The suggested amendment to section 88, subsection 2, which provides that: The bank may lend money to a farmer upon the security of his threshed grain (of any kind) grown upon the farm. The word 'may' is permissive, and gives the bank the privilege of doing this, but it does not compel it, it simply gives permission to loan its money on security of grain stored on the farm.

Q. Will you please tell us from your experience as a farmer and grain handler in what manner that security could be rendered most safe from the bankers' point of view?—A. I presume by a lien on it. That is the most simple form.

Q. You would be in favour of an unregistered lien on that threshed grain?—A. I would think so.

Q. What form of custodianship would you endorse for that lien?—A. The grain should be in the custody of the banker in some form, and the granary locked and the banker in possession of the key. It should not be taken out of that spot without the banker's knowledge and consent.

Q. Are the granaries of the farmers, as you know them, capable of being locked in such a manner that the farmer cannot have access to the grain?—A. A great many of them are. But I think if this privilege is permitted and generally practiced—if the banks will practice it—it will be an encouragement for farmers to put up granaries and a better class of granaries.

APPENDIX No. 2

Q. That is grain before it is in any way graded?—A. Yes.

Q. Will you tell us what advantage it would be to the farmer to have that provision generally exercised? A. We have one very common difficulty, that only a certain proportion of the farmers can get their grain sold and realize on it before the close of navigation; and it is that portion of our farmers who are least able to stand this difficulty who generally experience it. A man near a railway station can thresh his grain and put it in the car or elevator. By the time a man a few miles away from the station gets his grain threshed there is a car shortage. He has to meet the liabilities incurred in the production of that crop, and is up against it. Frequently he has to sell his crop at a low rate, when if he could have secured a loan sufficient to pay the liabilities he incurred in its production he would be able to carry it along. There is another feature not usually taken into consideration, which is especially applicable to conditions in western Canada. We produce a large quantity of grain—wheat, for instance. That wheat is required for consumption for a whole twelve months. Our economic condition compels a grower to place that wheat on the market in the first part of the season, thus depressing the market.

By Mr. Aikins:

Q. But the man has need for the money? A. He has need for money to meet his liabilities. There is an economic force that compels him, whether willing or not, to dispose of his wheat. Then, the man near the station who can draw his wheat from the machine to the elevator or place it in a car, has the advantage of getting the first price, which is always the best price. It is always worth more to a farmer to sell his wheat within the first month of the opening of the market than it is to hold it. But a larger percentage of the farmers must hold it because they cannot get cars or elevator space and it is in the interest of the country that it should be held. It cannot all go into consumption in six months. Somebody must carry it, and there is no place where it can be carried so cheaply as on the farm.

By Mr. Nesbitt:

Q. But you stated that it would pay the farmers to sell their grain as soon as it was threshed? A. All the farmers cannot sell as soon as threshed. I would say, as a farmer for years, if I could sell my wheat in September or the first fifteen days of October, I would sell it. After that time the cash price paid in country points is usually based on the December option, then the farmer has to pay the carrying charges in the terminal elevators till the opening of navigation. He may just as well pay the interest to the bank. The bank is carrying it in any event either in the granary or in the elevator.

Q. Your contention is that the farmer would find it more convenient to have the grain stored on his farm under lien than in the elevator? A. I take this attitude: that some farmers must hold their grain; and the man who must hold it is usually the man who is less able to do so, the small farmer, the man who is not as aggressive as some. I think parliament ought to make an effort to place that percentage of our people who have to hold their crop, in a position to hold it most cheaply.

By Mr. Sharpe (Ontario):

Q. You have an idea that a bank should be compelled to loan? A. I would not go that far.

Q. You are not objecting to the word 'may' in that subsection? A. I am in favour of it.

By the Chairman:

Q. Does your experience of the West lead you to believe that a farmer who has a reputation for honesty and integrity can to-day secure a loan?—A. No, not always. There are a great many of our farmers who, to use a common expression, are long on

integrity and short on finance. I think that a banker, in the case of a man of that type, would be willing, did the Bank Act permit him to loan that man money to help him out.

By Mr. Thornton:

Q. You think it is better for the bank to carry the grain in a farmer's granary than in an elevator?—A. I am not speaking as a banker.

Q. But from your point of view?—A. I would say this, in the first place, the banker can secure larger interest on a small loan to a farmer than he can on a loan to a grain dealer. The banks loan their money to the grain dealers around 6 per cent, and to the farmers around 8 to 9 per cent. And if they have a large quantity loaned to the dealer I imagine it is a greater risk than the same quantity distributed in small amounts among good, honest farmers with good land assets.

By the Chairman:

Q. If you are a banker loaning money, would you prefer to loan to a man of integrity with a poor padlock on his granary or to a man of doubtful integrity with a well locked granary?—A. I would emphasize the integrity.

Q. To what extent then do you think the padlock adds to the security of the banker?—A. It protects him against others than the farmer himself. We have known of grain being stolen out of granaries that were not locked.

By Mr. Jameson:

Q. It saves the farmer from his friends.—A. I would not call them his friends.

By Mr. Sharpe (Ontario):

Q. In the case of a tenant farmer who, when his grain is threshed, goes to the bank and gives the bank a lien and, being dishonest, leaves the country without paying his other liabilities, do you think that his preferred lien to the bank should come ahead of the landlord's claim for rent?—A. I think the landlord's claim comes ahead of anything.

Hon. Mr. White.—Would the landlord have a lien upon grain that is threshed?

Mr. Sharpe (Ontario).—He would have his rights of distress, I suppose. But his rights of distress would not come ahead of this. What is the department's opinion of that?

Hon. Mr. White.—I think you could enforce distress proceedings.

Mr. Sharpe (Ontario).—But where there is a conflict between Ontario legislation and Dominion legislation, that of the Dominion would take precedence. Now, we are creating a preferred lien to the bankers on the farmer's chattels and threshed grain, which gives the banker a preferred claim over the landlord. Would Mr. McKenzie be in favour of protecting the claim of the landlord, or in other words providing that the lien shall be subject to the preferred claim of the landlord?

Mr. McKenzie.—That features of it is perhaps new to me. I do not think that should interfere with a tenant getting what is partly due him.

By Mr. Sharpe (Ontario):

Q. Do you mean the landlord or the tenant?—A. The privilege is permissible. The bank would know whether the man that is asking a loan on grain is an owner or a tenant and would protect itself.

Q. Supposing the tenant actually gives the bank a lien that creates a preferred claim, in my opinion, over the landlord's claim for rent, should we protect the landlord's claim?—A. I see no objection to that at all.

APPENDIX No. 2

By Mr. Aikins:

Q. I presume a bank would not advance to the full value on the security of threshed grain. If there was a distress the landlord would have the right to the equity?—A. Yes. That would surely happen.

By Mr. Craney:

Q. Have you any reason to believe that the banks would advance money on this lien which is proposed to be created in the Act, to a person to whom it would not advance money at the present time?—A. Well, perhaps not in a general way; but I can conceive of exceptions being made. A man may be so situated financially that even if a banker had perfect confidence in his integrity and honesty yet, on account of his financial condition the banker would not be willing to loan him on an open note without some security other than his own note. In other words, I think that it would permit certain types of western farmers to get money from a bank. It may be possible that the banks will not make any use of it, but what I would be willing to do is to give them the privilege if they will do it.

By the Chairman:

Q. Have you made any study of schedule C which provides for the form of lien? —A. No, I have not.

By Mr. Robb:

Q. Mr. McKenzie made the statement that grain could be carried cheaper on the farm. I think it would be well to put in some evidence of that. What does it cost to carry wheat in the terminal elevators from the close of navigation to the opening of navigation?—A. One cent per month.

Q. That is the cost of carrying wheat on an average to the 10th or 15th of May? —A. If the wheat was carried for five months the cost would be five cents.

Q. That includes interest and storage and insurance?—A. No, that covers storage and insurance.

By Mr. Nesbitt:

Q. Five cents a bushel?—A. Yes, for five months.

By Mr. Robb:

Q. I think that includes the interest, does it not?—A. No, that is the storage and insurance. It is one thirtieth of one cent per day.

Q. What would it cost to carry the grain on the farm?—A. Just the interest on the loan and insurance.

Q. When a farmer sends his grain to a buyer, and it is forwarded to the port of shipment, the carrying charges are on the grain. If the grain was back on the farm, the farmer would stand part of the carrying charges and earn them himself.— A. He would earn them himself with the exception of the interest on the money he had borrowed on it and the insurance.

By the Chairman:

Q. Are the carrying charges from, say Central Saskatchewan to Fort William, by railway, the same throughout the year?—A. You mean the freight charges? Yes.

By Mr. Aikins:

Q. The price of wheat usually includes storage charges, does it not?—A. Invariably.

Q. So that the wheat on the farm would pay that storage charge by its increased price in the Spring?—A. Yes, if the farmer had it in his own granary.

Q. And he would get the storage instead of allowing the warehouse man to get the storage charges?—A. Exactly.

By Mr. Sharpe (Ontario):

Q. I did not hear you make a sufficiently definite statement in regard to a question I asked you with respect to the priority of banks and landlords under this lien. Do you wish to see the landlords protected in this arrangement?—A. We are creating a system of landlordism in western Canada under which I do not think it advisable to give a landlord much priority. We should rather discourage that system than encourage it.

Q. Under your provincial Act the landlord now has the right of distraint?—A. Yes. I think the landlord is quite capable of taking care of himself.

By the Chairman:

Q. Taking this question now in the light of all that you have heard, and of the discussion in connection with giving the bank the right to lend money to a farmer upon the security of his fresh grain, do you think that it really will be a boon to the farmer to insert such a provision in the Act?—A. I would not say it was going to be a boon, but I would say that it was going to be an advantage.

Q. Speaking for yourself, you support it enthusiastically?—A. I am very much in favour of it.

By Mr. Warnock:

Q. Where the land is sold on the crop payment system, in what position would the vendor of the land be in? He has perhaps a half interest in the grain. There is a great deal of land sold on the crop payment system in the West?—A. The proportion of the grain that belongs to the seller of the land would not belong to the purchaser. I doubt very much if the buyer would give a lien except for that portion of the land that belongs to himself.

By the Chairman:

Q. He would have to do it in accordance with a form of partnership?—A. Yes.

By Mr. Warnock:

Q. Suppose he gives a lien on all the grain in his granary. Would the vendor of the land then have a claim on that grain in preference to the bank?—A. The purchaser of the land would be only entitled to a certain part of that grain, and he could only give a lien on that portion of it.

By Mr. Aikins:

Q. In order to enable you to answer that question better, let me point out what schedule C says:

'The said goods, wares and merchandise, are now owned by.....

That is the pledger—

'and are free from any mortgage, lien or charge thereon (or as the case may be), and are in (place or places where the goods are), and are the following description of goods assigned).'

So that man can only have his own interest in that property?—A. That is my understanding of it.

By Mr. Warnock:

Q. Do you not think that banks as a rule would prefer a lien on the farmer's livestock rather than on his grain?—A. Whether they would prefer it or not I do not know, but I believe they would. In any event I think the privilege ought to be granted of lending to farmers on the security of their livestock.

APPENDIX No. 2

Q. Suppose a farmer has a granary full of poor grain, perhaps it may be only feed grain. He desires to borrow money with the view of purchasing a bunch of steers to feed that grain to, do you not think it would be an encouragement to the farmers to go into mixed farming if they were allowed to borrow money on their stock?—A. Yes, I think so.

The CHAIRMAN.—We might hear what you have to say on that feature of a bank being allowed to lend money to a rancher on the security of his cattle.

By Mr. Sharpe (Lisgar):

Q. Is it not a fact that in the western country to-day the banks have been encouraging that very thing upon which Doctor Warnock questioned you—the buying of steers to feed this poor grain to?—A. No such case has come under my notice, but it may be true.

By the Chairman:

Q. Mr. Sharpe has proposed an amendment under which a bank may lend money to a farmer on the security of his livestock, and may lend to a rancher on the security of his cattle. We will be glad to hear what you have to say on either of these features?—A. I would be in favour of lending money to a farmer on such security. I would include ranchers also. The suggestion made, I think by Mr. Warnock, that farmers ought to be encouraged in case they have a lot of low grade grain to procure cattle to feed it to on their farms, is a good one.

Mr. WARNOCK.—A distinction is made between rancher and farmers though.

By Hon. Mr. White:

Q. I want to ask you a question there, if I may. One of the chief objections that is urged against individuals, including of course farmers, giving a secret lien to the bank is that other creditors might be prejudiced. On the face of it, it would seem that anything that is a convenience to the farmer and to the banker, might be embodied in legislation, but we have not had any expression of opinion from the business or mercantile community as to whether store keepers or others would be likely to be prejudiced by the secret lien. What is your view as to how this lien would be regarded by the commercial community unless it was done by way of chattel mortgage?—A. You want to know the viewpoint of the commercial community?

Q. What would you think of that, speaking generally as a citizen. Would the interest of the commercial community be affected adversely if the bank had a lien on anything the farmer possessed?—A. If this were to become effective the rights of the creditor might be prejudiced at the outset. Still, once it was generally know that it was not going to interfere with the farmer getting whatever credit he ought to get, it would be different. Many a farmer has been put out of business because of the easy way in which the sellers of commodities shoved their goods on to him, and persuaded him to buy things that he could very well get along without. I would be in favour of curtailing the farmer's credit, rather than encouraging it. I have no doubt at all that business men will object to this lien.

By the Chairman:

Q. Do you think that the ordinary general store keeper in the western town would be prejudiced by the general use of this clause?—A. I do not think the ordinary business man in a little town, who supplies the farmer with his groceries and that kind of goods, would be prejudiced. He is prejudiced very much now by the activity of other classes of the community. Horsemen, agricultural implement agents are securing everything the farmer has and cutting the small store keeper out altogether.

By Mr. Nickle:

Q. I understand the net result of your evidence to be that this privilege will be advantageous to the general community?—A. Yes, that is right.

The CHAIRMAN.—We will now take up section 4, as to the length of time bank charges should be renewed.

Mr. MCKENZIE.—I understand that an amendment can be suggested to the Bank Act during any session of Parliament the same as in the case of any other Act.

The CHAIRMAN.—You are quite right.

Mr. MCKENZIE.—If that be true, I see no advantage of having a general revision frequently, and perhaps once every ten years will be quite sufficient. If any new development or emergency arises, an amendment may be made to the Act to meet the situation arising out of such development or emergency.

The CHAIRMAN.—I think I am right in saying that the understanding is that the charter of a bank—that is the bank's right to do business—is by the Act renewed every ten years, but the privileges and responsibilities of all banks may be revised whenever Parliament sees fit.

Mr. NICKLE.—That is quite right.

Mr. MCKENZIE.—That will be quite enough as far as I am concerned.

By Mr. Sharpe (Ontario):

Q. You would not extend the period in perpetuity, so as to give the bank a perpetual charter?—A. No, I would not be in favour of doing that.

By Mr. Robb:

Q. What about the rate of interest as provided for in section 91?

By the Chairman:

Q. On section 91 Mr. McKenzie wishes to speak about the rate of interest charged to farmers in the West.—A. I think the proposition is that banks be not permitted to charge more than 7 per cent interest on investments. I may say that I am in favour of that.

Q. Suppose the banks should come here and say: We have a large number of non-paying branches throughout the West; if you insist upon this 7 per cent clause we shall have to close up a number of our branches. Which would you consider the lesser evil, to permit the banks to charge more than 7 per cent or to have them close up a number of their branches?—A. I feel a good deal like calling their bluff. I notice that when Parliament deals with corporations we hear that kind of thing frequently. For instance, the legislature of Alberta introduced some legislation to protect the farmer against the activities of implement dealers. The implement men sent a deputation to Edmonton and made the statement: If you put this through, we will pull out of Alberta. When we make demands before the Railway Commission for a reduction of freight rates the railways say: If you reduce our freight rates we won't build any more railways. When we appeal for less protection to the manufacturers, the manufacturers say: If you do that we will pull out of Canada. It is pretty near time to call the bluff of some of these people. While I fully agree with the view that the bankers' interest is the smallest burden farmers have to bear, we have to make a call some place and why not just as well commence here as any other place.

Mr. WARNOCK.—They called the bluff of the machine men in Alberta and they immediately backed down.

By the Chairman:

Q. Suppose the bankers should make a good case here to the effect that the cost of doing business in the West is greater than that of doing business in the East: Would you rather see a figure like 8 per cent fixed which they would be compelled to

stand by, or see the Act left as it is?—A. There is another feature of it that I should perhaps first have applied. I think it can well be stated that banks lend the larger proportion of their money at less than 7 per cent. I understand that large corporations get their money at 5 or 6 per cent, and it is only the small business men and the farmers or producers who have to pay 8, 9, or 10 per cent. That is working out in my judgment to a very bad condition of things. Take for instance, our condition in the West. A large mail order house, like T. Eaton & Company, gets their money from the banks around 5 per cent, while their small competitors, who are supporting the farmer and helping him out of the hard spots, have to pay 8 or 10 per cent and compete against the mail order houses. The small business men are gradually driven out of business, and there is concentration of business in Winnipeg. We have now the situation that only about twelve towns between Winnipeg and the Rocky mountains have a larger population than the employees of T. Eaton Company in Winnipeg. I think Parliament should not encourage that kind of thing and that there should be something done to help the small business man and the farmer. We have among our farming communities two classes, the farmer who farms the farm, and the farmer who farms the farmers. We have the landlord, speculating farmer, who usually gets money from the banks while the small working farmer cannot get it. I am disposed to think that we ought to have a condition in which the larger users of money, the large borrowers, should not get their money cheaper than the small user, thus helping to put the small man out of business.

By Mr. Barker:

Q. Would you have a minimum and a maximum rate?—A. I am not in favour of tying a bank down too much.

By the Chairman:

Q. Would you regard a rate of, say, 8 per cent excessive for small loans to farmers in small places?—A. No, a farmer would not suffer more inconvenience if he could borrow money at the proper time, and in the proper quantity, at 8 per cent.

Q. Is it not a fact that many of the banks lend throughout the West at 8 per cent?—A. I think that is a fact.

By Hon. Mr. White:

Q. The manager of the Weyburn bank emphasized the fact that bankers always discriminate as between the credit of individuals. For example, in a case where there is no question at all about the risk and the borrower's reputation is of the best, he will obtain a loan at a normal rate of interest. Another man, where the risk is not so good, will borrow at 9 per cent, and another man again at 10 per cent. Do you think that a hard and fast rule would have the effect of being a disadvantage to that large class of individuals in the West, who have not the credit of the best borrowing farmers, and would therefore deprive them of banking accommodation?—A. As a general rule speaking of conditions in the West, the people who are anxious to borrow and willing to pay large interest are people of the speculative character, who speculate too much.

Q. Who expect to make large profits? A. Yes. There is a class of farmers, who, unintentionally perhaps, are induced by an active agent to buy more implements than they need, and in that way get into debt. It might be well to let him get money at a high rate of interest. But taking the general view, I do not think that—

Q. Supposing the law absolutely fixed the rate of interest so as to give no flexibility at all, would not that deprive that class of people of any banking accommodation?—A. That may be true. It might be an advantage in other cases that the farmer should not get it.

Q. Just let me ask you, because I think this is of extreme importance. While we want to do everything we can to protect the public, I think at the same time we are desirous of not having legislation so drastic that we may do more harm than good. Take the man in remote districts, where banks push in and are just getting a toe-hold. While of course, the interests of the farmers are the greatest, if their credit was not quite so good as that of a borrower in the ordinary western community, do you think it would be well to deprive them of the right to borrow money at 9 or 10 per cent?—A. I am not very much versed in banking, but it seems to me—

Q. But look at it not from the standpoint of the banker but from that of the farmer in the remote country districts whose credit is not of the best, who might impress a bank manager to give him a chance and yet whose assets were risky. Should there be a rule that might prevent such borrowers getting bank accommodation?—A. I think there should be a limit somewhere.

Q. That might be. I would not be disposed to disagree with that at all. But which side ought that limit to err on in the interests of the public. I will not press that question because I think you have the same perplexity about that as the rest of us have.

By Mr. Aikins:

Q. I would like Mr. McKenzie to answer that question.—A. I am not undisposed to answer from my own viewpoint. If a farmer starting out on a farm goes to a bank or any other institution and pays more for his loan than it is worth to him, he would be better without it.

By Hon. Mr. White:

Q. More than it is worth to him?—A. A banker gets hold of that man, and if he is not able to pay either the interest or the capital he is cleaned out. There are occasions when a man may borrow money at a high rate and get out if he has a good crop; but if he has a poor crop he is out of the game.

Q. What are the first mortgage rates in Saskatchewan and Alberta to-day?—A. I think about 7 or 8 per cent. I would not say 9 per cent, I have not heard of it.

Q. They are higher than they are in Ontario?—A. Yes.

Q. How do you account for that?—A. The necessities of the people there, which the mortgage companies take advantage of.

Q. The demand controls the supply?—A. It is very questionable if a man can make that much out of a loan on his farm.

Q. Did you hear the evidence of the manager of the Weyburn Bank the other day?—A. Yes.

Q. What did you think of the calculation he made whereby he stated that if there was a reduction of 2 per cent on loans, they would have to close up, or pay no dividends to shareholders?—A. Without evidence to the contrary, I would have to accept his word.

Q. He showed his deposits.—A. I noticed that statement and gave much attention to it.

SIR EDMUND OSLER.—The report of one of the very successful life insurance companies in the West shows an average rate of 7·95 per cent. I think that gives a very good idea of the rate of interest.

THE CHAIRMAN.—That is the Great West Life?

SIR EDMUND OSLER.—And they have a considerable portion of their money out on mortgage.

By Mr. Douglas:

Q. In your experience in the West is it not a fact that the farmer has to pay the maximum rate of interest, and that the Great West Life is also loaning at a less rate of interest and bringing the average down?—A. Yes, I will give you an instance.

APPENDIX No. 2

The manager of a big mortgage and loan company told me three weeks ago in Winnipeg that in a certain district of Manitoba they have a lot of mortgages, and after getting everything the farmers could pay that this year they had to advance them some money to carry them forward till the following year. He says they have $100,000 on land in that district in that way, that they get that money from the bank at 5 per cent and charge the farmers 8 per cent. We should not have such a condition as that.

SIR EDMUND OSLER.—I wish you would tell me the bank that loans at 5 per cent.

By Mr. Nesbitt:

Q. Do you know of your own knowledge that the banks loan money at 5 per cent?—A. No farmer has that experience.

Q. But you are a grain dealer. Have you borrowed money at that rate?—A. Last year, our money cost us between five and six per cent.

By the Chairman:

Q. What does it cost you now?—A. About 6 per cent.

Q. Six per cent is the ruling rate of interest?—A. Yes, in the grain trade.

By Mr. Nesbitt:

Q. You made a reference to the Eatons getting money at 5 per cent and coming into active competition with the ordinary store keeper. While I largely agree with your views, is it not dishonesty on the farmer's part in sending them his cash, because he has to pay them cash, and then standing off for this period of time, the country store-keeper?—A. No, it is not dishonesty.

Q. Do you not think it is dishonest, if I owe you a certain amount of money and yet when I have cash I send it away to another store-keeper at a distance?—A. No, every man has a right to buy where he can get the cheapest rate.

Q. Yes, but you have no right to get credit from me and then buy from somebody in another town for cash.—A. It is not a very common practice either.

Q. I know. It may not be a very common practice in the West, but it is in the East, and the same qualities prevail in both parts of the country. A great many of the residents of the West have moved there from the East. They do not change their habits very much by moving their place of residence and so I am afraid this is a common practice among farmers.—A. In reference to the profit made by loan companies, I have a list here of 17 Trust and Mortgage Companies, and their average earnings last year were 17·04 per cent. There average dividends paid were 9·5 per cent.

By Mr. Barker:

Q. Are you speaking of provincial companies?—A. The companies I have reference to are Mortgage and Trust companies. They are not provincial, although some of them may be.

By Mr. Ross:

Q. What are the average rates?—A. They run from 23·69 to 13·34, the average is 17·04. The dividends paid average 9·5 per cent, but they run all the way from 17½ down to 6 per cent.

By Mr. Nickle:

Q. What compilation are you reading from?—A. It is a statement prepared from the annual returns of these companies.

By Mr. Foster (Kings, N.S.):

Q. As one of the representatives from the East, I would like to ask if you consider that the banks in the West are using the farmers unfairly in the matter of loans?—A. Yes, but it depends a good deal also on what you mean by 'unfairly.'

Q. That is just the point I want you to elucidate. In what way do you consider Western banks are using the farmers unfairly?—A. Well, it is in this way: The banks have spread their branches all over the West until they now have, I believe, 800 branches. One of their main objects is to collect deposits and also, of course, to give loans. Those deposits are sent to the central office in eastern Canada, Montreal or Toronto, and they are administered from there. Thus the money deposited by the western farmers and wage earners is used to finance large corporations rather than the farmers and the people in the West.

By the Chairman:

Q. As a matter of fact, Mr. McKenzie, do you know whether the loans exceed the deposits in the West?—A. That might possibly be, but a large amount of these loans do not go to farmers, although some of them may go to speculative farmers.

Q. Would you consider it an injustice to the West if more money came into the West for loaning than was collected from the depositors?—A. Yes, because new enterprises are so extensive there. A large amount of money, I understand, is loaned by banks to municipalities, for example.

Q. Do you object to that?—A. No, I do not object to that. What I do object to in that respect is that during the hard times when money is scarce, the banks draw in and won't lend even the municipalities.

By Mr. Foster (Kings, N.S.):

Q. The point is here, and I want to get right to it. You say that the farmer deposits his money in the bank at 3½ per cent, and that when he goes to a bank for a loan he is charged 8, 9 or 10 per cent.—A. That is just exactly what I say. He deposits money at 3 per cent.

Q. You say that?—A. Yes.

Q. There is something wrong with a farmer who will deposit his money in a bank at 3 per cent and go to a bank and borrow money at 8 or 9 per cent?—A. But one farmer deposits and another borrows.

Q. But the man who deposits money at 3½ per cent, might he not want that money loaned at 5 per cent or 6 per cent? It might be very much better therefore, if that man's money is deposited in the bank at 3½ per cent, provided he is satisfied with it—and I presume he is or else the money would not be there—to have that money loaned at some other place, to a corporation at 5 or 6 per cent where the credit is absolutely secure. Now, if that is the case, where does the injustice to the farmer come in?

The CHAIRMAN.—Do not make a speech, but confine yourself to asking the witness questions.

Q. The point I was leading up to, Mr. Chairman, is this: does the farmer deposit in the bank more than he borrows?

The CHAIRMAN.—The bankers will tell you that.

Mr. MCKENZIE.—I cannot answer that question.

Mr. FOSTER (Kings, N.S.).—The point I want to get is this—

The CHAIRMAN.—You will find that in the evidence of a number of the bankers, who have told the Committee how that western business is conducted. If you read the evidence you will find it there.

By Mr. Foster (Kings, N.S.):

Q. What I want to get from you, Mr. McKenzie, is why, in view of the facts I have stated, you consider the bank is treating the western farmer unfairly?—A. I think it is unfair to the western farmers as a class to collect their money at 3 per cent and send it to eastern points, or any place you like, and then when the western farmer comes to borrow he has to pay 8 per cent. The middleman gets pretty nearly twice as much as the farmer gets.

Q. But it is not the same farmer in both cases?—A. It does not make any difference, it is the same class.

Q. There is the point exactly. A man that deposits money at 3½ is perfectly satisfied with that rate or he would not put his money there. Now then, another farmer wants to get hold of that at the same rate, and perhaps his security is not sufficient?—A. Well, in the first place, the banks do not pay 3½ per cent. In the second place, a great many farmers at certain periods of the year, such as after they have disposed of their crops, have money in the bank on current account and they get nothing for it. Next year, when they want to commence producing their crop and they need to borrow, they have to pay 8 or 9 per cent. I think it is a gross injustice that such a man, who, at certain seasons of the year, has money in the bank, should when he wants to borrow, be compelled to pay 8 or 10 per cent.

By Mr. Ross:

Q. As a matter of fact, is not the security of that bank just as gilt-edged as their best security in the West?—A. In my judgment it is safer.

By Mr. Barker:

Q. What rate would you think fair?—A. The rate proposed to be fixed by this Bill, 7 per cent.

By Mr. Beattie:

Q. If the grain growers in the West have such a terrible amount of money to invest, why don't they found a bank of their own?—A. They cannot do it.

Q. Why not?—A. Two years ago I was trying to get a charter for the grain growers through parliament. One of the powers we asked for was to start a bank and we could not get it.

By Mr. Barker:

Q. Why did you not take stock in another bank?—A. That is the next best thing. We could not get power from parliament to start a bank.

Mr. NESBITT.—You were applying for power in an indirect way, otherwise you would have got it.

By the Chairman:

Q. I think, Mr. McKenzie, you will allow me to get that statement of yours placed a little differently. You wanted to get banking privileges for the Grain Growers' Grain Company, did you not?—A. Yes, that is the same thing.

Q. No, it is not, pardon me. Has that same group of men who compose the Grain Growers' Association ever asked parliament to incorporate them as a bank on the same footing as the other banks?—A. No.

By Mr. Sharpe (Ontario):

Q. Do you think it wise to provide for a system of banks with a smaller capitalization, say provincial banks with $250,000 capitalization?—A. I think it would. Of course that question involves another one—the safety of these small banks.

Q. Mr. McLeod and the Minister of Finance say that a bank's safety and credit does not depend so much upon its capitalization as upon the integrity and capacity of the management.—A. I certainly think that where a good, active, honest manager makes a success of a small bank in the West, that it would be an advantage to the people to have such banks.

Q. What have you to say on the question of external inspection?—A. I have not heard that very much discussed except in a general way that you cannot attach very much importance to. I have no information to offer upon that point.

Q. You mean of no importance to the question of bank inspection?—A. No, not at all.

Q. Just the information?—A. Yes.

Q. You have heard the discussion here and the evidence that has been given; what is your opinion from your own point of view?—A. I certainly think that banks, like every other institution of a semi-public character, ought to be under the supervision of some authority outside.

Q. Independent of the directors and shareholders of the bank?—A. Certainly.

Q. In case of irregularity of a bank requiring penalties under the Act, and the Minister's attention is drawn to the necessity of enforcing these penalties—do you think that private individuals should have the right to enforce them?—A. I think the minister should, for it is his duty.

Q. There have been cases in the past where they have not been enforced—I am not speaking of the present Minister.—A. I do not think the prosecution of banks for violation of the Act should be left to a private individual.

Q. Supposing the private individual is willing to take the responsibility in case the Minister refuses when his attention is called to it?—A. I think if he is willing there should not be anything to interfere with him.

Q. There is a clause now in the Act which interferes. This is a proposed amendment:—

> In case any violation of the Act be brought to the attention of the Minister, and on request the latter refuses to sue for the amount of the penalties as provided by this Act, and neglects to sue for a period of three months after such notice, then such person so notifying the Minister may bring suit in his own name for the recovery of the penalty and such penalties shall belong to such person so sueing.

Do you see any objection to that?—I do not.

Q. Would it not have a tendency to make the banks observe the provisions of the Act?—A. I think so if they know there is somebody after them.

Q. When the Minister refuses to enforce the penalties, do you not think the aggrieved party should have the right to sue?—A. I think so.

Hon. Mr. WHITE.—I am not quite sure that I understand you, Mr. Sharpe. Do you mean if it is established that the bank is liable to penalties? Put it this way. My office is constantly in receipt of letters from more or less responsible people all over the country. Sometimes it is perfectly obvious that these communications are malicious. If the Minister does not take action, should somebody else sue the banks or not. You know the abuses there have been in connection with suits for penalties.

Mr. SHARPE (Ontario).—I have no personal knowledge of abuses.

Hon. Mr. WHITE.—If you look it up you will find there has been a great deal of abuse.

Mr. SHARPE (Ontario).—The individual would be responsible for the costs if he failed.

Hon. Mr. WHITE.—He might or might not. Do you mean that if some one alleges that a penalty may be exacted, and if the Minister sees——

Mr. SHARPE (Ontario).—If he produces evidence to the Minister to establish a prima facie case that should be sufficient.

Hon. Mr. WHITE.—Should the Minister act on a mere allegation?

Mr. SHARPE (Ontario).—The Minister should be satisfied that there has been a violation.

APPENDIX No. 2

By the Chairman:

Q. Mr. McKenzie has a statement to make. Will you make your statement Mr. McKenzie?—A. My statement is this. I believe that our present banking system does not meet the necessities of the producing classes. That the soil is the source of wealth in Canada, and that our farmers are our greatest assets. Our present banking system does not afford the tillers of the soil sufficient support or help in the way of financing them that their necessities require, and that our earnings, that is the earnings of the wealth producers of Canada, are diminished from the fact that the producing classes for productive purposes do not get or are not in the position to secure loans of the right kind, at the right time, and for the required fixed period. That is not peculiar to Canada. The situation that we have in Canada is, perhaps, intensified in the United States, where banks gather in the earnings of the people as here and use them for the financing and maintaining of large corporations, centralizing not only the money but also the business. If I understand the situation, the constitution of our banks their very nature is such that they cannot give the farming community the financial assistance that it is entitled to. We find that through the interlocking of directors—the directors of our banks are, I may say, almost altogether interested in other large corporations, and being human like the rest of us, are naturally disposed to help the corporation rather than the producer. That is the situation that has arisen in the United States, and the people there are now taking steps to try and get a solution. I suppose it is generally known to the gentlemen here that there is a very large deputation leaving New York at the end of this month to examine the rural credit system of Europe, and I may also add that the Government of Saskatchewan have also sent a deputation (part of which is to accompany that delegation from the United States, and part to engage in another investigation as to the handling of grain) for the purpose of studying the rural credit systems of the countries of Europe so as to make them applicable to the necessities of the United States. My proposition is—I think we have diagnosed the disease—the fact that parliament is engaged as it now is in trying to amend the Bank Act indicates that there is a feeling that a change in our banking system to meet the requirements of Canada is needed. The producing countries of Europe have met the difficulties we have here half a century ago. New Zealand and Australia had the same difficulty and they met it in a somewhat different way to the countries of Europe. In West Australia the government aid depositors the same as we do in Canada by providing government savings banks. They have organized what they call a rural bank. The government use these deposits to finance the farmers. They pay 3 per cent to the depositors. They charge the rural bank 4 per cent, and the rural bank loans to producers, the farmers, on stated terms, the money at 5 per cent. New Zealand has a scheme along somewhat similar lines, though slightly differing. The principle underlying the rural credit system of Germany, France, Austria, Belgium, Denmark, and Sweden is that the government places the community in a position where they can use their own money. There are some 15,000 rural banks in Germany composed exclusively of farmers. One farmer has a little money deposited in his rural bank, and another farmer who wants to borrow, borrows his neighbours money from that bank. In 1910, the loans were something like $340,000,000 that is the loans of one farmer to another, 88·2 per cent of the money used by these rural banks was deposits. My proposition is that we think out a solution of our financial necessities along these lines. Although I have given this question a good deal of study I have no detailed statement to make. I throw out the principle to see if something cannot be worked out in the interests of the producers. I do not think that we can tie down our banks by legislation to compel them to supply the necessary facilities for the raising of crops to the best advantage. Our mortgage system is too expensive or too rigid, loans are all for fixed periods at a fixed interest. If a man who borrows is able to pay anything on that mortgage before it is due he will not accept it without a penalty.

It appeals to me like this in the matter of mortgages. A farmer starts on a half section of land and is ambitious to make a good home for himself. He puts in a crop, and thinks it is going to be a good crop because it seems to be coming up well. He incurs a liability to improve his home or to put up a barn with the expectation that when he realizes on this crop he will be able to pay them. But something happens; nature was not kind to him, and the crop did not turn out as he expected. As a result he incurs more liabilities in order to pay these liabilities. He goes to the mortgage company and puts on a mortgage, and while he may require only $600 or $700 he finds it is just as easy to borrow $1,000, so he gets more money than he needs and the result is that he may use that balance on unproductive ventures. The mortgage is due in a term of years. He has to pay interest for as many years as the contract runs. If we had a system of loaning to a man in that position that would enable him to get what he just required, to liquidate his liabilities that year, and a time arranged that he could pay it whenever he had the money to pay it, it would, nine times out of ten, save such a man his farm. We have had conditions such as I have indicated. What we want is that our government would devise some scheme whereby a farmer could get small amounts to meet exigencies and be able to pay them whenever he is in a position to pay. Then, again, in the matter of these loans in the rural credit banks they are always given for productive purposes and only for productive purposes, consequently farmers do not get into trouble so much.

By Mr. Foster (Kings, N.S.):

Q. You have just given an illustration of a man who borrowed and who encumbered his farm and spent his money before he earned it on the prospect of his crop, would you propose to have him go to a co-operative bank and obtain money, would he be considered a proper person to advance money to?—A. If we had these co-operative banks I think he would not have got into trouble.

By the Chairman:

Q. Mr. McKenzie is probably aware that there was an illuminating discussion in the House on the subject of co-operative banks.—A. Yes, I know of that discussion.

By Mr. Sharpe (Ontario):

Q. Do you think there should be any limitation of loans to individuals or companies by the banks, or to their directors?—A. It would be very difficult to regulate it, but I think banks should not be allowed to loan very large sums to large corporations. There should be some limitation. That is where some of the banks have gone bankrupt.

The CHAIRMAN.—On your behalf, gentlemen, I want to thank Mr. McKenzie for taking the time and trouble to come down here. He stayed over from last Friday especially at our request, and we have enjoyed what he had to say about western conditions, and we thank him very much for coming.

Witness retired.

Mr. FREDERICK W. GREEN, called and examined.

By the Chairman:

Q. What is your official position in connection with the Grain Growers' Association?—A. I am the secretary of the Saskatchewan Grain Growers' Association.

Q. How long have you been in the West —A. Thirty-one years.

Q. You grew up with the country? What has been your experience—have you been a farmer?—A. I have always been a farmer, I have never done anything else.

Q. Would you prefer to be questioned by the Committee or would you like to make a statement to it?—A. I will make a statement, but you will have to take it as it comes.

APPENDIX No. 2

Q. Take up your own points in your own order.—A. I may say I feel a little diffident in saying anything, because you have already had four or five men from the West who have covered the ground fairly well. But I would say to the Committee, and yourself, sir, that having watched these proceedings, it has been a source of education to me rather than a case of giving information.

I have been in the West since the year 1882. I went there ahead of the railway and I have grown up with the country. I went there without money and I know, I think, nearly everything that the farmer has to meet in going to the Canadian West. I have been with the farmers' organization from the time the first farmers' organization was inaugurated. I know the difficulties and I know the contentions of farmers and what gives rise to them, and if I can be of any assistance to the Committee in giving testimony from the farmers' outlook, all right. I cannot give you bankers' testimony, and I am not going to try. I don't know how to run a bank, for I never ran one, and if you ask me questions from the banker's standpoint and expect answers, I shall be out of it right away. Nevertheless, I will endeavour to give you the best answer I can to anything you may ask me in connection with this subject.

By Mr. Aikins:

Q. Do you wish to make a statement at first?—A. I may say just one or two things in connection with it. In looking at the financial question there are three or four leading questions which are dove-tailed into it inevitably when you commence to talk of finance as regards the west. One of them is the question of transportation, another is the question of money, and still another is the elevator and the storage question. We are pre-eminently in the part of the country from which I come, a grain producing country. There is a scarcity of water stretches there but we have the richest soil in the world. I repeat that this is a grain producing country and if you try to force it into a stock producing country you start to make it something it is not fitted for at present until you find some way of meeting the lack of water.

Q. You are speaking now of Saskatchewan?—A. The upper part of the country, from which I come. Saskatchewan is a big province.

By the Chairman:

Q. From what part of Saskatchewan do you come?—A. I come from Moosejaw.

By an Honorable Member:

Q. Where is that?—A. There is only one man I think who would ask that question.

By the Chairman:

Q. Continue, Mr. Green.—A. In support of my statements I would say that the farmers have tried to help themselves, coming there strangers to each other, isolated and without capital. Going out on to the homestead they have to work three years as a general thing, to put in their capital and put in their labor for three years before they can get any result. You cannot produce grain inside of three years ordinarily, you cannot produce a steer inside of three years, you cannot produce a cow inside of three years. Nearly all agricultural products there require three years to produce them, and during that three years the farmer has to work without pay. He has no capital that he can draw on, and you will not give him any. It has been stated here for the last three or four days that he is not worthy of trust. I want to take exception to that right at the start.

Mr. CLARK (North Bruce).—I do not believe that statement is true. I do not think anyone went so far as to say that.

M. GREEN.—One gentleman said here the other day, and he spoke strongly, that if banks lent money to a farmer on security of grain and locked the bin there is nothing on earth would make that bin leak so quickly.

Mr. SHARPE (Ontario).—It was a banker said that.

Mr. GREEN.—Yes, a banker said that and I take strong exception to that statement.

Mr. CLARK (North Bruce).—It was a western banker too.

Mr. GREEN.—It was a western banker, but I may say I think he came from the other side originally.

By the Chairman:

Q. Your experience does not bear that out?—A. No.

Q. Very well, proceed with your statement.—A. I would like to reiterate also what Mr. McKenzie said in one particular, that we think that the present banking system does not fit the case or perform the function of assisting the development of agriculture.

By Mr. Aikins:

Q. You mean the present banking system?—A. The present banking system does not fit the case in the Canadian West in the opening up of new districts. There should be some other method and I would like, if I could, to interest you men who have the money and the brain to devise some way by which you can finance those men during those difficult three years; that you can furnish them with transportation, and finance them while the grain is stored after the crop has been produced. It takes three years without being able to draw a dollar to produce that crop, and you say: 'We ought to carry that grain for another year on his farm.' Gentlemen, it is ridiculous in the extreme to say that to a farmer in the position that I have mentioned. Yet that is what you are putting up to him today. If you want that farmer to carry the grain you must finance him in some way. Mr. McKenzie has suggested a way, and in that connection I have noticed one of the questions upon which you desire to have information from us. It is: Do we believe in a system of smaller banks? Personally speaking I think there should be one at every post office. I think there should be an opportunity for a worthy man, if he has got the confidence of his fellows, and he is a good risk; if he has got the integrity and the health, and the muscle and the power to produce; if he is a worker in fact he will make good if he gets a chance. I say that such a man should be able to get a loan.

Mr. NESBITT.—If he is honest.

By the Chairman:

Q. Would your idea be to have banking accommodation for farmers at every post office? Is that your idea, or an extension of the present system, which have you in mind?—A. Why should not the present system be extended so as to meet that need?

By Hon Mr. White:

Q. Let me ask you a question right here because I believe it is at the bottom of a good deal of confusion in this matter: Is it in your mind that there is an abundance of money for all these purposes?—A. No, it is not in my mind.

Q. Then what is in your mind?—A. We have very tight money conditions in this country. There has been tight money all over Canada and all over the world practically?—A. Yes.

Q. What have you in your mind as to the source of supply for this money to be lent freely?—A.Well, as school trustees we farmers that the banks refuse to take as security can issue debentures and borrow money to build a school and get the money at five per cent .

Q. Where may you get that money?—A. We have got it.

Q. I know you get it, you sell debentures. There you have the credit of the municipality?—A. No, it is the credit of the district with the government at its back.

Q. Which government?—A. The provincial government.

APPENDIX No. 2

By the Chairman:

Q. The provincial government guarantees these loans?—A. Yes.

By the Hon. Mr. White:

Q. And these are time loans for a course of years?—A. Yes.

By the Chairman:

Q. You think that the government is at the disposal of the lenders for the collection of the interest and principal?—A. Yes, we get that.

Mr. SHARPE. (Ontario).—The government does not guarantee the trustee bonds.

Sir EDMUND OSLER.—The government certifies to the correctness of their issue, and guarantees the interest.

Hon. Mr. WHITE.—The debentures are a charge upon the whole district.

Sir EDMUND OSLER.—The government does guarantee the issue.

Hon. Mr. WHITE.—No, it certifies to the regularity of the issue.

Mr. GREEN.—Moreover, the provincial government of Saskatchewan secured money at 5 per cent or less to build a system of elevators, or in other words to loan to the farmers to build a system of elevators. Now if the provincial government can borrow money to build a system of elevators or loan to the farmers—arrange the scheme by which they can loan to the farmers to build and operate their own elevators, surely the Dominion government can do something by way of making it possible to arrange a system of banks?

By Hon. Mr. White:

Q. Have you in mind that the Dominion government would use its own credit to finance loans to the farmers of Canada?—A. Yes.

Q. Have you looked into the figures at all as to the amount of money that is at present invested by mortgage, loan, trustee and life insurance companies in the West? Do you know what the amount runs up to?—A. I know it is an enormous sum.

Q. Would it surprise you to hear that the sum runs up to two or three hundred million dollars?—A. No, I would not be surprised at that.

Q. What would you say as to this: If the Dominion started in and, let us say, lent money on a 4 or 5 per cent basis to farmers in the West—the farmers who have loans now at 8 or 9 per cent from the mortgage companies—would they be disposed to pay the existing loans and take this Dominion loan?—A. A great many would.

Q. What would happen to that money from the insurance companies in Great Britain and other countries which has been invested here at 8 or 9 per cent? Would it leave the country or remain here earning a rate of 4 or 5 per cent?—A. It would remain, but the rate of interest would be lower.

Q. Would it go to Argentina or elsewhere in South America, where the rate of interest is higher? You see British money is in demand all over the world, and there is a possibility if it did not stay in western Conada that it would go to Argentina or some other place, where it would earn a higher rate of interest. It is a pretty difficult problem, isn't it?—A. A large one.

Q. Is it in your mind that the Dominion should engage in making loans to farmers all over Canada, because if they did it in eastern Canada they would have to do it in the East also?—A. The government would have to do the same thing in the East just as they do at present in the case of post offices.

Q. I wish you would look into the question and ascertain how the question of farmers' loans would affect Canada, look at the amount of our national debt. Look at the amount that would be involved, and the fact that if we once started we would have to keep on going?—A. But look at what a saving in interest there would be.

Q. Then you think such a change is possible from the financial standpoint?—A. I think it would be possible.

By the Chairman:

Q. There are $250,000,000 that are loaned out in the West by the companies enumerated to-day at a higher rate of interest. Suppose the government were prepared to loan money at 4 per cent until all these loans at a higher rate of interest were paid off. Would you expect the government to find that $250,000,000 to pay off those loans at a higher rate?—A. To pay them off? It would be simply a readjustment and we would get money at a lower rate of interest, the total debt being no larger but a great saving resulting.

Hon. Mr. WHITE.—Let there be no misunderstanding about it. I want to get what is in the witness' mind as to what the government might be able to do. There are various considerations that have to receive attention. In the first place there is the question of what would happen to $200,000,000 or $300,000,000 already invested in the West by insurance, loan and other companies, obtained from Europe and other parts of the world but principally from Europe and Great Britain. Now is it likely, under this proposition, that this money would stay in Canada or would it go to the Argentina, or other places in South America, where higher rates of interest are obtained? Secondly, how would the Dominion get the money to loan; and thirdly, if we started in, we should have to take care of the future enormous development all over Canada, as well as the development that is going on at the present time. These are considerations which I suggest for the consideration of the witness, and I would point out at the same time that what he has raised seems to be rather a large proposition on the face of it.

By the Chairman:

Q. Well, Mr. Greene, go on with your statement along those lines.—A. Let me say that I have no clear-cut proposal to lay before you as to the inaugurating of such a system. I have just mentioned it incidentally as Mr. McKenzie made that remark or something along that line. I wish to say there seems to be a general feeling amongst the farmers that the discrepancy between the price paid for the money abroad is far too great before the farmer gets a chance to get it, and they wonder why there cannot be some cheaper method. Just recently a gentleman from Australia gave addresses throughout the West and he pointed out to the farmers at several central gatherings where I heard him that they were able to borrow capital at 4 per cent and loan it to the farmer at 5 per cent. That man told us, and I am going back to the farmers to tell them that he said money can surely be taken from the depositor and loaned out and a bank operated at less than 3 per cent. It costs that to run your banks. That is what is on record, I think. It costs 3 per cent to run your banks, and over in Australia they can run it at 1 per cent.

By Mr. Thornton:

Q. Did he verify that statement?—A. That is what he said.

Q. Did he furnish any proof of the statement?—A. He stated that in an address. No, he did not furnish any proof.

By the Chairman:

Q. Each State in Australia has its own system of banking somewhat similar to that of the United States, especially in land banks?—A. Our farmers think, if that is so, why are we in this fair Canada held like we are?

Q. If you want to apply the Australian system you will have to take it up with the local legislature?—A. We come to the stronger authority, and we think that you are going to right this. We are simply bringing the statements to the men who are responsible for the facilities that are enjoyed throughout Canada, to the men whom we believe are responsible for the development of something better. You are now considering this Act, and you are asking the farmers of the West—and we thank you

for the privilege—to tell you the conditions we meet. If you wish it, I would like to give you a little of my own experience along this line, because you may guess I have had one or two experiences in a number of years. I will give you a few minutes' sketch; this is absolutely unpremeditated; I do not know what I will say now. But starting out there, a man comes without money, and will work for a farmer one summer perhaps; then he strikes out for a homestead. Perhaps all he has is a couple of hundred dollars that he brought with him, and maybe not that, and what he has earned the first year he gets his homestead. He puts in his first six months maybe in the winter on the homestead and then goes out to earn more money; he does that perhaps for two years. The chances are the first two years he runs a grave risk at any rate of a slip of some kind, but should he be fortunate in getting a good crop he has to go back to this land. (You cannot get homesteads right at the front now, but have to go forty, fifty or sixty miles back from a railway to get that grain to the market). He will go in with a load of it, or hire somebody to draw it if he has no horse, and when he gets it to the station he will not be able to sell a bushel perhaps. Why? The elevators are all choked up full; no cars in sight; grain piled all around on the ground mountains high. And he will stay there waiting for days, going around to the elevator men perhaps and offering, as the pressure gets hard, to take almost anything at all for his grain. This year I have seen thousands and thousands of bushels of No. 1 wheat sold at 58 cents in the West. I have seen thousands and thousands of bushels of No. 1 flax sold for 65 cents at the initial point by these men coming in that condition.

By Hon. Mr. White:

Q. I want to ask has the lack of terminal elevator facilities anything to do with that condition in your judgment?—A. Terminal elevators?

Q. In the United States, for example, they have a great number of terminal elevators at important points, and their grain is being taken up all the year round. Would such facilities have any important bearing on this question?—A. Yes, a very important bearing.

Q. You think they have to sell perforce because they have not their certificates of grade for out turn, or their bills of lading, and they have not shipped?—A. They cannot get anything.

Q. Then they have their grain there and simply have to take the best they can get?—A. Of course, simply wait, an expense until cars or money arrives, one or both.

Q. There should be terminal elevators where you can get your certificates?—A. For years, I, as a resident farmer, have advocated that proposition. If I am not going astray now may I say we are 800 miles from Fort William, 800 miles from Minneapolis, 800 miles from Hudson Bay, and 800 miles approximately from the coast.

Q. Would you want terminal elevators say at Moosejaw?—A. That is the centre of the grain field of Saskatchewan.

Q. You are 800 miles away from your terminal facilities?—A. Certainly. You simply want an idea. There are six divisions between Moosejaw and Fort William. It takes a freight train in ordinary times about a day to a division; it would take six days as a rule to make Fort William. That means there are six trains going east to handle one train of wheat per day and six trains coming back returning the cars, thirteen trains in operation to deliver one train of cars to my division.

Q. How long would it take a farmer living where you are to get back the several documents that are necessary in order for him to realize on his grain?—A. He can get the money quick if he once gets the grain into a car. That is the trouble. He cannot get it into a car. There is that picture of our position. What I was going to point out to you is that if that terminal elevator was right in the centre of the field, at Moosejaw, for instance, and that car could stop there instead of taking those six days, and that you could have your wheat graded right there on the spot

and those cars returned to the grain fields to handle the grain at the initial points, the initial points could be kept clear and blockade avoided. The biggest iniquity we have to-day in the West is blockades. Every kind of iniquity there is due to a blockade.

By Mr. Thornton:

Q. Would extensive elevators at say, a central point like Moosejaw, of half the capacity of those at Fort William and Port Arthur, relieve the situation?—A. I think so. Of course, it is a big question, and there are many lines in connection with working out the details of a plan that would be practicable. In the minds of a great many men it is impracticable because they see the impracticable side.

By Mr. Sharpe (Ontario):

Q. What are their difficulties?—A. They see many difficulties. For instance, one man here the other day was asked a question *re* the second handling charges.

By Mr. Thornton:

Q. Do you think it is practicable?—A. Surely I do, or I would not advocate it.

By the Chairman:

Q. The minister is to discuss this terminal elevator question with Mr. Green. Perhaps Mr. Green will come back to his statement. He was showing the position of the new farmer who had come to the point where he had got his first field of grain.—A. In that connection I will give an item out of my own experience. A number of years ago when I was starting out, I could not get money from the bank I had not the deed for my homestead. I had purchased some land from the Canadian Pacific railway and could not hypothecate it to anybody else. I had not enough to purchase the horses I needed. I was working hard and my crop failed absolutely not through any fault of mine; it failed for everybody else and we had to get seed from the government. That was in the early days. And the government, of course, made me give my own bond and that of two other men before they gave me seed. That seed that I had failed again a second time.

By Mr. Nesbitt:

Q. It was non-fertile seed they were selling?—A. I would like to stop and tell you what they did sell us. It failed more than once. Some men had to get government seed four times in the experimental stage of that country. There are men living up there who have made Canada and they are not getting credit for it, men who had the backbone to stay there and experiment and try out that country and make it go. Finally, I got a crop, but before doing so I had tried the bank for money, but they could not give me any. I tried to get money from a loan company, but they could not let me have it either; so eventually I went to a private moneylender and he promised me a loan. He borrowed from the Bank of Montreal at 8 per cent and loaned to me at 18 per cent; but interest is a small matter, if you can get the money at any price. It is a question of getting capital and having it when you want it, rather than the rate of interest. Interest on $1,000 for five months at 12 per cent would only be $50, if it saved you ten cents per bushel on 2,000 bushels of grain it would be a considerable saving.

By the Chairman:

Q. Suppose, then, a bank put this proposition to you: Would you sooner have fewer branches or a higher rate of interest? What would you say?—A. If I was asked that question I would say, give me the money.

Hon. Mr. WHITE.—So we all say.

APPENDIX No. 2

By the Chairman:

Q. Suppose the banks said it was unprofitable for them to do business in the West at a rate of interest less than 8 per cent; that if they were compelled to loan at 7 per cent they would, of necessity, have to close a number of small branches. Would you say it was for the good of the country that the rate be kept down and that the number of branches of banks be decreased?—A. I would not like to see the banks pull out of the West until we have something to take their place.

Q. You do not think there are too many banks in the West?—A. No. We want double and treble the number. But I did not finish my story. I had got to the place where I had my crop. That was a number of years ago, when No. 1 Northern was only worth 42 cents, and as I said, I made an arrangement with a private bank, as I could not get anybody else to lend me money on my bin of wheat. I thought if I kept the wheat until spring, I could get a better return. The Minister of Agriculture of Saskatchewan has said time and time again, that the farmer who holds his wheat is a speculator pure and simple, and ought to be punished. Whether that is right or wrong is another question. This private banker came to me when I wanted to get the money, and said 'I am sorry I cannot let you have this money.' I wanted the money to pay off a machine company that was pressing me hard, and I had promised them I would pay them, on the strength of the promise of the banker, to let me have the money upon the bin of wheat. When he failed to do so, I could not pay the machine company, and if you ever saw anything wild in your life, it was that machine company. They sent a great bulldog of a man—he is only one of a type all over Saskatchewan to-day—to bulldoze me. He swore and cursed and called me all manner of names, suggesting that I was dishonest, and in fact called me everything that was bad outside of hades.

Hon. Mr. WHITE.—He mistook you for a politician.

Mr. GREEN.—If I had been, I could not so strongly resent it. Well, what happened? I told my story to the machine company and they called off their dog. They said, we will trust you till the spring. When spring came I started to draw out the wheat. The roads were muddy and I could only haul half as much as I could have done in the fall. I had to take it off a stubblefield when the frost was going out, and it cost me three times as much to draw that wheat to the elevator as it would have cost before, that is, after I had paid the machine company their interest. Altogether, it would have paid me much better to have sold the grain in the fall of the previous year. If there had been a terminal elevator where I could have taken the grain and got my certificate of inspection and my government weight, I could have gone to the Standard Bank and instantly got a loan on that; but as it was, they would give me nothing. There are many men in the West who think that if the banks had that power to lend money on the security of wheat, it would be an advantage. And by the way, it is from bank managers that this thing has sprung. Bank managers have said to the farmers right along, we would lend you money if we could take security on your grain. Now, if it is going to be any advantage to the bank managers to assist us, by all means let us have it.

By Hon. Mr. White:

Q. Let me ask you a question on that point: Was there any agitation in the West, during the past year, in favour of this lien on the part of Grain Growers' Associations, the press, and otherwise?—A. Yes.

Q. I do not want there to be any misapprehension as to this clause. The clause has been inserted in the Bank Act because it was supposed that the farmers of the West were of the view that it would be an advantage to them in connection with obtaining loans from the banks, and that it might be of assistance, having regard to transportation and other difficulties that you mention. If there is any doubt about that (I am just speaking from my own point of view) and you gentlemen from the West

are of the opinion that this is in the interests of the banks, rather than the farmer, it will give me the greatest pleasure to take the clause out. If, on the other hand, it is an advantage to leave it in, it shall be left in. We might as well have the matter discussed on a proper basis. I was of the opinion that there was a demand in the West, from the farmers and agriculturalists, for this provision. Now, if there is not such a demand, I would like the Committee to know it, so that we can consider it. I would like your frank view of that. Just tell us whether you think this is going to be an advantage or not?—A. You must remember that the country is getting older. The condition I describe was some years ago. I do not want your money now, at any price, and there are lots like me. In fact, I am now depositing a little money.

By Mr. Foster (Kings, N.S.):

Q. How much interest do you get?—A. Five per cent. I might say something in this connection. One man came to me a little while ago, and said, 'Mr. Green, I have been to all the lawyers in the town, trying to get a loan. I know I have not much security, I have a mortgage on my house, but I want to get my wife and two children in the Old Country out.' I mentioned two or three names to him, and he went to see them, but he could not get any money. Finally, I said, I do not want your interest, but I will give you a hundred dollars to bring your wife and children out, if you give me the best security you have. The best thing he could give me was a second mortgage on his house. He had nothing else to offer. I said, I will take that, and I don't want any interest; and he went to the lawyer who sent him to me, and that lawyer charged him eight dollars to draw up the document.

By Hon. Mr. White:

Q. Getting back to this question that we have been discussing, I would like the benefit of your opinion as to whether you agree with Mr. McKenzie or not, that this lien upon threshed grain will be an advantage to the farming community.—A. It will only be of assistance to a very limited number. Very few will take advantage of that clause, because to-day a man with any reasonable standing can get a loan.

By the Chairman:

Q. Would you be in favour, or not, of having it inserted?—A. I would have it inserted in the Act.

Q. You have a letter there you want to read?—A. Yes, but I do not want to give you the writer's name. He is a banker of twenty-five years experience, and his letter touches on three or four points we have been discussing; and because I agree with them, generally, I will read you a portion of the letter.

Q. Is the writer in the bank business?—A. Yes.

Q. A bank doing business.—A. Yes. He says:

'The first and most important to the farmer, is the transportation of his crops to a point where he can get storage accommodation, and at the same time, be able to get such a receipt for his grain, that will be acceptable to a chartered bank, as security for advances.....In the event of there being storage elevators located at Moosejaw, I could then handle grain receipts for farmers, to the extent of about $10,000,000 at very attractive rates.

'This is money that has been offered to this Bank by some of the principal banks in the State, but they insist upon the grain being stored in either a government, or a railway elevator, so that there may be no question as to the validity of the receipts. From this you will see the great importance of having terminal elevators at this point.....

'The amendment to the Bank Act, providing for loans to the farmer upon the security of his grain, (sec. 85) will probably help in the case where a banker thinks a farmer weak financially, but of great integrity, and would take the chance to help him if the security was available and to prevent other creditors from harassing the farmer.'

APPENDIX No. 2

In regard to inspection, he says: 'Government inspection of banks, must of necessity be a very cursory one, as the only inspection that would be worth anything must cover an examination of every branch simultaneously, and where a bank has 350 branches, you can well imagine the staff necessary to carry out this work.

'The inspection of the head office of a bank does not prove anything, as a branch manager may be under the thumb of the general manager, and make his returns to suit the requirements of the general manager so that even the staff at the head office could not detect the discrepancy.

'It might not be amiss to ask if the money on deposit in the Canadian banks is used in Canada for the legitimate development of the country. In asking this question, I am reminded of the fact that the Royal Bank has a large number of branches in Cuba and Porto Rico, the Bank of Nova Scotia is well represented in the West Indies, the Bank of Montreal is using millions in Mexico, and probably many others are doing the same thing. Is this fair to this country, when we are in need of all the available funds for the legitimate development of our own industries, and is that not one reason for the present stringency in the money market?'

I have another letter here from a farmer. It is possibly somewhat more rabid in tone because this man may be acting under a certain amount of strain.

By the Chairman:

Q. Is the writer a farmer that you know personally?—A. Yes.

Q. Then you make his letter your own?—A. No.

Q. Then do you intend to give the name of the writer?—A. I can do so if required.

Q. It is simply to have someone responsible for the statements made in the letter. —A. The name of this farmer is Mr. Kirkham, of Saltcoats.

By Mr. Sharpe (Ontario):

Q. Is he the gentleman who wants to come before the Committee?—A. I do not know that Mr. Kirkham wants to come. If he is coming I will not read the letter. I might say to the Committee that occupying, as I do, the office of secretary of the Saskatchewan Grain Growers' Association, I am able to state that we have over 700 branches of the association. Mr. Kirkham is an officer of one of the local associations. We have stacks of correspondence every day from these 700 branch associations, and amongst the questions treated is that of banks as set forth in the letter, as follows:

'Hard times sent me here—Unrest.

'(1) The serious evil of the West is the restriction of circulation by the banks and their subsidiaries.

'(2) More credit and cheaper money is needed for the development of Canada's chief industry—Agriculture. 9 p.c. to 24 p.c. is usury.

'(3) If the banks refuse this normal circulation then the government is requested to exercise its rightful function and see to it that the West is supplied with the badly needed circulation and credit.

'(4) Before Bill 36 is made law we ask that an investigation of bankers' methods in the West be held to the end that circulation may be put upon a basis of permanency.

'(5) I think it is true that the banks have reaped greater profits from the prairie farmers than from any other industrial class in Canada and have treated us more ungenerously in the matter of credit and interest rates that any other section of the people.

'(6) Will the Hon. Mr. White tell us why higher interest rates are charged for western than eastern loans?

'(7) The principle of a secret lien introduced in section 88, Bill 36, is bad —as it will lessen rather than increase the farmers' credit. I am instructed by the farmers of Saltcoats district to oppose sub-section 2 of section 88 as being contrary to sound business or sound banking principles.

'(8) Further, I am deputed to request that this Committee so amend Section 91 that the banks shall be compelled to obey 'that stipulation not to charge more than 7 p.c. per annum.' Make it to read Unlawful.

'(9) The managers of our branch banks tell us that money is scarce, "tight." In a sense that is true. But it would be the whole truth if they said money is withdrawn and sent to New York and other foreign centres thereby disconnecting the natural stream of steady continuous circulation. This is the financial art of slumping prices. This artful device should be stopped.

'(10) The farmers ask that this power of cornering our grain by the fine art of slumping prices through the withdrawal of credit be put an end to by an amendment to the Bill before the House that will secure Canadian currency for the Canadian people, before any investments are made in foreign countries or foreign centres.

'(11) Western farmers are told by bank and railway magnates that we must go into mixed farming. If the change is to be successfully effected the banks or the government will have to provide the requisite credit and remove all restrictions to our best markets.

'There are many limitations imposed upon successful stock-farming,

'(*a*) The requisite buildings. (*b*) Three-fold labour bills. (*c*) The requisite supply of good foundation animals. (*d*) The seeds and implements needed and the root houses for a proper system of leguminous rotation farming.

'These are all imposed upon us by the rigours of our long frozen winters. But the greatest requisite of all is the removal of the money famine.'

In connection with that restriction from which we suffer, I would like to draw attention to the action of the farmers in connection with the two or three matters they have taken up for many years. One that you have already referred to is in connection with storage elevators. In our annual report for 1908 appears a resolution that was adopted. It was advocated by the big delegation that came to Ottawa and has been passed every year since:

'Resolved that in the opinion of this Convention of the Grain Growers of Saskatchewan the problem of marketing the wheat crop of Western Canada can best be solved by Dominion government ownership and control over terminal elevators and by the extension of this system further inland, the whole system to be operated by a commission appointed by the Dominion government, and the Railway Commission.'

Last year both parties in the provincial elections in Saskatchewan embodied this plank in their platforms, and we believe that it is dove-tailed inextricably with the money question and cannot be separated from it.

By the Chairman:

Q. Do you know if anything has been done by the provincial governments towards supplying terminal elevators?—A. I was a delegate here some six years ago, and the Minister of Agriculture, together with other ministers who, associated with him, at that time, said to us: 'Go back, Mr. Green, to the western provinces, and tell them to build their own interior elevators and we will look after the terminals,' We went back as suggested, we fought for those elevators, and we have got them now in Saskatchewan. They have also got them now in Manitoba and are getting them in Alberta—interior elevators owned and managed by farmers, the men who produce the grain.

APPENDIX No. 2

By Hon. Mr. White:

Q. Are they storage elevators?—A. They are the initial elevator not terminals. Now we have asked the government to supply the terminal elevators.

By the Chairman:

Q. Which government, the provincial government?—A. We do not want provincial government owned terminal elevators but Dominion owned terminal elevators.

By Mr. Robb:

Q. Who is operating the elevators in Manitoba?—A. They are being operated to-day by the Grain Growers' Grain Company.

Q. Under lease?—A. Under lease. That is the farmers' selling agency created by the grain growers' associations, performs that function.

Q. Did the Manitoba Government make a success of government-owned elevators in that province?—A. Not likely. The grain growers themselves are making a success of them.

Q. I am asking if the government made a success of the movement?—A. I do not think it; I do not know exactly. I think the government did very well in initiating the movement. The thing is no small matter. We have taken them from the Manitoba Government but we have to conform to conditions similar to what would be required in the case of a movement conducted along the line of public ownership.

Q. And do you not have to carry out certain things just as in any business concern?—A. The elevators are operated under a provincial statute. Nobody could do as they pleased in any public elevator business.

Q. Then in operating these elevators the grain growers are just as free as any other concern?—A. Just the same.

By Hon. Mr. White:

Q. Is there anything further that you wish to say?—A. There is quite a bit more. I did not complete all the topics I wished to speak on.

Hon. Mr. WHITE.—Very well then, we will adjourn until four o'clock this afternoon to hear what Mr. Green has to say further.

Committee adjourned until 4 p.m.

HOUSE OF COMMONS,

April 15, 1913.

The Committee met at 4 p.m., the Chairman, Mr. Ames, presiding.

By the Chairman:

Q. We did not quite finish with Mr. Green's evidence this morning so we will ask him to take the chair and tell us what he desires?—A. Since lunch, I have had the printed memo. and have noted the various sections on it that I might offer some remarks on, and have jotted down what I wish to say. The first is in reference to section 4.

By the Chairman:

Q. As to whether bank charters should be continued in force for a longer or shorter period than ten years?—A. I say, shorten the period for consideration of the Act, because the present Bill is in our opinion altogether inadequate and does not fully meet the requirements of the agricultural industry and we feel sure that there will be such a demand for the introduction of some new principle. It should come up again at least in five years. Then, in reference to sections 10 and 13.

Q. Whether a further system of local banks with smaller capital is desirable?—A. More and smaller, inexpensive banks, more economically operated are necessary so that the depositors may receive within 2 per cent at least of what is charged the borrower.

Q. How do you arrive at that 2 per cent as a proper margin of expense for the carrying on the bank's business?—A. Well, from all the things I have heard, and from all the things I have seen, for instance, the tremendously expensive bank buildings cannot be other than a drain on the resources of the bank. They make the cost of operation more expensive.

Q. Were you here when Mr. Forgan told us about the rental of his bank in Chicago?—A. That is a different thing if he has a building that he can rent and make a utility. I am speaking of a building that cannot possibly be made to pay interest on the investment. Take for instance, the Bank of Montreal in Montreal; can that building be made to pay interest on the capital invested? That must be a tax on the business, and the customer will have to pay it, and it is coming out of the customer and depositor in the meantime. Then, in reference to what I mentioned this morning, the statement made by the Minister tho came from Australia. They can operate at one per cent. I feel quite sure that Canadians are as smart as the Australians.

Q. What authority have you for stating that the Australian banks can operate on a margin of one per cent?—A. The statement of the Minister referred to.

By Mr. Barker:

Q. What was he minister of?—A. I do not know. The gentleman spoke to the Canadian Club at Winnipeg when I was on the way down here.

By Hon. Mr. White:

Q. I think he means one of the ministers of one of the state governments of Australia. Was he speaking of a government bank or a private bank?—A. A government bank.

By the Chairman:

Q. Was it Western Australia that this Minister spoke of?—A. Yes, I think so. I assumed that you would know a great deal better than I. Then, with further reference to sections 10 and 13, I am depositing a little now and I represent a class of farmers who are making deposits now and we are not borrowing at all because we do not want the money now.

Q. If there was a co-operative farmers' bank started in your neighbourhood would you deposit in that?—A. Why, yes, with proper security and proper organization, certainly.

By Mr. Sharpe (Ontario):

Q. Do you think more banking facilities in the West would improve conditions?—A. Surely

Q. And if we made it easier to incorporate these chartered banks by lowering the capitalization, there would be more banks organized?—A. Yes.

By the Chairman:

Q. Can you mention just now, in the locality with which you are familiar, any localities that have no banking facilities?—A. No. The banks get in there. They are something like the churches. They do not want anybody else to start in the particular locality ahead of them. They can get in and start business to-day with a box for a counter, and it does not necessarily take an expensive outfit to carry on the banking business. Somebody is getting a whole lot more for their work than the farmer himself.

APPENDIX No. 2

Q. Take the Moosejaw section that you are familiar with, do you know of any town of any considerable size within 50 miles of Moosejaw that has no banking privileges?—A. No, I do not. The banks get right into the new country before the town starts.

Q. Take south of Moosejaw, around the new Hand Hill country, where settlers are just going in?—A. They are all in there. I know a place where there are three banks, and where no town exists. But they do not lend the money any cheaper on that account.

Q. Where these three banks are, are there any depositors?—A. I do not know that. I should judge there would be some, but perhaps not many.

Q. At that place a bank would do almost entirely a loaning business —A. Yes, I think so, largely. But many people there have some money they do not carry in their pockets.

By Mr. Nesbitt:

Q. Three, and no settlers?—A. Not a town; the country is settled.

By the Chairman:

Q. What is the name of that place?—A. Take Deckersville, for instance.

Hon. Mr. WHITE.—There is a rush of banks to the very small places to get established?

Mr. GREEN.—Take Assiniboia.

By the Chairman:

Q. The Canadian Almanac does not show these branches?—A. You see your books are behind the times.

Q. This is up to the first of November, 1912.

By Mr. Barker:

Q. How many are there at that last place?—A. There are three or four of them right there, and the only buildings, I think, are one little store and a little blacksmith shop.

By the Chairman:

Q. Is that at the end of the steel?—A. It is ahead of the steel.

Q. In other words, the banks keep quite abreast of new settlements in every part of the West?

Mr. SHARPE (Ontario).—They are ahead of the times.

By Mr. Nesbitt:

Q. Do you object to the banks?—A. Not at all, the more the merrier.

By Mr. Sharpe (Ontario):

Q. Don't you think they are overdoing this competition, and that it would be cheaper to get money without it?—A. If we can get money cheaper in any other way, let us have it.

By Mr. Nesbitt:

Q. Do you think you can?—A. I do not know of any other than what we have proposed.

Q. We only want to get your views.—A. I think the banks do not go very much out of the beaten path.

Q. It would not be very well beaten where there were six banks without a railway.—A. I was referring to the method of operation.

Q. Just now you told Mr. Sharpe that it would be a good thing to start co-operative banks. If it is proved by statistics that the banks have loaned a great deal more money in the West than they have deposited in the West, would you still think it would be a good idea to have co-operative banks out there?—A. I have in mind the borrowing of money by the Dominion government, on the credit of the country, and the application of a tax to form the basis of security; something similar to our supplementary revenue tax in the province of Saskatchewan. We have a supplementary tax there for the purpose of assisting colleges, high schools and universities.

By the Chairman:

Q. Do I understand you rightly, that if your bank failed to make both ends meet, the deficit would be made up by taxation?—A. Yes. But I rather meant the tax as security for the loan.

By Hon. Mr. White:

Q. Who would give that security, the municipality?—A. You would have to reserve the right to tax the land in the same way as the province does now, for schools, in order to secure the repayment of the bonds, loans, or whatever it might be.

Q. Your idea would be that the Dominion government should furnish whatever might be necessary, and then impose a tax to repay it?—A. I do not think you would have to use the tax. It would only be used as a guarantee. What I have in my mind is to have an organization by which the townships or the municipalities operated these banks, and the men would be shareholders in them.

Q. And the Dominion government would lend them the money?—A. Yes, and take as security a tax on land.

Q. The municipal banks would lend out the money to parties that needed it?—A. Yes.

By Mr. Nesbitt:

Q. Who would run it? The reeves or the officers of the municipality?—A. A special director appointed by the ratepayers who would all be shareholders. But I will read you a resolution to show that some such idea was in the mind of our convention. There were seven hundred delegates, from all over the province of Saskatchewan, to that convention (The Grain Growers' Association). There are two resolutions, and I will read them both. No. 7 reads:

> 'That the convention record its opinion that the provincial government should, without delay, formulate a scheme whereby a farmer may obtain, upon the security of his land, money at a lower rate of interest than that now charged by the existing financial institutions, and
>
> 'This convention is further of the opinion that until loans at a cheap rate of interest can be obtained, a large majority of the farmers of this province will be unable to satisfactorily carry on or develop their business.'

Resolution No. 8 reads:—

> 'Owing to the fact that our present financial institutions do not extend to the farmer the amount of credit he is justly entitled to and needs in order that he may finance his business to the best advantage,
>
> 'Be it resolved, That the present provincial government, who are investigating the matter of obtaining cheap money to loan to farmers on farm security, should be requested to also investigate the matter of establishing municipal banks.

APPENDIX No. 2

'Municipal banks giving temporary loans, along with the government giving loans on farm security, would in our estimation improve the financing proposition for the farmer considerably.

'The following is an outline of our idea as to how municipal banks could be established and operated:—

'1. Have the provincial government pass legislation giving municipalities power to establish municipal banks.

'2. Any municipality could then sumbit a by-law to their ratepayers for ratification, authorizing the purchase of sufficient money on debenture security, to establish a municipal bank if the by-law carried.

'3. The ratepayers of the municipality could then nominate and elect a commission of, say, three men from among their resident ratepayers, to manage the bank's affairs. This commission, working under rules and regulations, would have full control and be responsible to the municipality for the management of the bank, and would put up bonds of sufficient amount to protect the ratepayers against dishonesty.'

Of course the idea is crude, gentlemen. We did not have, as you have pointed out, a month to discuss the matter, nor did we have able lawyers to assist us.

By Mr. Sharpe (Ontario):

Q. Do you think a municipal commission would be a good body to manage a bank?—A. I am only throwing that out as an idea of what might be done to assist the farmer. Myself, I have a different idea.

By Mr. Barker:

Q. That idea is, the township councillors should be the bankers, and I suppose they would be elected yearly.

Mr. NICKLE.—To put it shortly, it is local option in cheap money.

By the Chairman:

Q. Mr. Green thinks the Dominion government should do it, rather than the provincial government, if I understand him rightly. This resolution was presented to the provincial government, and your view is that it should have been directed to the Dominion government?—A. What I am trying to point out is that the country is suffering a tremendous loss. I pointed out to you this morning that men are compelled to sell wheat for 20 cents a bushel less than it costs to produce it. What do you think of a situation like that? Is that calculated to assist agriculture? And you tell us you cannot help us, there is not enough money. We say there is plenty of money, in England, if you like to bring it across. You are suggesting building railroads.

By Mr. Nesbitt:

Q. You don't want the railroads?—A. Yes, we do. We have not enough. We want schools as well, and banks.

Q. You said you had lots of banks. Don't your people recognize that to get the money from England you have to meet competition with the rest of the world?—A. I recognize that.

Hon. Mr. WHITE.—I think it is perfectly intelligible. The people out in the West desire to get lower money, but no feasible plan has yet been presented for doing so. These resolutions which Mr. Green has read embody their desire to obtain lower money, if at all possible.

Mr. NESBITT.—That is not confined to the farmers. Everybody in the country wants lower money.

Hon. Mr. WHITE.—Except members of Parliament.

By Mr. Thornton:

Q. You heard Mr. Powell say, in his evidence the other night, that it was easier for a western farmer to borrow than a farmer across the line, in the northwestern States. What do you think of Mr. Powell's statement?—A. I think two or three funny things.

Q. He is an experienced banker.—A. If I was starting over again to-morrow, (I don't think I shall have to do it) I would rather start with a spade and one hen than borrow money.

Q. We have all had that experience. I have been through the mill myself, and so has the Finance Minister. We know what it is to get our bread by the sweat of our brow, but we want to improve conditions to-day.—A. Let me say that, riding through the northwestern States as I did recently, the farmhouses and buildings along the railroad were a remarkable witness to the fact that in my humble opinion farmers in that country are better off than farmers on this side.

Mr. NESBITT.—That is an older country.

By Mr. Nickle:

Q. Why are these American farmers coming into Canada then?—A. To get our cheap land.

Q. I thought that would be the answer.—A. Do you doubt that statement?

Q. No. I am inclined to think that it is correct.—A. As soon as they get the deed for the land, they go back in thousands.

By the Chairman:

Q. You mean by 'going back' ceasing to be Canadian citizens and going back to reside in the United States?—A. Yes.

Q. That is, they have come to Canada, bought cheap land, held it and sold it at a higher price, and are now going back?—A. Going back to spend their money.

By Mr. Warnock:

Q. Do you not find that a great many of our western farmers are taking an interest in the state-owned system in Australia, and that quite a number are starting to sell out and go to that Commonwealth?—A. I have not come across the latter movement, but undoubtedly the farmers are taking a very keen interest in Australia and the progressive movements there, such as government ownership of the railways and state banks.

By the Chairman:

Q. Do you know how they get a new line of railway in Australia? The government will not put a new line into any new section until the citizens of that section will sign an agreement that if the railway is run at a loss they will make up the difference by taxation. Would you like to have that system in the Northwest?—A. I think so. I think we have got it that way to-day. We have got to pay the cost of building and operation in some form.

By Mr. Douglas:

Q. Could you give us your opinion, from your experience as a farmer, as to what amount a bank will loan a farmer under ordinary circumstances, the outside limit it will loan to a farmer on the frontier?—A. I do not think it will loan him any money at all.

Q. Mr. Powell, of the Weyburn Bank, made the statement here that the banks were loaning more money than the farmers could get. I would like to have your idea how much money the farmer in ordinary circumstances can borrow from a bank.—A. Should borrow?

APPENDIX No. 2

Q. No. What he can borrow?—A. He cannot borrow any money. My experience goes to show that he cannot borrow any money from a standard bank unless he has some balance as security.

Q. But allowing that he has that good balance?—A. My experience has been that if he has it he can get a loan from the bank.

Q. Of how much money?—A. I could not tell you what the percentage is exactly, or by what policy they regulate their giving of loans. I can only give you my own personal experience, and you must bear in mind that it is a period of thirty years I am speaking of. The first ten years of that experience are altogether different from the last ten years. Now, in the first ten years of my experience it was almost impossible to get anything from the bank.

By Mr. Nesbitt:

Q. The country was pretty new then?—A. It was.

Q. There were not nearly so many banks in the first place?—A. No. It is quite different now.

Q. You heard Mr. Chipman last week read off a great many notes, where apparently farmers were able to get loans from banks freely on the security of their own name.—A. But the places that he had reference to were hardly any of them very remote.

By Mr. Douglas:

Q. They were not frontier towns?—A. No. Some of them were very old names, and two of them referred to Emerson.

By Mr. Nesbitt:

Q. What do you call a frontier town?—A. That might be called a frontier town—if that is what you mean by frontier—but I thought you had reference to a new district.

Q. It is interior towns that you mean?—A. Yes.

By Mr. Barker:

Q. How far from a railway do the farmers without credit live, that you are speaking of?—A. Which ones do you mean?

Q. The class that you are speaking of?—A. The farmers who live in a new district. A farmer has got his patent. Supposing he goes in, here is what happens. A man comes and works for me—say for example last summer. He has got his homestead and wants me to sell him a team on time. There is no earthly use going to the bank for help, somebody has got to give him credit because he cannot get anything from the bank and he cannot get anything from the loan company.

By Mr. Nesbitt:

Q. If you have a team to provide, you are the fellow who should give him credit.—A. Perhaps I am the man who has to do it. At any rate I am of the class that have to do it. Somebody has to give that man credit and he is given a team on the strength of the fact that he is a worker. If they thought that man was simply going to kill time they would not give him anything, but they know he is a worker and a likely man to succeed if he gets a chance, and they will give him credit.

By Mr. Barker:

Q. Are you talking of bank credit?—A. That is the point. The man that I am talking of cannot get anything from the bank.

Mr. NESBITT.—I do not wonder. That is not a condition peculiar to your locality, in the East the same thing happens.

Mr. THORNTON.—The same experience is met with down in the East.

By Mr. Nesbitt:

Q. A man first works for another who runs a farm, then he rents a farm, and finally he buys the farm and works himself up just as he does in all lines of business in the world.—A. Yes. I was trying to get an answer, if I could, to the question of my friend here (Mr. Barker).

By Mr. Barker:

Q. I wanted to know when you are speaking of farmers without credit, whether you referred to farmers away from railway centres?—A. There are men that have been in the country I am referring to that have waited five or six years for a railway. They are in a tract of country that stretches for 100 miles in one direction, and 250 miles in another, and are absolutely without railway accommodation. They have raised tens of thousands of bushels of grain during the last five years and have had to haul it all the way from 25 to 100 miles by wagon. These men are waiting for railroads. They are the men who want loans. Some are getting credit in various ways. There are others who, for the reasons that I have described fully, worthy men, cannot get accommodation.

By the Chairman:

Q. Go on now on the lines of argument.—A. I want to say to you next that the bank should not risk the depositors' funds; and if no risk is taken there is no reason why one man should be charged a greater rate of interest than another.

By Sir Edmund Osler:

Q. There is a well known banking maxim, the greater the risk the greater the security and the rate of interest. You cannot change that.—A. I know there is such a maxim.

By Mr. Nesbitt:

Q. Apply it to yourself. What would you do?—A. If I applied it to myself I think I gave you a pretty good answer this morning.

Q. If I had been in your place, and a philanthropist, I would have given the man the money without a mortgage.—A. I suppose I should have done that, but most likely I will have to do it anyway.

By Mr. Robb:

Q. When a farmer is selling fifty bushels of wheat to his help for seed, does he charge the same price that would be paid for say two thousand bushels when the farmer was marketing the crop?—A. Are you speaking of the same grain?

Q. Yes, the same grain.—A. He will charge him possibly five cents a bushel more than he would receive at the elevator.

By Mr. Thornton:

Q. Why?—A. A farmer comes along and asks you if you will sell him a load of seed. You say yes. He comes to you in the middle of some forenoon when you are busy in the field. He wants you to stop your team and come in and spend the rest of the forenoon with him weighing out a load of wheat, and it would cost you fifteen cents a bushel to deliver that load of wheat to him.

By the Chairman:

Q. Then the smaller the quantity the greater the proportional cost?—A. No, that does not follow. I am speaking of the break in the time.

Q. Well, time is always reckoned in the cost, isn't it?—A. Yes. But you see I was speaking of the break in the time when the man came round for his load. There

is another thing in connection with that. You all know the old practice of filling grain into a bag and weighing with a rope and when a man has no steel-yard scales, just to accommodate a neighbour. Why it will cost a man half as much again to deliver a load of grain in that style as it will to take it away wholesale.

The CHAIRMAN.—Go on, Mr Green, and finish the other items you wished to deal with.

Mr. GREEN.—Now, with reference to Section 56.

The CHAIRMAN.—Section 56, gentlemen, deals with the audit.

Mr. GREEN.—We agree in the necessity for a governmental or external inspection to safeguard our deposits.

By the Chairman:

Q. What is your reason for favouring that?—A. I would like to have an independant arbiter to see that things were right. I think the government should carry out that inspection. I think I am fairly entitled to that. Then with reference to Section 61.

The CHAIRMAN.—Section 61, gentlemen, is with reference to the gold reserve and the annual tax for the privilege of issuing bank notes.

Mr. GREEN.—I would not tax a bank on its note issue because I think it would increase the cost of the bank's operations, which the customers surely would have to pay for.

By the Chairman:

Q. You think then that any increase of expenses laid upon the bank would eventually settle upon the customer?—A. I do. Then with regard to paragraph 61C.

Q. Yes. That proposes that a tax should be levied on moneys loaned by Canadian banks in foreign countries.—A. I think I would surely tax such loans, and tax them heavily, for the crime of sending Canadian deposits out of the country, when Canada should keep its own money.

Q. Would you tax the banks when they send the deposits made in other countries into Canada?—A. No. I would get all the deposits that I could.

Q. Supposing a bank has a branch, we will say in Jamaica.—A. A Canadian bank?

Q. A Canadian bank has a branch in Jamaica, and supposing that branch has $500,000 of deposits and $500,000 of loans. What would you do with them, put a tax on that bank's loans?—A. In Jamaica?

Q. Yes.—A. Well, it would be an equal balance. What have we to do with Jamaica?

Q. Therefore you would not tax the loans if it was an equal balance, as you say.—A. Over there, no.

Q. Then in estimating the amount of that tax upon money loaned outside the country, you would deduct the amount of money received on deposit outside of the country; am I right?—A. I hardly know.

Q. Now supposing there was more money received on deposits outside the country than was loaned outside the country, what would you do?—A. I am afraid you are getting me into deep water.

Q. I am just asking you for an opinion. Supposing there was more money deposited with this bank in Jamaica than was loaned by it there, and there was a surplus to come into Canada, would you make the bank an allowance?—A. I would make the bank pay a regular rate.

Q. Then you would put a tax on money coming into Canada?—A. I do not have reference to money coming into Canada, but to a Canadian bank taking the money of Canadian depositors and loaning it in another country.

Q. Supposing a Canadian bank took the deposits of the Jamaicans made at its branch in Jamaica, and loaned that money in Canada, what would you do with the bank?—A. I think that would be a wicked thing if they need it as bad as we need it here.

By the Chairman:

Q. Will you go on?—A. Section 83.

Q. As to the advisability of banks acting as landlords?—A. I see no particular reason why banks should not act as landlords.

Q. You have no objection to banks acting as landlords?—A. But I would prohibit them from investing their capital in expensive spectacular buildings whose only advantage is to add to the cost of operation. With reference to section 88.

Q. With reference to security on threshed grain and stock?—A. I would like to say to the Committee that there are two distinct questions involved in this matter. First, there are the specific cases of a few individuals whom the banks might assist, and the practice might develop and become more general, but the great majority of farmers cannot get loans on their own credit except in outlying new districts. But as against its general application it might be said that such an advance would require inspection of the grain, of its quality, and of the amount. It would require the visit of an inspector and it would be rather a costly affair. There is always some risk from storing grain on the farm, from fire, snow, rain, natural deterioration and natural shrinkage. There is always a difference between the actual weight as it runs from the thresher's spout in October and what you can get a cash ticket for delivered at the elevator the following May or June. It will always cost the farmer the natural shrinkage, the interest, the insurance, the price of the bin, the extra labour for rehandling. the hauling on bad roads perhaps doubling the cost of handling. Then, it is only a banker's excuse anyway; he will not generally do it. He is adverse to doing it. There is not sufficient money to handle that which can be got into proper store. They will not handle that twice out in the fields. I would just like to give you a word of explanation to show you that that is not an idle statement. I have here a copy of the evidence that was given by the bankers themselves to a committee of the House when considering the Royal Grain Commission proposal in 1908. At page 132, a gentleman named Mr. Burn, whom perhaps you know, said on that proposition:—

> 'I think perhaps, the fact has been lost sight of that the banks are middlemen, that the banks receive deposits where money is greater than enterprise and they lend that money at points where enterprise is greater than money. You have seen the deposits increasing from year to year but, when, instead of increasing there is an actual decrease in the Canadian deposits of $37,000,000, it is manifest that the banks have not that money to loan and therefore, if any great hardship has occurred, it is not altogether the fault of the banks but of the people who have withdrawn their money for investment in stocks, bonds and other securities which were yielding to them a greater return. The banks are merely in a position of middlemen; they receive the money, lend it again and if the money does not come in they have not got it to lend.'

And further it causes on account of that—because they have not got the money and cannot lend it—a loss of from 5 to 10 cents a bushel and sometimes it has gone as high as 15 cents simply because of that money shortage.

By Mr. Nesbitt:

Q. How do you mean?—A. Take the bankers' own statements which explain better than I can explain.

Hon. Mr. WHITE.—The money is tight under stringent conditions and the banks curtail credit.

Mr. GREEN.—That is testimony that I want to point out to you, and it is a very serious thing to the farmer, and it is the thing we are trying to avoid. Here is what Mr. McWilliams, of Winnipeg, says in reference to that question:—

> 'There was a short period when you could not sell wheat at Fort William. You could sell it in a limited way, but at one time there was anywhere from 5 to 10 cents profits in exporting wheat. There was only a limited amount of money to be had to buy wheat with and, as Senator Watson has stated, just as soon as it became known that the government was going to come to the assistance of the grain dealers, grain advanced 5 to 6 cents per bushel, so that wide profit was taken up at once.'

That shows what the government can do and what it means to the farmers if they do it. If you consider 5 or 6 cents a bushel on the amount of grain in transit at any one time it is a serious thing, and according to the way we look at it, the men who want to see Canada develop, there is an imperative duty resting, particularly on the government of the present day and of the present time, to introduce some kind of legislation, some machinery, that will stop this kind of thing.

By the Chairman:

Q. That extract you read refers to conditions in 1907?—A. But they exist exactly the same to-day. I have seen them exist this year to the extent I told you of this morning, when we had wheat selling at 58 cents a bushel and flax at 65 cents a bushel.

By Hon. Mr. White:

Q. In 1907 the banks attained the limit of their circulation, and there was a shortage of currency in the fall, and the government made some arrangements to relieve that situation. Since then, legislation has been introduced whereby the banks may increase to the extent of 15 per cent of their capital and reserve together the amount of note issue which they can pay out. The result is there has been no acute situation of that kind since, so far as circulation is concerned?—A. I agree with you there, but the condition is general every year.

Q. You mean there is tight money?—A. Every year when we come to handle our crop that condition is there and we cannot avoid it. There are 150 to 250 million bushels in the elevators and in transit, and somebody's money is put into it. There is bound to be a shortage of money at that time, when the money is in the grain before you can get it to the consumer. A man must be blind if he cannot recognize that if he put the money in the wheat there is that much money locked up, and until money is put into it, it is the farmers' labour that is locked up. The point we are trying to make out is that the farmer wants to get that money for that grain for his labour, and he must have some way of getting paid immediately after harvest, if you want to develop agriculture. If not, you will have the people leaving the farms for the cities as fast as they can. I want to point out on page 132 what Mr. Langley said in this connection to show you the condition that prevailed at that time, and which prevails now:—

> 'The previous year I shipped my grain as I did last year and when I got my shipping bills made out at the railway station I went to the bank to get an advance on them. On five carloads of wheat the previous year I took an advance of $500 on each car. But this year, when I went with my shipping bill the same manager said: What do you want, Mr. Langley? I said: I want $500. He said: I cannot possibly do it. I said: Why not? The wheat is here, it is loaded, you could not have better security. He said: I am very sorry, but I have strict instructions not to advance more than $250 per car—just half of what they advanced me the year before. I said: Is that a general order in the West? He said: I am afraid it is more than a general order. In addition to what Senator Watson

said as to the cutting in two of the available currency, that did not affect the dealers only, but it affected the farmers also. When I offered the bank security, amounting to $800 or $1,000, it was ready to advance me only $250.'

That shows what the condition is like.

Q. How did the crop come out that year?—A. I think there was a lot of poor grain, but this was for good grain. In that connection it did not matter what the grain was.

Hon. Mr. WHITE.—That was in 1907. There was no money, that was all.

The CHAIRMAN.—That condition prevailed in 1907.

Sir EDMUND OSLER.—One farmer doing business in the West in that year, an American farmer, paid a bank here 5 per cent commission and 7 per cent interest to buy gold in New York and send it up there to buy the grain. Money could not be had, and you had to pay 5 per cent commission for gold in New York.

Mr. GREEN.—The other question in section 88 is the national aspect of it. There is not enough money to handle Canadian crops, and that causes a tremendous loss to the basic industry and tends to drive men out of the business of agriculture. Now, in reference to section 91.

By the Chairman:

Q. As to the rate of interest which banks may charge to borrowers.—A. There is no use trying to make banks or anyone else loan to anybody they do not want to. I do not think any legislation on that line would be so effective as an earnest effort on the part of the government to provide another effective medium for handling the crops. We should have a national agricultural bank. In reference to section 140, rural finance lies at the bottom of rural prosperity. Neither postal facilities, national defence, transportation nor terminal storage should be left absolutely to self-seeking individuals or philanthropic effort. The whole thing as we see it is altogether too important and demands action on the part of the government. Now, in reference to one thing I said this morning, I do not want anyone to go away with the idea that, because I drew a picture of the conditions on the frontier and of what the men in the early stages of pioneering in the west had to contend with that is the general condition of to-day.

The CHAIRMAN.—Mr. Green wants to add that what he stated about the hardships of our pioneers, the original homestead farmers, does not generally exist to-day.

Mr. GREEN.—We have tested the West now. It is an agricultural success. The failures I spoke of this morning are not recent failures. In the last 10 or 15 years I have had no failures, although the conditions in general last year, when call money was stringent, the expense of handling the crop was extreme, and labor very high, nevertheless personally we made more money out of the operation of our farm last year than we have in any year since we have had the farm. But that condition is not general, and it comes out of the fact, if I might be pardoned for egotism, that we understand our business fairly well.

By Mr. Nesbitt:

Q. You ought to start a bank.—A. Well, I think I could run a bank on less than 3 per cent for expenses. We are loaning a little bit of money now, and we are able to do it on a margin of 2 per cent. We can loan money on 2 per cent and operate.

By Hon. Mr. White:

Q. It would depend on the amount of your turnover?—A. If you can administer a small amount on a margin of 2 per cent, you ought to handle a larger amount just as cheap or more cheaply.

Q. Have you a large farm?—A. I do not know whether I would be considered a large farmer. We have three sections, about 1,200 acres, under cultivation, and we

APPENDIX No. 2

crop 800 acres per year. I have four sons and we all work together. We have never had any division and have brought farming down to what I consider the economic unit, the base of which I think is a family of four boys.

By Mr. Sharpe (Ontario):

Q. You don't have to hire much help?—A. We have to sometimes. Then you have to have a threshing machine, a steam ploughing machine, a 25-horse unit, and you have to know how to work them. You have to like farming and be handy to a railroad, and above all, plough a mile furrow. A mile furrow is the economic unit in working a farm. If you cut that in two, it makes a tremendous difference in your expenses. The man that sells wheat on thirty dollar land at 56 cents a bushel is losing 30 cents figured at a labour and interest cost equal to any other business.

By Mr. Nesbitt:

Q. How about sixty dollar land?—A. That would be a greater loss.

By Hon. Mr. White:

Q. How many bushels to the acre?—A. We farm on a three year rotation, and it is the most economical and successful way that has yet been devised in Saskatchewan, so far as I know. One year the land is under summer fallow. The next year we sow it again, and the third year, too. The first year it will produce an average of 28 bushels an acre, and the second year 18 bushels an acre, an average of 16 bushels for the three years.

By the Chairman:

Q. That is, you have 1,200 acres, 800 of which is under crop all the time and 400 under fallow?

Mr. NESBITT.—I think you are right on the job, as regards farming, but you have run up against a snag in banking.

Mr. GREEN.—I avoid the snag by keeping out of the bank. I only go there to deposit money. I have come to the conclusion that the man who pays interest is up against it.

By the Chairman:

Q. What is your nearest bank?—A. We have a house on the farm and a house in the city of Moosejaw, where there are thirteen banks.

By Mr. Nesbitt:

Q. How far is your farm from Moosejaw?—A. Six miles. It takes me twenty minutes to get in.

The CHAIRMAN.—I wonder it has not been cut up in building lots before this. Has the Committee any further questions to ask Mr. Green? He has been very good natured.

By Mr. Sharpe (Ontario):

Q. Have you anything further to offer the committee in regard to the grievances of the West against banking?—A. Nothing further, so far as I know. We don't expect you to run and jump at the proposition of starting agricultural banks this year.

The CHAIRMAN.—Well, gentlemen, we will thank Mr. Green and allow him to retire.

Witness retired.

Committee adjourned.

HOUSE OF COMMONS,
COMMITTEE ROOM, No. 101,
WEDNESDAY, April 16, 1913.

Committee met at 10.30 a.m., the Chairman, Mr. H. B. Ames, presiding.

Sir EDMUND WALKER, called and examined.

By the Chairman:

Q. Will you kindly give to the Committee your name and position you occupy?—A. Byron Edmund Walker, President of the Canadian Bank of Commerce.

Q. You might give, just briefly, for the benefit of the Committee, your banking experience, the banks you have been connected with, and the length of your service—A. I have been trying to learn the business of banking since 1861, being a little less than thirteen years old when I began. For seven years I was in the private banking business, and since 1868 I have been connected with The Canadian Bank of Commerce in various positions, from that of junior to the president of the bank. During that time I have lived about eight years in the United States, as the representative of my bank, and as I have been intimately connected with banking since the American War broke out, I have been more or less acquainted with banking in both countries, for a little over fifty years.

Q. Will you kindly give us a word, with reference to the bank of which you are president, its size, importance and extension throughout Canada?—A. It has now, I believe, about 370 branches, a capital of $15,000,000, reserve $12,500,000 and total assets $230,000,000 to $240,000,000.

Q. Does it serve all the provinces and all parts of the Dominion?—A. All the provinces and almost every city of importance.

Q. Has it an extensive business throughout the Northwest?—A. Very. It has a greater number of branches west of the head of Lake Superior than east of it. They do practically about the same business, probably larger in the West than in the East.

Q. Have you any branches in foreign countries?—A. We have four in the United States, one in England and one in Mexico.

By Mr. Aikins:

Q. Where, in the United States?—A. New York, Seattle, Portland and San Francisco.

By the Chairman:

Q. Would you prefer to make a statement by yourself, without interruption, or would you rather that I should take up the several points that have been under discussion by the Committee and ask you regarding them?—A. I should prefer to answer to the several points, offering at different places statistical and other statements, the nature of which I would briefly indicate, and suggest that they be made a part of your records, if you think desirable. When it comes to the question of taxation in connection with banks, I should like to make a longer statement regarding bank profits, but I think it is better to defer that statement until then, than give it now, unless the Committee wish it.

Q. We will, then, with the consent of the Committee, follow the main questions here, it being understood that after you have made a statement on a particular point, any member of the Committee can question you regarding it. In the first place, what

APPENDIX No. 2

is your opinion as to the length of term for which bank charters should be renewed? —A. I favour and have always favoured the decennial revision, because, since 1880, on the occasion of every revision, an important improvement has been made in the Act. I am proud to say that the improvements have generally been suggested by the bankers themselves. Since, and including, 1890, no improvement has taken place in the Act, that is in the nature of an extra franchise, in the sense of a profitable franchise to the banks. All the improvements have been for the benefit of the public, and therefore incidentally of the banks. I think, however, we suffer from one great injustice, which hurts us in the estimation of foreign shareholders and perhaps deters shareholders from investing in bank stock, and that is the curious fact that all the bank charters in Canada expire on the same date. I say it is for the benefit of Canada that that should not longer go on, and that the renewal of the charters should be indefinite, or for a long series of years, while the revision of the Act, which Parliament has the power to take up at any time, should be taken up decennially.

By Mr. McCurdy:

Q. What are the terms of the renewal of the charter of The Bank of England? —A. I could not tell you. I do not know of any country where the entire banking system can, by a failure of Parliament to act, be brought to an end, as far as its legality is concerned.

By Mr. Aikins:

Q. Do I understand that your position is that the charters should be continued indefinitely, but subject to revision decennially?—A. That is my idea.

By the Chairman:

Q. That the rights, privileges and responsibilities of the banks should be subjected to a decennial revision?—A. Yes, a decennial revision, which I personally believe to be in the interests of Canada and good banking, because, as the country develops, we have always found that at the end of ten years there was something necessary to make the Act work as perfectly as possible.

By Mr. Macdonell:

Q. What was the original reason for making these charters good for only ten years?—A. The Act of Confederation, the fact that, when the new Government of Canada came into power, the banks with provincial charters had to be inaugurated under a Dominion charter.

By Mr. Nickle:

Q. Do I understand that you mean the charters of each bank should expire on a different date, or that they should be continuing charters?—A. I should think that as Parliament has the power to end them, they should be indeterminate, that they should practically be perpetual charters.

By Hon. Mr. White:

Q. Is there anything to be said for the view that the expiry of the charters at the end of the decennial period brings the matter, so to speak, so forcibly to the attention of Parliament that a decennial revision must take place? What I have in mind is this: Parliament may at any time introduce legislation, this year, next year, or at any time during the decennial period. If the charters were made perpetual the decennial revision might simply go over from year to year, from pressure of business or lack of time on the part of the government to thresh the matter out. Is there anything to be said for that view?—A. That is quite possible, of course, but that would really mean that there was in the country no strong feeling that the Bank Act needed revision.

By the Chairman:

Q. If there are no further questions on section 4, we will ask Sir Edmund with reference to sections 10 to 13, as to the capitalization of banks. The proposal is before the committee:

'That section 10 be struck out and the following substituted therefor:

'Banks shall consist of three different classes: (*a*) Dominion banks with branches in more than one province; (b) Provincial banks with branches in only one province, and (*c*) City or County banks with no branches.

'The capital stock of such banks hereafter incorporated shall be not less than $500,000 for Dominion banks, $250,000 for Provincial banks, and $100,000 for city or county banks.'

You doubtless are familiar with this proposition. Will you kindly tell us whether, in your opinion, that could be advantageously grafted onto our present system?—A. I would begin by saying that the experience in this country and in all countries is entirely in favour of large banks, as against small banks, in the matter of their usefulness to the people, and in the matter of the cost of the particular service that they render to the people. All experience shows that large banks can do a service for less than the small banks, and serve the people better. As an indication that branch banks do more than individual banks for the people, I wish to put in this evidence. It has perhaps reached you in another form, but I have it rather completely here. In Canada there is one bank to each 2,847 people. In Great Britain, that is, the United Kingdom, one bank to each 5,116 people. In England, which until recently had not a highly developed system, one bank to each 5,422 people. In the United States, one bank to each 3,407 people. In Scotland, where the branch bank system exists in the most complete form, and where the number of banks is less than half of what they are in Canada, there is one bank to each 2,106 people. Scotland is the only country which exceeds Canada, and it does so because of its more highly developed branch-banking.

Taking certain cities for the purpose of comparison, the City of Bristol has a population about the size of Toronto, 357,000. It has one bank to 5,674 people. The City of Toronto has one bank to 2,354 people. Cincinnati, in the United States, one bank to 9,125. These are purely individual banks. Detroit has one bank to 11,000 people. Taking Canada as a whole, there is one bank in the cities to every 3,100 people; in the United States, one bank to every 9,700 people.

That, I offer as evidence that under the branch banking system of Canada we have more banks in proportion to population than under any other system except in Scotland, where the branch bank is most highly developed.

I wish to offer some further evidence. A statement has been made that the local bank, with its board of directors, is more likely to serve successfully even a town of manufacturers than is the branch banking system. Evidence seems not to have been offered to the effect that there is no natural relation between the savings of a community and the borrowing wants of that community. That is a fact which seems to have been overlooked in the evidence. I wish to offer, in evidence, fourteen Canadian towns which have one hundred and twenty-six very large manufacturing concerns, and five hundred manufacturing concerns altogether; and to suggest to the Committee that the mere reading of the names of these towns and manufacturing concerns would dispose for ever of the idea that individual banks could possibly serve these places. I just take up places like Berlin, with a hundred manufacturing establishments, of which eight are very large: Brantford, with seventy; Amherst, Nova Scotia with five; Peterboro, with thirty-five; Guelph, with seventy; Sarnia, and so on. It is a statement most carefully prepared, and puts at rest, in my mind at least, the idea that local capital can possibly take care of our local manufacturing interests.

Q. With local capital and local deposits?—A. Yes, and with local manufacturing interests.

APPENDIX No. 2

The CHAIRMAN.—This will be printed in full.

By Mr. Armstrong (Lambton):

Q. Does that statement include the deposits in those places?—A. I could not do that; it is not possible to get that information.

The CHAIRMAN.—It is merely a list of the large manufacturing establishments at each of these points, showing that the demand for money there is large.

List of towns and manufacturers:—

Nova Scotia—

Amherst—
- Amherst Boot and Shoe Company, Limited.
- Canadian Car and Foundry Company, Limited.
- Nova Scotia Carriage and Motor Car Company, Limited.
- Rhodes-Curry Company, Limited.
- Hewson Pure Wool Textiles, Limited.

Dartmouth—
- Acadia Sugar Refining Company, Limited.
- Dominion Molasses Company, Limited.
- Starr Manufacturing Company, Limited.
- Consumers Cordage Company, Limited.

New Glasgow—
- W. P. McNeil & Company, Limited (Bridge Contractors).
- Nova Scotia Steel and Coal Company, Limited.
- Standard Clay Products, Limited.

Sydney—
- Canadian Rand Company, Limited.
- Dominion Iron and Steel Company, Limited.

Ontario—

Berlin—100 manufacturing establishments, including—
- Berlin Felt Boot Company, Limited.
- Berlin Rubber Manufacturing Company, Limited.
- Breithaupt Leather Company, Limited.
- Canadian Consolidated Rubber Company, Limited.
- Canada Furniture Manufacturers, Limited.
- Dominion Sugar Company, Limited.
- Lang Tanning Company, Limited.
- Star Whitewear Company, Limited.

Brantford—Over 70 manufacturing establishments, including—
- American Radiator Company.
- Brantford Carriage Company, Limited.
- Wm. Buck Stove Company, Limited.
- Canada Bolt and Nut Company, Limited.
- Cockshutt Plow Company, Limited.
- Matthews Laing, Limited.
- Wm. Paterson & Son, Company, Limited.
- Watrous Engine Works Company, Limited.

Chatham—
- American Pad and Textile Company.
- Wm. Gray Sons-Campbell, Limited.
- International Harvester Company of Canada, Limited.
- Sutherland-Innes, Limited.

Galt—50 manufacturing establishments, including—
Canada Machinery Corporation, Limited.
Galt Knitting Company, Limited.
Goldie & McCulloch Company, Limited.
Getty & Scott, Limited.
Shurly-Dietrich Company, Limited.
Newlands & Company, Limited.
Turnbull Company, Limited.

Guelph—70 manufacturing establishments, including—
Bell Piano Company, Limited.
James Goldie Company, Limited.
Kloepfer, C.
Page Hersey Iron Tube and Lead Company, Limited.
Raymond Manufacturing Company, Limited.
Taylor Forbes Company, Limited.

Paris—
Alabastine Company, Limited.
Paris Wincey Mills Company, Limited.
Penman's, Limited.

Peterborough—35 manufacturing establishments, including—
Auburn Woollen Company, Limited.
Campbell Flour Mills, Limited.
Canadian General Electric Company, Limited.
Brinton Carpet Company, Limited.
Matthews-Laing, Limited.
National Manufacturing Company, Limited (Cream Separators).
Quaker Oats Company, Limited.
J. J. Turner & Sons (Tents and Awnings).

Sarnia—
Cleveland Sarnia Saw Mills Company, Limited.
Dominion Salt Company, Limited.
John Goodison Thresher Company, Limited.
Imperial Oil Company, Limited.
R. Laidlaw Lumber Company, Limited.

St. Thomas—
Canada Iron Corporation, Limited.
Dominion Canners, Limited.
Monarch Knitting Company, Limited.
Thomas Bros., Limited.
E. T. Wright & Company.

Sault Ste. Marie—
Dominion Tar and Chemical Company, Limited.
Lake Superior Corporation.

Walkerville—
Berry Bros., Limited.
Canadian Bridge Company, Limited.
Ford Motor Company of Canada, Limited.
McGregor-Banwell Fence Company, Limited.
Parke Davis & Company.
Studebaker Corporation of Canada, Limited.
Trussed Concrete Steel Company, Limited.
Hiram Walker & Sons, Limited.

APPENDIX No. 2

Welland—
Canadian Billings & Spencer Company, Limited.
Chipman Holton Company, Limited.
Canadian Steel Foundries, Limited.
Maple Leaf Milling Company, Limited.
Plymouth Cordage Company, Limited.
Page Hersey Iron Tube and Lead Company, Limited.
Canada Foundries and Forgings, Limited.

Windsor—
Canadian Postum Cereal Company, Limited.
Canadian Salt Company, Limited.
Colwell Lead Company, Limited.
Hupp Motor Car Company, Limited.
F. F. Ingram Company.
Ray Chemical Company, Limited.
Standard Paint and Varnish Company, Limited.
Toledo Computing Scales Company.

Quebec—
Granby—16 manufacturing establishments, including—
Imperial Tobacco Company, Limited.
Miner Rubber Company, Limited.

Hull—
E. B. Eddy Company, Limited.
Matthews-Laing, Limited.

St. Hyacinthe—
Ames Holden McCready Company, Limited.
O. Chalifoux & Son, Limited.
Crescent Manufacturing Company, Limited.
E. T. Corset Company, Limited.
Penman's, Limited.

St. Johns—
Canada Grip Nut Company, Limited.
Cluett Peabody & Company.
Standard Clay Products, Limited.
Singer Sewing Machine Company.
Corticelli Silk Company.

Sherbrooke—36 manufacturing establishments, including
Walter Blue Company, Limited.
Howard & Craig.
Jenckes Machine Company, Limited.
H. C. Wilson Sons, Limited.
Sherbrooke Lumber Company, Limited.
St. Lawrence Lumber Industrial Company, Limited.
Paton Manufacturing Company, Limited.

Thetford Mines—
B. & A. Asbestos Company, Limited.
Jacobs Asbestos Mining Company of Thetford, Limited.
The Johnson's Company, Limited.
Asbestos Corporation of Canada, Limited.
Bell Asbestos Mines, Limited.

Three Rivers—
Canada Iron Corporation. Limited.
Gres Falls Company, Limited.
Wabasso Cotton Company, Limited.
St. Maurice Lumber Company, Limited.
Wayagamack Pulp and Paper Company, Limited.
Union Bag and Paper Company.

By Mr. Sexsmith:

Q. I would like to ask what you think of the local banking system in Germany. I understand that in 1910 they had 15,500 local co-operative banks in Germany, doing a very successful business, with a turnover of £250,000,000 in one year.—A. I shall be very glad to discuss co-operative banks, if this is the proper time. The difficulty about the application of the co-operative bank in Germany to this country, I have just referred to.. In Germany, in the same community where the borrower exists, the lender exists also. It is an old country and it has its savings. In this country we have no such condition. I am going to deal with that in another way now. I wish now to refer to a statement so frequently made, that the farmers of the West should be able to establish co-operative banks and borrow money of their fellows, and be better served thereby than they are at the present time. At a hundred and twenty-two western branches of the Canadian Bank of Commerce, in the middle or prairie provinces, we have farmers' deposits amounting to $2,869,926, and we have loans to farmers amounting to $13,035,784. That, in a way, is my answer to co-operative banking.

By the Chairman:

Q. That is, you loan to farmers—A. Five times as much as we receive in the way of deposits from farmers at those western branches.

Q. That is you loan to farmers five times as much money as you receive by way of deposits from farmers in those western branches?—A. Yes. The fundamental thing about co-operative banking in Germany is that in old communities, or anywhere else where it is successful, there will be those who have saved up money and desire to lend it in the same community as those who wish to borrow it. That condition prevails in small villages and communities. We have no such condition in most parts of Canada.

By Mr. Sexsmith:

Q. Do I understand that the local banks in Germany are not supplied with money from a central banking system.—A. I think not.

Q. I think so.—A. I think not. In what way?

Q. I understand that 500 banks in Germany alone, not speaking of other European countries, are connected with 36 central banks which supply the money where necessary to the local banks.—A. Where would the money come from in Canada, even if that were the case?

By Mr. McCurdy:

Q. In your opinion, would a system of co-operative banks be workable in the older sections of Canada?—A. I have no doubt at all that in the maritime provinces, or in Ontario, co-operative banking would be possible, but in Canada there is no co-operative spirit. European banking is based upon the idea that the whole community is going to guarantee for one another. This country is full of individualism. The farmer in Canada won't become security for his fellow; that is the German system.

APPENDIX No. 2

By Hon. Mr. White:

Q. Is there something to be said as to differences of nationality and different temperaments? Take the Ontario farmer, whether of English, Scotch or Irish extraction, does he co-operate, or will he co--operate, in the same way as the Germans will in Europe?—A. I think he will not co-operate, because in this country he has been much more successful and stands upon his own feet and looks after his own affairs. Co-operation in Germany is the result of poverty and a long distressful period when men had to stand together. We have not that condition in North America. We may have it but we have not got it yet.

By Mr. Nickle:

Q. Yesterday, when Mr. Green was giving his evidence, he spoke of the difficulty of a farmer, that is the worker for the farmer, getting money in the West, and that loans are largely made as he expressed it, to the man who farms the farmers. What do you mean by the expression 'farmer' as you have it there—the agriculturist or the speculator?—A. The man who owns a quarter section and from that upwards.

Q. The man who is actually carrying on the industry of raising grain?—A. Actually carrying on farming on his own land.

By Hon. Mr. White:

Q. Take your own bank—and you probably speak for the others as well—are loans made to farmers of good standing in the community, who make applications, where the risk is thought to be good? Do you seek these loans or not?—A. We have always in the history of the Bank of Commerce, very much so in its early days in Ontario, sought the business of farmers. It is not the amount of the loan to the farmer that guides us, but whether it is a good loan. Of course it depends upon the credit of the farmer just as much as it depends upon the credit of the merchant or manufacturer.

Q. Would you tell the Committee where the difference between that two million dollars of deposits and fifteen million dollars of loans come from? Where do you get the money?—A. It comes, to some extent, from the West; but it comes largely from the East.

By the Chairman:

Q. Is this the place where you would like to tell the Committee something about the rules that govern your bank in opening branches throughout the West?—A. In the old days, in Ontario, we waited to open a branch until a community had a population of two or three thousand. We thought it would then pay its expenses in a reasonable period of time. In the West we advanced that condition until we began to go in with the new division of the railway, going in practically with the first storekeeper. At the present time we have, I think, three branches in the Peace River country, miles and miles in advance of the railways. The idea of that is that under our franchise we are expected to serve the part of Canada that is growing so rapidly, and we do not anticipate that these branches will pay at first. Our experience is on the average that they do not pay until the third year. Some of my people say the third or fourth year. It takes six or seven years at least before we have made enough money to cover the losses made in the first three years, so there we are really spending out of our profits every year a very large sum of money to establish branches in the western country, which in the nature of things bring us no profits for six or seven years.

By Mr. Nesbitt:

Q. They do not give you any profits for at least six or seven years?—A. They do not give us any profit until the sixth or seventh year. We have been doing that for

practically twenty years in the West, ever since I began to administer branches in the West, from the banking point of view. We are satisfied with the result; but we do not wish to be spoken of as people who have not done our share as banks in developing the West.

By the Chairman:

Q. Do you, so to speak, compartment your expenses and returns in that western country?—A. When we began in the West—I mean to say after we had been there five or six years and had to discuss how far we could go in the matter of opening branches—I laid down the principle that between Winnipeg and the Foothills, not including Winnipeg but including Calgary, we would spend all the profits we made each year opening new branches. We do not do that now, I am frank to say, but we did that for many years.

By Mr. Sharpe (Ontario):

Q. Are the returns prepared by the branches to the head office compiled in a way to show what loans are made to farmers and what to other classes?—A. No, not without special effort.

Q. Mr. Chipman suggested that it would be desirable information to know to what extent loans were made to farmers and to other commercial classes. Would that entail a great deal of work?—A. It would. And it would be followed by a great desire to have the same information with regard to other branches of our industries.

The CHAIRMAN.—Mr. McCraney of this Committee requested me to submit to you a series of questions on what might be called a standard branch western bank. Would this be a pertinent time to bring that up?

By Mr Nesbitt:

Q. You have been talking about loaning to the farmers of the West. I would ask if in the West you pursue the same policy that you do in the East with reference to loaning to farmers? I may say that the Bank of Commerce, to my knowledge, has always cultivated loans to farmers to a great extent.—A. We pursue the same policy towards farmers in Ontario that we do in the West, but I am quite frank to say that the Ontario farmer is not a borrower to any great extent to-day. I recall quite well, when I was a bank inspector, twenty-five or thirty years ago, counting over in branch banks the number of farmers with whom we had transactions. It was often three or four hundred. We have always cultivated that kind of business, and have always tried to serve the farmers, basing the credit upon the position of the particular farmer.

By the Chairman:

Q. Do you care to submit now that statement as to a typical western branch?—A. That is not really what Mr. McCraney asked.

By Mr. Nickle:

Q. On the question of loans to farmers, perhaps you would explain this to me. It touches my own experience. Perhaps I can illustrate the case. Take for instance a company in an east county town of Ontario, carrying on more or less of a general loaning business to farmers. I find where a farmer has a loan of from fifty to sixty per cent of the market value of his property, and wishes to borrow perhaps $100 or $150 on a farm worth $3,500 from time to time during the year, there seems to be a disinclination on the part of a bank to make that loan.—A. I think there probably would be. I should think that a man whose farm is worth $3,500, and who has a mortgage with some loan company on it of $2,000, has really passed the margin of safety already. It would depend upon his personal character and how he was getting on from year to year how much he could borrow.

APPENDIX No. 2

Q. Even with a crop in the barn?—A. That is a different thing. If he has the crop in the barn, and is honest, and has no pressing debts to prevent him repaying his loan, it becomes a question if he is a good type of man.

Q. I am speaking of a man whose integrity is good. For instance, I will give you an instance of which I have personal knowledge: a man with a mortgage of $2,000 on his farm, and a hay crop in the barn.—A. How much value in the barn?

Q. Say $250 to $300. He wants $150 more, goes to the bank, the bank seems disinclined to lend, he goes back to the parties from whom he has made the original loan, a lawyer with trust funds to invest. The lawyer cannot make the further advance, and the farmer's crop has to be forced on the market at a loss. Why was that?—A. I should think you are citing a most extreme case. If a farmer has a mortgage for not more than fifty per cent, and if his interest is paid up to date, and if he has a good character, he ought to obtain the money. You are making a rather unusual case.

Q. Such cases constantly come under my notice.—A. Where the mortgage exceeds the amount a loan company would loan.

Q. We loan from 50 to 60 per cent on first-class farms in the district in which I live, and the farmers complain of their inability to get loans. I want to see if there is some underlying principle responsible for that?—A. I think there is an underlying principle that a man's mortgage should not be more than half of the value of his property, and that he should be in the way of taking care of his interest promptly; and that is taken into account to some extent by the banker.

Q. Where a farmer has a loan on his land exceeding one-half of its value, is there a disinclination on the part of the banks to loan to him?—A. It begins to be difficult.

By Mr. McCurdy:

Q. You have had prepared a statement of the loans made to farmers in the Middle West. Could you have a statement prepared showing in detail your eastern business? I suppose it could be prepared with as much facility as the statement with regard to the West?—A. Yes, but it would be a laborious business, of course.

Q. The question in my part of the country is similar to that raised by Mr. Nickle. If these figures could be produced it would dissipate any misconception.—A. I do not think the figures would dissipate that because the Eastern farmer is not, as a rule, a borrower.

Q. The impression Mr. Nickle spoke of as existing in the Kingston district is very strong in the maritime provinces, viz.: that the farmer is not wanted at the bank as a borrower?—A. In all my experience as a banker I have not met that condition, and I do not believe it exists. In each case you have to have the facts regarding the particular farmer before you.

Q. I am speaking of country borrowers as a class.—A. I think, as a class, they are favoured everywhere.

Q. There is another subject you have touched on. You spoke of the energy of the banks in pioneering the West. The statement of branches in the West indicates that, whereas the population of Saskatchewan and Alberta, for instance, increased in ten years 439 per cent, the number of branch banks increased 1,663 per cent, which would indicate a large increase in banking facilities; also that in twenty-eight different western villages of less than 800 of a population they were served by several banks. What would be your observation, Sir Edmund, on that point, the matter of over competition in small places, not only in the West, but as regards the suburbs of eastern cities? If that did not exist would it not be possible to have some concession in rates to the bank's customers if it were not for this extraordinary competition?—A. Undoubedly if in any place where there are too many banks, some were to retire, business could be done more cheaply by thus stopping competition. I thought the desire of the public was to increase it.

Q. Do you not believe that a certain amount of combination is good?—A. Personally I do. I do not know how, under the condition of extreme competition that exists between Canadian banks, it could be brought about unless we do the very thing that the public has such a bitter feeling against, that is by combination.

Q. Do you think there is an economic waste there?—A. There is an economic waste.

Q. Which should be removed?—A. Which should be removed, yes.

Mr. NESBITT.—I want to say for fear there might be a false impression created, that my experience is quite opposite to Mr. Nickle's in so far as the banks loaning to farmers is concerned. My experience is that a good, reasonably intelligent farmer can borrow $100 or $150 at any time from the bank, especially if he is reasonable and can repay within a reasonable time. As for a farmer who owns his farm, in some sections of the country there are many men who are getting money from the banks and getting it at very low rates of interest.

By the Chairman:

Q. There has been a statement made that the banks in Canada were abnormally large and certainly large enough. Sir Edmund has I understand a statement of the large banks of the world which he would be glad to put in evidence if the Committee so desire, for reference purposes.

Mr. SHARPE (Ontario).—Would not that come under head of "Amalgamation and Capitalization of Banks."?

The CHAIRMAN.—Quite right—that comes under Section 99—We will now proceed to Section 34, unless the Committee desire to question Sir Edmund. With reference to 18 and 29, he has no evidence to offer.

By Mr. Sharpe (Ontario):

Q. Perhaps Sir Edmund may have something to say regarding Mr. McCurdy's amendment to Section 18, substituting "shall" for "may" and compelling shareholders to pass by-laws.—A. I do not think that would be at all wise myself.

By the Chairman:

Q. Take Section 34 then. The Committee understands that if there is any intermediate section they wish to submit to Sir Edmund for his opinion they can do so. On Section 34 it is proposed that in the issue of bank stock some competent Court or Commission shall by Order in Council, upon application of the directors, or in lack of that, the Treasury Board, determine the terms and rate at which such new stock should be issued.—A. In the first place unless the banks are to be regarded as public utility bodies like the railways that would be a very extraordinary departure. It would indeed be introducing the idea of the Public Utility Commission as they have it in the United States. Wherever these commissions have been established they have practically stopped the creations of new companies, have at least very seriously interfered with the development of new enterprises. I can imagine nothing more foolish than for the government with all its responsibilities or any commission it might establish, to take the responsibility of saying at what particular rate bank stock should be issued. I have before me a clipping from an American paper regarding the action of a commission in Massachusetts respecting the Boston and Maine Railway. Their stock was quoted at 175 and the commission ordered them to sell new stock at 175. Although they made every effort to sell at that price they were unable to do so and eventually the commission gave them permission to sell at 100, but they could not dispose of it at that figure. The commission practically ruined the railway by requiring them to sell their stock at a certain price which was not in accordance with the true interests of the railway. No government or commission can settle wisely the price at which banks should sell their stock.

APPENDIX No. 2

By Hon. Mr. White:

Q. They should sell above par?—A.. I think that the provision that they should not be allowed to issue it over book value is right. But supposing that the commission ordered them to issue it under book value it might be a very great injustice.

By the Chairman:

Q. Supposing for the sake of argument, admitting that the bank capital is not sufficient, would it be desirable to compel the banks to sell their new stock at a figure below the book value for the purpose of rendering new bank stock a desirable form of investment?—A. Of course you could not force the banks in that case to sell stock at all and that is what would probably happen but it would be a very gross injustice to the shareholders.

Q. The suggestion was made by Mr. Forgan that if the bank stock is offered at a premium equal to one-half of the rest in relationship to the capital stock it would tend to bring a large sum of money into use as banking capital.—A. I think that is quite true and I think practically the tendency in Canada will be to favour the issuing new stock at lower prices than the extreme prices that would be permitted by law, but that is a case of the shareholders dealing with their own property.

Q. You do not think that the law should endeavour by statute to bring about that state of affairs?—A. I do not.

Q. What would be the effect in such a case as that? Would it create a market for 'rights'?—A It would create a market for 'rights,' undoubtedly, and the shareholders in the main would be able to sell their rights.

Q. Would it be liable to attract capital to banking?—A. In practice the old shareholders usually take up the capital. What we discover in Canada is that we get our capital out of the same communities and to that extent it is out of the home community, and that does not help the whole financial situation.

By Hon. Mr. White:

Q. With regard to the issue of bank stock at prices very close to the market quotations do the shareholders readily take up their shares, or is it difficult to obtain money on those terms?—A. We have had no difficulty in any issues we have made but, speaking generally, I think it will be growing more and more difficult.

Q. And if stock were issued so that rights were valuable is it your view that money will flow in more readily to bank capital from abroad or from other communities outside those in which bank stocks are now held?—A. The main point would be that if you force banks to issue stocks at less than book value you would make it more attractive to the public and bring in more capital.

Q. Would the shareholders be protected or would they not? Would their rights be secured?—A. If they brought their full value they would be.

Q. Your view is that on the whole, stock should not be sold at less than book value?—A. No, unless the shareholders themselves decide to do so.

By Mr. Sharpe (Ontario):

Q. Do I understand, Sir Edmund, from your illustration that you are opposed to the control of the capitalization of companies, whether public utilities or holding public franchises, or not?—A. No.

Q. Taking your illustration with reference to the action of the Massachusetts Utility Board I gathered from what you said that you are opposed to the control of companies?—A. I was not expressing any opinion one way or the other, but speaking about the actual facts, I mean to say that this Commission had not sufficient knowledge of the matter with which they undertook to deal, they were a foreign body undertaking to deal with something they had not complete knowledge of, with disastrous results to everybody concerned.

Q. Would not the success or failure of a commission depend upon the capacity of the commission?—A. Certainly it would, but in the nature of things it is difficult to get men who understand other people's business so completely that they are likely to do it as well as the people themselves.

Q. In the issue of new bank stock how do you determine the issue price?—A. By the book value. As nearly as possible the precise relation of the rest to the capital.

By the Chairman:

Q. Sections 43b and 77, with reference to the bank's privileged lien on its own stock when held by a debtor of the bank. What are your views on that?—A. Of course the whole question is largely one of expediency and not, I think, a very important matter, but it would be well for the Committee to understand how it came into the Act. In the old days we were allowed to lend upon the shares of other banks, and it was found that the amount of banking capital was less than we supposed, because one bank had loaned on the capital stock of another. The prohibition to loan in that way was made, and I think very properly so. But if the stockbroker could not borrow from one bank on another bank's shares, he was driven to borrow from some life insurance or trust company, or some other agency, and that was a difficult thing for him to do, and so the owner of a bank share would be left without any way in which he could make actual use of his bank holdings by collateral. That is why they were forbidden in the Act by one clause to loan upon bank shares of any kind, but permitted in the other clause to consider the fact that a man had shares when they were making a loan to him; I am simply stating the facts, and not expressing any opinion. Bank shares, of course, are not very popular and it is not expedient, unless for some very strong reason, to do anything which will make them less so. Let me give you an example of how the holding of bank stock is properly used as a reason for bank accommodation. Only a few days ago a customer in Quebec who recently became a customer of ours through the taking over of the Eastern Townships Bank, wanted to borrow some money for his manufacturing business, and when customers borrow on their own name from us they are required to give a balance sheet. This client declined to do that, but said that he had more stock in the Bank of Commerce than the amount of money that he wanted to borrow. We found that a most effective reply, and you would clearly do away with the value of the ownership of bank stock to some extent by taking out that clause. I will not pretend that it is a very important thing or that the clause is entirely defensible.

Q. Do you consider then that it is attractive to the lender to be able to go to the bank in which he owns stock and not have to deposit security as if it were an overdraft?—A. If a man who has shares in the bank but is otherwise a stranger, comes to us and says: 'I am a shareholder in your bank, I want a letter of credit,' or some kind of credit, we know that we can safely oblige him; and we can do it easily and gracefully because of the power we have. If we have not the power we will have to say: 'The fact that you have such stock will not necessarily help you.'

By Hon. Mr. White:

Q. If that were changed, provision would have to be made whereby all existing rights would have to be protected?—A. Yes. It would mean that the owners of shares would find them less useful as far as an investment is concerned, because he could not get any money from his own bank or any other bank and probably not from a stockbroker.

Q. Supposing it went into effect, would there not be existing situations to be protected by a safety clause?—A. Surely.

By Mr. McCurdy:

Q. Under a certain set of circumstances, in collusion with the managers of a bank, could it not happen that the security which customers of a bank have, in the double

liability, would be taken away, in the case of a man of straw purchasing bank shares and borrowing money from the bank upon the security of those shares outstanding in the names of different shareholders and supposed to be their property? When the collapse came, not only would the advances to these shareholders not be an asset, but also the double liability as well?—A. What you say is quite possible. It is equally true of industrial stocks, where people sometimes sit as directors but do not really own their shares.

By Mr. Nesbitt:

Q. Do I understand that you are opposed to banks lending on another bank's shares?—A. Yes.

By Mr. Currie:

Q. Has such a case as Mr. McCurdy outlined come to your knowledge?—A. Not in the last thirty years or so, but in the earlier days of my experience in banking, many curious things happened.

By Mr. Nickle:

Q. Mr. Forgan, in his evidence, said he was strongly in favour of one bank being allowed to lend on another bank's stock. I understand you take a different position? —A. I do.

Q. Have you any objection to telling us why?—A. In the United States, with 27,000 banks, the idea of trouble taking place in a large way is not so probable in Mr. Forgan's mind as it is here. It would be unfortunate in Canada, for instance, if one of the larger banks was to, in a sense, wet-nurse a smaller bank by lending it money, so that people could take shares in it. That is not likely to happen in this time of Canada's history, but it was likely and did take place thirty or forty years ago. That is why there came a feeling, at least in the minds of those who created the Act, that they should prevent the banks from lending money on each other's stock.

By Mr. Nesbitt:

Q. They can loan on the shares, so as to get control of the small bank?—A. I do not know that that takes place; but if one bank lent a large sum on the stock of another bank, there is really so much less banking capital in the country than you would think from reading the bank statement.

By Mr. Nickle:

Q. If that lien were taken away from the bank, on its own shares, would not the bank itself, of necessity, have to change the form of certificate for a new issue, in order to make it at all negotiable?—A. That would be very bad indeed.

Q. The non-negotiable certificate is issued at the present time. Will you explain why that is done, and what are the objections to scrip being issued?—A. If we had certificates issued, such as are issued by railroads and other industrial companies in the United States, and such as have been issued in Canada in recent years, transferable by the signing of a power of attorney on the back——

Q. Transferable by endorsement?—A. Yes, then you would never know whether your double liability was worth anything, or who the real shareholders of the bank were.

Q. It amounts to this: If the lien of a bank, on its own shares, were taken away, bank stock would practically be worth nothing in the way of collateral?—A. Yes. It would practically take away any chance of effectively using it as collateral.

Q. Is not that going to have a tendency, in the long run, to drive men away from bank stock holdings as an investment, in case they at any time desire to have collateral?—A. I think it may.

Mr. NICKLE.—I am speaking from my own experience. I have found it difficult to hold bank stock in certain banks.

By the Chairman:

Q. The certificate which is issued is not transferable?—A. It is merely a letter.

Q. Perhaps you would like to have in evidence one of these certificate blanks. Here is one.—A. This is a certificate of the Bank of Ottawa. They are all practically alike:

'This is to certify that the name of .....of ..... appears in the books of this Bank as the holder of..... fully paid up shares of One Hundred Dollars each in the Capital Stock of the Bank of Ottawa, which shares are transferable on the Books of the Bank only by.....or .....Attorney duly constituted.'

Ours is a little different from that. At the bottom this says: 'This certificate cancels all previous receipts and certificates. It is not transferable and serves only to recognize the party in whose name it is drawn as the holder of the number of shares therein mentioned at the date which it bears, and is not available for any other purpose.' You may have fifty shares to-day and a certificate like that, a hundred shares a week from now and another certificate, and two hundred the week after and another certificate. They are only letters or communications indicating you have these shares.

By Mr. Nickle:

Q. And there is no record of the value?—A. No. The ownership is shown in the entry books.

By Mr. Currie:

Q. The question arose, at a previous meeting, whether the owner of a letter of that kind should be compelled to surrender it when he transferred his shares, so that he could not use the letter for obtaining credit.—A. As a matter of regulation that might be valuable.

Q. To recall the certificate?—A. Yes, but it has not been the practice. Every certificate says most plainly that it is a non-negotiable instrument, that it is only a receipt.

By Hon. Mr. White:

Q. Do you know of any difficulty arising in that connection?—A. No.

By Mr. Cockshutt:

Q. Would there be any objection to issuing scrip in the same way as industrial and other companies issue it?—A. I have answered that. You would have to know who the shareholders were, and the value of the double liability.

Q. Why should you know?—A. The scrip might have been endorsed in blank and the money obtained on it from somebody else.

Q. When new receipts are given, there is no care taken to withdraw one that has previously been issued. That does not seem to me to be very good business.—A. The receipts plainly state that they are non-negotiable.

Q. I have had an experience in which I held a receipt for a certain number of shares. I subscribed for a few more and the new receipt covered all, including what I held previously and the new ones. No attempt was made to withdraw the former receipt?—A. I have just explained that in this case:

Hon. Mr. WHITE.—It is not negotiable.

By Mr. Cochshutt:

Q. The explanation to me, is not quite satisfactory, because a party wishing to defraud could say: Here is a receipt showing that I own a certain number of shares on a certain date. He has another receipt which he does not need to show, which cancels the former one. What is to hinder him using that former receipt with a third party?—A. He should not be able to use it with anybody.

APPENDIX No. 2

Mr. COCKSHUTT.—He might be able to, that is the point.

Hon. Mr. WHITE.—I have had a very wide experience in regard to what they call 'receipts for book shares.' I have never known any case of attempted fraud in connection with it. The scrip certificate is entirely different. These receipts show, on their face, that each receipt cancels previous certificates, and they are non-negotiable.

By Mr. Cockshutt:

Q. Why should a receipt be considered by every other institution, more satisfactory than scrip?—A. There is no other institution in Canada which has the double liability. That is the real answer.

Q. Is it intended by the bank to be a stumbling block in the way of transferring shares?—A. Not at all. It makes it a little more difficult. Of course, the transfer of bank shares is a great deal more serious than transferring the stock of an industrial company, because you are accepting the double liability of another.

Q. And the bank wants to know that he is good for the double liability, before they accept him?—A. Yes. They do in a general way.

By the Chairman:

Q. When you accept a certificate like this, does it always indicate the total holding of stock of the party?—A. Yes.

Q. Consequently, if a man should produce two certificates of different dates, it would be very evident that the later cancelled the earlier one.

By Mr. Nickle:

Q. I do not think you grasp Mr. Cockshutt's question. He asked whether the bank, before they accepted the transferee, found out whether he was good for the double liability. Is that correct? I understand they make no inquiry as to that?—A. The bank would not make any inquiry, but if the bank had a large amount of shares plainly in the hands of some man of straw, a stockholder's clerk or something of that kind, they have the power to demur, and they probably would.

Q. As a matter of practice, they do not do so?—A. Only when banks have already suspended. When you are trying to liquidate with open doors, then it is a useful power.

Q. A bank that is solvent and carrying on business has no authority to make any inquiry as to the financial stability of a transferee?—A. I fancy the board of directors could refuse to accept a new stockholder if they liked, but they do not, as a matter of practice.

Q. By what authority?—A. I am afraid that I could not answer that. I would have to leave that to the legal members here. We always have the idea that we can refuse a stockholder, but as a matter of fact, so long as there is nothing suspicious about a transaction, we do not.

Hon. Mr. WHITE.—As a matter of fact, any number of companies do not issue scrip certificates.

By Mr. Currie:

Q. Supposing a person had inside information that a bank was going into liquidation, and got rid of his shares. Does his liability immediately cease, or does it follow him, as in other countries, for six months after he has disposed of his shares? —A. He is responsible for sixty days.

Mr. CURRIE.—In that case, it would not be necessary for the bank directors to inquire as to a man's financial standing, until the bank had liquidated.

By Mr. McCurdy:

Q. Speaking of legal opinions, might I ask if you can give us the latest pronouncement on the matter of succession duties? It is a question that has caused a good deal of annoyance to shareholders, who were held to be resident in one province and registered in another, and called upon to pay succession duties in both provinces. I understand there has been a legal decision clearing up that point.—A. So I understand, but I could not quote the decision. I understand you are not liable to have the succession duties collected on bank stock, except in one province.

Q. Can you tell me in which province that should be made, the residence or where the bank's register is kept?—A. I am afraid I cannot.

Mr. McCURDY.—I intended in order to remove the nuisance, to move that transfer books be opened in each province. It has been a matter of great inconvenience and loss to shareholders.

Mr. CURRIE. I understand the recent decision of the Privy Council has settled that.

Hon. Mr. WHITE.—I think Mr. Ross is familiar with the decision, and can probably give you the desired information.

Mr. ROSS.—It may possibly be the Lovitt case.

Mr. McCURDY.—No. It was not that case. That was the case of a deposit receipt.

Mr. ROSS.—Yes. It was a deposit receipt case, in which a gentleman resident in Yarmouth, N.S., was concerned. He had a deposit in the Bank of British North America at St. John, N.B., and it was held that the law of New Brunswick governed the transaction, rather than that of Nova Scotia.

By Mr. Currie:

Q. In view of the fact that there is a good deal of squabbling as to these succession duties do you think it would tend to make bank shares more popular if we put a clause in that they should not be liable to succession duty?—A. It would undoubtedly.

Mr. NICKLE.—As I understand the practice—if I am wrong Mr. Nesbitt will correct me—the province of Quebec is collecting succession duties on all assets that have an aggregate value sufficient to make a succession duty liable on bank stocks owned in Ontario, the head office of the company being in Canada. Is not that what you understand?

Mr. WALLACE NESBITT, K. C.—It would entirely depend on your provincial law.

Mr. NICKLE.—Take Ontario.

Mr. WALLACE NESBITT, K.C.—In Ontario at the present time they collect on any bank stocks held in the name of any person proving the will, so getting the succession if they are entitled to it. And any law you can pass here will have no effect upon such a thing. Each province can pass its own Succession Act and to entitle the person to get the property in that province he must pay the tax. It depends on whether it is in the form of a succession duty, or of a tax upon the succession and it must depend in each case upon the provincial law. It is said to have been settled, but I know of no decision in which it is settled because the Privy Council in each case said they were considering a particular provincial statute.

Mr. NICKLE: In regard to the statute enforced in Ontario.

Mr. WALLACE NESBITT, K.C.—In Ontario you may pay the tax no matter where the man is domiciled, and you also pay a tax in Quebec.

Hon. Mr. WHITE.—They claim it.

Mr. NICKLE.—And they collect it. I might say for the information of the Committee that I know negotiations were carried on between the provincial treasurers of Ontario and Quebec for the purpose of adjusting the anomaly; but satisfactory results were not attained.

Hon. Mr. WHITE.—I think it was held that a deposit in Canadian banks in the province of Ontario by a party who is domiciled in the United States, and who

afterwards died, was subject to succession duties. Look how far that goes. Although the domicile of that man was in the United States it was held that that deposit, although not a specific trust deposit, but simply an obligation of the bank to pay him, was subject to succession duties.

Mr. WALLACE NESBITT, K.C.—You cannot possibly in this Parliament—if I may be permitted to make a positive statement on a question of law—although it is supreme in banking, deal with this matter because it does not become within your power as to what a province may do when a person comes in and attempts to succeed to an estate. No man is entitled to pass his property on to any person except by the law of the province in which the property exists.

Mr. SHARPE (Ontario).—There should not be a double succession duty.

Mr. WALLACE NESBITT, K.C.—That is a matter for each province. You can only get the provinces together, and get them to treat the matter in a common-sense way. They have endeavoured to do this, but have not been able to agree.

Mr. MCCURDY.—As a matter of practice, in many cases that have come under my notice, where the succession duty was directly paid in the province where the former owner of the shares was domiciled to the treasurer of that province, and then later on, when the shares were being transferred in another province, say, in Quebec or Ontario, transfer was refused until succession duties were again paid in that province. That is a manifest injustice; and Mr. Nesbitt thinks that it is impossible for this Parliament to pass any legislation that would be of any use. Now, my suggestion would be that a register of shares be opened in each province where the banks are doing business.

Mr. WALLACE NESBITT, K.C.—The province would probably pass that by.

The CHAIRMAN.—Is it, or is it not a question out of our jurisdiction?

Mr. MCCURDY.—It cannot be out of our jurisdiction to require registers to be opened in each province to obviate this nuisance. I do not see why.

Hon. Mr. WHITE.—Mr. McCurdy's point is this——

Mr. MCCURDY.—Take a concrete case, Mr. Nesbitt: supposing a man died in Halifax where a register of the shares was open, whose shares were there registered, how can the province of Quebec collect a tax to prevent him from transferring the shares?

Mr. WALLACE NESBITT, K.C.—They would probably pass a law that, in the case of the head office of any being there, that no property should pass until the succession duty had been paid.

Mr. MCCURDY.—That is manifestly unfair. If we cannot reach the matter by existing legislation we shall have to have further legislation.

Hon. Mr. WHITE.—I think there is something in Mr. McCurdy's contention.

Mr. WALLACE NESBITT, K.C.—I will be glad to discuss that with Mr. Ross, Assistant Deputy Minister of Finance.

Hon. Mr. WHITE.—As I understand it, and I have had a great deal of experience in dealing with property in the several provinces—what usually happens is this, just apart from bank stocks: Supposing you have a Nova Scotian company, domiciled in Nova Scotia, and you have a Nova Scotian shareholder, and there are transfer books in Montreal and Toronto, sometimes a question has been raised as to whether a transfer can be made in those cities when the succession duties have to be paid in another province. I am inclined to think there is something in what Mr. McCurdy suggests, that if offices were opened for the transfer of stocks in the several provinces, it would then be impossible for provinces to set up the claim they now set up in respect of stocks which must be transferred, belonging to shareholders who are domiciled in another province. I think we should look into that.

The CHAIRMAN.—We will leave this question Mr. McCurdy has raised for the present. Section 54, annual and special statements. Are there any fuller details that Sir Edmund would consider in the annual and special statements?

Sir EDMUND WALKER.—I think not, than those appearing in the new Act as compared with the old. Several additions have been made which make the statement more complete than heretofore.

The CHAIRMAN.—Several amendments have been proposed. Does any member desire to ask Sir Edmund his opinion on these amendments?

By Mr. Nesbitt:

Q. Would Sir Edmund tell me what he understands by (*d*) in assets "cash items in transit"? What does that cover?—A. Money parcels despatched between the branches; cheques, of course, on other branches and on banks in other places.

Q. Are those not provided for specially?—A. No, you asked me what cash items meant.

Q. But this paragraph (*d*) also provides for "cheques on other banks."—A. Those are separate from cheques on other banks. Sight items taken by the banks as cash, that is generally drafts at sight and drawn on another place; money parcels despatched from one branch to another; bills that have been sent to a branch and have matured, but of which advice has not been received from the branch itself; coupons; and sterling bills bought at offices in Canada, which go to our Montreal, New York or Toronto offices, before going to England.

Q. Take the item of sight drafts in transit, should not that be shown distinct from cash items in transit. It has been suggested that banks could hide the real conditions of their affairs by pocketing these cash items; in other words, kiting on these sight drafts or demand drafts. Would it not be better to put these under some other heading than cash items in transit?—A. Because of the competition between banks, sight drafts are cashed for a commission and without any interest for the time until they are paid. Because of this they are treated as cash instead of discounts. If banks collected interest they would undoubtedly put them through as discounts. That is the reason why we place them under the heading of cash items of bills discounted.

Q. But if it has to go a long way?—A. Then, it is apt to be counted a discount.

By the Chairman:

Q. It is earning no money while travelling?—A. That is the reason.

Q. That is your general contention that this is earning no money while travelling? —A. Yes.

By Mr. Nickle:

Q. What is a short loan, Sir Edmund, as mentioned in paragraph (*i*) of assets 'call and short loans in Canada on bonds, debentures and stocks'?—A. Loans maturing within the month are usually called short loans.

Q. It has a technical meaning?—A. Yes.

By Mr. Sharpe (Ontario):

Q. Do these annual and special returns to the government fulfil all the requirements and disclose the true condition of affairs of the banks?—A. I think they do.

Q. Should there be any additional statement to disclose the actual condition of the bank?—A. The new returns will disclose the condition of the bank as perfectly as it can be done by statements.

By Mr. Currie:

Q. With reference to paragraph (*h*) 'railway and other bonds, debentures and stocks not exceeding market value,' I understand that several banks in Canada which have recently failed have failed through lending on railway shares or bonds. Would it be well to divide that and make a distinction between Canadian and foreign securities?—A. There is no reason against it, if it is thought expedient to divide it.

APPENDIX No. 2

Q. Would this disclose whether any bank dealing in American securities? We have in mind the Sovereign Bank, which gave away Canadian deposits to buy foreign securities.—A. It would not help to disclose it because some of the most carefully administered banks in Canada do at times, when they have long, dull periods, hold large amounts of first class American railroad bonds.

By Mr. McCurdy:

Q. Do you not think, Sir Edmund, that publicity would do away with a great deal of the criticism that we have had as to banks investing in foreign securities, and would dissipate the feeling of antagonism to the banks in that regard which now exists?—A. It depends upon how far the publicity would be fair to the bank and fair to its customers.

Q. With regard to the matter mentioned by Mr. Currie, I have noticed that one of the large banks, the Bank of Nova Scotia, a few years ago, voluntarily published a list of its investments, under the head of bonds and investments, which I summarize as follows:—

Canadian municipals	$1,837,700	
Canadian railways	400,000	
Canadian industrials and sundries	862,000	
		$3,099,700
United States municipals	$ 80,000	
United States railways	2,250,000	
United States industrials and sundries	702,000	
		$3,032,000
Foreign governments, Japan	$ 136,000	
Foreign sundries	39,000	
		175,000
Total		$6,306,700

At the same time the call loans in Canada amounted to $5,353,036 and the call loans elsewhere to $3,930,290. This statement indicates that a very considerable amount of American railroad and industrial securities was held.—A. By that bank.

Q. It is a matter, of course, in the discretion of the bank. A bank naturally wants to distribute its assets and risks as widely as possible. It has always seemed to me that there exists much unwarranted criticism of the banks loaning in Wall street its reserve money. It might be possible that more legitimate criticism could be raised over the matter of permanent investments of this kind in foreign countries. We have in the detailed list a number of securities which, to the layman, would not appear to be of the highest class, but which, I daresay are a good average. Would it not be advisable to have the lists of investments published by all banks, so that the shareholders and the public would be in a position to judge for themselves as to the policy of the bank in regard to investing large sums of money permanently outside the country?—A. The lists that are given there do not really give any information as to the character of the securities.

Q. I am only giving a summary, but the full lists are given in the bank's report to shareholders of December 31, 1909.

The CHAIRMAN.—Do they publish it in detail?

Mr. MCCURDY.—Absolutely in detail.

A. I should think it would be very injurious indeed to publish it in detail. What may happen would be that the fact that the banks holding certain securities would be taken as a reason that they may be regarded as safe by the investing public and the result might be very bad for the public.

By Mr. Currie:

Q. These bonds of high grade railways in Canada and the United States, when the banks have a large amount of money lying around loose that they cannot get

any interest out of may be bought by our banks with advantage because they form the most fluid securities in the market either in America or Great Britain. The great difficulty that arose in regard to the Sovereign Bank was——

The CHAIRMAN.—I would ask the hon. member to ask a question, not make a speech.

Mr. CURRIE.—I am merely stating a fact upon which I wish to ask the opinion of the witness. The question I wish to ask is this, whether he thinks it would be advisable to put a clause in the Bank Act preventing the Canadian banks from investing in bonds and securities of non-dividend paying companies in a foreign country.—A. I think that any attempt to regulate the Bank Act upon the specific instance that has been referred to, or any single instance, is not wise and I should think it is best to leave things to the administration of the bank itself.

By Mr. McCurdy:

Q. You have a large body of investors throughout the country who have no means of personally making the acquaintance of the executive management of the bank and the directors of the bank. As a matter of fact in Canada a man invests his money either in shares or on deposit receipt, practically on the character of the management and directors, and in cases where he has not the advantage of making their acquaintance personally, and does not know anything about their high standing, do you not think he should have some other information for his guidance, because it seems to me that the more publicity that can be given, the more data we have to assist us in arriving at a conclusion with regard to the character and the value of the assets the more sound is likely to be the decision. It would be a distinct advantage to have full particulars and the objection you have raised, namely that improper use might be made of such information would, it appears to me, be hardly sufficient to offset the advantage to be derived. Do you think, on mature consideration, that that would be sufficient reason to withhold the information?—A. I would say most distinctly that giving people information about particular assets of the bank such as the fact that it holds Consols is really a delusive way of indicating what the position of the bank is. Then, unfortunately, our present government statement has such a bewildering amount of information in it that it is not easy to form an idea as to the facts with regard to a bank. If you enlarge it by adding more details you make it still more difficult.

Q. Could that objection not be overcome by appending this information to the annual report to the shareholders, thus giving them the information?—A. I would repeat my objection to drawing the attention of the general public to specific items that an institution holds which are particularly sound. That is a very poor way of attempting to judge the condition of the whole institution. Most of the weak banks in foreign countries hold British Consols and parade them in their annual statements but that does not help you to judge of the general business of the bank.

Q. But the complete list would be an indication of the manner in which the general business of the bank was being conducted; besides if that were a requirement of the Bank Act, would not the result probably be that inferior securities would not be acquired?—A. If I understand the affairs of the Sovereign Bank, the securities in question were securities in a loan to a firm of stockbrokers. They would never have been disclosed in any bank statement made.

The CHAIRMAN.—Would it not be better to wait until we take up the clauses dealing with that question?

By the Chairman:

Q. One question that has not, I think, been covered so far. Your bank is really, I think, advertising a Savings Bank Department. Is that true?—A. Yes.

Q. Now what do you regard as savings deposits?—A. Deposits subject to notice and on which interest is paid.

Q. Is there anything in the annual statement which would give an indication as to how much of your deposits can be classified as savings deposits?—A. No, except that interest bearing deposits are separated from non-interest bearing deposits.

Q. How large a proportion, take your bank for example, of interest bearing deposits can be considered as savings deposits?—A. Almost all of them in my own bank. I should think very trifling deductions would have to be made.

Q. Now there are banks that are known as savings banks, are there not?—A. There are two in Canada, one in Montreal, one in Quebec, other than these there are none that I know of.

Q. Does your Savings Bank Department in any way differ essentially from the savings banks as such?—A. Oh yes. We take the savings money and use it in commercial banking.

Q. According to the strict interpretation, is the bank allowed to use the word 'savings'?—A. Why not? There is no law defining the word 'savings.'

Q. You do not use it, however, in exactly the same sense as the Montreal City Savings Bank use it?—A. No, we call it the Savings Department, we cannot call it savings bank.

By Mr. McCurdy:

Q. Is there any advantage in using these words?—A. I think it is of very much advantage. In the old days we used to issue deposit receipts and now we use a little book.

By the Chairman:

Q. Is the public that have been used to regard the word 'savings' as meaning savings banks in any way under a false impression when depositing in a regular chartered bank with a savings department?—A. Not in Canada, because there is no such bank except in Montreal and Quebec. They look upon the savings department of a bank as a savings bank, that is almost the only savings bank most of them know.

By Mr. Currie:

Q. There is a wide difference between deposits in the savings department of a bank and deposits on current account. You have power to ask for notice of withdrawal of deposits in the savings department?—A. Yes.

Q. As a matter of fact it is easier to pay a little more interest on deposits of that kind. As a matter of fact that is why you pay interest?—A. That is why we pay it.

Mr. CURRIE.—It has been held, Sir Edmund, by eminent English bankers, that these deposits are not of very great value to the bank, in fact that these deposits without notice are a danger to the bank, so that I think you are entitled to say that so far as the word 'savings' is concerned you are fulfilling all the functions of the savings bank.

By the Chairman:

Q. Now then we will proceed to section 56, as to audit. As the committee are well aware there are two alternate proposals, a shareholders' audit, which is contained in the bill, and that of a system of government audit and inspection. We will deal with the whole question of audit and inspection?—A. I think, in view of the difficulties which surround the question, that the shareholders' audit is the best thing that can be attempted in Canada. I think that the government audit, which exists only in the United States, so far as I am aware, has been throughout its entire history ineffective, has been just what Mr. Forgan said it was. I think that any system of external inspection will not be effective in the way of actually stopping bank failures, indeed my own disinclination to approve of such external inspection for many years was due to the fact that I believed that you might delude the people into

thinking that something could be done by it that could not be done in actual practice. In that connection I would like to make a statement regarding my own bank in order to give you an idea of what our internal inspection is and to bring to the minds of the Committee what a difference there must necessarily be between that, and any external inspection that the government may require. It takes 14 officers of the highest grade whose salaries amount to $46,600, and a large number of ordinary audit officers and assistants whose salaries amount to $14,800; then there is a large number of clerks, messengers, and stenographers, whose salaries amount to $8,000; travelling expenses, $23,000, and charges for rent, heat, light, postage, stationery, in the offices where these inspectors work of $13,000, making a total cost of $105,762 in one year for the inspection of the Bank of Commerce. It takes the time, with the exception of three officers whose time is only partly charged here, of all these men every day in the year to do only one inspection of the Bank of Commerce and all its branches.

Q. How many branches are there?—A. 370 branches. I wish to make that statement because it would be desirable that the people of Canada should know that nothing can be done by outside inspection that will literally prevent failure. This is merely a statement of the cost of inspection. It has nothing whatever to do with the fact that when the reports made by all these officers have been sent in, they have to be dealt with by the administration of the Bank.

By Mr. Clarke (North Bruce):

Q. That applies only to branch offices?—A. Yes.

Q. There is no system of inspection of the head office, is there?—A. The idea seems to be current that the head office of the bank is not inspected because there have been some bad failures, but that idea is entirely delusive. I can at least say that since I became general manager the head office has been inspected absolutely the same as any branch bank, every department indeed of the bank is inspected.

Q. Who appoints the inspectors of the bank?—A. I did then and the general manager does now; the administration of the banks selects its inspector, but so far as the inspector is concerned it is an absolute inspection, of every nook and cranny that there is in the bank. I do not believe in government inspection. The fact that it was not effective in the United States was dealt with by Mr. Forgan conclusively to my mind. When he spoke of the value of the clearing house inspection, he said it was the resort of the banks in the large cities, in despair because of failures that had taken place under government inspection. You may as well recognize that they did not inaugurate the clearing house system of inspection until they had proved the government system ineffective. I do not think any system of government inspection would be useful, and I think the system of audit that has been proposed is as good as we can do, under the circumstances.

Hon. Mr. White:

Q. Why do you say the system of clearing house inspection was established in the large cities of the states?—A. It was established in New York, Chicago, San Francisco and other large cities, because of the failure of government inspection, to discover losses and prevent failures. It is a kind of internal inspection by the banks themselves.

Q. By the Banker's Association?—A. Yes. The bankers at those places practically carry out the Canadian inspection in a group. They do not do it for the public or for the government, but for their own information. They do not give the information away to anybody else, and they resorted to the clearing house system because government inspection was not effective.

Q. What would be the analogy in this country?—A. Something I proposed myself, but which was not favoured by all the banks, because it imposed responsibility for failures upon themselves. The idea was that the Bankers' Association should inspect its own fellows, but it involved the banks in the responsibility of saying to the public that their fellows were all right. They were unwilling to take that responsibility. In the United States, they do not do that; they only ascertain the condition of a bank for their own satisfaction and do not assume responsibility before the public. If they have made a mistake, it is their own affair.

By Mr. Armstrong (Lambton):

Q. Are you aware that all the banks in Canada have their head offices inspected in the same way as yours is inspected?—A. Of course that is a matter of fact, regarding which I could not speak, but I should not imagine that any bank which has in its personnel such people as you would expect to find at the head of a bank, fails to examine its head office.

Q. Do you know any bank that does not?—A. No.

By Mr. Jameson:

Q. When Mr. Forgan was explaining the clearing house inspection system to us the other day, he said, I think, that the result was, not only not given to the public, but not even to the banks, unless the condition of a particular bank was found to be very bad. Is that your understanding of it?—A. I did so understand it, and so it was in the system I proposed. No one bank would have known a particle about another bank's business, unless in case of impending failure.

By Mr. Hugh Clark:

Q. The Bankers' Association does not think on the same line as the clearing house in Chicago. They have nothing of that sort at all?—A. Oh, no. It has power, by the Act, to affiliate the various clearing houses in Canada, but it has not done so.

Q. Have you noticed, in the statement of Mr. McLeod, that the percentage of bank failures in Canada is much larger than in the United States of recent years?—A. I have a most explicit statement in regard to that.

The CHAIRMAN.—You might submit it now. Mr. McLeod's statement had reference to sixty or seventy years ago.

Sir EDMUND WALKER.—Mr. McLeod's statement is really based upon the number of banks, as a basis of percentage, instead of the amount of money involved. If there were four banks in Canada and one failed, according to Mr. McLeod's statement, 25 per cent of the banks in Canada would have failed. My statement is not made on that basis, but on the basis of the real effect of the failures upon the credit of the banks.

By Mr. Nesbitt:

Q. That is the amount and percentage of losses?—A. Yes. The total is involved. I have, in the first place, a statement of Canadian banks which have failed since Confederation, eleven in number, irrespective of whether they were banks formed under the present Bank Act or not. Mr. McLeod has overlooked that important question. He should not bring in banks which could not be created under the Act. This statement shows the total loss to depositors of about $6,000,000.

By the Chairman:

Q. Will you allow that statement to go in?—A. Yes. I have a statement here, under nine headings, and as it sets out the facts I will read it. I have kept the figures before me for a number of years and had them corrected to date just a few weeks ago.

1. Total assets of Canadian banks which have failed since Confederation		$ 77,780,419
2. Total assets of Canadian banks as on December 31, 1912		1,526,081,158
3. Total liabilities to the public of Canadian banks as on December 31, 1912		1,292,451,137
4. Total losses by creditors from bank failures since Confederation		6,090,357
5. Total losses by creditors through failures of banks which could have been organized under present Bank Act		2,176,966
And these consist of 4 banks; losses by the		
Exchange Bank	$ 574,587	
Central Bank	7,083	
St. Jean Bank	296,988	
Farmers' Bank	1,298,308	
So that unfortunate catastrophe is more than one-half of all the losses by all the banks that have failed in Canada since Confederation which could have been created under the Bank Act we are discussing.		
6. Percentage of 'total assets of failed banks since Confederation' to 'total assets of all banks on December 31, 1912' (and I submit that is the correct way to judge the matter)		5·09%
7. Percentage of 'total losses by creditors' of failed banks to 'total assets' of failed banks (taking in all the banks) is		7·830%
8. Percentage of 'total losses by creditors' of failed banks to 'total assets of all banks on December 31, 1912,' is		·3991%
9. Percentage of 'total losses by creditors', through failures of banks which could have been organized under present Bank Act to 'total assets as on December 31, 1912,' is		·1426%

That is, fourteen-hundredths of one per cent, or a little over one-eighth of one per cent.

By Mr. Nesbitt:

Q. That is the percentage of total losses to total assets?—A. Yes, and it means that we have carried out our banking, from Confederation down to the present time (and having regard to the banks that can be created under the Act we are discussing), with losses amounting to a little more than one-eighth of one per cent of the total assets of the banks.

Q. Do you include depositors?—A. Yes, but not shareholders. I have tried very hard to get statistics, so as to make comparison of the United States banks with ours. I wish, in the first place, to draw attention to the fact that if you could make a comparison between here and the United States, you would have to bring in the State and Trust Banks, as well as the National Bank. We have only one system, whereas the United States has three, but we have one item which helps in the comparison, between the two countries, of the total losses of creditors to the total assets of failed banks. The figure I gave was 7·83 per cent. I have this statement from the Comptroller of the United States. Speaking of the 'results of liquidation of the 401 banks of which the affairs were finally settled at the date of the report,' he says, 'The net loss to depositors was 17·71 per cent on the amount of claims proved.' So that, in the case of the 400 banks wound up under the National Bank system, the depositors lost 17·71 per cent, and in our case, 7·83 per cent.

By Mr. Armstrong (Lambton):

Q. How long a period does that cover?—A. Something like twelve or fifteen years.

APPENDIX No. 2

By the Chairman:

Q. To make this clear: the percentage of total losses is 14 cents on $100?—A. That is right.

By Mr. Nickle:

Q. Before you branch out on the percentage of losses, allow me to say that you made a statement to the effect that you are in favour of external audit, as set out in the Act, but not external inspection. What distinction are you making between the two?—A. I did not say that. I said I thought that external audit, as recommended in the Act, was about the best thing we could do, in view of the fact that we cannot have any approach to internal inspection.

Q. What distinction do you make in the use of the terms 'inspection' and 'audit'?—A. I think that inspection involves a valuation of assets, and if you are to use the word in a general way, it involves the valuation of all the assets.

Q. Then as the Act is now drafted, you think it provides only for audit, not for inspection?—A. I think it permits an auditor to ask any questions, if he likes, but I claim it is not an inspection if he does not inspect the whole bank.

Q. Do you think the Act authorizes him to make any finding in regard to the quality of an asset?—A. I would not like to express an opinion on the meaning of the Act, but I suppose it does that.

Q. You have not read it so closely as to be able to express an opinion on that point?—A. No.

Q. Mr. Forgan, in his evidence, went so far as this. (I am transposing his evidence into the first person.) 'I would be in favour of external audit and inspection, provided this Committee could devise an adequate scheme that would prevent the State becoming involved through indirect responsibility.' Do you agree with that?—A. I do not think an inspection could be made. I do not think it is a possibility.

Q. Assuming that it were possible, would you be willing to go as far as Mr. Forgan?—A. I have explaned what an inspection of the Canadian Bank of Commerce would involve, and I submit it is not worth discussing.

Q. That is, as regards your inspection? I am talking of some internal or external inspection of head offices, as distinct from audit. Have you, as the President of the Canadian Bank of Commerce, any objection to an external inspection, supposing such a scheme could be devised? I mean, by the word 'inspection' a determination as to the methods and procedure of the bank, the lawfulness of its operations, and an expression of opinion as to the quality of its assets?—A. I can have no objection, but I believe it to be quite impracticable.

Q. Do you think it advisable?—A. I think it is impracticable. Surely that answers the question.

Q. Not necessarily. You might think it impracticable, but it is possible some others may devise a practicable scheme?—A. I should not think it advisable, in view of what I have said regarding the cost of such an operation.

Q. Is the question of cost the determining factor in your mind?—A. One of them, and the other is the difficulty or impossibility of securing the ability to do it. I do not think the banks could bear the double cost, and I do not think it is possible to get the necessary inspection ability to examine all the banks.

Q. Those are the only objections you have?—A. Yes.

By Mr. Armstrong (East Lambton):

Q. Would you place on record any objection you have to external audit and inspection?—A. I have answered that. I have no objection if the scheme could be made practicable.

By Hon. Mr. White:

Q. You have mentioned the subject of internal inspection. Do you consider that necessary in the case of your bank and the case of other banks in order to ascertain the condition of the bank from time to time?—A. Yes.

Q. Do you consider that any system of external inspection that was less thorough could be depended upon to give assurance to the public as to the condition of any bank or banks?—A. I do not, myself.

Q. Mr. Forgan spoke of initiative control. I am not sure that I quite understood him, but I gathered his meaning to be that in the granting of credits to individuals and firms and companies that the board of directors of the bank must be the responsible parties. Do you agree with that or not? I mean to say could any external inspection or external authority interfere with the granting of credits?—A. I should think not effectively.

Q. Have you any doubt?—A. None personally.

Q. Do you think there can be or should be any interference with the discretion of directors, apart always from the question of fraud, in granting credits or exercising control over the granting of credit?—A. No.

Q. Do you think that the government, or any external authority would serve any good public purpose by interfering in the granting of these credits?—A. No, I do not. I think the result might be disastrous.

Q. Have you known, in your experience, of some accounts which looked rather dubious at times, but which afterwards worked out satisfactorily?—A. Many.

Q. For large amounts?—A. For large amounts.

Q. That to the public would seem large amounts?—A. Yes.

Q. Who must exercise, in your judgment, discretion as to the handling of such accounts, whether they shall be closed out or continued? Do you think any external authority would be desirable in connection with that?—A. I do not. I can recall accounts, going back in the early days, where large provisions have been made against possible loss and where eventually that account became a splendid dividend earner, and all these advances were recovered, where nothing in the world but the intimate knowledge of the banker and the desire to pull the thing through would have been effective.

Q. With regard to your inspection staff, does it acquire, or continue to acquire, and accumulate experience which makes it more efficient in connection with a particular bank?—A. Of course, it is the accumulated experience of our inspection department that makes it of value in the work.

Q. Could any set of strangers, even men with banking experience, give a judgment on the affairs of your bank, having regard to the number of branches you have, that would be as valuable as the reports that you get from a staff having the experience that your staff has?—A. After all, they could only take the statements of our own inspectors, and if they believed them, they would follow them. But they could not themselves repeat the work our inspectors have done except at the cost I have mentioned.

Q. If a staff of external inspectors had authority to interfere with the discretion of the directors in connection with the granting of credits, or with the officials dealing with accounts would it be effectual to prevent the losses which might result from those accounts turning out badly?—A. I do not think any attempt to manage any institution from the outside is practicable at all.

Q. What, in your judgment, could external inspection get down to if there is no power, for example, of prohibiting the making of loans, apart altogether, of course, from the question of fraud? If there is no such power granted what effectual control can be exercised outside, and if none, then what good purpose does such inspection serve apart from an effectual audit?—A. You are separating an inspection from an audit?

APPENDIX No. 2

Q. Yes?—A. I do not think any government inspection should have that name, or can be carried out, which does not in effect do what we do, and I do not think it is possible to duplicate that. As to the value of the audit, auditors can come into the head office of my bank, and they can discover absolutely that the bank has been most carefully inspected by other people; and they can discuss with the inspectors whatever accounts they like, or the statements of the inspectors can be made on oath as to whether they think that every provision for doubtful debts has been made. And they can ascertain that the head office and all the branches have been carefully administered, but the auditors cannot do more than that.

Q. Regarding the volume of business, great or small, as transacted by the large banks of Canada at important centres, like, let us say, Winnipeg, Vancouver, San Francisco and London, England, would the accounts and funds there be large or small?—A. Very large.

Q. Are they larger in some cases or not at these branches than the assets, let us say, of a comparatively small bank?—A. Far larger.

Q. It has been stated that irregularities usually take place at head office. In your judgment, would an inspection of head office, as against, let us say, collusion, be sufficient to prevent impropriety in connection with the management of a bank?—A. I think the Federal Bank failed largely through losses at its branches. The mere inspection and examination by an auditor of the system of inspection of a bank would tell, of course, whether the bank itself thought that it was in a good condition.

Q. It would depend upon the report of the bank's officers?—A. He might have discovered by audit that they were not in good condition, but if they wished to deceive him they could do so.

Q. If you were responsible to the public for the inspection of all the chartered banks of Canada, would you be content with a head office investigation or not?—A. I would not, as a banker, be content with that. Do you mean as president of the bank?

Q. I mean if you were in the position of being responsible to the public?—A. I would say, as Finance Minister, that you would by the proposed audit have done as much as has been done already in England and other countries. It would not be an effective way of preventing bank failures. It would be a simple check. The auditor could be a monitor or help in that respect. You could not stop bank failures, and you could not arrive at the precise condition of a bank.

Q. What would your investigation be, an audit or inspection?—A. I would not pretend that it would be anything but an audit.

Committee adjourned until 3.30 p.m.

The Committee resumed at 3.30.

By the Chairman:

Mr. McLeod in his evidence spoke about his bank being audited by two Scotch auditors. Mr. Waters gives that much more in detail and says:

'The professional gentlemen brought from England were Messrs. D. H. Huie and J. Maxtone Graham, both chartered accountants of high standing in Edinburgh. They were appointed by the board of directors on the recommendation of Mr. McLeod, the then general manager, who had sought the advice of one of the largest banks in Scotland. They were unknown to him even by name until he had made his inquiries, his object being to engage auditors not con-

nected in any way with Canadian business and well acquainted with the methods of bank auditing in vogue in Great Britain.'

Then he goes on:

'*Auditors' Report.*

'We hereby certify that we have personally checked the cash on hand at Halifax, St. John, Montreal and Toronto. We have also verified the securities held as investments, personally examining those held by the Canadian branches of the bank, and procuring certificates by responsible business men, not in the employ of the bank, certifying to the existence of the remainder of these securities.

'We have further to report that having examined the foregoing balance sheet, and having compared the same with the books of the head office, and the certified returns from the branches, we are of opinion that it is a full and fair balance sheet, exhibiting a true and correct view of the bank's affairs as at 31st December, 1906.'

Then a little further on, in connection with that same matter:

'It was a matter of some interest to the writer to see what use auditors would make of the mass of material furnished them, but it was soon apparent that they had no difficulty in noting the weak spots. They summarized the accounts that they considered worthy of particular inquiry, and they satisfied themselves that full provision had been made for any possible loss. This work of verifying the statement of a bank, at that time of $37,500,000 total assets, and of satisfying themselves that it was a fair statement, was all done by two men in a little over two weeks.'

The principal reason why I read that was in order that I might submit to to Sir Edmund Walker and ask him whether in his experience such an audit to be satisfactory could be accomplished in two weeks?—A. It all gets back to the question whether they accepted the statement of the general manager and inspectors as to the facts surrounding the loans and the discount accounts. If they accepted them they could, of course, find the weak spots that are admitted in these reports, but I quite demur to the idea that they could find the weak spots if they were not admitted in the reports. The audit of the Bank of Nova Scotia which was no doubt in a very excellent condition is very different indeed from the audit you want to introduce in order to find out things that are wrong.

By Mr. Barker:

Q. Mr. McLeod said this about that feature of it that the auditors he had in mind, I suppose it was these two gentlemen, were at liberty to ask for particulars, to see officers personally upon any matter that they thought was worthy of inspection or supervision or whatever they chose to call it. That was always open to them, they were not confined to particular branches?—A. No, and I should think to the extent they did that it was valuable, of course they could only have the actual information that the bank gets.

By the Chairman:

Q. Would you say that the class of securities and credit in the Bank of Nova Scotia would be of the class that are typical of the general run of Canadian banks?—A. I think that there would be a very much smaller proportion of commercial loans than in other banks, and that a very much smaller proportion of their assets would want that particular kind of inspection that we are dealing with.

APPENDIX No. 2

Q. I understand by that, that while two weeks might have been ample for that inspection it would require a longer period for another bank?—A. Very much longer.

Q. If not more inspectors?—A. Of course in any bank you can put your auditors at work, but after all it depends upon how carefully a bank is administered and inspected, and the necessity of verifying statements, but if it is necessary, or if there is any attempt to go into the details it will be a very exhaustive thing.

By Mr. Sharpe (Ontario):

Q. From your experience as a banker are the reports of your local inspectors generally to be relied upon?—A. Yes.

Q. Have you ever had any reason to doubt their accuracy?—A. No, everything depends, of course, upon the ability of the particular man; it comes down to a matter of personal judgment in the loans, you know. We select the best men we can get.

Q. The banks in the internal inspection of their branches are very rigid?—A. Very.

Q. And the inspection has been perfectly satisfactory from a banker's point of view?—A. Yes.

Q. And the inspection or internal audit as it really is, is principally for the benefit, I understand, of the shareholders and directors themselves?—A. Yes; and incidentally for the depositors and everyone connected with the bank.

Q. But as I understand the attitude of some of the banks is that they feel that the shareholders owning the business and the assets, are the only people who should have a voice in the selection of the auditor and inspector?—A. I should think so.

Q. That no person else has sufficient financial interest to justify a voice in the selection?—A. They might have an interest but they haven't the right.

Q. The inspection that some of us, who have taken a little interest in this matter, desire, is the external inspection that would satisfy say the general depositors. We have had some unfortunate experiences in this country. I represent a depositing constituency. We get very few loans from banks in my constituency, and therefore I am interested from the point of view of depositors. The audit that we are striving for, or striving to modify, is not to supplant the present system of inspection, but rather to supplement it. Do you see any objection to an external inspection, supplementary to your inspection?—A. I have never objected to external inspection of any kind that was practicable, and that would not tend to deceive people into thinking they had more assurance from it than in the nature of things they could have.

Q. Do you think it would help to mitigate the losses?—A. I do not think it would affect the losses very materially, but it would at least do some good.

Q. The losses which have resulted in the failure of banks have occurred largely at head offices?—A. That statement has been repeated over and over again, but I doubt if it is true. The Federal Bank, for instance, which was a very bad failure indeed, was almost wholly due to the branches.

Q. But the failure of the Sovereign, the Farmers' and the Ontario Bank was due to the head office?—A. It happened to be, in those cases.

Q. There has been a widespread agitation amongst the newspapers and some banks, for a system of government inspection?—A. I do not know of any banks that have advocated it.

Q. The Bank of Toronto said they did not object to a government system of inspection?—A. I do not know, I am sure, whether they did or not.

Q. At their annual meeting the Traders' Bank passed a resolution, moved by Mr. E. F. B. Johnstone, favouring government inspection?—A. Or audit?

Q. I think government inspection?—A. I do not know about that case. External inspection, of course, is not government inspection.

Q. I have the resolution here, and I will just read it. 'Moved by Mr. E. F. B. Johnstone, K.C., seconded by Mr. J. S. Williamson, and carried, in these terms:—'Resolved, that the shareholders and directors of the Traders' Bank of Canada place

on record their hearty approval of any legislation of the Dominion Parliament whereby an independent examination and audit, under the direction of the government, of all Canadian banks shall be made from time to time.' The resolution goes on further, but I will not read the rest of it?—A. That seems to be an audit, but they bring in the words 'under the government.' I think what they had in mind was an audit such as you are discussing. I think that merely meant an obligatory audit, but I cannot profess to know.

Q. Any system that would be supplementary to the present system and would tend to check losses in the future, would not be objectionable?—A. No, if it does not deceive the people into thinking they have more assurance than they really have.

Q. Mr. Forgan, in his examination, said that he was in favour of the present system of government inspection in the United States, although it was not as efficient and effective as it might be?—A. Mr. Forgan said a great deal more than that. What Mr. Forgan said was that with 27,000 individual banks in the United States, he did not see how they could do without government inspection. He said, further, that it was very ineffective, and that in the large cities they had adopted the clearing house system in place of it.

By Mr. Sharpe:

Q. On page 44 of the evidence, he was asked 'Would you recommend the abolition of the external inspection now undertaken by the United States Government?—No, I would not. You believe in that?—I believe it does a very great deal of good.' Again, on page 28, 'Do you not think external inspection would have a tendency to prevent lawless banking?—Yes. The principal advantage to be had from external inspection, in the minds of the managers, is the fact that it exists. They know they are to be inspected and they will keep their affairs in order, to meet it. That is a great advantage. It is preventive rather than punitive. We find a very decided advantage in the United States, even from the government inspection, from the mere fact that we are inspected.' Do you agree with those sentiments?—A. For the United States, yes, but I think there is no analogy to be drawn between the United States, where they have 27,000 banks, and this country. Mr. Forgan told us quite emphatically that it was of so little service that they had established, in their cities, inspection systems of their own which are akin to our internal inspection.

Q. On page 44 of the evidence, we find this: 'So it is generally agreed by bankers all over the country that some system of external inspection, independent of the directors themselves, is advisable?—Yes. It is desirable.'—A. Some system of external inspection, that is different altogether.

Q. Are you in favour of external inspection?—A. I have said that I think the audit proposed in this Act is the best thing that can be done, in view of all the difficulties.

Q. That was not the system of external inspection Mr. Forgan was speaking about. He says: 'independent of the directors themselves'?—A. They have not got audit in the United States. They have only the two systems. One is the government inspection and the other is inspection through clearing houses.

Q. Does not each bank have an independent inspection of its own, the same as you have?—A. Oh, no. Most of them have no system at all.

Q. They have no auditor going in to inspect the banks at all?—A. Oh, no. The big banks may have, but 26,500 of the 27,000 banks probably have not. The government does all that.

Q. In regard to the Canadian system, are you in favour of any system of external inspection, apart from the shareholders' audit?—A. I am not in favour of a government inspection, if that is what you mean.

Q. Or a system of inspectors appointed independently of the shareholders?—A They would have to be appointed by the government, would they not?

APPENDIX No. 2

Q. Not necessarily. Mr. Henderson said he was revolving something in his mind, whereby they would be appointed by machinery he was going to suggest to the bankers?—A. I cannot myself imagine the machinery.

Q. Mr. McLeod suggested a system whereby they should be appointed by the managers of the banks?—A. I spoke of such a system this morning, which I brought forward myself many years ago, but the trouble is that it involves the banks of Canada becoming responsible for the standing of each other, and they are unwilling to assume that responsibility. Undoubtedly the most effectual system would be an inspection of the banks by the banks, but both the banks and the people generally are against it. The banks feel they would then be standing up before the public liable to be charged with responsibility if any bank failed.

Q. Mr. Forgan stated in his evidence that the experience of the United States' people, and his experience, would not lead him to believe that the people looked to the government if the bank failed?—A. I think our people would look to the banks.

Q. They do not look to the government in the United States, Mr. Forgan says? —A. Perhaps not, but the public there are different from here, in that respect. Our people have looked to the government in such cases.

Q. Relying upon the reports sent in by the various branches, you have a knowledge of the substantial condition of your bank. Would you be secure by an inspection of head office?—A. Yes, by an audit of head office.

Q. Speaking about the percentage of failures, Mr. McLeod stated that during the period from 1881 to 1908, bank failures in Canada were over 41 per cent, while the failure record of traders and manufacturers showed, for the same period, less than 29 per cent. Again, speaking at page 42, he says: 'In Canada, within that time, 19 banks have gone to the wall, most of them with records of fabricated balance sheets. Twenty-nine banks remain. Australia, despite the crises and suspensions of 1893, has a failure record less disastrous than that of Canada. Bank failures in the national system of the United States, under government examination, shows a percentage of 5·14 of the total number of National Banks some time in business since 1864; against 36·2 per cent for Canada in the same period.' ould you say that record was against the Canadian system at all?—A. Were you not here this morning? Did you not hear my report on bank failures?

Q. I do not know on what you based your calculation?—A. I based my calculation upon the facts of Canadian bank failures. I do not know how Mr. McLeod made up his statement. I gave you all the failures that took place since Confederation, eleven of them, and of these only four credited to the banking system we are discussing.

Q. Mr. McLeod apparently goes back to 1864?—A. I did not go back to 1864, but to 1867. The failures since Confederation have been eleven in number, and of these four, I think, have to do with this Bank Act. My figures are incontrovertible, because they are based on the exact returns of the liquidators of banks, and if they do not agree with Mr. McLeod's, I cannot help it. I did not understand Mr. McLeod's statement.

Q. I assume he was quoting the facts too?—A. I am not traversing his facts; I am simply saying I have made a statement of the facts as I know them.

Q. In view of the disastrous failures that have occurred in Canada recently, can you suggest any improvement in the Act, to prevent such failures in the future?—A. On the question of inspection, I have said that I do not see anything that can be suggested better than the audit carried out in England, Australia and other countries, but I do not believe that any system will entirely prevent bank failures.

Q. Do you think that the audit provided by the present Act would bring about any changes in the appointment of auditors of the banks? What I mean is this: I understand that now directors appoint the auditors to audit head office?—A. The present auditors are, of course, bank officers. The executive of a bank appoints inspectors and auditors, and they audit the head office as well as everything else.

Q. Would not that same result be obtained by this Act?—A. Inspection of head office is only one of many departments that exist in banks.

Q. In your experience, do the shareholders take a very active interest in the annual meetings of the bank?—A. It is rather difficult to get them to attend, unless you pass dividends.

Q. So, substantially the directors have the matter in their own hands at the annual meeting?—A. To the same extent as they have in almost every joint stock corporation.

By the Chairman:

Q. Might I ask if you can make any suggestion as to the best method of securing really competent auditors? Have you any suggestion to make as how the shereholders who appoint the auditor at the annual general meeting, may be constrained to appoint only competent auditors?—A. That is a very difficult question of course. In the first place, it is very vital that they should be competent men. Quite a number of ideas have passed through my mind, and I hesitate to make the only suggestion that occurs to me as valuable, and that is, that the general managers of banks should create a rota, or list of men that are fit to fill the office of auditor. They could have that published, perhaps in the government *Gazette,* in order that the public should know, and from that list the auditor could be selected. I would not select the bankers to make up this list, if I knew of anyone else capable of doing it, but I do not know of any other body competent to judge.

By Mr. Nesbitt:

Q. Could not the managers select a certain number of names and submit them to the Finance Minister, and if the Minister thought the men were qualified, he could allow the shareholders to select from that list of names?—A. That is the same thing. I spoke of publishing the list in the *Gazette.* That would be, of course, the government.

Q. There could be a nomination on the part of the bank managers, and an appointment of all or part by the Minister?—A. I merely had the idea that the banks, as a whole, might be made responsible for selecting the list of men who were fit for auditing banks. Out of that list the majority of the shareholders would select their auditor, or if the minority clause stands, the minority would select their auditor, but they would be confined to this list, from which to make a selection.

By the Chairman:

Q. What class of men, presumably, are capable of auditing a bank?—A. Experienced chartered accountants.

Q. And ex-bank inspectors?—A. They might be very much better sometimes than chartered accountants, but that, again, is a subject for discussion.

Q. You would not confine this rota to chartered accountants?—A. I had simply thought of chartered accountants, because I thought that was the feeling of the public regarding it. Of course, the ex-bank inspector would probably be more apt to detect what was wrong in the bank than a chartered accountant. I should think if the banks decided on a long list of names out of whom any set of shareholders would make a selection, you would have a good guarantee that your auditors were not men of straw.

By Mr. Clark (North Bruce):

Q. You said a little while ago that the inspection made by the Clearing House Committee in Chicago and those other cities, is akin to the internal inspection of Canadian banks?—A. Yes.

APPENDIX No. 2

Q. As I understood Mr. Forgan, this Clearing House Committee is appointed by the different banks in Chicago or the other cities. Each one is a check on the other, and any bank that fails to come up to the standard loses its clearing house privileges. Do you mean to say that you have anything of that sort in Toronto or in any of the large cities here?—A. No, it was not in that respect I thought they were similar. They are not similar in that respect. They are similar when they make an examination if you choose to consider a group of clearing house banks for a moment as like one big Canadian bank. They are making a thorough examination of their own affairs for their own information, and they do not give that information away to the public, and therefore they are only responsible to themselves, and if they make a bad examination and one of their number fails the losses fall on them. That is what I meant.

Q. Has any other bank any check upon your bank?—A. I did not mean that they were alike in that respect at all.

Q. I would like to ask another question, and you need not answer it unless you like. I would like to know whether you think this government audit, this public or external audit, would have prevented the failure, say, of the Farmers' Bank?—A. I think that it probably would have prevented the failure of the Farmers' Bank.

By the Chairman:

Q. That is the shareholders' audit, such as is mentioned here?—A. Yes, the shareholders' audit that is mentioned in the Act.

By Mr. Sharpe (Ontario):

Q. You mean an external audit?—A. That is an external audit.

By Mr. Clark (North Bruce):

Q. I mean the audit provided for in this Act.—A. I think it would have prevented even the starting of the Farmers' Bank.

The CHAIRMAN.—In your mind, Col. Clark, you had the shareholders' audit mentioned in the Act?

By Mr. Clark (North Bruce):

Q. You believe it would have prevented even the starting of the Farmers' Bank? —A. I think it would, if the Act required that an examination by auditors should be made at the moment of starting a bank. Had that been done I do not think the bank would have even started.

Q. Would you care to give us any further information on that point?—A. We know that the stock was not subscribed, do we not? If the Act provided that no bank be allowed to commence business before a first audit had been made you would discover whether the stock that is supposed to be subscribed had been so subscribed, and the bank would never have been started.

By Mr. Sharpe (Ontario):

Q. Did the Farmers' Bank not have an auditor appointed by the directors or manager to audit their accounts at head office?—A. You mean to say a bank inspector?

Q. Yes.—A. Yes, I believe they did.

Q. Does the auditor with you report to the manager?—A. Very few banks use the word auditor, and we use it only for those who check accounts, and not for those who consider the value of loans. They had a bank inspector.

Q. If then this system had been operating and Travers had control of the directors, and supreme command of the officers of the Farmers' Bank, as he apparently

did, and this inspector was appointed, the same result would have happened as did happen?—A. I do not think that follows if he were an auditor of the class we are talking of, a man with a status before the public as a chartered accountant.

Q. Did Travers employ a chartered accountant?—A. He only employed one of his salaried officers from the staff of his bank as inspector.

Q. Is it the present system of banks to employ their staff?—A. Certainly. But I was asked whether an audit such as is mentioned in this Act would have prevented the Farmers' Bank from failing, and I may say I think it would have, although their own inside inspection did not.

By Mr. Cockshutt:

Q. Do you think an improper inspection would be of very material value to the country?—A. I will put it in this way: I admitted that it would have stopped the failure of the Farmers' Bank. On the other hand it would create a delusion in the minds of the people that they are protected in a way that they are not protected.

Q. Do you think it is a fair proposal to inspect a concern that is really not a going concern? You would have these inspectors say whether a bank was in a position to start business?—A. The troubles in Canadian banking have not occurred to any very great degree from Canadian banking, but through institutions getting established wrong in the first place. If the Finance Minister had some way of ascertaining that the conditions required by this Act had been complied with, before the bank began business you would certainly have stopped the Farmers' Bank from starting. That is what I mean.

Q. You think an auditor or inspector would discover that in time to prevent it from starting?—A. It would be his business at that moment to go over the stock subscription and see that they actually had these subscriptions, then to see that they had the money in actual cash, and that they had no liabilities against the money.

Q. Do you think that should have been done before the certificate warranting them to start had been issued?—A. I think it would be one of the most valuable things about an audit.

Q. Would that have a tendency to stop the formation of new banks?—A. That is what the public who are so critical in another direction just now would have said at that time.

Q. We would be open to the charge that we are trying to reduce the number of banks and make it difficult for a bank to get started.—A. We are very sensible that there was a great deal of feeling of that kind on that occasion, although it has turned in another direction now.

Q. Presuming this outside or government inspection is gone into do you think that the number of failures would be materially decreased?—A. You mean the audit —you do not mean the government inspection?

Q. I mean audit or inspection.

By the Chairman:

Q. Let us clearly understand whether you mean a government inspection or a shareholders' audit as mentioned in the Act.

Mr. COCKSHUTT.—I mean a government inspection, or the inspection for the government provided in the Act.

Sir EDMUND WALKER.—I am opposed to such a thing.

Q. You are opposed to it?—A. I have merely been speaking regarding the audit.

Q. I understand from your reply to Mr. Sharpe that you are not opposed to it, that you are not opposed to an external audit, but to a government inspection?—A. I was speaking about the audit as described by the Act.

Q. You are opposed to government inspection?—A. Yes.

Q. You draw a distinction between the two?—A. I do, yes.

Q. Between an audit by an auditor appointed by the shareholders and one that would be provided in the new Bill, a kind of government inspection?—A. Yes.

Q. In your judgment would one auditor be sufficient to do the work of one bank?—A. I think it would be a better plan to appoint two.

Q. You think two would be necessary?—A. You have to appoint them one year in advance in any event.

Q. Would these be high-salaried men?—A. I should think they would have to be pretty high-salaried in the case of our own bank.

Q. Do you think the cost of that should be shouldered by the bank by the shareholders or by the public, or how should that cost be provided?—A. I do not think that is a fair question to ask me.

Hon. Mr. WHITE.—It is placed on the bank in the Bill.

By Mr. Cockshutt:

Q. But, Sir Edmund, apparently does not approve of that?—A. I have told what it costs us inside, and it is pretty hard to add the other too.

Q. What would you think would be a fair salary for a man competent to make an external audit?—A. I have not the least idea. I can say quite frankly that we do not know what labour it is going to involve. I do not know what it is going to cost us. I showed you this morning what it cost for our inside inspection, but what this will cost I do not know. We shall have to find out by experience.

Q. In case it is decided that there is no external audit the people would really have a grievance if a failure did occur after this inspection had been made. You have stated the public would place more reliance on it.—A. Do you mean they would be justified in having that grievance against the government?

Q. Would they be justified in having a grievance against the government?—A. No, they will not be justified in having a grievance if they read the evidence taken before this committee, but how far will they read it?

Q. You would not care to express an opinion whether they have a grievance or not?—A. I do not think they would be justified in having a grievance but I think they will believe they have a grievance all the same.

Q. You would not care to say whether that would properly fall upon the particular bank management or upon the government?—A. It will fall on the bank management without any doubt, but whether it should fall on the government is the point.

The CHAIRMAN.—The remuneration of auditors appointed by the shareholders shall be fixed by the shareholders at the time of their appointment according to subsection 10, page 25.

By Mr. Cockshutt:

Q. That means as far as the bank is concerned?—A. We have to pay it.

Q. And a large bank would require a great deal more inspection?—A. Than a smaller one.

Q. The expense would be greater in one case than in others. Probably one would be sufficient in a small bank, and a large bank might take two or three auditors.—A. I think that you ought to have two in any case. You have to appoint them a year before, and a man might die, and you cannot risk falling down in that respect.

By Mr. Nesbitt:

Q. You said just now that you thought that an external audit would have prevented the failure of the Farmers' Bank if the audit had been made before the bank had been started. Do I understand that it was upon that condition you thought it would have prevented it?—A. No, I did not put the 'if' in myself. I was speaking in both cases of an audit.

Q. As a matter of fact, there is no suggestion in this Bill that an auditor shall audit the books before the bank is started. There is the suggestion to give the minister more power to look into the organization of banks which is very proper, and nobody objects to that. But as a matter of fact there is no suggestion to have an auditor audit the books before the bank starts. Now, the liquidator of the Farmers' Bank told us quite frankly that no possible inspection would have prevented the failure of the Farmers' Bank, which was caused by a certain loan; and that certain loan would have been made no matter had there been inspection or not, because the inspection would have been afterwards. What do you say as to that?—A. If that is true, of course his view is correct. I do not know enough about the Farmers' Bank to answer that question. You mean that the loan to the Keeley Mine would have been made and only found out afterwards by the auditor?

Q. Exactly.—A. That is undoubtedly true, and therefore an audit would not have stopped that. I had more in my mind the fact that an audit should first be made immediately after the creation of the bank, or perhaps before the moment of starting.

By Mr. Clark (North Bruce):

Q. That loan to the Keeley Mine was not made all at once?—A. I should not discuss that. I do not know the affairs of the Farmers' Bank well enough to discuss it.

By Mr. Sharpe (Ontario):

Q. If the manager of the Farmers' Bank knew that an auditor would step in upon him, an external inspector, it is not likely that he would have made that loan? —A. I do not know Mr. Travers well enough to answer that question.

Q. Is not the moral effect very powerful?—A. It should be.

Sir EDMUND OSLER.—If the department had power to inspect the subscriptions before the Farmers' Bank was allowed to start I think that would have prevented its establishment.

Hon. Mr. WHITE.—I just wish to address myself to that for a moment. In the new Act we have provided that no subscription is to be deemed bona fide unless 10 per cent is paid. I may say that the department for a very considerable time past has been in the habit of examining in connection with all applications to the Treasury Board for license, all the books of original record of the bank with a view of ascertaining whether the subscriptions have been made, that they are bona fide, and that the amounts stated to have been made in respect of these subscriptions have been paid, including the subscriptions themselves. So that I think it is not probable that the difficulty that has been referred to will arise again, or at least the conditions which have been referred to will arise again, having regard to the amplified provisions of the Act, and really this has been in vogue in the department for some time.

By the Chairman:

Q. Have we finished with section 56, inspection?

By Hon. Mr. White:

Q. Just one question in connection with that. Your last answer suggested it in connection with the loan on the Keeley Mine stock. Assuming that there is either inspection or audit, it doesn't make much difference which, for the purpose of my question, who would have the power to determine in the first instance whether that loan should be made?—A. The general manager and directors of the bank.

Q. I understood you this morning to say that you did not see how that discretion should be interfered with; are you still of that belief?—A. Yes.

APPENDIX No. 2

Q. Would it be possible at any particular stage to say: Now this loan has gone far enough? Or in whom must that discretion be vested if there is to be any limit on fraud apparently connected with it?—A. I could not say. If the auditor were very much alarmed he could report to the shareholders direct.

Q. Would an auditor under any audit system in vogue in connection with chartered companies, that is an auditor of good standing, if anything attracted his attention that might suggest fraud, impropriety or danger, in your judgment be likely to call it to the attention of the board or not?—A. I should think that he would call it to the attention of the board, and that the board would satisfy him it would be rectified. If they did not satisfy him he would at least refuse to make the next audit.

Q. You would conceive that to be within the duties of the auditor as the term is usually understood?—A. I presume so.

By the Chairman:

Q. Section 61, Emergency Circulation. The proposal of the minister is to establish central gold reserves, as set forth in the printed copy of the Bill. Will you give us your opinion regarding the idea of a central gold reserve and a deposit of gold as against the issue and circulation of the bank's own notes?—A. I have personally advocated among bankers for at least seven or eight years such legislation as this. There are three conditions that face us at the present time in Canada in connection with the circulation, one is the necessity almost every year of issuing up to the entire amount which we are authorized to issue against our paid-up capital. The second is the necessity of using the emergency circulation as a circulation of exactly the same kind as that against the capital, during the period when the crop is being moved. But we have another condition here altogether different from these. It is the condition where the bank is using its full circulation against capital, and is using its emergency privilege, (or does not use it because it does not wish to pay interest to the Government for using it), and requires still more circulation for its customers. It has the money but has not the actual counters to do business with. It has gold but it needs bank notes. In all other countries in the world if the bank has circulating power such as we have it is not called upon to put out the notes of any other bank or the notes of the Government or any other kind than its own notes, so long as it has actually the specie to secure those notes. We have been in the condition I have described more than once in connection with the moving of grain in the West; we have been in the condition of having the money but not having the actual five and ten dollar bills on the counters with which to do the business, we have had to ask the Government to provide the counters and keep this gold for us, to warehouse the gold and to assume all the responsibility and the expense which is certainly a very wrong thing, and the Government will not be satisfied to do it forever. Therefore I conceived the idea of a Central Gold Reserve, the custody of which will be as safe as the Bank of England, and that as long as the bank had in that reserve a five dollar gold piece it should be able to issue a five dollar bill against it. This would have the effect of making it impossible for any bank, so long as it had the money to lend, being without the currency to pay across the counter. It may easily be that with the growth of this country that in ten or fifteen or twenty years from now there may be a hundred million dollars of currency of that kind, there may be more currency of that kind authorized than the currency authorized against bank capital. This country as it grows rich and goes along will certainly develop a large circulation of that character. The presence of a gold reserve like this in Canada, even when the paper counters are out in the hands of the people will have just the same effect upon our national credit as the presence of such a huge amount of gold in the Government vaults. It does not belong to the Government or to the people generally. It belongs to all individuals who hold the paper money. It will be a means of strengthening the credit of this country, it

will above all things help the banks in their duty towards the country, in always having in readiness the currency necessary to do business. The only criticism was by a very dear old friend of mine, Mr. Hague, who has been out of the banking business for a good many years, and that is that the gold we deposit against these notes would to that extent lessen the bank reserve. It would not have that effect at all, because if we did not pay the gold into the central gold reserve in order to issue notes, we would pay the gold into the hands of the Government and take out Dominion notes. There is absolutely no difference between the one situation and the other.

By the Chairman:

Q. Is there no difference between issuing your own note, which is a liability, and issuing a Government note?—A. Why no; in the one case we have a liability and a five dollar gold piece against it, and in another case we have paid out the five dollar gold piece.

Q. Your note is a liability when cashed and the gold is in the Government's hands?—A. No, in the one case we have put out a five dollar note for which we are liable, for which reason we have a five dollar gold piece in the central reserve against it. In the other case we have given a five dollar gold piece to the Government and bought its note, so that it absolutely does not make any difference.

By Mr. Armstrong:

Q. What would be the benefit to be derived by the bank from the increased circulation?—A. The benefit to be derived from it would be that the bank would have currency enough with which to do its business, and that without increasing its capital, provided it has enough gold. That is to say it could not be in the position of having the money as it may now and yet of not having the actual counters with which to do its business. We have seen the situation in our own bank when we have had to import United States currency with which to pay for wheat bought in the Northwest. That was before the department issued five dollar notes. What we want is a condition where there will be sufficient counters to do business.

By Hon. Mr. White:

Q. Does it give you any added privilege or franchise to make money?—A. We lose money. We must pay for the warehousing of the gold, and we must also pay for the cost of the notes. We must bear all that expense and have no profit from it whatever except the incidental advantage of never being in the position of having money and not being able to lend it to the people of the Northwest to move their crop.

Q. You can pay in gold all over the world?—A. If this country would like to have gold we would not need the privilege at all.

Q. Would they take gold?—A. They do not want gold. There is only one country in the world where gold is freely used, and that is in England, and the result is not beneficial.

Q. What will your bank be paying out if this becomes law?—A. Our own notes secured by gold.

Q. Secured by gold?—A. Which we might pay out if we did not have this paper to take its place.

By Mr. Armstrong:

Q. Why are you not ready to pay out these notes now?—A. Because we can only circulate to the amount of our paid-up capital plus the emergency.

By Mr. McCurdy:

Q. At the present time your circulation is limited to your capital, you cannot exceed that limit, as between the actual notes in circulation and the amount of your capital, there is always a certain margin. Under the new 'central gold reserve plan'

is there not an advantage there, which will allow you to issue to the maximum?—A. Yes, there is some advantage. Let me illustrate what Mr. McCurdy means, because it is quite right that that should be explained. My own bank has the right to circulate $15,000,000 of notes; if we get up to $14,500,000 we are in a state of tremor as to what we are to do, because we are near the danger line. If we had this right to deposit gold in the central reserve, we put that gold there and can go on right up to our $15,000,000 and over it, and nothing can happen, because we have already covered in advance of such a condition.

By Hon. Mr. White:

Q. Is it safely covered?—A. It is covered beyond peradventure of loss.

By the Chairman:

Q. What percentage does your bank carry of liquid assets against your call liabilities?—A. About 40 per cent of all kinds of liquid assets.

Q. Supposing you had three million dollars of gold you had deposited with this cash reserve and circulating two millions in addition of your own notes, would your percentage of liquid assets to call liabilities be the same?—A. Yes, but those particular liabilities would have 100 per cent against them.

Q. But would not the 100 per cent that was taken to cover these particular liabilities have been deducted from your liquid assets to offset?—A. Not in any different way than they would be if we had paid out the gold.

Q. Woudn't it have the effect of increasing the first mortgage as against the second mortgage?—A. No, if we were willing to lend that money we could lend two million dollars in gold now, or get Dominion notes for it.

Q. If you loaned $2,000,000 on call your liquid assets would be decreased that much?—A. Certainly, if we decided to make loans.

By Hon. Mr. White:

Q. Will you allow me to put it this way? Are there not three alternatives under the provisions of the Act; the first to issue your own notes against deposit, secondly to pay out the gold itself if the people take it, because it is legal tender; third, to exchange the gold for Dominion notes and pay them out?—A. And pay them out.

Q. Is there any difference between all these processes?—A. There is no difference whatever in the result to our reserve, the question is only one of cost. We ought to bear the cost, the Government will not continue to bear it, as the years go by.

By Mr. Aikins:

Q. In the one case the Government holds the central reserve as trustee for your bank, and in the other case the bank holds the reserve itself?—A. It does not hold it as trustees for us, but it holds it against its own obligations.

By the Chairman:

Q. As a matter of fact is it not a fact that your customers will not take gold and that causes the amount of your liquid assets to attain a larger proportion to the liabilities than it would if the gold was in something the customers would take?—A. I fail to see how that is the case.

Q. So that I think it would have a tendency to increase the ratio of your liquid assets?—A. No, it would not affect our resources in any way whatever.

By Hon. Mr. White:

Q. I think the mistake comes in this way, if it is a mistake. Can a bank have out and hold out an unlimited amount of circulation or not?—A. No, it can only have the amount that the activity of its transactions require at any particular moment.

Q. Suppose you had the right to put out a hundred million dollars of notes tomorrow?—A. It would not do us any good at all, we would keep out just exactly what the activities of our business wanted. For over thirty years the Bank of Commerce had the right to put out $6,000,000 worth of notes and could only put out about $3,000,000.

By Hon. Mr. White:

Q. Let us assume, for a moment, that you had to put out $5,000,000 of note circulation, in addition to the note circulation which you are authorized to issue, as against your paid-up capital. Let us say it appeared to you that your reserves were getting lower. What would you do? Would you or would you not have the same policy with regard to your liabilities in the future as in the past?—A. Absolutely.

Q. In other words, if you put up notes you have assets of some kind representing them. If you were getting into a position of non-liquidity, what would be your policy to-day?—A. If we were willing to make the loan to-day, despite our low reserves (as we might in time of stress) we would do it with our own notes instead of gold or Dominion notes, and put the gold or Dominion notes in the central gold reserve.

Q. Is there any question of affecting the liquidity of banks by the establishment of these gold reserves?—A. None whatever. The moment the notes that have been issued in this way come back into our hands, the gold in the central gold reserve becomes automatically part of our bank reserve.

By the Chairman:

Q. As a matter of fact, taking it over a term of years, is the percentage of liquid assets, as against liabilities, as great as ten years ago?—A. I do not know about ten years ago, but the percentage is not so great as two years ago. We endeavour to keep 40 per cent in liquid assets.

Q. Has that declined in the last ten years?—A. It has declined this year, as compared with a couple of years ago, when money was a great deal easier.

Q. If it declines in a tight year like this, is it the policy of the bank to get up to that again?—A. They have the country to take care of and they have to make that to some extent the prior obligation.

By Mr. Hugh Clark:

Q. Do you find that gold is circulated to a greater extent, than before, now that we have our own mint?—A. No. I have not often seen a piece from the Mint.

By Mr. Cockshutt:

Q. Do you say the public will not receive gold from the banks?—A. Oh no. I did not say that, but it is not the kind of circulation that people want, and it is a very wasteful kind of circulation.

Q. It obtains in all great countries of the world.—A. It does not obtain in all great countries of the world, only in Great Britain.

Q. And in Germany and France?—A. Not to any great extent.

Q. But to a considerable extent, and in Australia as well. She circulates a large amount of gold. As a matter of fact, the public could not refuse gold if you offered it to them.—A. No.

Q. The law makes it legal tender?—A. Yes.

Q. Cannot the circulation be increased by putting out gold in times of stress?—A. It would be an extremely foolish and expensive thing to do; that is the objection to it.

Q. That would look as though we were embarking on a wrong policy in minting gold coin at all?—A. I do not know that we are discussing the Mint. I have always looked upon it as a piece of great foolishness.

Q. Some bankers were in favour of it.—A. Only one.

Q. I think a very prominent and sagacious one.—A. I cannot help that. He is the only one.

Q. Representing the Bankers' Association.—A. He is the only banker. He is the only one I ever heard of in Canada who favoured the Mint.

Q. It seems to me a strange thing to say that gold will not be accepted by the people of Canada.—A. I did not say anything of the kind. I said the people of Canada prefer paper money. All the people of North America do. There are very few countries where the reverse is the case. In England they are forced to use gold because the Bank of England only issues a five pound note, and some of the greatest bankers in England have deplored that fact as very hurtful to their gold reserves. It is because of this that France seems to be so much richer in gold than England.

Q. Why?—A. Because in France the gold is in the central reserve and the paper notes are in the pockets of the people. In England the gold is in the pockets of the people.

Q. It is very wasteful?—A. It is very wasteful. I hope we shall never have it in this country.

By Mr. McCurdy:

Q. Do you anticipate that there will be a large amount of these 'excess bank notes' issued under the central gold reserve plan?—A. As the years go by, because of my belief in the growth of Canada, I should think there would be.

Q. The existing bank note system has been safe and satisfactory?—A. Oh yes, eminently so.

Q. In 1890 when the existing plan was adopted the ratio of bank circulation to total assets was 14 per cent, and it has gradually reduced until it is now about 7 per cent. Would it not be a better plan to allow the banks to issue up to a certain percentage of their assets, say 14 per cent, which has been found by the experience since 1890 to be safe?—A. You are entering upon a cognate but different subject. If you ask me what I consider a scientific basis for credit circulation, I should say it is the relation to the turnover of the bank, or to the total assets, and not to an arbitrary thing like the issue of an amount equal to its paid up capital, but I think the public mind is pretty well wedded to the present idea.

Q. If that is a scientific basis would it not be worth while for the Committee to consider it now? It would not necessarily be 14 per cent, it might be 10 per cent? —A. If you gentlemen are willing to make the circulation 10 per cent of the bank's assets, instead of 100 per cent of its capital, you will have helped out the bank's circulation privileges very materially.

Q. It would be in the best interest of the public, would it not?—A. I think it would.

Q. Is there any objection to it?—A. The only objection is that assets are, of course, a constantly changing quantity. The bank may suddenly find itself with an over-issue, which it is unable to control. But in my mind there is no doubt that the issue of notes (which is dependent upon the activity of the bank's business) has a scientific relation to its total business, a great deal more so than to its capital.

Q. If that is so, I do not see why we should not consider it. The last banker who favoured us with his views said it was not advisable?—A. I do not say it is not advisable. I think the public has a very fixed notion as to the relation between paid-up capital, double liability and note circulation, but all the same, I remember in our own experience we only issued three millions at one time when we had the right to issue six.

By Mr. Nesbitt:

Q. I ask you if the deposit of gold reserves will do away with the emergency issue?—A. No. I think it should not. They are two different things.

Mr. Thompson (Yukon):

Q. Why are you opposed to the establishment of a Mint in Canada?—A. Because we can only make money out of coining silver, and we did that at a less cost before, I fancy. I do not know that I have any desire to discuss the subject of the Mint. I was asked a question in regard to it and I expressed my opinion.

Q. It is very pertinent to this clause. It is a question of coining our own money or going to the United States or England for it, as we have always done before the establishment of the Mint. Is it not much better for us to coin our own gold in this country?—A. No. I should think not.

Q. Why?—A. Unfortunately we are a nation that imports more than it exports, and we have to pay our debts to Europe mainly through New York. Gold is mostly useful for international purposes, and therefore United States gold, which can be used in New York, or British sovereigns, are the kind of gold that in the last analysis we want.

Q. Can you not use Canadian gold in the United States?—A. No, it is not legal tender.

Q. Not if it is of the same weight and fineness as United States gold?—A. That would not help if the people would not take it.

Q. But is not gold of the same value there?—A. You cannot get the people to take it. In this country the United States ten dollar gold piece is legal tender and the British sovereign is legal tender, but in the United States Canadian gold is not legal tender.

Q. Is not gold the same value all over the world, except for the cost of transporting it; I mean gold of a certain fineness and weight?—A. No. If you were to take Canadian gold and try and pay debts in New York with it, the gold would have to be sent to their Mint, melted down and there would be a very substantial loss on that transaction. You would only have the value of the gold that remained.

Q. As a matter of fact, gold of a similar fineness is just as valuable in Ottawa as New York, except for the cost of transporting it between these two points?—A. I have just illustrated to you that it is not.

Q. I mean the intrinsic value?—A. The intrinsic value, yes, but gold is only useful for international exchange.

By Hon. Mr. White:

Q. Suppose you had a million dollars to pay in New York. Would Canadian gold be of any use in paying it?—A. No use whatever.

By the Chairman:

Q. If there are no more questions on that, let us go to 61 B. It is proposed that banks should pay an annual tax for the privilege of issuing bank notes. Do you wish to speak on that?—A. If I might be allowed to read the only paper I have, on the profits of banking, I may perhaps remove a large part of the objections to banking which rest on the idea that it is an unduly profitable business. If the Committee will allow me to read a paper on this subject, I think it will settle the question of taxation.

'Much of the criticism of Canadian banking seems to arise from the idea that it is an unduly profitable business. I have thought it best to begin by a statement of the profits of one hundred businesses selected from forty-nine different callings, covering a very wide range of industry. This is followed by a statement of the profits of British and Canadian banking, all upon the basis of the earnings applied to the real capital—that is, the capital and surplus, or rest, combined:—

APPENDIX No. 2

1. *Profits of 100 industrial businesses in Canada:*
   Capital and surplus.. .. ..$76,044,587
   Profit.. .. .. 13,563,363. Percentage 17·84
   In many cases there is good-will included in the capital, and if this could be removed the percentage would be higher. A bank cannot capitalize good-will, or any other intangible asset.

2. *Profits of 10 British banks:*
   Capital and rest.. .. .. £3,979,300
   Profit.. .. .. 465,695. Percentage 11·70

3. *Profits of 19 Canadian banks on Capital and Rest:* Percentage 8·84
   If argued that Rest was made out of banking, show that $48,228,000 out of Reserve Funds of $106,872,000 was paid in as Premium on Stock. The remaining $58,644,000 was accumulated mostly by the older banks over a period of 40 to 80 years.'

From this it will be seen that British banking is more profitable by one-third than Canadian banking, while the one hundred businesses put together average profits twice as large as the Canadian banks.

Perhaps a better way of judging would be by applying net profits to the entire assets of the bank.

Thirteen leading Canadian banks:—

	Percentage.
1907 net profits to entire assets..	1·43
1908 net profits to entire assets..	1·37
1909 net profits to entire assets..	1·17
1912 net profits to entire assets..	1·26

In 1903 the percentage was 1·50 so that it is lessening with the increased cost of living. In the main the percentage of profits on the total assets of the banks is declining. That is undoubtedly due to the increased cost of administration. Similar percentages in English banks range from ·75 to 1·15. The proportion of their assets to capital is, however, larger than in Canada, and therefore their profit on capital and rest is larger. There are too many banks in the United States to quote their figures, but they generally agree with the Canadian results.

Banking in Canada is not only not unduly profitable, but the profit is not large enough to induce sufficient capital to enter upon the business. The double liability which does not exist with other joint-stock corporations is an added deterrent to investors, although it cannot with wisdom be removed. The real interest of Canada is not to defame its banking system but to uphold it.

It is not easy to understand the reason for a tax upon banks as a whole, especially as they have no responsibility whatever for the bank failures which have so aroused public interest in banking. No corporations have done so much for the development of the West unless it may be the railroads, and none have made so little profit out of it relatively either to the capital employed or to the effort put forth.

The real question seems to be: Do the banks realize that they have a franchise from the people and do they act in fair accordance with the purpose of the franchise? Let us see then how they serve the people.

In Great Britain there is one bank office for each 5,116 people; in the United States for each 3,407; and in Canada for each 2,847, and yet consider our thinly settled country. In the cities of the United States there is a bank office for each 9,700 and in Canada for each 3,100.

In early days in eastern Canada a branch bank was established in a town where the population seemed large enough to support it. In the West to-day the bank takes its share in the initial efforts to create the town. Banks open numerous offices which they know all will not pay for several years, using a large part of their western profits for the purpose. Of course they expect to gain by such action in the end, but it is well to remember that no new country in the history of the world was ever accompanied in its early settlement by such banking facilities.

I have examined the statements of profits of ordinary western offices with the following results:—

1. Few offices ever pay until the third year.

2. The profits of later years rarely pay the first losses until the bank is six or seven years old.

3. Without the profits in circulation few of the offices could possibly be opened for several years after the present time of opening, and a very large proportion could never be opened at all.

Complaints at rates of interest charged in the West and proposals to tax the circulation of bank notes are as ill-timed as they could possibly be at this particular moment in the development of Canada. What we want is more and more bank offices, only possible because of the note issue, and more money available for loans in the West. More money is more likely to become available by supporting rather than by defaming the machinery the state has established for the purpose. If the machinery has worked badly let that be shown. But there is little to be gained by vague charges which are generally an echo of grievances supposed to exist in the United States.

The enormous volume of cash business done by banks on which no commission is paid is not appreciated. In the United States 94 per cent of the entire business is done by cheque, while the wholesale business in large cities is done by cheque to the extent of 99 per cent. Canadian figures would not be markedly different. The public seem to lose sight of the fact that every item handled by the banks costs money in salaries, rent, stationery, etc. Many efforts have been made to estimate the cost of handling each item, and in Canada we consider two cents per cheque a very low estimate. An expert in the United States places the cost of handling an ordinary cheque as ·024613, while a savings bank cheque costs ·06473. English banks charge a customer for postage, cheque books, and for keeping an account unless a balance of £50 to £100 is kept. We estimate that it costs $15 to $25 per annum to carry on an ordinary current account, and that to be profitable the balance should be at least $300.

We have for years been going through a period of constant increase in prices, and therefore the cost to the public of most things has been steadily growing greater. The cost of almost every kind of service we have in the community has increased except the cost of banking. In consequence the cost of the administration of banks has also greatly increased, and yet it seems to be forgotten that the services performed by the banks for the public free of any charge, have had the tendency to increase in the kinds of service and have increased enormously in volume. That is we are doing more and more things without charge. Where for other services charges are made such charges have not been increased; indeed the profits per item in the turnover of banks is distinctly less than it was five years ago.

I should like also to draw attention to the fact that the banks possess only one important privilege—that of the note issue. It is because of the profit from this that all of these services to the public for which no charge has been made have become possible. Since and including the revision of 1890 all reforms in the Bank Act have been of a character which have brought no direct profit, and sometimes have involved a direct loss to the banks, while all of these have been extremely beneficial to the people of Canada as a whole. Because of this benefit to the people as a whole the banks have, of course, indirectly benefited. It is to be regretted that despite these facts whenever the decennial revision of the Bank Act takes place the banks are

regarded as applicants for further favours and receive little credit for their efforts over a long series of years, to improve the Bank Act in the interests of the people of Canada as a whole.

The CHAIRMAN.—This Statement will be inserted in the minutes under section 61 B as Sir Edmund's reasons as to why the banks should not be called upon to pay an annual tax for the privilege of issuing bank notes.

By Mr. McCurdy:

Q. You indicate there that, if a tax is placed upon circulation the cost to the customer will be increased. Of course that is so. But conversely, if you change the basis of circulation to a percentage of assets, would it not be reasonable to believe that bank customers could get accommodation at a somewhat lower rate?—A. I think it would have a tendency to lessen the western rates complained of, because the main profits of western business are from circulation.

By Mr. Thompson (Yukon):

Q. What are the four sources of free money that the banks have? I understand they are the reserves, the deposits, the circulation and the paid up capital. Is that right?—A. The paid up capital and the rest fund, the deposits and the circulation.

Q. Four different sources?—A. Yes.

Q. About how much do the banks, as a rule, make on this free money from these four different sources?—A. I have given you just now the figures of what we make on the assets as a whole, 1·25 about.

Q. The statement in my hand here, compiled from the statistics of twelve of our Canadian banks, and the percentage of free money in these various institutions, varies from 2·67 to 3·42 per cent. Would that be a fair estimate?—A. You mean the profit on it?

Q. The profit to the banks on this free money.—A. I should think that might be; we do not calculate it that way ourselves.

Q. Do you make about the same percentage of profit from these four different sources?—A. I could not say. You mean are they about the same?

Q. Yes.—A. That would depend on the size of the capital and reserve and the size of the circulation.

Mr. CURRIE.—Certain items of those are fixed capital, and you cannot use all that capital to lend.

By Mr. Thompson (Yukon):

Q. About how much circulation is there out at the present time among the banks of Canada?—A. About $97,000,000.

Q. About $100,000,000 in round numbers. Is it fair to say that the banks are making from 2·67 to 3·42 per cent on that amount of money?—A. Oh, no, the profit on circulation is not a very large profit.

Q. Would you say how large?—A. It would be a difficult thing to calculate. A large part of it has to be kept idle, and it costs about 1½ per cent to begin with. I should think perhaps you might take 2½ per cent on it, but we do not calculate our profits in that way. They are all in one pot.

By the Chairman:

Q. Two-and-one-half per cent net or gross?—A. 2½ per cent gross. One and a half per cent direct cost, and then the cost of administering the bank.

Q. Could you state the precise expense?—A. I would not like to answer that question.

By Mr. Thompson (Yukon):

Q. Would it be about 2·8 per cent?—A. From that the expense of all the salaries and administration of the bank has to come.

Q. Will you tell the Committee as to how much you think the banks of Canada make on the $100,000,000 which the people permit you to create?—A. I am afraid I cannot tell you anything except what I have told you just now, that is what we make on our entire assets. Perhaps this sort of a statement may help you. This however is a statement of the entire assets also.

Q. Is two and a half per cent too much?—A. No, if off that you take the gross expense of administering the bank.

Q. Will you give an idea of that as a whole?—A. For instance, if you allow that the capital and surplus of a bank should earn let us say six per cent without being in the banking business at all, then the profit out of every advantage we have in banking, circulation and free deposits and the benefit on savings bank deposits and everything else, would amount to, in the case of the Bank of Montreal ·45 of 1 per cent. The banks as a whole make from about ·20 to ·60 of 1 per cent profit on that part of the business which they get from being allowed to be a bank, from all of the different interests, that is to say circulation, free deposits, interest deposits and all.

Q. We had that brought out the other day?—A. I do not know of any other way of getting at it.

Q. Does the bank only make that much profit on that $100,000,000 of circulation?—A. Perhaps it makes more.

Q. You would not have them make money on that $100,000,000 which we permit them to issue?—A. Certainly. I have said that it is because of that that we are able to lose any amount of money in the western country in establishing new branches.

Q. And also to make no end of money. Do the banks pay Canada anything for that privilege?—A. I have shown you they earn only one-half as much as ordinary industrial organizations which have no privileges.

Q. Would you consider that is paying Canada for this privilege?—A. I think it is. The service is given to the people of Canada.

Q. Do the banks of Canada pay our Government anything for this privilege?—A. No, they do not.

Q. Do you know of any country in the world that permits that sort of thing except Canada?—A. Yes. The banks have franchises of one kind and another in many countries.

Q. I know they have. Could you give the Committee the names of some countries that permit similar franchises without paying for it, on the same basis as we do?—A. I have here the note issue system of all the countries of Europe if you choose to listen to it, and there are sometimes considerations to the State, but they have privileges quite as valuable as ours, and often much wider, and very much more like what Mr. McCurdy desires in the relation of the circulation to the entire capital of the banks.

Q. Do they pay a tax?—A. In some cases they do, and sometimes they don't.

Q. Does the Bank of Scotland pay a tax?—A. The Bank of Scotland has no note privilege now, except the privilege compromised in 1844 by the Bank Act. I do not know whether they pay a tax or not. There is one thing certain, the banks in Europe would not open in the West banks that do not pay, as we do. I have explained that we do that against the profits we make from the note circulation.

Q. Would it not be better to take this privilege away from the banking system, as it is at present, and place it properly where it belongs, and have the people pay for it rather than carry the principle of protection into the banking system as we have done, and subsidize our banks to the extent of the profits they make on this $100,000,000 of currency?—A. The question is whether they use it for the real benefit of the country? The country makes enormously more out of the Bank note privilege than we do.

Q. Why?—A. Because we are able to lend them money for their enterprises, and we open branches that could not otherwise be opened.

APPENDIX No. 2

Q. Can you give me, or rather the committee, a reason why we should give this privilege to the banks?—A. Would you let me ask you a question in return? What tax do you think the Bank of Commerce ought to pay for the privilege of issuing $15,000,000 notes?

Q. Personally I am not a banker, therefore I cannot say.—A. I could answer you so readily if I knew what you thought would be a fair tax for the privilege.

Q. I do not know—I am not saying that we should impose any tax.—A. I don't think you should.

Q. I am trying to elucidate some information for myself and the commitee to convince you why this Parliament of ours should give to the bankers of this country this privilege and what do they give for the privilege in return?—A. Well I spent some time this morning in trying to show what privilege the West got for it. I pointed out that we opened offices which for three years at least, three or four years, did not pay. We spent an enormous amount of money in opening those offices and that was done out of the note using privilege.

Q. That was not done as a matter of philanthropy? You expected to make money?—A. Will you excuse me if I say the Government does not give us the franchise as a matter of philanthropy.

By the Chairman:

Q. In other words you would not open these branches?—A. If we had not the note circulation.

Q. And if you are taxed for the privilege you would not open branches?—A. We would not take the privilege.

By Mr. Thompson (Yukon):

Q. If the banks of Canada make from 2 to 3 per cent—I am pretty well informed it is 2·8 per cent?—A. I have given you the comparative figures, 1·18, and you will have to accept that as far as I am concerned.

Q. I think we have some other authorities who indicate that they take 2·8 per cent on this free money. If that be so then Canada is at the present time subsidizing our banking system to the extent of $2,000,000 to $3,000,000 a year.

The CHAIRMAN.—How do you arrive at that calculation, Doctor?

Q. From the statistics I have with regard to the free money which the banks have from four sources. I am credibly informed that they make about the same amount in the East and 2·8 per cent would be a fair estimate as to the profit they do make. If that be so, reduced to dollars and cents, that is what we are doing to the Canadian banks. We are subsidizing them to that extent by granting them this privilege. I am not arguing against that. It may be the best method possible, but I think the Committee should have some information as to why this privilege is given and what the country receives in return.—A. What the country receives in return? To begin with there is the development you have seen in the last fifteen years in the Canadian West, west of Lake Superior. None of these offices would have been opened but for this. The entire western bank system rests upon the note privilege. It rests also upon the fact that the tills of our western offices are filled with unused notes. For instance all banks, if they had not this privilege of issuing notes against circulation, would have to hold a considerable amount of actual specie in these western offices, and if they had to live only from the profit on deposits it would sweep the entire banking business of the West out of existence.

By Hon. Mr. White:

Take the total assets of the Canadian Banks, including of course as they mature the items of current loans and discounts, how is that money derived? Am I right in stating that it is derived from your paid up capital, from your reserve, from the proceeds of your note circulation and from your deposits?—A. Yes.

Q. And it is all in the one pot, is that right?—A. Yes.

Q. That is to say, supposing I were to ask what are your loans and discounts, from what source was the money derived which you loan out and the total of which is represented in your total loans and discounts, would it be correct to state that part of it is note circulation, part of it deposits, part of it capital and part of it reserve?—A. Yes.

Q. In other words, is it all in one pot?—A. Yes.

Q. Do you think the rate of bank profit derived by the banks upon what the shareholders own, that is the capital and reserve, is normal or abnormal?—A. I think it is quite clear that it is smaller than in other countries, and that it does not at the moment induce new capital to come into banking.

Q. Supposing it were lower, in your judgment would new capital be likely to flow into Canadian bank stocks or not?—A. It certainly would not.

Q. Supposing a tax, let us say, two per cent, were put upon the note circulation, and that $2,000,000 were thus taken from the profits of the Canadian banks and paid over to the Government, what, if any, would be the effect upon the rate of discounts throughout Canada, or if that remained constant what would be the effect upon the flow of capital into Canadian bank stocks?—A. It would stop the investment of money in bank stocks, but it would have to be recovered from the borrower. I am prepared to show how small the margin of profit is, and when you come to discuss the rate of interest on deposits to show that the banks could not pay 3½ per cent, much less 4 per cent.

Q. Is it your opinion that any tax upon the note circulation would fall upon the borrowing public?—A. I think it would fall upon the borrowing public.

Sir EDMUND OSLER.—With reference to the quotations that have been made as to the earnings of free money I have here a statement compiled in the last banking return showing the earnings of 12 of the main banks, showing their percentage, the amount of free money, their capital, reserve, the deposits upon which they paid no interest and their circulation. It takes all the rest of the business of the bank—the whole of the money which the bank makes on its business comes to 2 and 3 per cent on the free money—it takes the whole of the other business to earn 2 or 3 per cent on the free money. There are the figures of twelve of the leading banks (handing document to Chairman). It takes all the rest of the business to pay the earnings.

Mr. NESBITT.—So that this report includes all the other assets.

Sir EDMUND OSLER.—That is the total earnings of every bank, and it took the rest of the business to earn it.

By Mr. Nickle:

Q. In relation to the statistical information which you have just furnished us, Sir Edmund, how do you arrive at the choice of industries? Of the class of industry especially, and how do you choose the industry from each particular class?—A. We practically took almost every industry in Canada, except that we left out the farmers, the real estate men and ranchers.

Q. Do I understand that in each particular class the profit shown is the average profit in that class of business or only in relation to the one industry chosen from that particular class?—A. No, what we do say is that in businesses, some of which do not make much more than banks, but every one of which makes more than the banks, I have taken the average results of 49 large industries, represented by 100 establishments, with a total capital of $76,000,000, in the feeling that if we did that we were getting a fair result of ordinary business from biscuit factories to coal mines.

Q. They are a sort of hand picked industries?—A. No, they are not hand picked at all, we simply took the industries as they came along.

APPENDIX No. 2

Q. How did you get that list? It makes a great deal of difference what you took, that is as you went along if you took an industry to show 2 per cent?—A. We did not pick them at all, we simply took the statements of customers of the Bank of Commerce. I told our people to take out a hundred ordinary balance sheets and see what the result would be.

Q. Practically at random?—A. Well, practically at random.

Q. Let me illustrate my point. Take two knitting mills, one might make 12 per cent and the other 2. Supposing you had those two balance sheets, which would your officers take?—A. I want to say the statement is made with absolute fairness. I have the detailed figures here. I cannot say more than that I have the exact figures and have gone over them, they contain people's names which I cannot give to the general public. There are no concerns on the edge of failure, but none of the banks used are on the edge of failure. They are concerns of normal prosperity, not abnormal prosperity, but just 100 ordinary concerns, and they cover 49 different kinds of business.

Q. You said you chose industries not one of which is paying less dividend than that which is payable by the bank?—A. No, I did not say that, you misapprehend me. I say that while some of these profits run from a comparatively low figure to much higher than the banks pay, as a matter of fact it happens that none of them pay a lower percentage of profits than the banks. But they were picked out without reference to profit.

Q. Was the statement prepared on the dividends of the banks or on the profits?—A. On the profits of the banks made on their own capital and rest combined.

Q. We have heard a great deal of the co-called concealed profits of the bank; do you say that no weight is attached to that item?—A. Well, of course one could not tell that with regard to any other bank than his own. What you call concealed assets are I suppose the contingent fund that any good bank will carry against what might be called unforeseen losses.

Q. That is what I was leading up to.—A. If you, for instance, made as every bank should make, quite ample provision for the weak spots you see and for all the actually bad debts you encounter, you have the overwhelming bulk of your business in a period of prosperity without any such provision, but you will be a very foolish man if you do not lay something aside to meet that inherent weakness which you know, as every man of business knows, to be in some of your business even though you cannot see it at the moment.

Q. To generalize, is it your opinion that the amount written off year by year by the banks is not more than enough to meet your contingent losses?—A. I should hope it will be more than enough. I mean to say, that supposing a bank should lay aside 2 per cent of its entire loans there may sometimes be disastrous losses which would make that amount insufficient, but we should hope that such a percentage aside would be sufficient over a series of years.

Q. You mean 2 per cent of the bank's loans annually?—A. No, once for all, to build up a contingent account of that nature.

Q. But we have been told that it is the practice of the banks from year to year to write off a certain amount?—A. Of course every year every bank should write off all the bad debts it sees plus an allowance for all the accounts it sees are not in exactly perfect condition. If it has had several years of prosperity and no losses of any account and if it is a wise bank it will do just as the prudent merchants does, it will lay aside something for the time when that inherent loss in what seeems to be good business is discovered. You would not think a bank was well administered if it had, say, $150,000,000 of commercial loans, and simply because they all seemed to be good it did not lay aside anything to meet the unforeseen losses.

Q. You do not think they lay aside too large an amount to meet these possible losses?—A. I do not think so.

By Mr. McLean (Sunbury and Queens):

Q. I am informed by a gentleman who has made an estimate, Mr. McCurdy, that the average dividends paid to stockholders of Canadian banks is 9.62, would you say that is about correct?—A. I would think that is all right.

The CHAIRMAN.—That is only on paid up capital, but not capital and rest?

Mr. MCLEAN (Sunbury and Queens).—That is capital, capital subscribed.

Q. These stockholders you have mentioned have the double liability?—A. Yes.

Q. Double liability is a statutory liability, they are bound to pay that amount to the creditors. Then they practically receive on their investment less than 5 per cent if these figures are correct.—A. The stockholders of the banks would hardly expect to receive a full return on a mere liability, but they should get something You would certainly expect an investment with a double liability to pay 8 per cent if without such liability another paid 6 per cent.

Q. The difficulty is to get capital to invest in banks. In connection with that, why should the double liability be retained. I just want to call your attention to the fact that we want more banking capital. We say we cannot get money to invest in our banks. One reason is the double liability. You have shown figures as regards the return. Now why should the double liability be retained as a practical business proposition?—A. I must first refer to the fact that the banks guarantee each others notes and that the double liability undoubtedly influences them, in being willing to guarantee the notes of a bank which is just starting, and has only a small volume of assets, compared to its circulation. That is one reason. The double liability was created in North America, because of the many failures of banks in the United States, and we subsequently embodied it in our Acts. But to show that it is a natural kind of security for the creditors of a bank to expect, we have only to turn to the history of Great Britain. You gentlemen are aware that many banks in England and Scotland had, until the failure of the City of Glasgow Bank, an unlimited liability. In that respect they were like joint stock companies. but they were not under joint stock law. They had the same liability that partners have, but that was conceived to be such an intolerable thing that now there are no banks of that kind in England or in Scotland, and the banks now being created under joint stock law have only a single liability. But the feeling regarding the credit of banks is so strong that practically all the shareholders of the banks of Great Britain have subscribed a liability generally five times as great as the ordinary liability, and have signed a deed of settlement under which that liability will not be called except in case of the failure of a bank. I submit that in view of these facts it is not likely that you can do away with the double liability, even if it were thought wise to do so.

Q. What happened when they sold their stock?—A. They sold it with that liability and the buyer had to accept it.

Q. The double liability existed in the United States banks?—A. Yes, in all banks there, whether under state charters or national bank charters. They carried the idea so far, in some parts of the United States, as to compel shareholders in grain warehousing companies to assume a double liability on their shares.

By Mr. Armstrong (Lambton):

Q. Are you able to give us the average rate of interest at the present time paid by the banks to the shareholders for the money they have invested at the present price of bank stock?—A. I would rather give you that to-morrow morning, if you will ask the question then.

Q. Would it be asking too much for you to give us some knowledge as to why the banks of Canada are only to pay 8 per cent dividends on the capital invested, while the banks of England are able to pay 11 per cent?—A. The profits of the banks in England are larger than the profits of the Canadian banks.

Q. In what way?—A. They have more free money than we have and they have a larger amount of business, relatively, to their capital. Another reason is that in England there is a tendency to distribute the whole profits of the banks to the sharehold-

ers, while in Canada we have much to do: We have to build bank premises and strengthen the bank in the way of providing a rest and generally in conserving the money for future use, so that the bank may better serve the country. So that some of our profits go into these channels, rather than to the shareholders.

By Mr. Douglas:

Q. Why is it that bank stocks are worth so much at the present time? There are few banks in Canada not worth $225 to $250. They almost all have 100 per cent rest that belongs to the shareholders.—A. Bank stocks are very low in Canada, not high. The actual premium that is put on the stock by the market is very little in addition to its book value.

Q. If new stock, it would be put out approximately at that figure?—A. At the figure of the book value.

Q. If new stock were issued, you would have to purchase at the book value and would get your interest on that book value.

By Mr. Hugh Clark:

Q. I would like to ask you what is the cost of a bank note which passes current among us?—A. Are you talking now about dirty notes?

Q. Yes.—A. The best note to take is a five dollar bill, because most of the circulation consists of fives. The cost of actual printing is of course about the same in each case.

Q. It does not cost more to make a twenty dollar bill than a five?—A. Oh no. They cost 2¼ cents apiece. A proposal has been made that we should issue these only once. The effect of that would be that the money derived from the circulation of $5 notes would cost us 5½ per cent per annum.

Q. What methods do you use in your bank, for keeping the currency clean?—A. Only the selection and burning of the dirty notes.

By the Chairman:

Q. Do you sterilize at all?—A. No, but I may say under this new Act provision has been made by which all the signatures may be applied by a mechanical process instead of by writing, and that may enable the notes to be laundered. As soon as the new Bank Act is passed, we shall investigate the new American system of laundering notes.

Q. That would result in our having cleaner notes?—A. Yes.

Q. Laundering is sterilizing?—A. Yes.

By Mr. Sharpe (Ontario):

Q. Mr. McLeod says, on Page 55, the cost would be 1¾ cent, as against your 2¼ cents?—A. We cannot obtain notes at Government rates. We pay about $90 a thousand sheets.

By Mr. McCurdy:

Q. If you all adopted the same general form, would not that be much cheaper? A. It might be cheaper, but I should be very sorry to see it done.

By the Chairman:

Q. If there are no more questions on this point, we will proceed with 61C, 'That a tax be levied on money loaned by Canadian banks in foreign countries.' You have a branch in Mexico. You might tell us something about that foreign business?—A. Wherever we do business in a foreign country, except in the City of New York and in London, England, our deposits are larger than our loans. I think it would be a very curious thing, in the interest of the Dominion of Canada, if you were to tax us for accumulating such deposits.

By Mr. Aikins:

Q. Have all banks been as successful in their business in foreign countries?—A. I do not know about the affairs of other banks. We have been successful.

Q. But there is possibility of some banks not being quite so successful as your bank?—A. Oh, yes. I do not think that the exigencies of banking are different there from here, if only the banks are carefully administered.

Q. Just about the same as in Canada?—A. Yes.

Q. And if any losses did occur in foreign countries, those losses must fall on the Canadian people who are the shareholders in those banks?—A. Oh, yes.

By the Chairman:

Q. You have a deposit and loan business in Mexico?—A. Yes.

Q. You say your deposits there exceed your loans?—A. Yes.

Q. So the surplus comes to Canada for utilization here?—A. Yes.

By Hon. Mr. White:

Q. I read a pamphlet of yours sometime ago, as to what happened in 1907.—A. I have it here; it bears on the question of lending money in New York. I think it was circulated among the Committee.

By Mr. Hugh Clark:

Q. I would like to ask the Committee to have that tabulated statement regarding banks in Europe that do not pay taxes to their respective governments, printed in the evidence?—A. The document that I have here is with reference to their note circulation powers. I should have to do more work on it to find out about taxation. It was a statement prepared to show the nature of the franchises they have, not whether they are taxed or not.

The CHAIRMAN.—We might leave that until to-morrow morning.

By Mr. McCurdy:

Q. If it were the case that a large sum of money were withdrawn from Canada and loaned in foreign countries for general commercial purposes, would you regard that as an undesirable state of affairs?—A. I should think so. Canada needs its own money at home.

Q. Such practice should be discouraged?—A. I think so.

Q. Conversely, if a bank secured a large amount of money in a foreign country where it was doing business, that country would regard it as objectionable, from their point of view, for that money to be sent to Canada?—A. It might.

Q. Some years ago the National Monetary Commission sent a representative to Canada, J. French Johnson, and he after receiving full information from the best and most reliable sources in Canada made a report on the Canadian Banking System. These are his conclusions. He says:

"This transference of funds from sluggish to active communities is the inevitable result of a system of branch banking and is the cause of the tendency of the rate of interest toward uniformity in all parts of Canada. Whatever may be said against a system of branch banks, there can be no question that it does bring about a more even distribution of capital in a country than is possible under a system of independent local banks. Canadian bank managers are anxious to put out their money where it is most wanted, for there they get the best possible rate of interest and obtain paper of the best quality. No matter where a manager's headquarters may be, he is most deeply concerned in three questions: (1) Where is idle money accumulating? (2) How can he best draw it into his bank? (3) In what parts of the Dominion is money most needed? In localities of both kinds he established branches; in the one the branches accumulate deposits often much in excess of their loans, in

the others the loans exceed the deposits. Thus it happens that the savings of the eastern provinces, where the growth of industry and trade is slow and the demand for new capital is not increasing, are sent westward and loaned out to merchants and manufacturers and farmers of the new territories. The people of the East supply the capital for the development of the West, though many of them perhaps are entirely ignorant of the useful purpose their savings are made to perform. In the western cities of Canada one hears no talk among business men about the scarcity of capital. A merchant or manufacturer in Manitoba gets the money he needs as easily as does a merchant or manufacturer in Toronto or Montreal.

"Justifiable as the bank's policy is from a national point of view, one cannot help believing that the branch banking system has really checked the development of business and industry in the maritime provinces. If Canada during the last thirty years had depended, like the United States, upon independent local banks, there would have been a plethora of capital in the East, and Montreal, Quebec and Halifax, like Boston, New York and Philadelphia, would have years ago have had 4 and 5 per cent money, while Winnipeg and other western cities, less populous than now, would still be paying 1 per cent a month. The relative cheapness of capital undoubtedly helped to build up the prosperous industries of Massachusetts. The same cause operating in the maritime provinces of Canada would doubtless have led to the establishment there of industries of which the people under existing conditions have not ventured to dream." Would it not therefore, in view of Mr. Johnson's conclusions, be fair to state that the maritime provinces have a just grievance that by the operation of the Canadian branch banking system their accumulated surplus is siphoned out of their provinces instead of being available there at attractive rates to borrowers, on the same idea that the export of needed capital from Canada is objectionable to our people here, or that the exporting of capital from Jamaica to Canada would be distasteful to Jamaicans?—A. Your question has not much relation to what you have been reading. How are you applying it?

Q. I simply ask, is there any basis for the complaint—provided always that this statement is correct?

The CHAIRMAN.—How does it concern us if Jamaica complains?

Mr. MCCURDY.—That is their business; they are the sufferers.

The CHAIRMAN.—That is borrowing trouble it seems to me.

Mr. MCCURDY.—That is not the point here. I find it difficult to bring in all questions under the regular headings. I thought, in view of the fact that you were taxing Canadian banks, that possibly this grievance could be discussed under this heading. Sir Edmund has told us that if capital were exported from Canada the people of this country would have a right to complain because their interests were prejudiced. Similarly I would ask if the people in the district referred to by Mr. Johnson, that is the maritime provinces, are not justified in complaining when their savings are taken up, and they do not get the advantage of accumulated capital at a low rate of interest for the development of local industries.—A. You are not speaking of Jamaica at all, but as to whether the maritime provinces have a right to complain if their surplus money has been taken away from them and has been used to make money cheap in Winnipeg.

The CHAIRMAN.—Are you asking whether the maritime provinces have a right to complain inasmuch as their money has been taken away and utilized in Winnipeg?

Mr. MCCURDY.—Yes, if a province is thrifty and its earnings have accumulated, is it not logical that capital should be obtainable there at lower rates than if it had no accumulations? But the rate is arbitrarily fixed under our branch bank system and, as Mr. Johnson indicates, an injustice is committed.

Sir EDMUND WALKER.—My answer to that would be: if what Mr. Johnson says is a fact, I suppose they would have the same right to complain that the western farmer has because he has to pay for the protection afforded to eastern manufacturers.

By Mr. McCurdy:

Q. We are not discussing the tariff; we are discussing the Bank Act.—A. It is Canada we are talking about at the moment.

Q. We all have constituencies that are affected by the operation of the Act, and although we are of course legislating for the whole of Canada, I am here as well to look after the special interests of my constituency and province.—A. I am endeavouring to answer that.

Q. In one town in my constituency, there is deposited in the branch bank $20 for every $1 that is loaned there. These people are concerned more for the rate of interest they get than they are on the amount paid on their loans.—A. I am not going to ignore the local point of view. The question, of course, is a very vital one. If there are industries in the maritime provinces which suffer from the banks not lending them money, those provinces would have some right to complain. But I do not believe they are suffering to any extent at all.

Q. My premises are these. Take Mr. Johnson's statement; if the idle or cheap capital deposited exceeds the loans the people of that particular section should be able to use that capital at a correspondingly cheap rate of interest, whereas if they have to pay the same rates for capital as points further west they are at a corresponding disadvantage.—A. Mr. McCurdy, I will answer your question if you will allow me to do so. In the first place you have to make a banking system for the people of Canada as a whole. The banking system so far as the maritime provinces are concerned, where they have a great deal more money on deposit than on loan, is probably more to the advantage of the depositor than it is to the borrower. If there are manufacturing industries in the maritime provinces which are seriously hurt by paying a rate of interest which is perhaps 1 per cent in excess of what they might have to pay under other circumstances they have some right to complain, but are they seriously hurt? We have no end of local grievances against what we regard as the interests of the country as a whole.

Q. Your answer includes the statement, Sir Edmund, that the people in that part of the country are fortunate in the fact that their money could be loaned in the West, and that they are able to get good rates of interest on deposits. The fact is that, years ago, when we had local banks, we enjoyed higher rates of interest on deposits. I can remember seeing deposit receipts drawing 4 per cent interest?—A. I can remember them getting 5 per cent in Ontario.

Mr. McCURDY —I cannot remember those days. I refer to the year 1892.

By Mr. Nesbitt:

Q. Do you know as a matter of fact that the deposits are larger in the maritime provinces than they are in Ontario?—A. I think they are.

Q. More than in Ontario?—A. It would be very difficult to show the percentage without including Toronto, but outside of Toronto the deposits are somewhat greater in the maritime provinces relative to their industries than in Ontario.

Q. Do you know if any industries in the maritime provinces where they have energy enough to start them are prejudiced because they do not get money cheaper than they would in Ontario?—A. They get money very cheap in the maritime provinces. I do not think the industries down there are really suffering.

By the Chairman:

Q. Under the pre-Confederation system in the lower provinces, where there were small local banks, were there not a number of failures?—A. There were a great many failures in the maritime provinces.

Mr. McCURDY.—No Halifax banks ever failed.

Mr. McLEAN (Sunbury and Queens).—But there have been many failures in the last few years in Ontario.

APPENDIX No. 2

Mr. McCURDY.—I notice that in your annual report you have adopted the plan of making geographical reports. Could banks not make geographical returns, so that the public would have some idea of the amount of money withdrawn from a certain part of the country? I dissent from the statement of Mr. Nesbitt regarding the maritime provinces that industry in these provinces is languishing. There is a quickening of industry there and a strong desire to build up an industrial community, and it seems to me that if there is a lot of accumulated capital there the community is entitled to benefit on account of that accumulated supply of local capital. The banks do not absolutely control it, it is true. At the same time there is this arbitrary 3 per cent rate fixed all over Canada, and if there is a large accumulation of capital in one district it seems to me money should be available there with more freedom than if they were purely a borrowing community.

By Mr. Currie:

Q. In that connection, do you not know that there are many places in Ontario where there are industries, and where the capital of the banks employed there far exceeds deposits?—A. Many such places, and there are other places in Ontario where the reverse is the case but where they do not succeed in establishing industries.

By Mr. McCurdy:

Q. Would there be any objection to having geographical returns of deposits and loans?—A. I think your bank statement is a pretty complicated thing now. You want it divided into smaller districts. You heard a complaint here the other day that a particular town in Ontario was hurt by the fact that the money was taken away from there.

Q. If that information were available to the public generally they would then know which bank was, as they say, 'doing the best by the local situation,' and would reward it more with their patronage.—A. If you ask the various banks of Canada to show in each district what their deposits and loans are in that district, we should have the question you are raising always before us. How could we ever satisfy the people in the East after they found that we were helping the West out of the surplus deposits of Ontario and the maritime provinces? The complaints from the East would be more bitter than the complaints are now from the West.

By Mr. Currie:

Q. In some of the provinces there are very great industries that the larger banks lend a great deal of money to, and perhaps they do not loan as freely to the small concerns, leaving them to the smaller banks. Is that not so?—A. It may be so.

Q. In Nova Scotia there are great industries to which the banks loan enormous sums of money, and of course there may be a natural tendency to tighten up on the amount of loans to each district. Is it not the policy of the banks to equalize loans all over the country?—A. Yes. Sooner or later, Mr. McCurdy, or somebody else in the investment business floats a bond for some large corporation, and enables them to pay or reduce their bank loans. The big institutions borrow less from the banks relatively than the small.

Mr. McCURDY.—The Committee will notice that in arguing for a higher rate of interest on deposits or lower, on loans, I am arguing entirely against the interests of my own business. The excessive 'spread' between the banks 'arbitrary deposit and loan rates is the brokers' opportunity.'

By Mr. Douglas:

Q. You said this morning that you had $13,000,000 loaned to farmers in the West. Have you any calculation showing how much you have loaned to other industries?—A. I have not made that up.

Q. Would it be relatively greater?—A. It would be a great deal larger, of course.

Q. Your loans to other industries would be much greater than to farmers west of Winnipeg?—A. Yes, loans to lumber concerns are very large, loans to distributing houses, manufacturers' agents, for the movement of grain, coal, and so on.

Q. That is in western Canada?—A. Yes.

Q. You admit, of course, that western Canada is not a depositing country?—A. The funds must come largely from other sections.

Q. Are other banks doing business in western Canada as freely in the loaning of money to farmers as yours?—A. I do not know. I could not answer that question.

Mr. DOUGLAS.—That is a very large amount of money you speak of.

The CHAIRMAN.—Do you wish to discuss the matter of call loans in New York?

By Mr. Currie:

Q. I wish to ask a question or two. In relation to your circulation which the people might call upon at any moment, is it necessary to keep till money or fluid money on hand?—A. The offices of the bank have to be supplied so far as their ready cash is concerned by our banks with till money.

Q. There is no place in this country where you can keep a reserve that will be available at a moment's notice?—A. No.

Q. They must be kept either in London or New York?—A. Yes.

Q. Is not that the reason why these funds are loaned in New York and London?

The CHAIRMAN.—Why not ask Sir Edmund to tell why the funds are loaned in New York and elsewhere?

Sir EDMUND WALKER.—I have dealt with this subject in the last thirty years over and over again. But about a year ago, in anticipation of the Bank Act, I published a short paper in the *Monetary Times*. In the last stringency we began with a large surplus of money available in New York for use in Canada. By the time we came to the end of the 1907 trouble we had exhausted all the money belonging to the Canadian banks abroad, and had imported out of the deposits in other countries $2,841,000. This shows that the reserves existing there are what saved us from panic and trouble in 1907. At the end of my paper on Canadian Bank Loans in New York, I made four statements, and I would like to read them as an answer to the general idea that it is against the interest of borrowers in Canada that money should be loaned outside of Canada, at New York or other places. The statements I made are as follows:—

> '1. That the banks lend money in New York at a much lower average rate than loans produced in Canada.
>
> '2. That the high rates of interest so often referred to occur only at rare occasions coincident with panic, and do not materially affect the average rate earned; and that at the time of such high rates the Canadian banks are almost always withdrawing money from New York instead of sending it there.
>
> '3. It is the power to withdraw money at such times which enables the Canadian bankers to support their customers, and it is largely because of this power that although the financial history of the United States is marked with frequent panics, no financial panic has taken place in Canada in recent times.
>
> '4. The object of the loans in the United States, therefore, is not to enlarge the profits of the Canadian banks, but to enable them to do justice to their customers in time of stress. Such loans are an evidence of caution and wisdom in the interest of Canada and the policy should be the subject of praise by critics of Canadian banks and not of dispraise.'

Those are merely the final sentences of my pamphlet, of which I have plenty of copies, and I shall be pleased to furnished them to any member of the Committee.

Mr. Sharpe (Ontario):

Q. What is the percentage of reserve they should keep at New York or at home, roughly speaking?—A. As I said this morning 10 per cent cash in our banks and 30 per cent in New York and London in call loans and bonds.

APPENDIX No. 2

Q. I suppose the amount they loan in New York never exceeds this amount?—A. It might exceed it if Canada did not need it. For instance, after 1893 we had five years in which we had to pay 3 per cent on money and could not employ much of it. At that time there was a large accumulation in New York, awaiting larger requirements in Canada.

Q. There is no limitation on a bank's right to send money to New York?—A. No.

Q. In case the rate of interest is excessively high in New York might it not be possible for the banks, even to the detriment of Canadian business, to send even more than the stipulated reserve to New York for loaning purposes?—A. It might, but as a matter of fact when the rate is high there money is tight here and we are not sending it.

Q. But it may be a great deal higher in New York?—A. That does not touch the question, we have to take care of our customers in Canada to whom we have promised credit.

Q. You do not think there should be limitation on the banks sending money to New York?—A. I do not think so.

Q. What is the average rate of interest on call loans in New York?—A. 1½ per cent to 4 or 5 per cent. You have sometimes soaring rates for a few days, but when that takes place we are always bringing money from New York. In my pamphlet I have stated that the average rate of earnings in New York is much lower than the average rate in Canada, and we would loan it all here if we could do so safely.

By Mr. Currie:

Q. The statutory rate in New York is 6 per cent, isn't it —A. No, not now for broker's loans.

Committee adjourned.

HOUSE OF COMMONS, ROOM 101.
WEDNESDAY, April 16, 1913.

The Committee met at 8 o'clock p.m., the Chairman, Mr. Ames, presiding.

The Chairman (Mr. H. B. Ames) stated that is was proposed to examine Mr. Pease on four or five questions in particular, namely: The Taxing of Moneys loaned by Canadian Banks in Foreign Countries; Gold Reserve; The advisability of banks acting as landlords; the amalgamation of banks and the rate of interest.

EDSON L. PEASE, General Manager, Royal Bank of Canada, Montreal, called and examined:

By the Chairman:

Q. There is the proposition before the Committee that the tax be levied on moneys loaned by Canadian banks in foreign countries. I understand that the bank over which you preside has very considerable foreign business. Will you tell the Committee what your views are with regard to that?—A. Our branches, thirty-four in number, are located particularly in the West Indies; all, I may say with the exception of two, one in London and one in New York. I think it would be a mistake to put any obstacle in the way of taxing the funds of the bank employed in foreign countries because I have no doubt in my own mind that the business we do in the West Indies is conducive directly to the great advantage of Canada as well as to the bank. Statistics shows that I think. I assume there would be no objection to our branches in the British West Indies, but you might like to inquire into our operations in

Cuba; that is, where the preponderating number of our branches are located, nineteen in all. We established there in 1899. In 1901 Canada's imports from Cuba amounted to $343,374 and exports $578,013. In 1912 the imports were $1,770,874 and exports $2,096,778.

Q. Are those banks in Cuba dependent on the money available for loaning throughout Canada?—A. On the contrary, our deposits not in Cuba alone but in all the West Indies are considerably in excess of our loans. I may say they are 40 per cent in excess; that is shown in the Government returns.

Q. Consequently you do not have to take the money of Canadian depositors to loan in the West Indies?—A. We do not.

Q. What would be the effect of a tax levied on the moneys loaned?—A. It would be burdensome. We are already heavily taxed in those islands.

Q. By the local authorities?—A. Yes. I think it would be unwise to discourage the employment of the money that we are able to secure in these islands to the advantage of our shareholders and to the trade of Canada. You have an illustration I think in the United States where the American banks are not permitted to establish branches in foreign countries. Had they been able to do so, I think the foreign trade of the United States would be very much greater to-day than it is, and the probabilities are we would not be established in Cuba where American capital is invested to the extent of two hundred million dollars, but that proportion gave us our opportunity.

By Mr. Sharpe (Ontario):

Q. How are the taxes levied?—A. On the profits.

Q. What is the amount of the tax?—A. Eight per cent on net profits.

By Mr. McCurdy:

Q. Do you know if the London Banks like Lloyds and the London City and Midland have authority under their charters to open branches in foreign countries?—A. I do not think they have, although Lloyds have a branch in Paris. That may be a separate incorporation.

By Mr. Sharpe (Ontario):

Q. This tax you speak of is levied by the central government in addition to municipal taxes?—A. Yes.

Q. That is you pay on real estate?—A. Yes.

By Mr. Thornton:

Q. Can you tell us what that tax is?—A. It varies in each municipality.

By the Chairman:

Q. You might prepare a statement and have that included in your evidence?—A. I will do so. We are taxed so much and so many different rates and places that I cannot recall.

By Mr. Thornton:

Q. What interest do you pay?—A. The maximum rate is 3 per cent on deposits, but as a matter of fact the proportion of interest bearing deposits is not very large.

Q. Do you know what proportion of your deposits you are paying interest on?—A. I should say about 40 per cent.

Q. What is the rate of interest you charge on loans?—A. The average rate of interest is about 7½ per cent.

APPENDIX No. 2

By Mr. Nesbitt:

Q. You have just told us your deposits were greater than your loans. Do they in either of these countries offer to tax the deposits over and above the investments? —A. No. As a matter of principle we do not believe in employing money obtained in the West Indies in Canada any more than we should not feel disposed to take Canadian money and employ it in the West Indies. What surplus deposits we have in the West Indies are kept out of Canada. We carry about 25 per cent of this surplus in the form of cash in the Islands and the remainder we loan on call in New York.

By the Chairman:

Q. In case you had a stringency here in Canada and wanted to call in your liquid assets would this business be advantageous or disadvantageous in the matter of liquid assets?—A. A great advantage I should say, because the money we have on call in New York is available to discharge all liabilities.

Q. In other words your surplus deposits in the West Indies are reinvested in call loans which you could bring into Canada in a time of emergency? What do you get on call loans in New York?—A. It averages 2½ to 3 per cent.

By Mr. Thornton:

Q. About what proportion of your total deposits do you invest in New York?—A. We try to carry a minimum of ten millions between New York and London—about one-fourteenth of the total deposits.

By the Chairman:

Q. What proportion of your call loans would your liquid assets be?—A. Call loans in New York and London would be about one-sixth of our liquid assets.

Q. What would be the proportion between your liquid assets and deposits on call?—A. Our liquid assets all told are about 45 per cent according to our last return to the government.

By Mr. Thornton:

Q. Do you consider your West Indian business is profitable?—A. Yes, it is so much so that four or five years ago we received an offer from an American syndicate of no less than $1,000,000 for the good will of the business if we would retire.

Q. Can you do business as cheaply there as in Canada?—A. No, it is more expensive as the cost of living is higher.

By the Chairman:

Q. I would like to ask your opinion as a banker upon the proposal to establish a central gold reserve and to permit the issue of the banks' own notes as against it? —A. I am strongly in favour of the proposal. I may say if it were in operation today we would be glad to avail ourselves of the opportunity of depositing the gold and taking out the circulation as we are up to our limit in the matter of circulation.

Q. Do you think, if the gold reserve were taken advantage of your bank would be in as good a position to stand the strain as it is now?—A. Better.

By Mr. McCurdy:

Q. Have you seen a suggestion made to the Committee to have bank note circulation based on assets rather than capital, and what would be your idea as to that?—A. I think, as it has been said, it would be a more scientific plan, but I do not suggest any change at the present time. I think the gold reserve will solve your difficulty until such time as we could increase our capital.

By the Chairman:

Q. Would a change such as this suggested involve a very considerable readjustment?—A. I should think so. It would be very difficult to bring about.

By Mr. McCurdy:

Q. For what reason?—A. If the banks are guarantors of each others circulation they would have to follow closely the conditions of the assets of each bank.

By Mr. Nesbitt:

Q. Would it not be more necessary in that case to have government inspection or audit than now to get at the value of assets?—A. I think you would find it very difficult to ascertain the actual value of the assets of any institution.

By the Chairman:

Q. Supposing by way of example the bank had $1,000,000 assets and $10,000 liabilities and the bank loaned me $10,000 and I deposit $9,000 again in the bank, would the liabilities increase to $110,000 and the assets to $109,000?—A. The liabilities would be increased to $109,000 and the assets to $109,000.

Q. If you were issuing against assets would it not be possible for assets to be fictitiously altered in that way?—A. I think the advantage of an asset currency system is that we could better ascertain the normal circulation of each bank. Our circulation would coincide with the demand for our notes. As it is, we are restricted to capital which is not a fair test.

By Mr. Maclean (Halifax):

Q. What is the value of the right to issue as against gold proposed in the Bill over the power you now have of depositing the gold and getting Dominion notes? In what way would the proposal be better?—A. We have reached the limit of our circulation. We cannot exceed our capital, whereas if we could deposit gold with a central reserve, we could respond to the demand for our notes.

Q. You can carry that gold to the government and get Dominion notes could you not?—A. We could, and we are doing it at the present time.

Q. I have heard of a great many bankers expressing doubt as to the value of establishing this central reserve. I have never heard anybody yet give reasons justifying it. I believe in it myself, but cannot get a reason?—A. It would offer this advantage; if we were to call in funds in New York to-day, convert these loans into gold and deposit the gold in the central reserve, we would increase the available capital in the country to the extent of the increased circulation.

Q. There cannot be anything in that that cannot be quite correct. You could get the circulation against the gold anyway by the other method. The Dominion circulation may not be as convenient?—A. It is not as convenient to us. We prefer to circulate our own notes, and it is not convenient to the government to print these notes.

By Mr. Sharpe (Ontario):

Q. You get the advantage of lost notes?—A. The amount of lost notes is unimportant.

By Mr. Thompson (Yukon):

Q. Will you tell the Committee whether there is any increase in the circulation of the gold minted at the Canadian mint? Is it increasing in your bank? Are you issuing more Canadian coins than you were?—A. No, not perceptibly. It is not noticeable.

APPENDIX No. 2

Q. How do you keep your gold reserves, in coin or ingot?—A. In coin.

Q. Is it American coin or sovereigns?—A. Both.

Q. You can keep it in Canadian coin?—A. Yes, and we have some.

Q. Can you keep it all in Canadian coin?—A. We don't keep in Canadian coin exclusively, we have all three.

Q. Would it be disadvantageous to have all gold reserve in Canadian coin?—A. It would be no disadvantage.

By Mr. Nickle:

Q. Do I understand that is the only advantage in this central gold reserve, that the balance of convenience is in favour of the bank? Is there no other advantage?—A. I think it would bring gold to the country and create in time a large reserve of gold.

Q. To the ignorant lay mind it would seem to be nothing but the balance of convenience that is in it?—A. I do not see any greater benefit to the bank than in issuing government notes. We would bring the gold in, lodge it in the central reserve and issue our own notes.

Q. Then you lose in one sense the interest on the gold deposit?—A. We get the equivalent from the assets produced by the notes.

Q. Suppose you work it the other way, that you had a rate of circulation according to the percentage of assets. The banks then would save the interest on the gold deposit. If power were given by the government to the banks to increase circulation in proportion to their assets, then there would be no necessity of depositing gold?—A. No.

Q. If that were so, would the banks not make the interest they now have on deposits in the central gold reserve?—A. Yes, we would have a larger available supply.

Q. Then the only objection you have to the circulation being on the basis of assets is you think there would be difficulty in calling up the assets of each bank?—A. Precisely.

By Mr. Nesbitt:

Q. But as a matter of fact, if you do not have the gold deposit in the reserve that is contemplated, would you not have it in your vaults? Some one asked if you would not lose the interest?—A. No, we would have it employed in New York on call.

Q. The same thing?—A. No, New York would be returning something.

By Hon. Mr. White:

Q. Let us assume that there is no provision for the central gold reserve, and that you were given the right to issue notes circulating in proportion to assets, so that your note circulation would be greater than to-day: that note circulation would be free money to you, would it not?—A. Yes.

Q. And you would make five or six per cent? Is that the rate?—A. We do not make that much.

Q. Supposing that instead of that additional circulation over the amount you can now issue against your paid up capital; supposing that additional circulation could only be issue against gold, do you make any money on that?—A. No.

Q. That is the point, that in this case to the extent of the note circulation that is issued against their gold they make no money. If on the other hand that provision were not in and they issued an amount of additional circulation over and above what they can issue now, by reason of its being issued in proportion to their assets, then that would be free money and a more valuable privilege to the bank.—A. Yes.

By Mr. Nickle:

Q. That is the line I wanted to take, that if this gold is deposited in the central reserve it is not available to the banks; as a money making asset it is tied up, but if it were loose the banks would have a greater franchise right in the power to issue circulation without getting security?

HON. MR. WHITE.—It is here the question arises as to that extent it is advisable to allow the banks to issue free note circulation.

MR. NICKLE.—Exactly.

By Mr. Currie:

Q. With regard to Canadian gold; if you take a million dollars of Canadian gold to New York, would you get a million dollars of American gold credited for it, or would there be charges?—A. I do not think so. Canadian gold is not legal tender in New York.

By the Chairman:

Q. As to the advisability of banks acting as landlords; reference has been made to the new buildings which the Royal Bank intend to occupy in Toronto. Perhaps you would tell us about this, whether you are going there as landlord or tenant?—A. We are not there as yet, but the building is to be erected and we have taken an option to lease the ground floor in this building.

Q. The building is not then constructed by the bank authorities?—A. We have no financial interests in the building whatever.

Q. What is the customary procedure where a bank occupies a very large and extensive building in a city? Do they usually own the property and act as landlords? and what is the procedure you follow?—A. The bank owns the building. Of course they rent the space that they do not require. In Toronto we have one building, the Traders' Bank Building which we inherited; that building is rented for the benefit of the bank, and we act as landlord in that case. I may say we intend to sell the building and to take in place of it rented premises in Toronto.

Q. Would you consider clause 79 prohibited a bank from acting as landlord?—A. I think it does but it is not possible of application.

Q. Clause 79 reads (quoted). I was asking whether you interpreted that clause to mean that the bank could not acquire or hold real estate in excess of what they occupy? —A. That is the intention of the clause and so far as the Royal Bank is concerned we have tried to live up to it and I do not think that we have transgressed. We have one building of fifteen stories which we inherited. We have five buildings of four stories, twenty-six buildings of three; seventy-one of two; and sixteen of one, making 119 buildings in all. We occupy 43 exclusively for our own purposes.

Q. The one you inherited, is that the property of the bank itself?—A. Yes.

Q. It came to you through the Traders' Bank?—A. Yes, it was one of the Traders' Bank assets.

Q. In that building you act as landlords?—A. Yes, and to a moderate extent in some of these other buildings, but I think it would be very unprofitable to expect banks to build exclusively for their own use on very expensive properties in the leading cities.

Q. What do you advise then; that clause 79 be struck out of the Bill?—A. I don't think banks should be prohibited from erecting moderate sized buildings, because we cannot always tell what our requirements may be, and we have to build for the future.

By Hon. Mr. White:

Q. Are you able to say whether or not the reserve funds of banks are greater than the amount of money they have invested in real estate?—A. I have a statement here

APPENDIX No. 2

showing the position of the banks in Canada as a whole. The proportion of bank premises to paid-up capital is 32·86, to capital and reserve, 17·04, to total assets, 2·55; and I have prepared a statement showing that in Scotland by comparison the proportion of bank premises to paid-up capital is 49·97 as against 32·86 in Canada. The proportion of capital and reserve is 26·26 as against 17·04, and in proportion to total assets 3·12 as against 2·55.

Q. Is there much business advantage in a prominent corner?—A. A great deal. It is very desirable that banks should be prominently located and be well in evidence.

Q. Is there considerable competition among the banks for corner sites?—A. Yes.

By Mr. McCurdy:

Q. Too much?—A. I think, perhaps, it is overdone.

By the Chairman:

Q. Do you think it would be desirable to amend clause 79 in such a way as to place a limit on the amount of property a bank can thus hold?—A. No, I do not think it would be desirable.

Q. Is there any danger of that being done to excess?—A. It is part of our machinery and plant, we have to continue building all the time.

Q. A bank with a large amount of its assets locked up in real estate, is it in a good position to meet a sudden strain, as a bank with a similar proportion of other assets?—A. It all depends upon how its assets are invested outside of its bank premises. One big bank in Scotland has nearly as much as its entire capital invested in its premises.

By Mr. McCurdy:

Q. You stated that the amount of bank premises as shown by the bank balance sheet was equal to 32 per cent of the capital? It is commonly supposed that these figures in a bank's balance sheet only represent 50 per cent on an average of the cost of the building; that the other 50 per cent has been written off. If that was so, the proportion of bank premises to capital would be 64 per cent?—A. It would be larger, undoubtedly.

By Mr. Currie:

Q. About bank premises, as the law stands, it compels the bank to purchase very expensive corners, and employ that amount for non-productive purposes except the bank's own purposes?—A. It does not compel us to purchase expensive property.

Q. Can you not distinguish between non-productive and productive real estate. for instance if the bank was compelled to build low building and only used it for its own purposes it might be a very expensive proposition to have a large building on a corner site?—A. A very heavy charge on the profits.

By Mr. Jameson:

Q. Following up the question of Mr. McCurdy, I would like to ask whether in your judgment there has been any amount written off the value of bank premises which would as a matter of fact increase the percentage of the value of bank premises over and above 32 per cent as against subscribed capital? That is, is 50 per cent of the amount of subscribed capital of the bank too large a sum to regard as the value of bank premises?—A. I have shown by comparison that the premises of the banks of Scotland represent 49 per cent of the paid up capital.

Q. We are speaking of conditions in Canada. Does the 32 per cent represent actual value, or is it the amount charged against bank premises, a certain percentage having been written off?—A. A large percentage written off.

Q. How much?—A. I cannot say. In our own case I think the equity is between four or five millions of dollars.

Q. And the sum it would represent?—A. $5,800,000.

The CHAIRMAN.—Estimated at 60 per cent of their value.

By Hon. Mr. White:

Q. I want to ask: supposing you have the banks well represented with office buildings in a particular city such as Montreal, supposing several of the bank buildings used solely for banking purposes were offered for sale, a forced sale, would you or would you not expect that it would realize as business property or as a house suitable for the occupation of a citizen, or as a shop, an amount which would not show considerable loss or depreciation?—A. It would depend upon the city.

Q. Say in a city where all the banks are represented by good head offices?—A. It could probably be sold at the current market price.

Q. What would be a current market price of a bank building? You take a piece of property say on the principal business street and you have an extensive head office of the bank used solely for banking purposes; who would purchase that for sale?—A. It might have to be sold at somewhat less than market value to enable the building to be transformed.

Q. Does it lend itself to transformation?—A. It all depends on the building.

Q. I say take a bank building that is used solely for banking purposes, not an office building, but an expensive building costing two or three or more hundreds of thousands of dollars?—A. There might be a very large sacrifice.

By Mr. Nesbitt:

Q. Is that the reason you reduce the amount so much to allow for any sacrifice in case you had to liquidate?—A. No, that is not the point of view. The asset is not one we ever expect to realize on, therefore we think it desirable to carry it at as low a figure as possible on the same principle that the Bank of England carry their bank premises at one pound.

By Mr. Currie:

Q. But in cities like Montreal and Toronto there would be no difficulty?—A. Less difficulty.

Q. It could easily be converted into a hotel or store?—A. It depends entirely upon the character of the building.

By the Chairman:

Q. As to section 91. You tell us that you have a number of branches throughout the Canadian Northwest?—A. Yes, we have.

Q. I will ask you to take one of the typical western towns and give us a statement with reference to the amount of loans and rate of interest?—A. I have selected one branch at Scott, Saskatchewan. I understand that when this subject was under discussion the other day, the statement was made that the banks were charging exorbitant rates of interest. I find our rate is eight per cent throughout. I find in fact we have not been charging enough.

Q. How many loans have you there?—A. I will give you a correct statement. We have $116,000 on loan.

Q. How many borrowers have you there?—A. About 150, all farmers, practically.

Q. That would make the average loan $800 would it not?—A. Yes.

Q. And in every case the rate of interest is 8 per cent?—A. Yes, that is the uniform rate.

Q. You have not a single account on which you charge more than 8 per cent?—A. No.

APPENDIX No. 2

By Mr. Rhodes:

Q. Would you be willing to give information as to deposits of that place?—A. I have not the record at hand, but I should imagine about $30,000 to the best of my recollection.

Q. You practically loan four to every one deposit?—A. Yes, our loans run from one, two and three times as much as our deposits.

By Mr. Currie:

Q. You mean savings deposits?—A. No, total.

By Hon. Mr. White:

Q. Could you make a general statement as to the ratio between deposits and loans in the West?—A. Our loans are very much in excess of our deposits. I could not say definitely, but at least 150 per cent.

By the Chairman:

Q. Of these 150 depositors, are they practically all farmers?—A. Nearly every one of them.

By Hon. Mr. White:

Q. How do the loans run as to amounts?—A. $105, $162, $52, $350, $202, $1,349, $134 and $275. Farmers' loans, all of them.

By the Chairman:

Q. So, when I take $75 as an average, it is larger than the average loan to the farmer?—A. There are a few business loans of large amount. There is one of $10,000, not to a farmer.

Q. What kind of business?—A. It is designated 'hotel'.

By Mr. Cockshutt:

Q. Do you find it costs more to do business in the West than in similar centres in the East?—A. Considerably more.

Q. About what percentage?—A. I should say at least 25 per cent more.

Q. So that about 2 per cent on the interest charge would go for excessive costs. It would be equal to six in the East to eight in the West?—A. The business is unprofitable even at that rate.

Q. As to the relative stability of credit in the West do you find a serious difference say between 150 farmers in Scott, Saskatchewan, and the same in Ontario or Quebec? Is the risk relatively more?—A. Considerably greater in the West.

Q. That is to be taken into account when you are fixing the rates?—A. Yes.

Q. Do you think you would be able to continue business in these western towns if we limit the interest to 7 per cent? Would it be possible for you to continue in the smaller centres if we made that binding?—A. I am afraid that if you restricted us to that rate, we would be obliged to close a number of the smaller branches. We have a lot of small branches that are not paying and we do not expect that they will pay for some years to come.

Q. Do you charge more to a farmer than to a merchant in the same town you speak of?—A. No.

Q. Is the rate similar?—A. Eight per cent is our uniform rate regardless of the account.

Q. Are they all short loans or do they run for different periods?—A. Usually three or four months, not exceeding six months.

Q. Subject to renewal possibly?—A. Yes.

By the Chairman:

Q. One name paper mostly?—A. Yes.

By Mr. Jameson:

Q. How long has the bank been located in the town you refer to?—A. From my recollection, less than a year.

Q. Do you consider that a fair illustration of your western business?—A. In the matter of the extension of loans I do.

Q. In the matter of deposits?—A. Yes, very unsatisfactory. Last year especially.

The CHAIRMAN.—This town of Scott is in the Battleford district, northwest Saskatchewan.

By Mr. Jameson:

Q. Is that $10,000 loan real estate or commercial?—A. I cannot say, I have no knowledge. There are no particulars here.

By Mr. Sharpe (Ontario):

Q. Is that list exclusively of commercial loans?—A. No, it includes all accounts at that branch.

By Mr. Clark (North Bruce):

Q. Have you read clause 91 limiting you to 7 per cent on loans, and under that clause is there any way in which the banks can charge more than 7 per cent?—A. No, I think we must plead guilty.

By the Chairman:

Q. On section 99 and following, about amalgamation of banks, I would ask your opinion as to the desirability of bank amalgaming?—A. I think it is a good thing to remove a weak bank by amalgamation. Most of the amalgamations that have occurred in Canada have meant the absorption of weak banks, with few exceptions.

Q. Have you any information as to the recent purchase of the Traders' Bank by the Royal Bank?—A. I do not know why we should be required to explain this transaction, but I am glad to give you any information at my disposal. We did not seek the Traders' Bank of Canada, it sought us; they were desirous of selling out.

By Mr. McCurdy:

Q. It was not a weak bank?—A. I would not call it such. It had been offered to two other banks.

Q. Most of the weak banks then have disappeared?—A. I hope so. We are not the arch consolidators. There are banks here that have absorbed other banks: The Bank of Montreal, three; the Canadian Bank of Commerce, four; the Bank of Nova Scotia, two; and we have absorbed two. If you will permit me to say so, I think it would be a great mistake to refer amalgamations to Parliament. I think it would defeat the object in view.

By Mr. McCurdy:

Q. Would you favour the provision already made in the Bill as printed, that the minister must pass it first?—A. I strongly favour that proposal.

By Mr. Sharpe (Ontario):

Q. What is your objection to an Act of Parliament?—A. The good will of a bank would be dissipated before you could reach parliament. Every bank would make a dead onslaught to get its business leaving nothing to the purchasing bank.

APPENDIX No. 2

By Hon. Mr. White:

Q. In connection with amalgamation, I may say I have a memorandum that may be of interest to the Committee. The statement is this:

> As the Traders Bank branches are confined for the most part to Ontario and the middle west, and the Royal Bank is strongly represented in the maritime provinces and on the Pacific coast the union of these two banks would form an institution with branches widely scattered throughout the length and breadth of Canada. The branches are duplicated at fifteen points, but, as many of these points are large centres already supplied with branch banks, it cannot be said that competition would be lessened by amalgamation of the two banks.

I was going to ask for the number of branches that you had in Canada before the amalgamation, and the number the Traders Bank had. Apparently you would duplicate only at 15 points?—A. We had 200 branches prior to the amalgamation, and the Traders Bank gave us 100 after closing the duplicate points.

By Mr. Nickle:

Q. Do I understand that in your opinion concentration has gone far enough except where the absorbed bank is weak?—A. I am not averse to strengthening the banks. I think 'In union there is strength,' and that there is room for a great deal of economy, as there is a great deal of waste.

Q. I would infer that you are not an admirer of the small bank system?—A. No, I do not think they are beneficial.

Q. Do you think they are a disadvantage?—A. They may prove to be.

Q. Do you think it necessary to devise some machinery for the supplying of the wants of the smaller borrowers, men who want $100, $150 or $200, of the small agricultural and industrial classes?—A. No, I do not think you could improve on the branch bank system.

Q. Have you any faith in the so-called co-operative system?—A. No, I have not.

Q. I notice that Mr. George Baker in his evidence before the commission in the United States, says concentration has gone far enough. You do not think that condition has been reached in Canada?—A. No.

Q. Are we still far away?—A. Far from it.

Q. Then you do not think this Parliament has any danger to apprehend from mergers as far as they have gone?—A. I think not. But we ought to provide machinery to take care of the weak bank, and if you have to submit to parliament amalgamation proposals, it might not be possible to save such a bank.

Q. The patient would die in the meantime?—A. Yes.

By Mr. Sharpe (Ontario):

Q. Mr. McLeod was in favour of amalgamations being sanctioned only by Act of Parliament, and in case a bank became weak, said two or three other banks would come to its assistance?—A. The moment it evinced its weakness you can readily understand that banks throughout the country would attempt to get at its best business. It would be advertising its weak condition.

Q. Would there have been any difficulty, for instance, in the amalgamation between the Royal and the Traders banks standing over for an Act of Parliament?—A. That amalgamation would never have taken place if it had had to be submitted to Parliament.

Q. Would that be undesirable?—A. Yes, I think so.

Q. Why would you say that?—A. I think the combination was a good one.

Q. In the interests of whom?—A. In the interests of the public and the shareholders of both banks.

Q. What would you say as to the public interest?—A. I think the public interest is served by giving greater strength.

Q. And eliminating competition?—A. The competition was not eliminated to any extent.

Q. At fifteen different points?—A. Most of these points were largely supplied with branch banks, and the vacancy was in two or three instances immediately filled.

Q. Do I understand you to mean that as soon as amalgamation was mooted, the bank that would be absorbed would be beset by its competitors and its business ruined? —A The good business of the bank would be sought after by the other banks, and the purchasing bank might not want it.

By the Chairman:

Q. What do you mean by 'good business'?—A. Good accounts. Every bank has good, as well as bad accounts, and I am afraid that the other banks would seek these good accounts.

By Mr. Sharpe (Ontario):

Q. Would it not be prevented by the purchasing bank?—A. You have to act quickly in such cases to conserve the good will.

Q. How long were the negotiations pending between the Royal and the Traders banks?—A. It was about thirty days before we reached an agreement.

Q. They were on and off before it was concluded?—A. No, they continued from the time they started.

Q. Do you believe in limiting the capitalization of banks at all?—A. No, I do not.

Q. Do you believe we may possibly come to a time when there is undue concentration?—A. Not for some years.

Q. Don't you think there is danger to the future development of this country in undue concentration of a few institutions?—A. I don't think there is any danger.

Q. You think the ideal condition would be to have all these banks amalgamate?—A. No, there is a limit beyond which I would not go.

Q. Where would you stop?—A. I would like to see a dozen or so big banks. In time we shall need them.

Q. Would you think twelve banks with large capitalization would serve the country better than a number with moderate capital?—A. I think so.

Q. And you do not believe in preventing amalgamation nor increase of capital? —A. No.

By Mr. Nesbitt:

Q. As a matter of fact after the amalgamation of your bank and the Traders Bank, were you able to continue the accommodation to the public just as well as you did separately?—A. We have heard of no complaint whatever.

Q. And were you anxious to accommodate the customers of the Traders Bank just as you were your own people?—A. Quite so.

Q. You have mentioned that the reason why you think banks should not go to Parliament for acceptance of amalgamation was that others would take away your business. As a matter of fact, while your negotiations were going on, did the other banks try to steal away your best customers from the Traders Bank?—A. That was the danger when we entered into negotiations with the Union Bank of Halifax. Two banks immediately went to Halifax with the idea of picking up business. We let them have what we did not want.

Q. I know what you say is true. I saw instances of it, and at the same time you let them have some business you did not want, too. With reference to the size of banks, you have just told Mr. Sharpe that a small bank could not serve the locality as well as a branch of a big concern?—A. I will give you the experience of two banks

in Newfoundland which illustrates this point. There were two banks, the Union of Newfoundland and the Commercial Bank of Newfoundland, each with capital of four and five hundred thousand dollars, which came to grief in 1893 or 1894 with very disastrous results to the whole community. The Bank of Montreal, the Bank of Nova Scotia and the Royal Bank immediately stepped into the breach and opened branches, and to-day the Bank of Nova Scotia has nine branches, the Bank of Montreal three, and we have two, and the island was never so prosperous as at the present time. If these small banks had continued, it would not be so prosperous.

By Mr. Thompson (Yukon):

Q. When these amalgamations occur, are details of the amalgamation laid before the shareholders for ratification?—A. The shareholders are consulted after full details have been laid before the directors and an agreement arrived at.

Q. Are commissions paid when amalgamation occurs to the go-betweens?—A. When the business is introduced to us by an outsider it is not unusual to pay a commission.

Q. And when these commissions are paid, are they submitted to the directors of the bank for their ratification?—A. Certainly.

Q. Are directors sometimes pensioned off to bring about an amalgamation?—A. Directors have received fees. I know several instances where they have been provided for in that way.

By Mr. Sharpe (Ontario):

Q. That seems an extraordinary thing. Directors are elected by the year, are they not? On what principle is this done?—A. It is common practice in all cases of amalgamation that the retiring directors if not continued as directors, receive some small allowance.

Q. For the balance of their life?—A. Yes.

By Hon. Mr. White:

Q. Is that a usual practice? You say it has been done.—A. I think it is common practice.

By the Chairman:

Q. On what principle is it justified? Is not a director elected annually?—A. Yes.

By Mr. Sharpe (Ontario):

Q. Are the shareholders aware of that arrangement?—A. I cannot recall. In the case of the Traders Bank we took over three directors. We gave no fees whatever to the other directors. In the case of the Union Bank of Halifax—the only other bank absorbed—we continued the directors as a local board and paid them moderate fees annually during their lifetime.

By Hon. Mr. White:

Q. Do they render any service?—A. They are subject to consultation.

Q. It is important to develop that, because the statement going out in that way might create a false impression. You say in the case of the Union Bank of Halifax that the directors were continued as members of a local advisory board. Did they render services to your bank in that connection or not?—A. Undoubtedly.

Q. Then what you do is to pay some fee to these directors? Is there any impropriety in that?—A. I see none.

Q. Take the case of the Traders Bank. Did you or did you not pay any pensions? —A. Nothing whatever. We took over three directors, the others retired without any allowance.

Q. When you said it was a usual practice to pension directors or continue fees for life, had you in mind that they had rendered some services or not?—A. I say that is the practice in England. My impression is that it is a common practice to provide for them by commutation of the fees they had been drawing.

By Mr. Sharpe (Ontario):

Q. But they had no vested interests; that is a euphemistic way of calling it.—A. That is the case in England. Directors continue for life. I have personal knowledge of such a case. The directors in considering a proposal to amalgamate demanded a retiring allowance in the form of commutation of the fees they were drawing.

Q. Was that retiring allowance given to the retiring directors of the Traders Bank?—A. No, we gave nothing to those who did not join our board, but three were admitted as general directors of the bank.

Q. And receive only the present directors' fees?—A. Yes.

Q. How many are kept on your board?—A. Three.

Q. How many dropped?—A. Four or five.

Q. Was the amalgamation brought about by a commission agent?—A. Outside agents introduced the business to us.

By Mr. Thornton:

Q. What were they paid?—A. I do not think I should be called upon to state that.

The CHAIRMAN.—I do not think Mr. Pease need give away any of his private business.

By Mr. Nesbitt:

Q. Did the shareholders know they were to be paid?—A. No, they were not consulted.

By Mr. Currie:

Q. If your shareholders asked at the annual meeting, you would tell them?—A. Yes.

By Mr. Nickle:

Q. It seems to me that the practice to which you refer is most strange. You told us at the beginning that when negotiations were opened between the two banks for amalgamation it was to the disadvantage of the bank to be absorbed if the negotiations were not consummated?—A. It would redound to the disadvantage of the bank if it were not after the negotiations were published.

Q. Now the directors in this instance opened up negotiations for the purpose of coming to an arrangement without consulation with the shareholders and the tentative agreement was reached. Part of that agreement consists in certain of the directors of the bank to be absorbed being subsidized or otherwise provided for. Is that correct?—A. I have stated in one case that we admitted several of the directors and declined others. In the case of the Union Bank of Halifax we appointed the former board of directors with the exception of one member who became a general member. We appointed them an advisory committee.

Q. The enunciation of the principle, is it not radically unfair?—A. I do not think so. We wanted the assistance of these gentlemen.

Q. Having got the tentative agreement and the two boards into a fair degree of harmony, you called a meeting of each board?—A. Yes.

Q. If you were a shareholder of the bank to be absorbed, what would you do if the existence of your bank was jeopardized by a tentative agreement that your directors had been working on?—A. I think the shareholders are willing to leave that to the directors of the bank.

Q. Why?—A. Because they have confidence in them.

Q. Do you think the shareholders of the bank to be absorbed as a rule have knowledge that the directors are getting an advantage beyond that which comes to the ordinary shareholder of the bank to be absorbed?—A. I think they are all cognizant.

Q. Were the shareholders of the Traders Bank aware of the arrangement made to take care of the directors of their bank?—A. No, we did not inform the shareholders of the Traders Bank of our intention to appoint several members of their board as directors.

Q. Do you know if they were informed from any source outside?—A. The appointment was not made until after consolidation.

Q. But the tentative arrangement was made?—A. There was no appointment until after consolidation.

Q. I suppose it would not be unfair to say it was a tentative agreement?—A. We had not determined whom we would appoint.

Q. I suppose the tendency of your appointment was well directed?—A. We were trying to get the best men.

By Mr. Cockshutt:

Q. After the amalgamation which took place, do you find that the whole volume of the business of the Traders Bank has been retained? That is, supposing you had business of two hundred million and the Traders Bank one hundred million, is it now three hundred million?—A. It has been retained and increased.

Q. Are overhead charges for doing business of the two banks lessened by the amalgamation?—A. Very largely.

Q. Then you have a tendency to improve facilities and increase profits?—A. Naturally.

Q. With regard to the staff required in the amalgamation bank, did you find you had too many under the amalgamation?—A. No, we admitted the entire staff of the Traders Bank to our service.

Q. And still you were able to reduce overhead charges considerably?—A. Yes. By the abandonment of one head office and closing of fifteen branches, we needed additional men in the service.

Q. I judge you feel we have nothing to fear from the amalgamation of banks then for the next ten years?—A. No, I think not.

Q. You would not say what is the minimum number of banks Canada could do with?—A. In Scotland where they have deposits amounting to one hundred million pounds, fifty per cent of our bank deposits, have only eight banks.

Q. How does capital compare with ours?—A. Their capital is slightly in excess of eight million pounds, and the reserves about equal.

Q. And you think the banking facilities are not lessened by reason of the small number?—A. I think they have the best banking facilities in the world.

By Hon. Mr. White:

Q. How many directors were there for the Traders Bank originally?—A. There were eight.

Q. How many did you take over?—A. Three.

Q. So that would leave five not taken over?—A. Yes.

Q. Is it usual or unusual in the case of amalgamation for some of the directors to go on the new board?—A. It is usual.

By Mr. Currie:

Q. The directors that go on the board go to represent the shareholders brought in?—A. Quite so, to look after the interests of the old shareholders and customers.

By Mr. Clark (North Bruce):

Q. You said that you agreed it was rather an advantage to have a weak bank absorbed by a strong bank. I think generally it was considered that the Traders Bank was not a weak, but a strong bank. You don't mind telling us, because it cannot do harm now, whether or not that was a case of a strong bank absorbing a weak one?—A. I have a statement here in which a director explains why the bank decided to sell out.

(Newspaper report quoted.)

By Mr. Nesbitt:

Q. Would you put a limitation on loans to any one corporation, and do you think we should legislate to that effect?—A. I would not make any limit, and I do not think it desirable to legislate.

Q. Have you any idea as to what amount of business a bank could swing on, what percentage of paid-up capital compared to total liabilities which would justify it in assuming banking practice?—A. I have a comparative statement on the subject from which I give you the following: In Canada the proportion of paid-up capital to total deposits, 10·47; in Scotland, 8·07, showing that we have a larger percentage proportion. The proportion of capital and reserve to public liabilities is 17·83 for Canada and 14·08 in Scotland. The proportion of liquid assets to public liabilities is 40·96 in Canada, 52·08 in Scotland.

By Mr. McCurdy:

Q. What is the danger mark?—A. I would not say.

Q. Would it be possible for a bank to swing too much business on capital?—A. Yes, it would be possible, but none of our banks have as large deposits in proportion to capital as banks in Scotland.

By Mr. Sharpe (Ontario):

Q. Would it be undesirable to fix a limit of loan to one corporation?—A. I do not think it would serve any useful purpose.

Q. Do you know the Farmers' and the Sovereign Banks failed through loaning money to one corporation?—A. Yes.

Q. In view of their experience you do not think it advisable?—A. I do not.

By Mr. Currie:

Q. If you are a customer of a bank and require money, would you not prefer having to deal with a large bank than a small one?—A. That would be my preference; I would think they would be more likely to take care of me.

Mr. Pease retired after receiving the thanks of the Committee.

The Committee adjourned.

APPENDIX No. 2

HOUSE OF COMMONS,

COMMITTEE ROOM No. 101,

THURSDAY, April 17, 1913.

Committee met at 10.30 a.m., the Chairman, Mr. H. B. Ames, presiding.

Examination of Sir EDMUND WALKER resumed.

By the Chairman:

Q. Just by way of clearing up one or two small matters that are not, perhaps, thoroughly understood, I am going to ask Sir Edmund two or three questions in connection with the annual report of his bank. At the forty-sixth annual meeting of the shareholders of the bank, about one hundred and twenty-five persons were reported present. Was not that an unusually large number for an annual meeting of shareholders?—A. Not for our bank.

Q. How does it happen you have so large a number?—A. We regard our annual meeting as a matter of considerable interest to the customers of the bank, as well as to the shareholders, and we also make a practice of bringing to Toronto every year, thirty or forty bank managers, selected from different parts of Canada, in order that they may be present at the annual meeting, hear what takes place, and meet each other at an annual dinner we have in the evening, where they have an opportunity of getting acquainted and of meeting the executive.

Q. Is this list, then, composed of shareholders only?—A. No. Many were there who were not shareholders, merely listeners to what took place.

Q. Do the employees of the bank vote as shareholders at the annual general meeting?—A. No. They take no part in the proceedings at all, except that, instead of the usual perfunctory answer to the vote of thanks to the staff of the bank being made by the general manager, a manager from the east and one from the west respond for the staff. That is the only part they take in the proceedings.

Q. There is one general question that I thought I would ask Sir Edmund before he commences, to clarify, just a little, for the benefit of the Committee. Supposing that times were hard and a bank had more than the usual strain upon its paying powers, what would be the steps that the bank would take to keep itself prepared for every contingency?—A. It would begin first to do what we were speaking of yesterday as happening in 1907: draw into Canada its resources in the United States and in London, from its call loans and securities of that character. If money continued to be close, as it has been recently for a period of time, they would gradually get their large loans, especially to industrial companies, paid off, by getting the companies to issue bonds, as happened largely in the last year or two. We have not done anything of that kind, but that is one thing we could do. It would probably have a certain number of loans which were not in the nature of annual credits, where there was no obligation, implied or otherwise, to carry a customer through the season, and borrowers of that kind, especially if they could do so without distress to themselves, would be asked to pay, in order that people of the other class should not be pressed.

Q. While these steps were in progress, would it always be the endeavour of the bank to have about the same quantity or the same proportion of gold and specie at its command?—A. It would be their endeavour, but they would undoubtedly trench to a

certain degree on their cash reserve, as you can see has happened, by the present bank statement. They could not carry as full reserves in cash, in time of financial strain, when they found it difficult to serve the country, as they could carry at a time when they found it quite easy to serve the country. I mean by that, that the first duty of the banks of Canada is to do their best to carry on the business of the community; and to do that sometimes subjects them to a certain amount of strain.

By Mr. Nesbitt:

Q. Who are the first people you tighten up on?—A. The loans we make outside Canada, and then, as I said, loans to large people who can make their financial arrangements outside of Canada, and by having the loan paid they implement the money situation at home.

Q. I referred to loans for real estate and speculation.—A. We do not make loans for that purpose. We investigated our whole western loans some time ago, in order to find out how much we had lent in connection with real estate. While we endeavour not to lend money in that connection, there are, of course, wealthy people who ask us for a loan without our being in a position to ask them how they are going to use the money. But we took every loan that was dependent in the nature of things on real estate, and we found that only 4 per cent of our entire western business depended on the sale of real estate, or, had real estate as the basis for its natural realization.

Mr. ARMSTRONG (Lambton).—Sir Edmund was good enough to say yesterday that possibly by this morning he would have a statement as to the average rate of interest paid by the banks to the shareholders for the amount of money they have now invested.

The CHAIRMAN.—You mean the dividends?

Mr. ARMSTRONG.—Yes, the average rate.

By Mr. Nesbitt:

Q. Before going on with that I would like to ask one question of the witness. Yesterday you gave a list of the earnings of certain companies, in comparison with banks. Why could you not have given us some idea as to that, with reference to farmers? Why could you not include farmers in the list?—A. What I desired to do was to select, as far as possible, businesses where the profit was really made on the turnover, in the manufacturing and sale of goods. If we had taken the western farmer or rancher, or the western dealer in real estate, and had regarded the appreciation in his land as profit (which we would have had to do) we would have upset the calculation entirely and the banks would not have shown any kind of profit at all alongside the other industries. I mean by that, that the profits of real estate dealers, ranchers and farmers arising from the rise in the value of land and when applied to the capital invested, were so enormously larger than the profits of industrial businesses and banks, that it would not have been a fair comparison for me to make.

The CHAIRMAN.—Perhaps Sir Edmund can now answer Mr. Armstrong's question regarding dividends.

Sir EDMUND WALKER.—I have a statement here, which gives what Mr. Armstrong asks, and shows a little more. It shows, first, the profits made by Canadian banks on their entire assets, and that is, as I mentioned yesterday, in the neighbourhood of 1·20 per cent, but the varying percentages of the different banks are given here. One runs as high as 1·59 and another as low as ·93. Then I set up the theory, as I did yesterday, and as Mr. Henderson did also, that it would be but fair to admit that a bank, on its capital and surplus, could readily make 6 per cent in many kinds of investment business, without any franchise and without the labour and risks we

APPENDIX No. 2

now run. If you allow the bank 6 per cent on its shareholders' money (I mean capital and surplus combined) then the profit on the entire assets made by the banks on their general banking business—that is, out of all other sources similar to the peculiar franchise given to the banks—runs from ·10 to ·64, and averages, I should think, about from ·25 to ·30. That is to say, they make a little more than one-quarter of one per cent profit on their total assets, if you allow 6 per cent on the capital and surplus which the shareholders contribute themselves.

Then I find that the earnings of the banks, on their capital and surplus combined, is about nine point something per cent. That has been mentioned often to this Committee, but I give the precise figures here, and I find that profits, not dividends relative to the market price of stock, run about 6½ per cent to about 10 per cent. In the case of one French bank the percentage is nearly 12. Then I have a column, answering the question that Mr. Armstrong asked. That is the percentage of the dividends to the market price of the stock and that is generally about 5 to 5½ per cent. In one case it happens to be 6, but it runs usually from 5 to 5½ per cent. In the case of the Bank of Montreal it goes below 5. The return there is only 4·8 per cent.

Q. Will you have that return inserted in the record?—A. Yes.

Bank.	Total Assets.	Assets after allowing 6 p.c. on Capital. *a.*	Precentage of Earnings on Capital. *a.*	Market price of Stock.	1912. Percentage of Dividend to Market Price.
Commerce	1·14	·45	10·15	8·64	5·07
Dominion	1·14	·25	7·84	7·77	6·03
Hamilton	1·01	·18	7·41	8·10	5·39
Hochelaga	1·57	·40	7·98	9·61	4·49
Imperial	1·36	·30	7·83	7·37	5 29
Metropolitan	1·23	·18	7·07	8·48	5 03
Montreal	1·06	·23	7·44	6·35	4·84
Merchants	1·59	·64	10·13	10·02	5·05
Molsons	1·29	·30	7·76	8·27	5·31
Nationale	1·35	·39	8·53	11·84	5·65
Nova Scotia	1·36	·22	7·18	7·40	5·05
Ottawa	1·26	·26	7·74	8·01	5·62
Quebec	1·33	·30	7·82	8·93	5·3
Royal	·93	·10	6·79	6·41	5·33
Standard	1·12	·29	8·22	8·06	5·51
Toronto	1·41	·27	7·56	8·00	5·74
Union	1·02	·29	8·44	9·26	5·3

'*a*' Capital includes Capital, Rest and Undivided Profits.

Q. Would that cover a period of years?—A. It is an estimate made last year which is thought to be the most profitable year in Canadian banking. It could easily be made for a series of years.

Q. Do you find that it is an easy matter to dispose of bank stock, or are we likely in this country to be able to organize new banks? Under the present condition of the banking system of Canada what encouragement should there be towards the development of the extension of the banking system?—A. I think with the present profit on banking stocks, specially with reference to other industrial ventures in Canada—because that is the way you have to look at it—it is not easy to get the Canadian public to put their money into a business that pays so little when almost all other businesses pay so much more.

If you ask the question with reference to new banks I would like to make this statement, which I think is an important one, and has not come before the Committee: I am not one of those who believe that new banks will not be started in Canada and

be successful. But they will not be started in Canada until they are started by people who do not require, upon the capital that they put into a bank, any return for the time being. I mean by that that banks fail—or rather new banks fail—because of the delusion that they can immediately earn and pay a dividend. That is practically impossible in these days. Many United States banks have been started within the last twenty years by men who knew when they put their money in that they must not seek for a return in the first, second, or third year, but have been willing to leave their profits in the bank. Almost all such concerns, when carefully managed, have been successful, some notably so.

Q. Is it not a fact that many of the banks now operating in Canada during the early period of their existence were compelled to allow dividends to be placed to rest account, and the earnings were not distributed among the stockholders?—A. I think there were some periods in Canadian banking when no dividends were paid. The periods are fewer than they should have been.

Q. Would you be good enough to say whether it is possible under present conditions, judging from the statement you have made, to obtain outside capital from foreign countries to invest in Canadian banks? The statement is very frequently made that we ought to go outside, and obtain capital to invest in banking systems in Canada. Would it be possible under the present conditions to go outside and obtain that capital?—A. I think that would depend entirely on whether money happened to be plentiful or not. At the present time it would be difficult. A few years ago when money was plentiful it would not have been difficult.

By Mr. Broder:

Q. Outside capital would not come of its own motion, to Canada and establish banks here?—A. No, I don't think that is possible. But the banks that are already strong and prosperous in this country could probably get capital when money is easy, but they would not be able to readily get capital with such a return of profit as at the present time.

By the Chairman:

Q. Were a new bank started in Canada under favourable auspices, we will say, how soon would it be reasonable for the shareholders to expect some dividends?—A. I should think after five years.

By Mr. Sharpe (Ontario):

Q. Would it not be interesting to the Committee to have, along with the statement which Sir Edmund has prepared, another statment as to the returns a shareholder would have for a period of years, say from the starting of the bank until the present time? Dividends do not represent the whole of the shareholders' accumulations from their investments. When the shareholder gets stock at a certain discount he would have to get an additional return from what the dividends would show?—A. Yes, he is the owner of that part of the profits which are reserved and added to the surplus account.

Q. And they would not appear in the dividend return?—A. No.

Q. So that as that statement would not be quite complete and show his full returns, a supplementary statement showing for a period of years what rights had accrued to him, would be necessary?—A. That is quite true, but unfortunately you can never get a shareholder to take that view of it judging by the market price of stocks. He apparently judges the stocks mainly by their dividends alone. I don't think myself that in the price of the stocks sufficient notice is taken of the profits which have been earned but reserved in this way.

Q. You will understand, of course that in the annual statements that are issued by the various banks, when they are desirous of attracting capital, and giving a rosy statement to the shareholders, we find that the dividends are 13 and 17 and sometimes as high as 20 per cent.

Mr. BARKER.—On what?

Sir EDMUND WALKER.—I suppose on the paid-up capital.

By Mr. Sharpe (Ontario):

Q. When an investigation takes place the showing of the bank is less and the public are nonplussed?—A. The public should not be nonplussed. The practice of all the banks throughout the country, and of industrial and other joint stock companies, is to quote their profits upon their paid-up capital, and they have done that for years, quite innocently. I think we shall be very much more careful hereafter in making such a statement when we see the curious result of—what shall I say—boasting about our prosperity. But capital and surplus combined is the right way to measure it—as we have shown over and over again in this committee—the surpluses which have been so largely brought about by the payment of actual premiums on stock is the best test of that.

By the Chairman:

Q. The net profits of the Canadian Bank of Commerce, from the annual return of last year was about $2,800,000 on a capital of fifteen millions, close to 18 per cent, or a little over, and in a working capital of $27,500,000 it would be equal to 10 per cent. Is that a fair statement?—A. Yes.

By Mr. Nesbitt:

Q. That is gross, I suppose?—A. We have made very large provision for our bank premises out of that.

By Mr. Macdonell:

Q. Can you inform me, roughly speaking, about the percentage of the total capital of the Canadian banks that is held outside of Canada?—A. I could not give you that information regarding the other banks.

Q. Not even approximately?—A. It could be got from the returns. I am sorry that I have not the statement of our own bank here. I had it with me yesterday but did not bring it this morning. We have five thousand six hundred shareholders, and I think about one-fifth in value is in Europe. It may be more than that. I should like to correct the record just as soon as I can, and I will put in the percentage, if you like, of the shareholders in Europe, in the United States, and in the different provinces of Canada.

Q. If it is not too much trouble. There is more or less discussion as to the number of shareholders who are non-resident and in that respect money is leaving the country to pay dividends—large or small as the case may be—and if it can be got even if only approximately, it should be given?—A. I will give that information precisely.

By Mr. Sharpe (Ontario):

Q. Would it be too much trouble, in respect of the Bank of Commerce, to give a statement showing the actual returns, say for the past ten or fifteen years, on the capital invested?—A. That would be quite easy.

By the Chairman:

Q. You may do it from the beginning and show what one of the original shareholders has earned since the time he put his money in and what his stock is worth to-day. Could you do that?—A. I think so.

By Mr. Emmerson:

Q. We have had your statement that no bank could possibly expect to have any return on the first five years. Now we ought to have a statement showing what the bank's earnings are in that period?—A. I do not think it would be of any value.

Q. Excuse me I want to know whether we can have it. I do not want the opinion of the witness whether it will be of value, but I want the facts?—A. The Minister of Finance can readily get it from any bank in Canada.

Q. I want to know whether we can have a statement showing the earnings in the banks in Canada during their first five years existence?

Hon. Mr. White.—It may be possible to get it; if we can we will do so.

Mr. Emmerson.—Banks doing business today.

Hon. Mr. White.—The returns that they made. The Farmers' Bank of course paid dividends out of capital. That would be impossible to detect from any statement sent in.

Mr. Emmerson.—The return will have its own effect; whether it is of value or valueless it will give all the facts.

Hon. Mr. White.—It will, if you know all the facts.

The Chairman.—So far as the witness is concerned Sir Edmund will incorporate in the record a statement showing what the original shareholder of his bank would have received in dividends and what he would have to his credit today if he exercised all his privileges.

By Mr. Sharpe (Ontario):

Q. And the accumulated rights from time to time, the stock that was issued to him at a discount below the book value?—A. No, it would not be below book value.

Mr. Armstrong (Lambton): I am afraid there is a wrong impression with regard to the first five years of a bank's operations. I do not understand Sir Edmund to say that all banks during the first five years of their operations did not pay any dividends, but as I understood his statement it was to the effect that it would not be wise for any bank starting now to pay any dividends during the first five years.

By Hon. Mr. White:

Q. Are conditions in Canada different today from what they were when the Bank of Montreal, the Bank of Nova Scotia or any other bank started and would the comparison between the first five year periods of such banks be of any value, or of what value, in attempting to draw a conclusion as to what a new bank starting today should do?—A. It would not be of any value whatever.

Q. What is the difference for example, in the banking facilities throughout the country, the branch banks?—A. Of course the cost of the service of banking today, as I tried to say yesterday, has been constantly going down.

Q. Will you just continue, Sir Edmund, what you were saying as to the rates of interest and the cost, comparing the previous period with the present period?—A. To begin with, of course, the interest rates for thirty, forty, fifty, sixty or seventy years ago were entirely different to the rates now; the expense of the administration of the banks is entirely different, the margin of profit is entirely different, we have

been building up the present branch system, and we have brought the cost of the service of banking to the people to a very much lower point than it was years ago, but I must not be misunderstood in two directions. I have not attempted to show that the bank would make no money in the first five years, but that it would make so little money in the first five years that in my opinion it would be unwise to attempt to pay dividends. That is one point. Now on another point: The statement of the dividends the banks pay during the first five years would be a very melancholy tale in many cases. The Bank of Commerce paid 10 per cent dividend during part of its first five years, and then entered upon a long period of 7 per cent dividends mainly because they started in a period of unusual prosperity and did not realize the risk of the business they were doing.

Mr. BRODER.—If you made a comparison of the dividends of the banks paid after starting out anew it might be misleading, because some would have a policy of carrying more to the reserve than others, and therefore you could scarcely make a comparison that would be of value. It would depend upon the policy of the directors.

The CHAIRMAN.—Might we go on with Section 76?

By Mr. Sharpe (Ontario):

Q. Are we clear with regard to the extra column that Sir Edmund is going to provide us showing the returns that accrue to the original shareholders of the bank? —A. Of my own bank.

The CHAIRMAN.—In every way.

Q. In every way, including the rights for stock and every other way?—A. Well, the 'rights' are included in the rest, the 'rights' have nothing to do with the calculation. The 'right' is simply something that John Smith parted with by giving his share to John Brown, so that does not enter into the question.

Q. But if you issue stock below the market value——A. No, we do not.

Q. Then what value has the rights except the market value?—A. I beg pardon you said the 'market value,' we do issue at the book value which is lower than the market value.

Q. Then in addition to the dividend if a man is a stockholder he can sell his rights?—A. But when he sells his rights to somebody else we have to consider only the man who buys. It would be taking it twice if we were to do what you have in your mind.

The CHAIRMAN.—Supposing I bought ten shares of the original Bank of Commerce stock and had always taken advantage of my rights where do I stand to-day? That is what we want.

By Mr. McCraney:

Q. I understand you have already dealt with the form of the monthly statement of the bank, but I would like to ask you, Sir Edmund, in reference to that matter. I have a letter from the Secretary of the Royal Commission of Inquiry into Agricultural Credit in Saskatchewan.

The CHAIRMAN.—We will go back to Section 54.

Q. The Secretary sent a copy of a resolution which was passed by this Commission requesting the members from Saskatchewan to ask to have an amendment made to the Bank Act providing for a new column in the monthly statement to give us the amount on deposit and on loan in each province of the Dominion. Would there be great difficulty in supplying that information in the monthly statement?—A. The information could be supplied in the monthly statement. What I said yesterday about the monthly statement was that it is already so complicated and has so many columns that it is fast losing its usefulness for the average person, but the information could be given if the Government thought desirable. I also mentioned that it

might raise all kinds of sectional questions in Canada as to whether in each province of Canada the money received in deposits from that province was loaned there.

By the Chairman:

Q. For the benefit of Mr. McCraney, who was not here yesterday, would you repeat the figures you gave of the loans to farmers in the West?—A. I said that in a hundred odd branches of the Canadian Bank of Commerce, representing the prairie section, we had deposits from farmers of about two millions and a half, and we had loans to farmers of thirteen millions, that is five times as much in loans as in deposits.

Q. And that for every dollar you received from the western farmer you loaned five dollars, four dollars of which you get elsewhere?—A. Yes.

Q. The question was asked this morning regarding the distribution of the stock of the Canadian Bank of Commerce. Sir Edmund now has the figures with reference to that?—A. I was asked if I could give the amount of stock held by Canadian banks in foreign countries. I could not give that for all the banks, but I could give the distribution of stock for my own bank. I will put in the statement made in last annual report.

Held by.	No. of shareholders.	No.	Shares Amount.
			$
Ontario	1,388	81,750	4,087,500
Quebec	1,127	64,273	3,213,650
Nova Scotia	635	27,769	1,388,450
British Columbia	57	2,758	137,900
New Brunswick	40	2,051	102,550
Prince Edward Island	27	1,069	53,450
Manitoba	35	1,593	79,650
Alberta	15	292	14,600
Saskatchewan	11	216	10,800
Newfoundland	6	259	12,950
Great Britain	1,569	64,088	3,204,400
United States	669	50,999	2,549,950
Other Countries	77	2,883	144,150
	5,656	300,000	15,000,000

By Sir Edmund Osler:

Q. I understand that your bank has a larger number of English shareholders than the average.—A. I was about to explain that to the Committee. It is partly due to the fact that among the banks purchased by the Bank of Commerce, was the Bank of British Columbia, which, like the Bank of British North America, had its shareholders almost entirely in England. Since we bought the Bank of British Columbia it has made our stock popular and well known in England.

By the Chairman:

Q. Speaking generally, Sir Edmund, is it an advantage to the country that our banks are able to sell some of their stock in foreign countries? Does that result in bringing new money into Canada?—A. Yes. That helps as much to pay a part of our foreign indebtedness as the sale of railway bonds would.

Q. The argument that dividends go out of the country as an offset to that is not pertinent?—A. It is simply one of those unfortunate but inevitable things experienced by a country which needs to borrow money. If we had larger exports than imports the reverse would be the case, and the best prices for our bank stocks would be obtained at home.

APPENDIX No. 2

By Mr. McCurdy:

Q. I understand you to say that unless a financial circle were got together here as a basis or centre it would be impossible to induce foreign capital to come in for new bank shares. Would you explain to the Committee, in view of that statement, how the Bank of British North America came to be organized or the Bank of British Columbia? Could not banks be capitalized in the Old Country to do business in Canada to-day under certain conditions?—A. Under certain conditions they might be, but it is improbable. The Bank of British North America was established in 1836, at all events, very early in the history of Canada. At that time Canada was almost without bank capital and the prospect of large returns to shareholders should there be a bank established here, was very large indeed. As a matter of fact—and I do not wish to make comparisons—you heard their General Manager's statement that in all the period of their history they have never increased their capital. What it means is that a bank administered in England is at a disadvantage as compared with a bank administered here. The Bank of British Columbia was formed by British shareholders to do a banking business on the Pacific coast at a time when there was hardly any government in British Columbia, and the promise of profits was very large indeed. They did a most successful business throughout their entire history, and they sold their business to us because it had come to the point that they could no longer succeed in administering a bank in British Columbia from London.

The CHAIRMAN.—Shall we now proceed to section 76, dealing with the business of a bank? The question has frequently been raised as to whether it is desirable to limit a bank's loans and as to whether companies in which a bank's directors are also directors should receive large loans. The amendments are several.

Mr. NESBITT.—The first clause is as to whether they should open branches outside.

The CHAIRMAN.—That was pretty well dealt with last night.

Mr. NESBITT.—Sir Edmund's bank has a number of large outside branches.

The CHAIRMAN.—We dealt with that last night in connection with the West Indies and Cuban discussion.

By Mr. McCurdy:

Q. Has the attention of the banks, or of the Bankers' Association, been drawn to the newspaper statement that there is an opening for a Canadian Bank in Buenos Ayres? I notice in Mr. D. I. Ross' reports from Australia that there is an opening for Canadian banks there. Would you care to express an opinion as to whether it would be the intention of the Canadian banks to embark in doing the general financial business of another country? That is the point, it seems to me, that is of importance to us here. The opening of branches in the world's financial centres is doubtless quite a necessary thing, but it seems to me when it comes to the point that Canadian banking capital is going to be used to finance the commercial business of another country that that is an entirely different proposition; and in view of press despatches that there are good openings for Canadian banks in Buenos Ayres, in Rio, and in Australia, perhaps some information regarding the policy of the banks would be of interest?—A. In the first place, I could only speak of our own policy, and that would be that we should open only at great centres of capital or large points of import and export.

Q. That is where there is much existing commercial business between Canada and that country?—A. Yes. It might be more advisable to open a branch in Japan than to have one in South America.

By Hon. Mr. White:

Q. Is it your idea that the establishment of branch banks in foreign countries should be ancillary to the purpose of Canadian banking or not?—A. I think they should be.

APPENDIX No. 2

Q. The object should not be to establish banking facilities for the residents or citizens of foreign countries, but that these branches should serve the purpose of Canadian financial banking requirements?—A. Yes.

Hon. Mr. WHITE.—I should say commercial and financial requirements.

By the Chairman:

Q. This amendment, Sir Edmund, has been proposed to section 76.

That sub-section 2 be amended by adding the following paragraphs:—

(*e*) Lend money or make advances in excess of $ to any company or corporation in which the president, directors, manager or other officers thereof is or are directly or indirectly interested without the unanimous consent of all the directors present at a special board meeting called for the purpose of passing upon such loan or advances. Should all the directors be either directly or indirectly interested in the company or the corporation seeking the loan or advance then the loan or advance shall not be made under any circumstances.

(*f*) Lend money or make advances in excess of 10 per cent of its paid up capital to any foreign person, company or corporation, or upon the securities of such foreign person, company or corporation, or in excess of 25 per cent of its paid up capital to any person residing in Canada or any company or corporation having its head office in Canada or upon the securities of such person, company or corporation.

What do you say to that?—A. I do not think there should be any such regulation in the Bank Act. You should leave the administration of a bank to the directors and the executive officers.

By Mr. Emmerson:

Q. I would like to ask the witness what is the connection usually between the banks of Canada and trust companies. In what way are the funds of banks used through trust companies?—A. I am not able, personally, to answer that question. There has been a common notion that my own bank has an alliance with a trust company, but that is not true. We have no alliance with any trust company, either directly or indirectly. We do own some shares in one trust company, but we have no other connection with them, of any sort, and the common notion about banks and trust companies working together is not correct in our case. I wish to make that statement very emphatically, as far as we are concerned. I do not mean by that, to say that the banks should not have relations with a trust company, indeed I would draw attention to the fact that in England banks have secured from Parliament direct trust powers for themselves, in some cases.

Q. But this is another thing.—A. I am, at the moment, stating a fact regarding my own bank.

Q. There is an impression prevailing throughout Canada generally that certain banks operate their funds through trust companies. That is to say, they are restricted under the Bank Act, in the use of their funds, and they place their funds at the disposal of trust companies, and in that way the Bank Act is evaded.—A. I do not know of anything of that kind being done, but then, I do not know the relations of other banks with trust companies. There are a great many acts which arise in connection with the business of a large bank, where it would be natural and desirable to co-operate with some trust company and work together for the benefit of the general situation. But it is not a question of evading the law. It is a question of the banks, through their customers, having many opportunities to turn over to a trust company business legitimate for a trust company to do, and not legitimate for the bank to do, and I think the relations are mostly of that kind.

Q. It is said there is much interlocking of directors.—A. That is just a phrase gathered from the United States.

Q. There is an impression abroad that there are interlocking directors, that is to say, that many officials connected with banks are also on the directorate of trust companies. Whether that is true or not, I do not know, but I would like your opinion.—A. I have no doubt there are directors and officials of banks, who are directors of trust companies.

Q. Of trust companies that are associated very largely with them in business?—A. I do not know anything about the relation of any other banks with trust companies.

Q. It is very important to know that.—A. I can only speak for my own bank. My own general manager is a director of the National Trust, although we have no connection with the National Trust Company. Some people, however, suppose we have. Our only connection is that we own 1,239 shares in the National Trust Company, but that is a mere nothing.

Q. Are any of your directors in it?—A. Several, but the trust company was created by Senator Cox at a time when he was president of our bank.

Q. I am not going to assume that it is reprehensible.—A. I should hope it was not.

Q. How many directors of the trust company are directors of your bank?—A. Four, but of course they have a large number of directors.

The CHAIRMAN.—I think it is twenty-three.

By Mr. Emmerson:

Q. Are any officers of your bank, that is, the officials as distinct from the directors, directors in the trust company or in any way responsible for the management of the Trust Company?—A. There is nobody in our bank responsible for its management, except to the extent that a director is responsible. In addition to the directors I have mentioned, our Montreal manager is also a director. That arose from the fact that he was, at one time, the treasurer of the Canada Life Assurance Company, and at that time he became a director of the Trust Company and has remained so ever since.

Q. There are simply two officials, then?—A. Yes. Perhaps I may at this moment say that I am a director of the Toronto General Trusts Corporation, which is in opposition to the National Trust Company. I have a small interest in it as shareholder, and the relation of the bank to both is the same. We have no interest, as a bank, in their profits or transactions.

Q. Are the funds of banks invested through trust companies?—A. Not in any way that I know of.

Hon. Mr. WHITE.—Perhaps I might say that I have had a reasonably fair acquaintance with the trust company business in Toronto. I never knew of one trust company there to receive a dollar from a bank, for the purposes of investment. Banks usually think that they can invest their money to the best advantage themselves. I do not know any machinery that a trust company could have to enable them to invest to better advantage than a bank; nor have I ever known, in my Toronto experience in connection with any trust company, a trust company receiving funds from a bank to invest as its agent or otherwise.

Mr. EMMERSON.—I am speaking for myself. I have no knowledge whatever, but I think it is a very important and proper question. I would say, Mr. Chairman, to the Minister, that there is a widespread feeling throughout Canada that the banks of this country are improperly using their funds, through trust companies, to the advantage and enrichment of officials connected with the bank. That feeling is abroad, and it is very important to have it cleared up, and I am glad the witness has done so, with respect to his own bank. I think it would be in the interests of the busi-

ness of the country to have any such false impression, if it is such, cleared up with respect to the other banks, and with respect to the banking system of Canada, generally. That is the point. I have no knowledge whatever with regard to it myself, but I think it is very well that we should have the matter cleared up.

The CHAIRMAN.—The matter is perfectly pertinent to the discussion, but the witness can only tell about his own bank.

Mr. EMMERSON.—That is all.

By Mr. Nesbitt:

Q. As you, Sir Edmund, are a very experienced banker and a man of very wide knowledge, I would like to ask you on that particular point as to whether banks should lock up their funds in mergers or large industrial corporations through a subsidiary trust company?—A. I think they should not.

By Mr. Emmerson:

Q. Do you know of that being done in Canada?—A. No. I do not know of any such relation between a bank and a trust company.

By Hon. Mr. White:

Q. Take the case of the Dominion Iron and Steel Company. As I understand it, before any large enterprise can be established you must get a group of capitalists who will underwrite the securities in the first instance. Is that right or not?—A. Yes, it is.

Q. Could bonds be sold to the public at the inception of an enterprise before there were any earnings shown at all?—A. Not to the general public.

Q. So that it must be done by a group of capitalists?—A. Yes.

Q. Underwriting securities, the sale of which will provide the funds for the establishment of say, the Dominion Iron and Steel Company or any other large industrial corporation?—A. Yes.

Q. Is it, or is it not, proper banking for the banks to provide credit and to advance temporarily upon that credit and the security of the underwriting until such period as the securities may be marketed?—A. That is quite a proper banking transaction, you could not establish industries in Canada at all without it.

Q. Did I gather that in your view you could not establish large industries unless banking facilities and accommodation were provided during that period at which capitalists must pledge their credit in aid of the securities they have underwritten for the establishment of the enterprise?—A. Yes.

Q. And pending the period at which the bonds can be sold on the markets of the world? Is that right or not?—A. Yes. Everything in such a case depends upon the character of the underwriters, whether they are men who are financially responsible, whether you believe that they can market their securities, and whether they understand the nature of the underwriting contract.

Q. In that particular period is it, or is it not a fact, that the bank looks rather to the financial standing of the particular capitalist who has underwritten the enterprise partly and who, of course, gives the security that he gets as additional collateral? Is it a fact that you look more to the individual than to the security at that stage?—A. You look to both, but you look to the individual because if you gave that sort of assistance to men of straw, the bank might find itself owning the enterprise.

By Mr. Emmerson:

Q. Would the same statement apply to the establishment of electrical companies in Mexico or in Buenos Ayres, South America, is that usually done?—A. No, I do not think that the cases are quite analogous.

Q. The same methods are pursued?—A. Yes, the same methods are pursued.

Q. Then is there any distinction that you want to draw?—A. I am going to make a distinction.

Q. With respect to justification?—A. Yes.

Q. Does it happen that those who underwrite such ventures, whether in Mexico, Brazil, or anywhere else in South America, or in the West Indian islands, that any number of the underwriters are associated with the trust companies or the banks?—A. Many of the underwriters may be customers of the banks. The whole question——

Q. Or directors?—A. They may be. The whole question is——

Q. Does it not frequently happen that a good many of the directors of banks in Canada are engaged in the business of underwriting with respect to these foreign corporations created for the purpose of doing business in Brazil, Mexico, Porto Rico, or elsewhere out of Canada?—A. A great many of the wealthy men of Canada are bank directors, and therefore in the nature of things some of the men who go into such enterprises are sure to be bank directors. The distinction I wish to make is this: There is a common idea that Canadian banks have helped to start these South American ventures in the sense of being bankers for them, that is in lending them money that was dependent to some extent, upon the success of the enterprise.

Q. They are so advertised, are they not?—A. I do not know that they are so advertised, but such statements have been made.

Q. It is so advertised on every prospectus.—A. Oh, no, not that the banks have lent money.

Q. Well, that they are the bankers of these enterprises?—A. That may be. The banker named in the prospectus is generally a holder of money in connection with the enterprise and not a lender of money.

Q. We know what the inference is.—A. I wish to say so far as my own bank is concerned, that we have been the bankers of the two most important South American enterprises, that is the Rio and the San Paulo enterprises. Our loans there have been loans on underwriting generally made in England. That is to say, there have been Canadian underwritings in connection with them, but underwritings of a class that were actually going to be placed on the market, not underwritings in the sense of advancing money at the inception of the enterprise. We are always willing to lend money when it is plentiful on good underwritings, just as we would make loans on the securities alone to financial houses in London and elsewhere, who are at the moment of bringing out issues and are able to covenant that when the payments due on underwritings held by them are made they will repay us. That is ordinary banking business that we like to have. Regarding the South American enterprises as a whole, I think the situation to-day is that Canada has not a dollar of capital in them that has cost her anything. The money to build them—that is the enterprises at Rio and San Paulo—was found in England, Belgium, Switzerland and throughout the continent of Europe. The idea that that money was found in Canada is a delusion. We lent money on these underwritings or on securities that were to be sold in Europe, but that is a very different thing from supporting the enterprises as such.

By the Chairman:

Q. You got your money back?—A. Yes.

Q. It was a temporary loan?—A. Yes.

By Mr. McCurdy:

Q. With reference to subsidiary companies we understand clearly from your statement here that you have no knowledge so far as your personal experience goes? But let me ask you, as an experienced banker, for your views as to the desirability of a bank or its directors operating a trust or security or venture company, or anything of that kind?—A. Well, we have been looking at what other banks were doing and wondering whether we should not establish a trust company. Let me give you some of the reasons that would appeal to us for doing that.

We have nearly two millions of dollars in our pension fund belonging to our offices which we have largely invested in mortgages on western farm lands. It is a laborious and difficult business and this fund could be the natural foundation for a small trust company. In England we have many investors coming to us who would like to lend some of their funds on western farms in Canada and on other Canadian securities, transactions that are not exactly banking transactions and into which we ourselves do not wish to go. It is a mere question of what is expedient and wisest in the interests of Canada, as to whether a bank should have investments in such a trust company. As to a trust company where the relations of the two are such that we take their money and lend it, or give them our money to lend, that is another thing.

Q. There is this aspect of the question. Supposing a number of perfectly satisfactory trust companies were doing business, were well established and competent to properly accommodate the business to which you have referred. As a matter of general policy would it not be better that the bank's enormous patronage should be distributed among a number of those companies instead of being confined to one company alone?—A. I see no reason why shareholders of a bank should not do what would inure to their greatest profit if what they do is legal.

Q. Instead of patronage being directed along one or two favourite channels would it not be in the best interest of the body politic that it should find its own natural way, being attached solely by the excellence of service rendered. If the directors of a bank who have control of the disposition of this patronage are the proprietors of a subsidiary company, is there not a danger there that the business will be diverted to their own companies and they will thus direct profit favourably from their positions as directors?—A. I do not know just what you mean by danger, they probably would divert it to the company that would give them the largest profit.

Q. It might perhaps be legal, but at the same time hardly acceptable from a moral standpoint that directors should thus directly profit by their actions in diverting lucrative business to a subsidiary company in which they hold a financial interest?—A. I do not mean profiting for themselves, but for their shareholders.

Q. Now to make my point clear I have in my hand here a list of directors of a new bond company, incorporated with 14 directors, and 8 of these same directors are directors of a bank; it is a new bank. Tendency of legislation it seems to me has been to make provision after the damage is done. Would it not be better to do it before? Here is a company organized eight out of whose fourteen directors of which are directors in the new bank that has been incorporated. Would it not be better under the circumstances of this case that it should not be permissible to have 'interlocking' directors, the term Mr. Emmerson has used?—A. In a general way I think that the government will find it is impossible to establish a moral code to cover every imaginable condition that will arise, and the more it is left to the general administration of the shareholders of the bank the better. When one looks at the Bank Act with over 100 sections the idea comes to one that Moses managed to make a code for the morals of the whole world and had only ten short sections in it.

Hon. Mr. WHITE.—Has the decalogue been observed as well as the Bank Act?

By Mr. McCurdy:

Q. Will you tell us who, as Canadian banks are operated, has the ultimate dispositions of credits? What is the final authority in granting credits in the bank?—A. The directors.

Q. Well now, in the case of a general manager having reports against a proposed loan, is it at all likely the directors would pass it over his head?—A. No, I should think not.

Q. Do you think the general manager might be under pressure to make loans which he did not himself approve of?—A. He should not be, I can imagine no worse condition

APPENDIX No. 2

Q. Would you be in favour of placing a limit on the amount of loans to any one person or firm?—A. No, I would not, that ought to be left to the administration of the bank.

Q. Do you know in your experience or observation of any case where such a limit would have prevented or tended to restrict losses?—A. I suppose it would in the case of the Farmers' Bank, but I think it would be very bad to try to make a Bank Act by basing it on individual instances and affecting thousands of other good transactions just because of that incident.

Q. You know that in the case of the City of Glasgow Bank failure there was a total loan to four firms of $30,000,000, whereas the capital of the bank was only $5,000,000. In other words, it loaned six times its capital to four firms, the loan to one firm alone running as high as $10,000,000, twice the total capital of the Bank?—A. In reply to that I would say that in England they have all taken their lessons from the city of Glasgow Bank, but they have not tried to erect it into legislation. There has been no restriction imposed upon the banks because of the Glasgow Bank failure, but, as I say, they have all taken their lesson from that experience.

Q. Isn't it a fact that many small banks in Canada have failed because of too large loans to one individual or firm?—A. There have been a good many cases of that kind.

Q. And in a good many instance that individual was a director of the bank. That is practically the universal experience of Canada, isn't it?—A. Not universal, but it is very general.

Q. I gave Mr. Henderson a list of failures which have occurred in Canada, as outlined by Mr. Breckenridge, and my recollection is that in practically all the cases the failures were on account of excessive loans to one interest, and generally speaking that interest was represented by a director of the bank, or a director acting in collusion with other parties. Mr. Breckenridge refers, amongst others, to the failure of the Federal Bank, which was caused largely by loans to one person, then in 1887 the Central Bank of Canada and the same year the Pictou Bank and in 1895, the Banque du Peuple, and in 1889 the Bank Ville Marie failed. I do not refer to later failures, the Sovereign and the Ontario, the St. Stephen and the Farmers' because the causes of their failures are notorious?—A. They were not loans to directors there.

Q. Well in the case of the Federal Bank, Mr Breckenridge reports that the bank became involved by speculative dealings of its president?—A. All these banks had less capital than $500,000, they were almost all concerns under one man management.

Q. Would not the same thing occur with a larger bank? We have the case of the Glasgow Bank with $5,000,000 capital; larger institutions are of course able to stand larger losses, but it seems to me in the case of the City of Glasgow Bank, and I think the West of England Bank had a similar experience, and the history of English banking as I have read it is, that in almost every instance previous to 1875 the causes were as I have stated.

The CHAIRMAN.—Are you not arguing the question? Please put questions to the witness at this stage and leave the argument until later.

Mr. MCCURDY.—I ask the indulgence of the Committee, I am not like many gentlemen on this committee, experienced in the eliciting of information through the medium of questioning.

Q. Now, you have already said that in granting credit the board is the authority and would not be influenced by the general manager?—A. No, I did not say that.

Q. What was your statement then?—A. I think you will have to repeat your question. I did not say the board would not be influenced by the general manager.

Q. Is it possible a little pressure might be put upon the general manager by the board to grant loans which he otherwise would not care to grant?—A. It is possible, but I can imagine no worse condition. I have never in my whole lifetime experienced any pressure of that kind.

Q. Isn't it done?—A. No, I think it is not done.

Q. Do you regard the position of a director as that of a trustee?—A. Yes.

Q. And you think that in the case of a director seeking loans from his bank there would be no temptation on his part, under certain conditions, to favour his own application over that of a client?—A. I think in a well regulated bank he would have no opportunity to do so, and the fact that it is not generally abused is shown by our statements where the loans to directors are very moderate.

Q. Yes. As I understand it then you think that bank directors are entirely free from any disposition to favour the borrowing application of a colleague on the board? —A. I think so.

Q. Do you recall the financial experiences of 1907, Sir Edmund?—A. Yes.

Q. A year before the collapse came it was well understood that it was on the way? —A. Yes, it was by some people.

Q. I think that you yourself in your address to your shareholders in January, 1907, referred to it as follows:—

> 'There are signs about us of a strain which must bring trouble to those who disregard it.....we are passing through a dangerous period just now, happily without a general breakdown, but unless we mend our ways, we are not likely to escape a similar or worse condition next autumn which may wreck our fair prosperity. As for those who are plunging into real estate at inflated prices .....nothing we presume but the inevitable collapse which follows these seasons of mania would do any good."

You stated there that probably in that coming autumn, 'We cannot escape a worse condition unless we mend our ways.' That would mean, I suppose, that when you began to prepare for crop moving in September there would be extra pressure?— A. Yes.

Q. My recollection is that that panic culminated on the 24th of October, 1907.—A. I dare say; I do not remember the date.

Q. Following the failure of the Knickerbocker Trust Company and the suspension of specie payment in New York?—A. Yes.

Q. All the customers of the Canadian banks would naturally be under pressure during that period of September and October ?—A. I do not think the customers felt the pressure very much. The banks did. I am sure that our customers did not feel the pressure.

Q. You think the customers were not under pressure during that period ?—A. I think not. Our own were not certainly.

Mr. SHARPE (Ontario).—You are referring, Mr. McCurdy, to the general situation?

MR. MCCURDY. Yes.

SIR EDMUND WALKER.—The principal complaints were from people who wanted to get new money.

By Mr. McCurdy:

Q. But wherever possible money was called in ?—A. Wherever possible money was called in outside of Canada, but in Canada only where it would cause the least distress to the borrower.

Q. But Canadian customers also, who could do so, were asked if possible to pay off their loans ?—A. They would be people borrowing on stocks, and loans of that kind, but the industrial firms were not much affected.

Q. But I understand it was also called in from industrial concerns ?—A. No, it was intimated that they could not have any more money the next year. We are doing just the same this year.

By Mr. Nesbitt:

Q. You would not lend any additional money ?—A. Yes.

APPENDIX No. 2

By Mr. McCurdy:

Q. Do I understand you to say that there was no discomfort to your commercial customers during the stringency? My recollection and information are to the contrary?—A. Wherever it was possible we did not lessen the credit of the customers of the bank.

Q. The bank returns show, do they not, that loans were contracted in that period?—A. Undoubtedly, everybody that could pay without discomfort was invited to do so.

Q. You were glad to get the money wherever you could?—A. Very glad indeed.

Q. And the commercial community was, of course, under a certain discomfort?—A. I will not admit that, so far as my own bank is concerned.

Q. The call loans during that period in Canada decreased in Canada, $922,043?—A. Of course they would.

Q. And time loans decreased $215,434?—A. Those are not very large amounts.

Q. And the call loans outside of Canada which were $62,088,232 in August, 1907, were reduced to $47,946,737 in October, a decrease of $14,141,495. In other words, the totals of loans by banks in Canada were shown to be reduced by $1,137,477, the loans outside of Canada were reduced some $14,000,000, and during this period which was the height of the period of stress, loans to directors increased $601,611. You will note that the net decrease in loans as shown was $1,137,477, but then the directors' loans increased $601,611, so that the amount put up by the clients is represented by these two amounts added together, viz: $1,739,088.—A. I cannot tell you anything about that. Loans to my directors did not. I am not the person to catechise regarding that particular incident.

The CHAIRMAN.—Mr. McCurdy can put his views on record when the opportunity comes.

By Mr. McCurdy:

Q. I am not speaking of the operations of any particular bank. I am taking the totals of the bank as returned to the government. In view of the statement in the government return, that loans to directors of all banks increased substantially during this period of pressure, when clients were paying up, would you be inclined to modify your previous statement that there is no temptation for directors to favour the requests of their colleagues over the needs of the general customer?—A. No, I can only speak of my own bank. The directors would be the last people we would help in an emergency of that kind.

Q. We are discussing, Mr. Chairman, loans to directors. That is proposed to be covered under an amendment to section 18 providing that the shareholders shall regulate the total loans to any one director. I would like to ask Sir Edmund if there might be a provision that the shareholders shall regulate the amount of loans to directors by by-law? Would that be objectionable?—A. It would be quite impossible. How would you get the shareholders together to pass upon loans?

Q. Could the matter not be arranged at the annual meeting and a limit there fixed for each?—A. Do you think that we would bring the private affairs of a director an excellent business man and customer, before the shareholders? The thing is not thinkable for a moment.

Mr. NESBITT.—No one would want to be a director.

By Mr. McCurdy:

Q. Would there be any objection to having the total amount of loans to one director limited to say one-quarter of the capital of the bank?—A. I made my statement of that over and over again. I do not believe it is expedient for a government to manage the banks in detail. They should leave the management of the banks to the directors and the shareholders.

Q. But in view of the fact I have quoted, viz., that loans to directors were increased in a time of pressure?—A. You are building a large theory upon a single instance, which I do not happen to know anything about. Of course, the whole change in the loans was most trifling at that time. The loans came down only about one million dollars out of many hundred millions.

Q. No they were pulled down $1,700,000, but it should be borne in mind that under usual conditions, as they existed previous to this period of pressure, there would have been a normal monthly increase of loans of say $5,000,000 or for two months August 31, to October 31, of $10,000,000. This normal increase was cut off and $1,700,000 called in under the pressure to which I have referred, which clearly and apart from any hearsay evidence of personal knowledge indicates that pressure was put on borrowers. The government returns do not indicate that this pressure was extended to directors. On the contrary their loans increased by 5 per cent.—A. I do not happen to know who the director was, or what bank it was. I cannot answer that question.

Q. It deals with all the Canadian banks and directors as a whole. These are the totals sworn to in the monthly statements to the government. This is not hearsay. They are no doubt accurate. Would it be objectionable, in your opinion, that in the Government returns a column should be provided showing the total loans by banks to companies in which their directors were also directors, as a matter of information for the shareholders and without borrowing limits?—A. That would be a most misleading thing. I think it would be most objectionable.

By Hon. Mr. White:

Q. Is it an object to the banks from a business standpoint to have directors who are prominent in the business community?—A. Yes, men in the active time of life.

Q. Are the accounts that they bring to the banks of value?—A. They are amongst the most valuable things that a bank can gather to itself. The business of its directors is one of the most vital things in the building up of its business.

Q. Would a director be or not be at a disadvantage in obtaining loans from a rival bank?—A. He would be at a great disadvantage as a rule.

Q. What would be the effect of prohibiting a director from borrowing from his bank, first on the directorates of banks?—A. I suppose if all directors were all required to borrow somewhere else it would not have much effect on the directors. They would all be in the same position.

Q. They would have to borrow from some other bank?—A. The bank would lose what is often, in fact generally in all Canadian banks, the very cream of their business, the best business that they have.

Q. Is there any limitation, in the United States, imposed by legislation, as to the percentage of the capital or assets of a bank that any individual may borrow?—A. In the United States the National banks can only loan 10 per cent of their capital.

Q. Supposing the directors of a bank are desirous of making a loan in excess of the amount permitted by the State or Federal government in the United States. Could it not be done by dividing up the loan and evading the law in that way, or, by the formation of joint stock companies with shares standing in the names of individuals, who hold it in trust for the promoter?—A. The law is evaded in many ways, but I am afraid I have not enough knowledge of the various expedients adopted to describe them.

Q. Are you able to say that such a law can be or has been evaded?—A. It has been evaded. It is practically impossble for a small National bank to carry a customer at all, if the law is not evaded in some way.

Q. Do you happen to know anything about the Walsh situation in Chicago?—A. I do not intimately.

APPENDIX No. 2

By Mr. Sharpe (Ontario):

Q. Do the directors pass on the big loans, for instance, up to a certain amount?—A. In my bank, all credits pass an exhaustive examination in the credit department of the bank first. They then reach the general manager, and if he approves, they are brought to the attention of the board.

Q. Do the board have full meetings frequently?—A. There is always a fair attendance at board meetings.

Q. Is the board called purposely to pass on loans?—A. They meet on a particular day every week.

Q. Are loans submitted to them?—A. All loans in excess of $5,000, for a direct loan, or a larger sum if the loan is based on security, come before the board.

Q. In the Pujo Commission, the question of loans to officers and directors of the banks was pretty thoroughly discussed, and the conclusion to which they came was: 'that officers of a bank should be forbidden to borrow from their own bank, is, we believe, a principle which ought to be enforced.'—A. You are now talking about officers, and that is not the question we are discussing just now.

Q. It goes on: 'To forbid officers and directors to participate in underwritings to which their banks are committed, raises exactly the principle brought out by some of the recognized abuses of life insurance company finance, before the new insurance law of 1905.' You do not believe in banks participating in underwriting profits?—A. There have been underwritings where it would have been fatal if the banks had not helped. Let me illustrate. If a loan of the Dominion of Canada comes out in London, it would be fatal if the Bank of Commerce and the Dominion Bank, and other Canadian branches represented in London, declined to take a share in the underwriting as well as the Bank of Montreal. And this may also be true when other loans or bonds of a safe character come out.

Q. As Mr. Emmerson said, there is a widespread feeling in the country, in regard to that and all we want is the facts.—A. I do not want to say for a moment that a bank should not underwrite, under certain circumstances, but it depends altogether what the circumstances are.

Q. Do you think that the directors of a bank, who are underwriters, should participate in the profits when the matter has been advanced by loans from their own banks?—A. I should certainly hold that that may be sometimes a dangerous condition, but there are plenty of responsible directors, who in such cases, take their own risks and are certainly entitled to their own profit in the venture, the same as anyone else.

Q. In a case where they are trustees for the shareholders, would it be contrary to their interest, as borrowers, to participate in the profits of the underwriting?—A. If they were weak men and unable to carry out their undertakings, that might be the case.

Q. It would depend upon the strength or weakness of the individual director?—A. Yes.

Q. And in view of that possible danger, you are not in favour of any limitation on their loans?—A. I would not favour trying to manage the banks by Act of Parliament.

Q. I think that is rather going to the extreme. An amendment of this nature, seeking to limit the loans to directors, would not be an attempt to manage the bank, would it?—A. If you undertake to say that a bank shall not enter on underwriting, I think so.

Q. And that they should not lend a certain percentage of capital to their directors?—A. I think that would be carrying it too far.

Q. The Bank of Montreal, I understand, which is closely connected with The Royal Trust Company, forms the larger part of the directorate of that company. Is that condition of affairs desirable or undesirable?—A. I think The Bank of Montreal had better be asked that, not me. You heard Mr. Forgan describe precisely the same condition in his own bank.

Q. He said that if banks advanced funds to the trust company, he would regard that as undesirable.—A. Is there any suggestion that The Bank of Montreal lends money to The Royal Trust Company? I do not know, but venturing to speak about another institution, I should think it extremely unlikely. I do not really believe The Bank of Montreal lends money to The Royal Trust Company.

Q. If any trust company, in close alliance with a bank, undertook to float industrial companies and to engage in underwritings and flotations, by means of funds received from the bank, and the directors of the bank are also directors of the trust company and participate in the profits, would you regard that state of affairs as desirable?—A. It might often lead to an undesirable condition of affairs, but I can imagine where it might be very desirable.

By the Chairman:

Q. I think Sir Edmund has pretty well covered that point. Do you wish to discuss the question of the banks holding real estate?—A. I have a statement here, of the English banks, showing paid up capital, reserve, dividend and the amount invested in bank premises, which might be entered in the record. It shows that the banks which have a paid up capital of £34,000,000, have £15,000,000 invested in bank premises, and that means nearly 50 per cent. Our Canadian figures are about 38 per cent.

By Mr. Nesbitt:

Q. Your valuations are very much reduced.—A. They are. The British bankers also steadily write off their bank premises the same as we do.

STATISTICS regarding sixteen of the Leading Banks of Great Britain, taken from 'The London Banks, 1912-13', published by Thomas Skinner.

		Capital Paid Up.	Reserve.	Dividend	Bank Premises.
		£	£	Per cent	£
1	Bank of Scotland	1,325,000	1,300,000	19	484,000
2	Barclay & Company	3,200,000	1,200,000	12	1,399,000
3	British Linen Bank	1,250,000	1,650,000	20	1,019,000
4	Capital & Counties Bank	1,750,000	800,000	16	1,036,000
5	Commercial Bank of Scotland	1,000,000	900,000	20	513,000
6	Lloyds Bank, Limited	4,208,000	2,900,000	18	2,089,000
7	London & Provincial Bank, Limited	800,000	1,500,000	18	247,000
8	London & Southwestern Bank	1,200,000	1,000,000	17	590,000
9	London City & Midland	3,989,000	3,390,000	18	1,996,000
10	London Joint Stock Bank, Limited	2,970,000	1,100,000	10	958,000
11	National Bank of Scotland	1,000,000	950,000	20	606,000
12	National Provincial Bank of England	3,000,000	2,150,000	18	686,000
13	Parrs Bank	2,204,000	2,000,000	21	1,092,000
14	Royal Bank of Scotland	2,000,000	1,013,000	11	626,000
15	Union Bank of Scotland	1,000,000	1,000,000	15	239,000
16	Union of London & Smiths Bank	3,554,000	1,150,000	10	1,859,000
		34,450,000	24,003,000		15,439,000
	Average	2,153,000	1,500,000	16½	964,000
	Precentage Bank Premises to Capital			44⅝	
	" " " and Reserve			24¼	

NOTE.—Bank of England premises, main office London and eleven branches, are carried on the books we understand at £1.

By the Chairman:

Q. Now about these two clauses in section 88. We would like your views as to the desirability of lending money to a farmer on the security of his threshed grain, and to a rancher upon his stock.—A. In principle, these loans are a departure from the original intention of section 88. The original idea was that the bank should

APPENDIX No. 2

help the manufacturer or mover of produce, by lending him money, he being a sort of wholesale dealer and the presumption being that he paid cash for his labour and raw material, and that he would need the assistance of a bank in order to do that. That would apply to a maker of agricultural implements, to a flour miller, a man moving grain, and to many other branches of business. What is proposed is different, because the farmer may have the storekeeper, the implement dealer and others as his creditors. Nevertheless I believe—and I think I was the first banker who discussed this with an officer of the Grain Growers' Association—that we should grant both of those privileges. The reasons regarding grain have to do not merely with the benefit to the farmer, but with the benefit to the entire system of transportation in the West. The transportation of the grain from the farmer's hands to the ultimate point of consumption in Europe in the minds of some people seems only to involve a railroad. But it involves a lot of things and should comprise a certain amount of storage on the part of the farmer himself, in addition to storage at the wayside station, storage at the terminals at Fort William and Port Arthur, lake steamers, terminals at Montreal, and the ocean steamers, all of which make a very elaborate system of transportation. One necessary thing is that the farmers themselves should have a fair amount of storage capacity of their own. The answer given by the farmer to that is that he sometimes cannot afford to have it, that he is pressed for money and must sell his grain immediately it is threshed in order to pay his debts. Could there not be something in the Bank Act in order to induce the farmer to obtain storage capacity? That would not be very expensive, involving only structures of corrugated iron. If we can induce the farmer to do that and put him in the position where he can pay his debts quickly, he would not be forced to take his wheat to an unwilling market, and I mean an unwilling market in two distinct directions. He may be forced to bring his wheat to market at a moment when the price of wheat is low because the offerings are too large. It is very unfortunate if he is forced to do that. On the other hand he may be forced to bring his wheat to an unwilling market because although the price of wheat is high in the world's market, the storage facilities and the railroad facilities are so congested that his wheat cannot be moved. Now, considering all these points, although it is inconsistent with the general principle of the Act, I think we should enable the farmer to obtain loans of this kind, and if he could obtain such loans he would increase his storage facilities, and so distribute the whole delivery of the wheat a little more evenly over the year, instead of having it contracted into such a short space of time.

By the Chairman:

Q. Do you think your bank will increase the farmers' loans in case this legislation passes?—A. We asked our managers that question from one end of the West to the other and we got two kinds of answers. Many managers say: 'I do not believe so. I lend to a farmer on his character.' We have answers from others that they will certainly increase their loans. I believe personally that it will increase the loans because it will increase the number of farmers who desire to take advantage of this better system of delivering their grain. They will keep their grain and ask for loans. What happens now is that the farmer does not go to the bank for a loan, he simply pushes his grain into the market and sells it under the two distinct disadvantages I have referred to. Moreover, the railroads have the enormous disadvantage of being asked in a very short time to carry out the whole crop of the West. We want to lengthen the time for carrying the crop.

Q. Would this be an additional safe-guard, in cases such as you have referred to?—A. Just let me take a case where a farmer comes to borrow some money for the planting and harvesting of his crop. The banker, even if he thinks well of the farmer, will look into all the exigencies that may happen between the planting of the crop and the harvesting of it, and we know how many there are in the West. But if the

farmer at the end of the season has his crop harvested, has got the actual wheat and owns the storehouse and has measured the wheat into that place, and goes to the bank and says: 'I have so much wheat, and I want to borrow some money.' You would feel like lending more money under this specific condition than you would if the general position of the farmer was what I have indicated before the harvest. I cannot but believe that in such cases there would be more loans made, and if there were it would help in the movement of our western wheat crop.

By Mr. Nesbitt:

Q. It would depend to a certain extent upon the manager's knowledge of that man's standing?—A. Yes.

By the Chairman:

Q. What form of lien would you expect in a case of that kind?—A. Such a lien as is provided for in the Act.

By Hon. Mr. White:

Q. Do you think it wise or desirable that there should be any limitation by way of providing that there shall be a granary padlocked, or that the bank shall have the key, and so on, or would that be worked out in actual practice between the customer and the bank?—A. I think in actual practice it would sometimes work out that we would want the key and sometimes not.

By Mr. McCraney:

Q. Should this lien be required to be registered in the county court or district court office?—A. I think that would merely mean that if there is any additional cost the farmer would have to pay it.

Q. It would be inconsiderable.—A. The farmer might dislike it, but I do not know that the bank would object. In the case of the large borrower registration might be disastrous to his credit, but in the case of a farmer I do not suppose it would be.

By Hon. Mr. White:

Q. We have had many cases described by witnesses from the West in which a dollar was charged on a small loan, making it to appear, as it actually was, a high rate of interest. Do you think it would be advisable to add to the cost to the farmer the expense of registering these liens, and do you think further that the registration of that lien would really give notice to any considerable body of creditors?—A. I would ask what the average charge would be, because I do not know.

Mr. McCRANEY: In the province of Ontario it is ten cents.

Hon. Mr. WHITE.—That is the registration fee?

Mr. McCRANEY.—Yes.

Hon. Mr. WHITE.—Where does the lawyer come in?

Mr. McCRANEY.—You do not need a lawyer.

Hon. Mr. WHITE.—The point I am getting at is this: would a storekeeper go and search for the lien.

Mr. McCRANEY.—Let me say here, if the Committee will pardon me: In Western Canada we use liens a great deal in horse sales and that kind of thing. It is a practice of my own office, and I think of other offices, to charge 25 cents for our work and 25 cents for the registration. If 25 cents were allowed for making out the lien and the copy, because it is nearly always printed, and the fee were 10 cents, I do not think it would be a very considerable charge.

Hon. Mr. WHITE.—I have consulted a number of bankers about this very point, because it was with very great reluctance that I departed from the principle underlying the Act. It was on account of the exceptional circumstances prevailing in the West. Those bankers all said that the provision for the registration of the lien would defeat the purpose of the Act. Whether it would or not I am unable to say.

Mr. McCRANEY.—From what I have heard of the discussion of the Committee on that point it seems to me that the argument is all right if the bank's advances clear off the other creditors. I venture to say that is not the way this thing will work out. There will be other creditors and in that case there should be registration of the lien.

Hon. Mr. WHITE.—I have no objection to it if the Committee thinks it will not interfere with the operation of the Act.

By the Chairman:

Q. Let us now come, Sir Edmund, to the amendment that a bank may loan money to a farmer on the security of his live stock?—A. I might say that some of our western managers have much more often put forward the argument that we should help with loans on cattle than with loans on grain, because of the desire to help mixed farming in that country. The argument for a loan on cattle is not as good as for a loan on wheat, because in the one case the storekeeper would not be under notice and in the other case he would be to some extent. In the case of the threshed grain the creditor would know if the man after harvesting his wheat was paying off his debts, that is usually what happens, whereas there is no seasonal intimation of that kind in connection with a loan on cattle. Nevertheless the necessity of building up mixed farming all over that country is so great that it overcomes one's objection to banking on cattle. I do not see why if we lend to a rancher we should not lend to a small farmer for the purpose of helping him to build up small herds of cattle all over that country. I do not think it is particularly good banking, but I think that by permitting this we have applied a wise remedy that is needed to meet the peculiar situation.

By Hon. Mr. White:

Q. I would like to discuss that question with you in view of its great importance; I haven't any hard and fast opinion on it at all, but I want to come to a just conclusion, having regard to the rights of creditors as well as to the rights of farmers. Am I right in saying that it is generally contrary to the principle of good banking, apart from the wholesalers and manufacturers to whom you have referred, that banks should loan upon chattel mortgage; in other words upon the security of personal property, but that they should look rather upon the character, standing and reputation of the borrower, is that correct?—A. That is a correct statement.

Q. This matter has been under discussion two or three times in the House, this legislation is general in its character it will apply to the West as well as to the East, Manitoba, Nova Scotia and Ontario; having regard to that fact is it your opinion that it is good legislation to allow Canadian banks to obtain a secret lien upon all the West, who may desire to borrow, because that is the point I want your opinion on, that is going to be discussed by this Committee very carefully before we go through?—A. I tried to be fair by starting out with the statement that I think the arguments for it are not as strong as the arguments for loaning on wheat.

Q. Transportation is at the bottom of that?—A. Yes, it is more a case of transportation with the wheat, which is marketed at a particular moment, and the creditor of the farmer is more or less under notice. He wonders why the farmer does not pay his debt after the harvest, and if the debt has not been liquidated the creditor finds out why, and if he finds that the farmer has sold the wheat and has not paid his debt he takes steps to collect. Of course the cattle go to the market at an undetermined time, and the operation of fattening them may be longer than one season which makes it more difficult for the creditor than with wheat.

Q. You are familiar with the legislation that is in force in every province, I think, except Quebec, with regard to the registration of chattel mortgage?—A. Yes.

Q. Do you remember the conditions that prevailed prior to the enactment of those laws, and as to the cause of those laws being introduced into several provinces?—A. I cannot say that I do.

Q. Do you know the reason of their introduction?—A. I cannot say that I do.

Q. Would it probably be a plausible reason for the introduction of that legislation that the rights of the creditors were unreasonably infringed by continual concealment of chattel mortgages?—A. I should think that is a good reason why chattel mortgages should be registered.

Q. If this legislation were made to contain a secret lien given on cattle by farmers all over Canada might it not be possible that there would be a very great deal of dissatisfaction resulting by reason of the fact that the farmer may not be able to pay his debts to the ordinary creditors and the bank would have a secret lien upon all his live stock?—A. I think it offers a stronger argument for registration than the lien on grain.

Q. That means although we call it a lien in reality it is a chattel mortgage, which means that if we admit this into the Act we are allowing the banks to loan by way of chattel mortgage first upon fresh grain and secondly on live stock all over Canada. That may or may not be a proper principle, but it is worthy of consideration because it is such a departure. If such be so, assuming that it is so, that it is good legislation, would you have any objection to a retailer or individual borrowing against personal property and registering it?—A. Yes, I would, I would not permit it.

Q. Where is the line drawn?—A. Only the expediency of the western situation the desire to help the movement of the wheat and the desire to encourage mixed farming.

Q. Leave out the West for a moment, take everything east of Manitoba, is there anything in the situation east of Manitoba that renders it necessary that a principle hitherto observed by the Bank Act should be departed from and the bank permitted to obtain a secret lien upon live stock?—A. No, I do not think there is, but I think there is quite a distinction between our lending a retailer or an ordinary individual on chattels and a farmer or grazier on cattle.

Q. What do you call a grazier?—A. Usually we call a man a grazier who gives his farm up to cattle. We call a man in Ontario who owns a farm of 100 acres and devotes it to raising cattle, a grazier.

Q. Is it applied to men whose chief or principal business is the raising of cattle, either as graziers or ranchers?—A. No, not in the Northwest, we really need to induce the farmer, every farmer who has not any cattle to have some cattle wherever he can.

Q. Do you say that applies to the East?—A. I do not think that applies to the East.

Q. So that your justification of the departure from the principle is the question of transportation, and other matters to which you have referred, which you say are a justification in the case of threshed grain, and secondly for the purpose of encouraging mixed farming it is justified in the case of cattle?—A. Yes.

By Mr. Warnock:

Q. Would not the amount that you would loan a farmer on his grain depend very largely upon the quality of that grain?—A. Oh, yes, and upon the character of the farmer.

Q. But largely upon the quality of the grain, because say a farmer has 5,000 bushels of frozen wheat, how much can he borrow on that?—A. Probably very little, but the wholesale grain dealer is in that difficulty too.

Q. How would the amount of the loan in that case be arrived at by the banker?—A. It might probably be on the statement of the farmer as to what his wheat was, the banker must take his own risk regarding that.

APPENDIX No. 2

Q. Do I understand it is safer to loan a farmer on his grain that it would be to loan to him on his live stock?—A. The conditions are different; in the one case the thing is going to be marketed in a very short time, and in the other it is not going to be marketed in a short time.

Q. Supposing he is going to market a bunch of steers?—A. I do not think a man in Canada who is in that position finds it hard to borrow money.

Q. Do you not think it is proper to frame that amendment so as to cover the farmer's cattle as well as the rancher's cattle?—A. I have argued that way myself.

Q. I hope you will impress that upon the Finance Minister. I think that the farmer with a good farm is a better loan with cattle on his farm than the rancher who has a hundred head spread over a large ranch and only sees them once or twice a year. In my opinion the loan on the farmer's cattle is much better.—A. From the point of view of a banking risk, as between a rancher with hundreds of cattle, and the grain farmer with his crops alone, and the farmer with the ordinary mixed farm and with so many head of cattle, the mixed farmer is entitled to the best credit.

By Hon. Mr. White:

Q. Have you been taking liens—and when I say 'you' I mean have the bankers generally—been taking liens on cattle from the ranchers?—A. Yes.

Q. Has any doubt been raised as to the validity of that security?—A. Yes.

Q. Why did the banks consider they might be able to take liens upon cattle from the ranchers?—A. They thought they came under the description of wholesale dealers, but the trouble is that they breed some of their cattle and buy others.

Q. Would you be of opinion, having regard to the rights of the creditors that in the event of the farmer being required to give a privileged lien upon his cattle that the lien should be registered?—A. I think that the argument for registering in the case of cattle is a very great deal stronger than in the other case.

Mr. McCRANEY.—As Sir Edmund has indicated that the word 'grazier' is a wider term you might substitute that for the word 'rancher' in the amendment.

Hon. Mr. WHITE.—Then you will have to define what the word means.

Mr. McCRANEY.—You have to do that anyway.

By Mr. Thompson (Yukon):

Q. As a layman, I would like to ask Sir Edmund for a basic reason for the existence of the secret lien at all.—A. May I begin by explaining that in the early history of our manufactures—and this also applies to new manufacturing industries starting now—the man who with a small capital undertakes to make an article, the raw material and the wages for which he has to pay for in cash, and which article cannot be sold except at a particular season, needed help, and this lien was authorized years ago for that purpose. And, in addition to the manufacturer, it was made to apply to the produce dealer, such as the grain buyer, and to the man who manufactured a simple article like flour. That is my statement of why the thing began.

By Mr. Sharpe (Ontario):

Q. Do you not think that under these liens, the workmen should be protected as proposed in an amendment?—A. Wherever they have been the banks have always respected it.

Q. Then there is no reason whatever from the banker's point of view why the workmen should not be protected?—A. I do not think so.

Q. Is there any danger in passing legislation that would apply to some of the provinces and not to the Dominion as a whole?—A. Would not the province pass that legislation?

Q. It would seem that by this lien on cattle, horses and live stock, the Minister is making this legislation apply only to the West. Is there any objection in your mind as to legislation of this kind applying to the whole Dominion?—A. Under this Act, this will have to be general, Mr. Sharpe.

Q. The proposed amendment is a lien to the farmer on his live stock. That can apply particularly to Ontario. It would apply in the West also if they had live stock on which to give a lien, but the amendment suggested to the Bank Act by the Minister for ranchers applies particularly to the West. The object of the amendment to apply to live stock generally is that it may be extended to benefit the Ontario farmer. Is there in your opinion any objection to that?—A. No, I do not think it would be wise to make legislation that did not apply to the whole of Canada, although we may intend to use it only or mainly in the West. Everybody must be able to take advantage of it, no matter in what part of Canada they may be.

By the Chairman:

Q. What would be the position of the farmers' hired men who had not been paid when the produce of the season was sold?—A. I fear I do not know the law.

Q. Is he protected by any provincial statute?—A. I do not know.

Hon. Mr. WHITE.—I do not think he is protected by any one.

By Hon. Mr. White:

Q. Do you know of any country in the world in which a secret lien is permitted? —A. None.

Q. You might tell the Committee as to its use in connection with the processes of manufacturing, first as to the lien upon raw material, second as to the continuing lien on goods in process of manufacture, and then upon the finished article.—A. I might begin by saying that the manufacturers in Canada are well enough off not to need this kind of help now to any great degree. The grain dealer and the flour miller are not. But take the question of the maker of an article in which wood and steel enters largely, and which is made up and sold to the farmer at a certain season. The expense of buying the raw material and paying for the wages goes on from the beginning of the manufacturing season until the moment when the goods are delivered, and even then the bank has to wait, of course, for the final payment by the buyer of the article. In the early days when a manufacturer began with a capital of $50,000, and that was quite a large capital then—he might turn out products in one year to the extent of $200,000. And the banks in those days might lend $125,000 or $150,000 to a manufacturer whose capital was only $50,000 on his pledge, when they saw that the money they lent was used in payment for the lumber, the steel, and the wages.

By the Chairman:

Q. And when they saw the orders for the goods?—A. And that was the way our manufacturers in Canada were largely built up. I frankly admit it is not needed now by the big manufacturers, but it would be a great harshness, I think, to the small manufacturer who is trying to start in competition with the larger concerns, to prevent him having the same kind of help that his competitors once had. With reference to the grain companies; if a grain company comes to the bank and wants a credit of a million or a million and a half dollars to fill its warehouse with grain, it is ridiculous to suppose we would lend that money to the grain company and let them have absolute control of their grain. We lend it because we have pledges on every bushel. I could, however, give you an illustration of how a pledge like that has been abused. The banks realize that this is a sort of thing that should not happen. A wholesale clothing merchant buys his cloth on credit; he pays wages out for the manufacture of the goods in cash. If a bank takes a secret pledge on the ready-

made clothing resulting from that operation, it has not departed from the law but it has from the spirit of the Act. It has really lent money to a man who got his raw material on credit. In the early days such cases did happen occasionally. As a whole, I think the power has not been misused in recent years, and I think it has done a lot of good to this country.

By the Chairman:

Q. A bank usually insists upon being the sole creditor of a firm of that kind? —A. It should be the sole creditor.

By Mr. Douglas:

Q. The lien would have the effect of encouraging agriculture and the raising of cattle. The manufacturers have been assisted in that way, and have reached the stage where they are largely independent of such aid, but the farmer needs it at the present time, and it is giving him assistance on the same basis that manufacturing has had?—A. I think so. In twenty years I think the farmers will not need that help.

By the Chairman:

Q. Section 91. About a month ago Mr. McCraney submitted a list of questions which I sent to Sir Edmund, and he has prepared a statement based upon this statement regarding deposits?—A. The question of Mr. McCraney bore upon banks making a charge for carrying an account, and I was asked to prepare statistics regarding a city bank in the East and a city bank in the West, and a country bank in the East and one in the West. I would like to put in a statement which shows the following things.

By the Chairman:

Q. These are typical instances?—A. These are four typical cases of branch banks. I could afford a wilderness of information here regarding the charges we should make and which competition prevents us from making, but this is a short and succinct statement.

INFORMATION REGARDING DEPOSIT BUSINESS.

		Eastern.		Western.	
		City.	Rural.	City.	Rural.
1	Total amount on deposit in current accounts	358,000	33,000	404,000	54,500
2	Total number of accounts	513	54	785	289
3	Total number of accounts having a balance of $25 or less	108	14	315	128
4	Total number of accounts having a balance of $25 to $50	38	5	59	23
5	Total number of accounts having a balance of $50 to $75	16	2	40	21
6	Total number of accounts having a balance of $75 to $100	20	2	43	20
	Total number of small accounts	182	23	457	192
	Percentage of small accounts	36%	43%	58%	70%
7	Number of these accounts carried for women	9	0	22	9
8	Number of these accounts carried by regular customers and borrowers	4	21	233	141
9	Number of these accounts considered desirable to eliminate or charge for keeping	40	0	219	70
10	Number of cheques issued in one month against accounts under $100	1,098	159	2,575	467
	Average number of cheques issued per account monthly	6	7	6	3
11	Estimated loss per annum to bank on accounts under $100	$396	$45	$927	$168
11*a*	Cost per cheque for ledger keepers and tellers *only*	·03	·03	·03½	·05

Here we have items as to the cost, per cheque, for ledgerkeepers and tellers only. The cost is 3 cents per cheque at eastern offices, both city and rural, and western city offices 3½ cents and rural offices 5 cents. Now, of course I think that is evidence enough that the principle of making a charge is not only sound, but the only reason why it has not generally been carried out in Canada is that the competition is so great that the banks have not been able to carry it out. In Australia there is a Commonwealth Bank, a bank established by the Labour Party, I think, and in their regulations provision is made for a charge of five shillings every time a customer's account goes below £50. They can be charged that twice in a year, but I think not oftener than that.

By Hon. Mr. White:

Q. In connection with that, have you given any attention to the question of accommodation that was or is offered in the northwestern part of the United States, as compared with the Canadian West. Are you able to make any statement as to how they are relatively served?—A. I made the comparison when giving the number of banks per thousand people. I should think, in every way, our service is very much greater than theirs. And I may say that there is no country in the world, except Canada, where service of this kind is provided to such a degree, for nothing. It is perfectly ridiculous that a person keeping fifty or sixty dollars in a bank should be provided with a cheque book, which costs a considerable amount of money to make, besides the handling. And yet, competition has forced us to keep such small amounts and has prevented us from making a charge.

By Mr. McCraney:

Q. If your observations are true, a very large number of members of parliament are under great obligations to the bank. I want to thank Sir Edmund for the very full statement he has made, and I just want to ask him whether the charge which is made by banks for keeping accounts under one hundred dollars is regarded as a part of the business of banking (that is, for the profit of the bank) or is it rather regarded as a penalty imposed on the depositor who has less than a hundred dollars, with a view, possibly, that he shall remove his account?—A. Oh, no. It is not with that idea at all. He is charged in all countries of the world except Canada. In England, when you open an account, you are asked what kind of an account you intend to keep. If it is merely a checking account they make a charge per month. The charge is the normal condition. The abnormal is that in Canada where we have never been able to regularly establish the charge. I would like Mr. McCraney to see this letter, which was written to me by one of our officers, on this subject. It contains a great many facts, and if you take the trouble to read it, I shall be very glad.

By Mr. Thompson (Yukon):

Q. Under this head, we have had in Dawson for years, and have now, two banks, The Bank of Commerce and The Bank of British North America. We had to pay each of these banks two per cent a month, or 24 per cent per annum.—A. That was cheap money.

Q. Later, when we had a real gilt-edged security, and our moral standing had improved——

Hon. Mr. WHITE: Later !

By Mr. Thompson:

Q. I might say that was before I became a member of parliament—later we could get it at 18 per cent. To-day, if our moral standing is A1 and we can satisfy the bank managers that we wish to put the money in a particular thing that recommends itself to him, we can get it for 12 per cent, but 24 per cent per annum was what we paid on gilt-edge loans?—A. Oh, no. Twenty-four per cent, but not gilt-edged loans.

APPENDIX No. 2

Q. I say that advisedly, that your bank advanced thousands of dollars at that rate. What I want to ask is this: what justification can you give this Committee for those rates in that country then and now?—A. If I were to begin, I might talk till to-morrow night without ending the various justifications for charging two per cent, and I daresay, in some cases, two and a half per cent for lending money to the men who were washing gold out of the gravel and who could not do anything at all without loans of that kind. We were paying $2.50 a plate for ham and eggs for luncheon for each clerk in the bank, $200 a month for the board of every clerk in the bank; champagne, I think, was $50 a bottle, but we did not have any; Bass's ale, $10 a bottle. The cheapest thing in Dawson was money, at two per cent a month.

By Hon. Mr. White:

Q. Did the banks make any money on it?—A. I am very glad indeed that Doctor Thompson raised this question. I have no feeling that any excuse needs to be made for the rates we charged in Dawson. I will tell a little story that will perhaps illustrate the situation sufficiently to satisfy any one. We sent our men to Dawson telling them that they would receive their Ontario salaries plus all that it cost to take them into Dawson and to keep them while they were there, and we would tell them what their regular salaries would be at the end of the year, that is, when we found out what living at Dawson would cost. When started the bank engaged a man to stoke the assay furnace at $10 a day. The manager only got about $3,000 a year in Ontario. The manager wrote down later to say he was sorry to report they had lost their 'most highly paid employee,' that this man would not stoke the furnace any more for $10 a day. The difficulty of assaying gold with coniferous wood up there was so great that the manager wrote during that season to ask if we could not send him a ton of coal. The coal would cost $10 or $12 at Seattle but by the time it reached Dawson the freight would make it cost $150 a ton. Still it was much better than using coniferous wood. Before the coal was ordered the manager wrote again to say that he had succeeded in getting as a great favour, half a ton from the North American Transportation and Trading Company for $125 and could get along with that. I have nothing more to say except to repeat that borrowed money was the cheapest thing in Dawson.

Q. Did you realize more profit there than your money would have brought anywhere else?—A. No, and we would not do it again for all the money in the world.

By Mr. Thompson:

Q. Did you find your business in that country a profitable one?—A. Yes, we made money in the end, there is no doubt about that. We cannot make any money there now I am sorry to say. We still have a branch there but we are losing money on it every year.

By Mr. Nesbitt:

Q. Is there any regular charge in the matter of the exchange on cheques and drafts in the various banks?—A. There is no uniform charge.

By Hon. Mr. White:

Q. Are you in favour of the registration of the secret lien of which manufacturers and wholesalers may avail themselves, and what would be the effect on the credit of these men by registration?—A. I think practically it would put an end to the business. I think no man in business with a standing in the commercial agencies could afford to have a lien registered.

Q. It is your opinion that the registration would put an end to that business?—A. Yes.

Q. Your view is then that there should be a distinction made between the manufacturer and the wholesaler on one hand and let us say the farmer?—A. I think so, because the principle is different.

Q. I mean as to registration.—A. You mean the registration of the lien given by the farmer may be necessary because otherwise creditors may be prejudiced? In the other case long years of experience have shown that that result does not follow in any material way.

By Mr. Nesbitt:

Q. Do your branch managers engage in the insurance business as well as in their own business?—A. No, they do not as far as I know.

Q. Do you think it wise to allow them to do so?—A. No.

Mr. NESBITT.—I have received communications from parties, especially in the West, complaining that managers of banks act as insurance agents and agents for implement companies, and that they use their position in order to divert business to the company that they represent.

Hon. Mr. WHITE.—It seems to me that the local bank manager, in such a position has no business to say to a farmer, or to anybody else: 'You must give your business to the company which I represent.' That gives him a power he should not possess. I desire to state that as strongly as I can.

Mr. NESBITT.—I know what I am talking about, these branch managers do make loans to people that they would not otherwise give a loan to because they do their insurance business with him.

Sir EDMUND WALKER.—We have always discouraged that.

Mr. NESBITT.—Branch managers of this type give a man a loan because he goes to him for his insurance.

Sir EDMUND WALKER.—That is very reprehensible.

The CHAIRMAN.—Have the Committee any further questions to ask Sir Edmund Walker?

By Hon. Mr. White:

Q. Have you given any thought to the 40 per cent reserve?—A. Yes. Of course the history of the 40 per cent reserve is rather long.

Q. You need not go into it at length.—A. English and American bankers often ask why the Act contains this 40 per cent provision. It is a thing that was put into the Act at the time of Confederation because Nova Scotia and Old Canada had issued legal tender notes. They amounted to less than $5,000,000, but the new Dominion of Canada was so poor that it could not afford to pay them off. So it also began the issue of legal tender money—not secured, or only partially secured, by gold—and in order to force the banks to carry these legal tenders, they put into the Bank Act a provision that whatever reserves the banks carried 40 per cent must be in legal tender notes. That provision ought to come out of the Act because it has no longer any significance. Legal tender notes are the same as gold now and it merely forces the banks to keep on hand legal tender notes which the government are at the expense of engraving, and it forces the government to bear the great cost of warehousing the gold. If the clause came out of the Act the government would be relieved from the warehousing of this gold and the expense of printing the notes and all other cost incidental thereto.

Q. Does the provision serve any purpose to-day?—A. It does not serve any good purpose.

Q. Is it a dead letter or not?—A. It is a dead letter except that it puts upon the government the custody of our gold.

APPENDIX No. 2

By the Chairman:

Q. Have you any further statements to make?—A. Yes, one or two. The statement was made in the Committee that it was inexpedient to have banks in Canada larger than the capital represented by the two largest banks, which is about fifteen millions in one case and sixteen millions in the other. I would like to have go into the evidence a statement of all the banks in the world that have a capital of $15,000,000 and more. There are about sixty-eight of them. You will find that some of these banks are very much larger than any banks we have and have many more branches than we have.

By Mr. Sharpe:

Q. Do you favour any further absorption of the present banks?—A. I do not favour anything that will restrict the banks from having more capital than they have at the present time.

Q. Do you believe in amalgamating banks?—A. It would depend upon what the intention of the amalgamation was. Four amalgamations have taken place in our case already but they were all for geographical reasons.

Q. Are you looking for more worlds to conquer?—A. There are no more vacant geographical territories for us, we have covered Canada pretty well.

The CHAIRMAN: Shall we put the statement into the record?

Carried.

BANKS IN THE WORLD HAVING A PAID UP CAPITAL IN EXCESS OF £3,000,000 OR ITS EQUIVALENT.

Country.	Head Office.	Bank.	Paid up Capital.	Reserve Funds.	Branches.
Great Britain	London	Bank of England	£ 14,553,000	£ 3,189,760	11
"	"	Barclay & Company, Limited	£ 3,200,000	£ 1,200,000	550
"	"	Lloyd's Bank, Limited	£ 4,208.672	£ 2,900,000	638
"	"	London City and Midland Bank, Limited	£ 3,989,237	£ 3 390,314	758
"	"	London County and Westminster Bank, Limited	£ 3,500,000	£ 4,000,000	344
"	"	National Provincial Bank of England, Limited	£ 3,000,000	£ 2,150,000	389
"	"	Union of London and Smith's Bank, Limited	£ 3,554,785	£ 1,150,000	207
Argentine	Buenos Ayres	Banco Espanol del Rio de la Plata	£ 7,816,751	£ 3,388,942	70
Australia	Sydney	Bank of New South Wales	£ 3,000,000	£ 2,025,000	337
Austria	Vienna	Anglo-Austrian Bank	£ 4,166,670	£ 946,205	43
"	Budapest	Hungarian General Credit Bank	K. 80,000,000	K. 56,300,000	11
"	Vienna	Niederosterreichische Escompte Gesellschaft	K. 75,000,000	K. 21,728,962	.....
"	"	Oesterreichische Creditanstalt fur Handel und Gewerbe	K. 150,000.000	K. 91,616,044	20
"	"	Oesterreichische Landerbank	£ 5,416,667	£ 1,009,330	17
"	"	Oesterreichische Ungarische Bank	K. 210,000,000	K. 25,563,159	98
"	"	Wiener Bankverein	K. 130,000,000	K. 39,938,545	35
Canada	Montreal	Bank of Montreal	$ 15,975,520	$ 16,696,493	166
"	Toronto	Canadian Bank of Commerce	$ 15,000,000	$ 12,500,000	371
Chili	Santiago	Banco de Chile	$ 40,000,000	$ 22,000,000	42
Egypt	Cairo	Agricultural Bank of Egypt	£ 3,740,000	£ 878,397	.....
"	"	National Bank of Egypt	£ 3,000,000	£ 1,550,000	20
France	Paris	Bank of France	£ 7,300,000	£ 1,700,773	200
"	"	Banque de Paris et des Pays Bas	Fcs. 75,000,000	Fcs. 93,678,067	3
"	"	Comptoir National d'Escompte de Paris	£ 8,000,000	£ 1,520,303	180
"	Lyons	Credit Lyonnais	Fcs. 250,000,000	Fcs. 152,000,000	365
"	Paris	Societe Generale	Fcs. 250,000,000	Fcs. 69,407,638	903
Germany	Leipzig	Allgemeine Deutsche Credit-Anstalt	Mks. 90,000,000	Mks. 38,176,443	28
"	Berlin	Banh fur Handel und Industrie	Mks. 160,000,000	Mks. 32,000,000	31
"	Barmen	Barmer Bankverein	Mks. 75,000,000	Mks. 14,100,000	24
"	Munich	Bayerishe Hypotheken und Wecheel Bk	Mks. 60,000,000	Mks. 57,418,258	.....
"	Elberfeld	Bergisch-Markische Bank	Mks. 80,000,000	Mks. 24,235,793	37
"	Berlin	Berliner Handels-Gesellschaft	Mks. 110,000,000	Mks. 34,500,000	.....
"	Hamburg	Commerz und Disconto Bank	Mks. 85,000,000	Mks. 13,200,000	5
"	Berlin	Deutsche Bank	£ 10,000,000	£ 5,389,663	14
"	"	Direction der Disconto Gesellschaft	£ 10,000,000	£ 4,065,000	12
"	Dresden	Dresdner Bank	£ 10,000,000	£ 3,050,000	47
"	Essen	Essener Credit Anstalt, A.G	Mks. 72,000,000	Mks. 23,390,000	20
"	Berlin	Imperial Bank of Germany	£ 9,000,000	£ 3,589,644	487
"	Frankfurt a/M	Mitteldeutsche Credit Bank	Mks. 60,000,000	Mks. 8,657,740	17

Germany	Magdeburg	Mitteldeutsche Privat Bank, A.G.	Mks.	60,000,000	Mks.	7,700,000		59
"	Berlin	National Bank fur Deutschland	Mks.	90,000,000	Mks.	15,270,000		19
"	"	Preussische Central Genessenschafts Kasse	Mks.	75,800,000	Mks.	7,500,000		
"	Mannheim	Rheinische Creditbank	Mks.	95,000,000	Mks.	16,999,413		23
"	Aachen	Rheinisch-Westfalische Disconto-G	Mks.	95,000,000	Mks.	18,275,000		17
"	Cologne	Schaffhausenscher Bankverein	Mks.	145,000,000	Mks.	34,161,323		30
Holland	Amsterdam	Nederlandsche Handel Maatschappij	Fls.	45,000,000	Fls.	7,124,317		25
Italy	Milan	Banco Commerciale Italiana	£	5,200,000	£	1,156,000		33
"	Rome	Banca d'Italia	Lit.	180,000,000	Lit.	60,025,413		104
"	"	Banco di Roma	Lit.	150,000,000	Lit.	6,713,735		41
"	Genoa	Credito Italiano	£	3,000,000	£	400,000		24
Japan	Tokyo	Bank of Japan	Yen.	37,500,000	Yen.	27,040,000		9
Mexico	Mexico	Banco Central Mexicana	$	30,000,000	$	7,367,247		
"	"	National Bank of Mexico	$	32,000,000	$	28,100,000		61
Russia	St. Petersburg	Banque de Commerce Prive de St. P	Rs.	30,000,000	Rs.	1,387,558		
"	"	Banque de l'Etat	Rs.	55,000,000				120
"	Moscow	Banque de l'Union	Rs.	30,006,000	Rs.	4,355,683		81
"	St. Petersburg	Banque Internationale de St. P	Rs.	48,000,000	Rs.	27,693,207		39
"	"	Banque Russo-Asiatique	Rs.	45,000,000	Rs.	19,289,187		96
"	"	Russian Bank for Foreign Trade	£	5,263,158	£	1,632,380		61
Spain	Madrid	Bank of Spain	Pas.	150,000,000	Pas.	20,000,000		60
Sweden	Stockholm	Sveriges Riksbank	K.	218,101,404	K.	66,248,193		25
Switzerland	Basle	Swiss Bankverein	£	3,280,000	£	1,530,000		9
Turkey	Constantinople	Imperial Ottoman Bank	£	5,000,000	£	1,250,000		85
U.S.A.	Chicago	Continental and Commercial National Bk	$	21,500,000	$	9,107,950		
"	New York	National Bank of Commerce	$	25,000,000	$	15,994,570		
"	"	National City Bank	$	25,000,000	$	28,458,326		

NOTE.—There are one or two banks in the Argentine Republic which have a paper capital in excess of the equivalent of £3,000,000.
There are a number of other banks having an authorized (but not paid up) capital of the equivalent of 3 million pounds or more.

SIR EDMUND WALKER: There was a statement made in reference to sections 96 and 97 about permitting the banks to pay deposits up to $500 without reference to the ordinary forms of law. I wish to put in a memorandum showing the legal trouble we have had regarding some sections in the Act now where the government has undertaken to make a law which may clash with the property rights of the provinces.

The CHAIRMAN: Shall Sir Edmund Walker be allowed to put this statement in also?

Carried.

Document filed as follows:

'*Memorandum re sections 96 and 97 of the Bank Act.*

'During the past year we have had a good deal of discussion with our solicitors as to how far we may rely upon section 96, sub-section 2, in dealing with joint deposits in cases where the provisions of the sub-section conflict with provincial laws. It used to be our practice to consider that we were enabled to take deposits in the name of two or more persons payable to any one of them or to the survivor according to the instructions of the depositor. Our solicitors in the province of Quebec point out that the payment to the survivior of a deposit standing in the names of two or more persons is contrary to the laws in force in that province and also state that we are not justified in paying to a married woman money deposited in her name and her husband's to be drawn by either, unless with her husband's authorization. The matter has been submitted to Mr. Lash who points out that the real difficulty here is as to whether this clause of the Bank Act is within the constitutional powers of the Dominion Parliament.

'By section 91 of the British North America Act, 1867, the Parliament of Canada is given exclusive legislative authority regarding, among other things, banking, incorporation of banks and the issue of paper money. On the other hand by section 92 the Provincial Legislatures are also given exclusive legislative powers over certain stated subjects, including property and civil right in the provinces. The difficulty is to determine whether the section of the Bank Act referred to above deals with *banking* or with *property and civil rights,* and presumably the Privy Council is the only authority which can settle the matter.

'In the proceedings of the Banking and Commerce Committee on 28th March, Mr. Currie gave notice of motion of a new section, 97 (*a*), authorizing a depositor to deal with any deposit not exceeding the sum of $500, after his death, by nominating the person to whom the money may be paid at his decease. Presumably if this amendment of Mr. Currie's were enacted it would be subject to the same doubt as to jurisdiction as sub-section 2 of section 96 of the present Bank Act and would therefore in many cases be only a dead letter. The enactment of it might, conceivably, cause a good deal of irrigation against the banks for refusing to act upon it.'

By the Chairman:

Q. Have you anything further, Sir Edmund?—A. The only other statement I would like to make is more a matter of privilege than anything else. You had a statement, I was not here, but I see it printed in the record that the banks have withdrawn advertising from the 'Farmers' Advocate' of London because the views of that journal on banking were not favourable to the banks. I wish to say that our own contract was withdrawn by the officer who has charge of the advertising, and who never read the 'Farmers' Advocate' in his life, who did not indeed know anything whatever about their opinions, and it was withdrawn owing to the fact that after carrying the advertisement for two years at $11 per hundred lines they raised the rate higher, and we would not pay it. That is all I have to say.

APPENDIX No. 2

The CHAIRMAN.—That covers the matter that Sir Edmund is dealing with, and I will again thank him on behalf of the Committee for the very valuable information he has given us, and I do it with even more pleasure because he has come and sat with us for several days. I present the thanks of the Committee to Sir Edmund Walker.

Witness retired.

Committee adjourned.

HOUSE OF COMMONS, ROOM 101,
FRIDAY, April 18.

The committee met at 10.40 o'clock a.m., the Chairman, Mr. Ames, presiding.

Mr. J. M. COURTNEY, called and examined.

By the Chairman:

Q. What is your title?—A. I am not an officer of the government at the present time. I used to be Deputy Minister of Finance.

Q. For how many years did you occupy that position?—A. I was in the Finance Department from 1869 to 1896, and deputy minister from 1878.

Q. You were identified with several bank revisions?—A. Not with the bank revision of 1880, but I was actively concerned with the bank revisions of 1890 and 1900.

Q. You know pretty well what the Committee have been doing, and you are conversant with the new Bank Act and the amendments proposed thereto. We would be very glad in view of your long experience, to accept any advice that you may give the Committee.—A. I should be very glad to answer any questions that you may put to me. I have not read the Bank Act because I did not expect to be called here.

Q. What is your view as to the desirability of a government audit?—A. I do not believe in that at all.

Q. What would be your objection to a government audit?—A. I do not believe that a government audit, under the system prevailing in Canada to-day, would ever be able to give a fair idea of the standing of a bank.

Q. Speaking from a departmental point of view?—A. Yes.

Q. Have you ever given any consideration to the matter with a view of ascertaining how large a staff or what equipment would be required for an adequate system of government audit?—A. I have never given the slightest thought to the matter. It never came up in any way in the department and we never debated it. The banks now have three thousand branches. Any idea I might have had when I went out in 1906 as to the work involved by such an audit probably could not be entertained at this day, seven years afterwards.

By Mr. Aikins:

Q. In expressing objection to a government audit you used the phrase 'under the system prevailing in Canada'?—A. I mean under the system of banking prevailing in Canada.

Q. Could any system of government audit in Canada be provided which would be useful under the present banking system?—A. I do not think that under our present banking system anything could be devised that would be useful as a government audit.

Q. Do you not think that an inspection of the head office of a bank would be beneficial?—A. Not a government inspection.

Q. Not a government inspection?—A. No.

By Mr. Rainville:

Q. As far as the reserve is concerned would you not favour an audit at the head office?—A. I do not know as to that. Perhaps in that connection I had better state a circumstance that occurred in my own personal experience in 1890. I was always of opinion that there should be an external audit and in the draft Bank Act that I prepared in 1890, provision was made for such an audit. But the country was not educated up to it and no Farmers' Bank had failed up to that time. Unfortunately for my ideas, at the time I recommended this external audit the Banque du Peuple failed. Now, that bank had an external audit and it was thrown in my teeth that if the Banque du Peuple with an audit had failed what would be the good of an audit to the banks at all.

By the Chairman:

Q. Therefore your proposition was not accepted by the government or by the parliament of that day?—A. The proposition did not come before parliament.

Q. There was a statement made by Mr. Henderson, I think, that the banks in the old days were taxed on their circulation, but a sort of arrangement was made by which the banks were given the right to issue ones, twos and fours. I do not know whether they had the right for fives and other denominations, they were exempted from that tax. Do you remember the circumstance?—A. No, I was only a chief clerk in the department at the time, and I never heard what the policy was. It was very early in the seventies, was it not?

Q. It was somewhere about in the seventies, you do not remember the circumstance?—A. I know it happened because in the statement of revenue and expenditure one would take the bank circulation as a revenue.

Q. You do not know whether the taxation plan was the result of an agreement between the government and the banks?—A. No, I do not.

Q. What is your opinion of the proposal to establish central gold reserves as set forth in the Bill?—A. Can you tell me the clause dealing with that?

Q. You will find it in Clause 61.—A. Clause 61 deals with the emergency issue.

Q. Clause 61 deals with the emergency issue. It is now proposed to allow any bank that will deposit gold in a central gold reserve to have the right to issue its own notes for an equivalent amount.—A. Well, I should approve of that.

Q. You think that would be good banking?—A. I think so.

Q. Here is a copy of the Act of 1871. (Handing volume to witness).—A. That was Sir Francis Hincks' Act.

By Mr. Thornton:

Q. Do you think, Mr. Courtney, there is any general demand on the part of the people throughout the country for some kind of public inspection for banks?—A. I have seen that statement in the papers. That is all I can say, but I would not consider there was any general demand. However, I am out of touch with public affairs now and I do not meet the people's representatives as I used to do.

Q. Would you be of the opinion that there ought to be any further inspection of any kind beyond that which each bank provides for itself?—A. Yes. I believe in an external audit by professional accountants the same as prevails in England.

Q. Who would appoint them?—A. I think it would be better for the shareholders to do it. I think that is the case in England.

Q. You say the shareholders should appoint them?—A. Yes, the shareholders should appoint the auditors at the annual meeting. I think, speaking from memory, that is done in England.

Q. That is the shareholders of each Bank?—A. Yes.

Q. For that one bank?—A. Yes. But remember, Mr. Thornton, I am speaking from memory.

Q. That would be the annual inspection or audit which you would advise?—A. I believe the banks should have their own inspectors as well.

Q. And there should be an audit?—A. There should also be an audit.

Q. You think there ought to be something besides the inspection that the banks have themselves?—A. Certainly, I have always held that.

Q. You think there ought to be one general Board of Inspection for all the Banks?—A. I have read in the proceedings of this Committee that such a proposition was made, but I would prefer that each bank should have its own separate auditor.

Q. You know there have been a number of bank failures, Mr. Courtney, of late years, in which the people have lost large sums of money in deposits?—A. Yes.

Q. That has created a great deal of unrest and there is not in the public mind that confidence that there should be.—A. So I hear.

Q. What do you think should be done to restore that confidence?—A. Speaking from the usage in England I believe if an external audit had been part of the provisions of the Bank Act, the Ontario Bank would not have failed—or would have failed long before with less dire results—and the Farmers' Bank could not have gone on.

Q. You doubt whether the Farmers' Bank would have failed?—A. No, I think it would not have gone into existence at all.

Q. If there had been an external audit?—A. Yes, if there had been an external audit.

Q. So that you think there ought to be some additional safeguard?—A. Yes, an external audit, in my opinion.

Q. Some further safeguard than there has been?—A. Yes.

Q. Now the question is what should that be?—A. My opinion as I have said before, is that there should be an external audit by professional accountants.

Q. Of all the banks?—A. Of all the banks. That is the usage in England. The National Provincial has as many branches as any bank in Canada. It has Price, Waterhouse, or Quilter Ball or somebody, to audit their books. If you take a copy of the 'Bankers' Magazine' any month, you will see the balance sheets of the banks whose year ends in that month, with the certificate of the auditors at the bottom.

By Mr. Barker:

Q. Mr. Thornton in putting a question to you said there had been many banks which had failed and the depositors had lost their money. Do you happen to know how many failures there were by which depositors lost their money?—A. Not very many. It is some years since I was conversant with the figures. I think as a whole 75 per cent at least of the deposits have been paid. I do not know what is going to be done in the case of the Farmers' Bank.

Q. In the matter of the government undertaking an audit, what is your difficulty about it? Have you any fear that an audit by the government might create a confidence that would not be justified?—A. I thing that would be one objection, but I am of opinion that the average government official—I am certain as regards myself—could not adequately audit a bank to find out whether its advances were proper. It might happen in the United States where there are about 30,000 banks, but in the case of Canada, with 24 banks with branches spread all over the country, I do not see how it could be carried out.

Q. You would have to provide a staff of professional men?—A. Yes, and men educated for that purpose.

Q. You spoke of the firm of Price & Waterhouse?—A. They are auditors for the Bank of British North America. Representatives of that firm come out to Canada two or three times a year, and go wherever they like.

Q. That firm has a branch here?—A. I believe so.

Q. Do you know whether any other large business concern has an audit also?—A. I think the Bank of Ottawa here.

Q. What about the C. P. R.?—A. I do not know anything about that company.

Q. The firm you speak of are doing a very large business?—A. Yes, and they are a very reputable firm.

Q. The auditing of banks is their special business?—A. Yes.

By Mr. Aikins:

Q. How would this suggestion strike you, Mr. Courtney, in respect of an audit or inspection: That the shareholders of each bank should appoint an auditor or inspector subject to the approval of the Minister, and the Minister to consult the Bankers' Association concerning it?—A. I never heard of that idea before. I think the less a bank has to do with a department of the government the better.

Q. In other words, you would keep the government entirely separate from the banking system?—A. If I could.

Q. And allow the shareholders and directors to manage each their own several banks?—A. Yes, allow the directors and the shareholders to do so.

Q. With a proper audit?—A. Of course with a proper audit.

Q. Then you would not approve of the suggestion I have just made that auditors should be appointed by the shareholders subject to the approval of the Minister?—A. I would not like the last proviso.

Q. You approve of the old conservative system?—A. I prefer—well it has not come into use at all, that the shareholders should even appoint auditors, so it is not a conservative system. It is more a radical system than conservative.

Q. You believe the shareholders should appoint the auditor?—A. Yes.

Q. But it is done largely with bank companies and other companies now?—A. Not with banking companies.

Q. But it is with other companies?—A. Yes, I believe it is compulsory under the Companies Act.

Q. I suppose publicity is the real safety of the public in respect to banking as well as other systems?—A. What do you mean by publicity?

Q. The knowledge of what is going on?—A. I suppose so.

Q. Therefore should not the returns give full and accurate particulars?—A. You should need all further improvements. I had something to do with these returns in 1890; before that time under the old Bank Act returns were only made up to the end of the month as they are now, the statement was made up, but I introduced, with the approval of the then minister, notes of averages so that the department can have a good idea now, not of what business had been done at the end of the month, but all through the month. You will find there the average amount of Dominion notes held during the month; that I introduced in 1890; I have known a bank to borrow a large amount of notes on the last day of the month. Then the gross amount of notes in circulation during the month, that I introduced, so I think that the returns at that time—I see there are a number of items in italics which seem to me good, but the returns at that time in 1890 fulfilled all one wanted.

Q. Can you make any further suggestions?—A. No, I cannot.

Q. Let me call your attention to 14 and 15 Assets, in Schedule D?—A. Yes.

Q. We have there call and short loans in Canada and call and short loans elsewhere than in Canada?—A. Yes.

Q. What interpretation do you place upon call loans?—A. Demand loans called in at once.

Q. Wouldn't it be better to make that specific?—A. Oh no, call and short loans; a call loan is a demand note, a short loan is ten days.

Q. It might mean thirty days?—A. Yes.

Q. And it might be two months?—A. I do not know, I would not say.

Q. That is a matter without definite interpretation?—A. Yes.

Q. Don't you think it should be better defined?—A. I do not know; it depends upon what the usage of the bank is now.

Q. What is really the meaning, according to the departmental usage here?—A. A short loan is not more than thirty days as a rule, as we conceive it.

Q. Do you think that notes of that description should be placed with call loans?—A. Well, I don't see why they should not.

APPENDIX No. 2

Q. They are entirely different aren't they?—A. Probably they are let on the same security.

Q. But there is a great distinction between all loans and a loan on time, isn't there?—A. Yes, there is a distinction.

Q. Let me call your attention to 9 and 10.—A. But if I had—I do not know if there is such a thing here, if I could get the last government statement—

THE CHAIRMAN: Here is one.—A. Here is the very thing I want.

HON. MR. WHITE: I would like to suggest for the consideration of Mr. Aikins this point. Supposing you had a large number of loans at 10, 15, 20 or 30 days, wouldn't it add very materially to the amount of work involved in the calculation of the return to separate all those and classify them.

Mr. AIKINS.—It might to some extent.

Hon. Mr. WHITE.—If the longest term loaned was a month would it be valuable to classify them into one week, two weeks, three weeks or a month. I should think there might be a classification between call and short loans, but not differentiate the varying degrees of the short loan.

Mr. AIKINS.—No, my view would be that call loans should be kept separate in the schedule. Concerning another matter under the existing system of banking which has agencies or branches in possessions or countries outside of Canada would it be possible for such a bank to enter up as due from foreign agents the whole amount of investments in the foreign country, although those investments might exist only of past due bills?—A. I could not answer that question; the fact is that the West Indian business, which is the chief business done outside of Canada, is confined to about two banks, and it has largely grown, it only commenced just before I was going out of office.

By Mr. Aikins:

Q. Are you prepared to give us an opinion?—A. I am not prepared to express an opinion.

Q. Still that might be done?—A. I think you had Mr. Pease before you and he would tell you more than I can about it.

By Mr. White:

Q. Your view, as I gathered, was that it would be inadvisable that the appointment of auditors should be subject to the approval of the Minister, is that right?—A. Yes, I do not like to saddle the department with it.

Q. Do you think from your experience that the Minister might be subject to a good deal of pressure in that way from all over Canada in the interest of particular firms of auditors, or otherwise?—A. I do not know whether he would, I do not know whether the professional accountants study the political situation, but in everything connected with public business political pressure prevails.

Q. That is not a conclusive argument. I do not understand that at all, because it would be possible, I think, for the Minister to exercise his own mind and judgment as he should do; but would it be in your judgment at all embarrassing or difficult to veto the appointment of an auditor once it was made?—A. I do not know, but I think you have strength enough to veto anything.

Witness retired.

Mr. G. N. DUCHARME, Montreal, called and examined.

By the Chairman:

Q. Mr. Ducharme, you might briefly tell the Committe what position you occupy in connection with the banking business, what experience you have had, very briefly, in the banking business?—A. I was director of the bank.

Q. Which bank?—A. The Jacques Cartier, now Banque Provinciale. The Jacques Cartier Bank from '96 to July '99 when it suspended payment.

Q. You have been a director of a suspended bank, then, the Jacques Cartier Bank?—A. Yes.

Q. And then?—A. I became president of the Banque Provinciale until 1907.

Q. You were president of the Banque Provinciale du Canada for how many years?—A. Seven years.

Q. You have no connection with that bank or any other bank at present?—A. No, except as shareholder.

Q. You are not a director?—A. No, I resigned in May, 1907.

The CHAIRMAN.—The Provincial Bank is the bank with $1,000,000 capital and $575,000 reserve paying 6 per cent., doing business mainly at Montreal. Now, Mr. Ducharme, I see you have notes prepared. Will you take the matter up in such order as is most convenient to you, and if you will allow the members of the Committee as you finish with a subject to take a few minutes in questioning you if they desire to do so?—A. Yes. I have, Mr. Chairman, grouped together about a dozen questions that were left open in your memorandum here. I was taking them first because they will take very little time, the answers will be very short, and will not require much discussion, leaving the four main points of the Bill for the last. I thought this would be the most expeditious method of procedure. The first clause which you have here is number 4, as to whether bank charters should be continued in existence for a longer period than ten years. I believe that the bank laws should be amended from year to year if necessity arises, but that the general revision should take place every tenth year. You can, in that way, have another revision in 1920, keeping always clear dates which every man would have in his mind. I see no objection to having it done oftener if necessary, but I think ten years is ample. The reason why I think that bank charters should expire in the same year is because it forces the question before the House and ensures a general revision. In February, 1910, I wrote on the then proposed Bill on Banks, and soon a Montreal daily came out with an article saying that we should not touch the Bank Act. 'So better let alone what is well,' and I believe that in 1910 it was the general consensus of opinion. Nevertheless the same paper latterly wrote that if the Act could be improved it should be done. I see that this year there seems to be generally in the House a desire to listen to a suggestion that I do not think we could have heard three years ago. This shows that it is important that such general revision should take place at fixed periods. This is why I believe that all bank charters should expire on such same dates. This does not hurt the value of the shares, and if it did, better that than run the risk of having no revision when it would be needed.

The CHAIRMAN.—The next clause is 10.—A. No. 18, 29 and 30. I do not know if you have 30. That is about the by-laws. I believe all by-laws should be passed by the shareholders.

Q. You mean submitted to the shareholders for ratification?—A. Yes, and passed by them, just one general by-law in which the regulations now made by the Directors will be included. I believe that all by-laws should be passed with the exception of the things that are compulsory. I believe that we should make it a clause in the law at once.

By Mr. McCurdy:

Q. It is permissive at the present time for the shareholders to regulate certain things by by-laws, you would make that compulsory, would you?—A. No. I mean to say that sometimes in a law it is necessary to compel the owner to do certain things, if you leave that in the hands of the owner himself he will not do it, but, except in those cases where it is necessary for the law to compel a certain thing to be done, it should be left in the hands of the shareholders altogether and not have it in this way. 18 is for shareholders and 29 for the directors; there should be one by-law to cover the whole thing.

APPENDIX No. 2

By Mr. Aikins:

Q. Would it not be sufficient in section 29 to add that any directors' by-laws must be made subject to the shareholders' by-laws?—A. Yes, but I think it would be better to have section 18 include everything.

Q. In section 18, paragraph (*h*), you will observe that it is provided that the shareholders of a bank may regulate by by-law 'the amount of discounts or loans which may be made to directors, either jointly or severally, or to any one firm or person, or to any shareholder, or to corporations?—A. I believe that should be left to the shareholders.

Q. Exclusively?—A. Yes, exclusively. Because the shareholders at their meeting will pass such by-laws as they believe should be passed. I would make the directors do according to the wishes of the shareholders.

Q. Then would you provide in (*h*) that the shareholders may pass such a by-law, and that loans may not be made to directors except under the authority of such a by-law?—A. Certainly. I want to make my meaning plain. I am a friend of the banks, I may say, but I want to see that the shareholders get more say in the business of the banks. They are the proprietors, and they should be looked upon as such.

Q. Do you not think that as the banks are quasi-public institutions the interests of the public should be secured as well as those of the shareholders?—A. I shall deal with that later on in my written statement. I say only in so far as it may become necessary for the public welfare should the government interfere, but as a rule everything should be left in the hands of the proprietors.

By Mr. McCurdy:

Q. Do you think it would be any hardship to the banks to be compelled to always keep a revised set of by-laws printed and available to the shareholders on demand?—A. Somewhere I have a note suggesting that at certain periods every shareholder should be provided with a copy of the Bank Act and a copy of the by-laws of his bank.

By the Chairman:

Q. Will you proceed, Mr. Ducharme?—A. I believe that the salaries and fees for the directors, as well as the salary for the general manager, should be passed by the shareholders. I am quite certain that probably seven-eights of the shareholders of a bank do not know the salary of the manager, and some even do not know what the directors are paid. I believe these amounts should be fixed by the shareholders also.

Q. The law now says that shareholders may regulate 'the remuneration of the president, vice-president and other directors.'—A. But it should also include that of the general manager.

Q. Do you want a clause inserted to include the remuneration of the general manager?—A. Yes. I would suggest that no by-laws be amended unless approved of by fifty-one per cent of the shareholders.

Q. That is, you would be willing that the directors should make by-laws, which at the following annual meeting of the shareholders would have to be approved by fifty-one per cent of the shareholders?—A. No, because a great many abuses may occur in that way. The directors would pass by-laws, upon which they would act until the next general meeting, and the meeting may refuse to ratify these by-laws. But in the meantime the directors have been making use of them for nearly twelve months and by so doing have not been representing the wishes of the majority of the shareholders.

By Mr. McCurdy:

Q. Do you know of any cases of banks doing that?—A. Not any banks. The by-laws of the shareholders should never be amended except by the shareholders. I believe that once a by-law is approved of by the shareholders it should not be altered in anyway unless by the consent of the shareholders.

By the Chairman:

Q. That is, by the same body as made it?—A. Yes.

Q. Will you proceed?—A. I am going to discuss section 18 (*b*) when I come to section 54. I believe that paragraph ought to come out.

Q. In the matter of proxies?—A. The matter of thirty days for a proxy before the meeeting. I believe that section 34 is O.K. as to rates and terms upon which new stock may be issued. I see no objection to that so long as the stock is issued at par. But the moment the directors decide to issue that stock at a premium they should not have the right to set what premium they wished. That should be done by the shareholders. If it is to be sold at par it does not matter whether the shareholders have pronounced upon it. But if it is to be sold at a premium the shareholders should have their say in the matter.

Q. If the directors of a bank then decide that they wish to issue new stock, would you call a special meeting of the shareholders, or would you have it go over till the annual meeting?—A. It could go just as well to the annual meeting, but I believe in that case when they call the annual meeting they should mention specially that they want to increase the capital stock, and they should also follow the same procedure if it is desired to reduce the capital stock.

By Mr. McCurdy:

Q. What would be the result of such a change, would the tendency be to issue stock at a smaller premium?—A. Yes. The directors might be interested in keeping down the profits or the assets, and they may issue stock at say 130 or 140 when it is worth only 150, and if that were known nobody would take it. But if you were allowed to get at the books of the banks and to find the exact status, the stock might be worth 150 or 175. In order to prevent that the directors should not be allowed to dispose of the stock as they desire.

Q. How would you determine how much the stock was worth?—A. The shareholders should determine that themselves.

By the Chairman:

Q. How would you arrive at the value of the stock?—A. The shareholders are the owners of the bank, and it is their business to know. Supposing it was my own firm, and I want to know how much it is worth, I can take the means to find out. The shareholders should be able to do the same thing. Now, I come to sections 43 and 47.

Q. With reference to the abolition of the lien on a bank's own stock?—A. I believe that banks should have no lien on their stock. Banks at present support their stock too much.

By Mr. McCurdy:

Q. But they are forbidden by law to buy their own stock?—A. They support their stock too much. They evade the law by discounting a man's notes and allowing him to pay so much for his shares. But they really support the stock, and they do not allow their stock to go down on the market. If it does they immediately take means to gather it up to prevent it from falling. At times that is not an improper course to pursue, but we are not discussing that point just now. There is a tendency with the banks to support their stock too much, and to-day, if you were to go to all the shareholders it would surprise you to find the amount of shares that are held by shareholders who owe the banks, and the capital of the banks will be much less than $116,000,000.

By the Chairman:

Q. That is if you were to deduct the debts owed a bank by its shareholders?—A. For which they had advances to support their stock. This should be dispensed with. We could do that if we did away with the lien.

APPENDIX No. 2

Q. Do you think an item should be put in a statement showing how much the banks loan to their shareholders?—A. That would be very difficult.

Q. An item now occurs in the statement showing how much a bank loans to its directors?—A. The directors number only a few, but when it comes to several thousand shareholders it is impracticable. The only thing to do is to take away this lien privilege. Let the banks see that the man to whom they loan money for the purchase of their stock does not skedaddle with their money. If they advance such money that is their own fault.

By Mr. Aikins:

Q. Assuming that a director is indebted to a bank, and the director wants to transfer shares, would you consider that the bank should have a lien on those shares until the debts are paid?—A. I do not think so. The good you get from such a provision is far less than the evil that might be practiced under it.

Q. You admit that there might be some benefit in such a clause?—A. There might. But I believe the other side of the matter is more serious, and I believe there should be no lien upon stock.

By Mr. McCurdy:

Q. Have you any personal knowledge of such a state of affairs as you speak of?—A. I have no personal knowledge.

Q. Then it is only an expression of opinion?—A. Yes.

By the Chairman:

Q. Have you had any experience, while you were a banker, with loans to shareholders such as are described in section 43 (*b*)?—A. I might answer Mr. McCurdy: while I say I have no personal experience, I can say that it did not pass through my hands. But if you examine the failures of the Ville Marie and Sovereign Banks in this respect, you will find that I am perfectly right. And there are many instances of that kind.

Q. Your opinion is that the same state of affairs applies to the banks at the present time?—A. We are legislating for honest people in case they may become dishonest, so I do not want to go into the present banks.

Q. If you are through with the subject, will you go on with the next?—A. I have something to say on sections 32 and 39. There is a clause which deprives a man of his vote if he has not paid all of the calls on his shares. That has some relation to what I have been speaking of. If a man is a shareholder, and if in a direct or indirect manner he gets his shares on the security of a note, why should he be entitled to vote when a man who has paid nine-tenths of his calls is not allowed to vote?

Q. You think then that a shareholder is indebted to the bank?—A. For his shares.

Q. ——he should be regarded as a shareholder who has only made a part payment?—A. That is not exactly it. I want to say just what I mean. If a shareholder has only paid for his stock through a note, directly or indirectly, he is no more entitled to a vote than the man who has paid nine-tenths of his calls.

By Mr. Aikins:

Q. Supposing he is indebted for other reasons than for the purchase of stock?—A. I may say that is an additional argument to show that it is not fair to put a lien on the stock and let the man vote on that stock when we know perfectly well that that man never paid for that stock.

Q. Except by a promissory note.

By Mr. Aikins:

Q. Except by a promissory note?—A. Yes, except by a promissory note, by which means he evades the law.

By the Chairman:

Q. Clause 79 says: 'The bank may acquire and hold real and immovable property for its actual use and occupation and the management of its business, and may sell or dispose of the same and acquire other property in its stead for the same purpose.' What have you to say as to that?—A. That is a hard question to determine, because it is difficult to say just how large a building a bank may require. Of course, there should be some regulation. I do not think the banks should be allowed to go in for real estate speculation; that is not their business.

Q. You think a bank should be limited as to the percentage of its capital or assets that it should be allowed to put into bank premises?—A. Yes. I believe it would be a good idea to fix a certain percentage, beyond which a bank should go.

Q. The next clause is 83: 'No bank shall hold any real or immovable property ....except such as is required for its own use, &c.' What have you to say about that?—A. I believe that the less banks get away from their regular trade of lending money, the better it is for them.

Q. What is your opinion as to clause 88, which gives the banks power to loan to a farmer on the security of threshed grain or to a rancher on the security of his cattle?—A. I do not think that banks will loan much money on threshed grain in the barn, or on cattle scattered abroad. I can understand them lending money to a man doing business in cattle.

Q. Your experience in connection with La Banque Provinciale is mainly, I presume, in the province of Quebec. Do you think if that clause were put in, it would permit your bank to lend any more money to farmers and ranchers than it now lends? —A. It might give us the power, but I certainly do not think we should lend any money to that security.

By Hon. Mr. White:

Q. You are familiar with the general law in the province of Quebec, I have no doubt. Is it permissible, there, to take a chattel mortgage?—A. No.

Q. It is unknown to the civil code?—A. Yes. It is against the code.

Q. So that, as a matter of fact, it is not possible for any man to give a valid lien or mortgage upon personal goods, chattels, or live-stock. That is right, is it not?—A. Yes.

Q. What would be the effect, so far as creditors are concerned, in the province of Quebec, and the effect on public opinion, in consequence of legislation authorizing a secret lien by farmers or ranchers to the bank, so that the bank might be in the position, in the event of insolvency of having a first charge upon the personal goods and effects, or, let us say, in the case of the farmer, his live-stock? You say the province of Quebec does not know any such thing as a chattel mortgage. This is, in effect, a chattel mortgage, but an unregistered one. Do you think that would be good legislation or not? In your judgment, would that prejudice creditors in any way, and how would public opinion regard it if it did?—A. Banks always look with a bad eye to chattel mortgages. We do not think it is a good law, we think it will open the door to many faults, but of course we may be wrong.

Q. Do you proceed on the principle that a man, so far as his creditors are concerned, shall be deemed to be the owner of what he has in his visible possession? Is that the theory?—A. The creditors should know that a man's visible effects belong to him.

Q. There is no means, then, so far as you know, of registering a chattel mortgage or lien in Quebec?—A. No.

Q. Is it your opinion that the lien upon cattle would have widened the credit of farmers with banks?—A. Not in Quebec.

By the Chairman:

Q. Then do I understand that you are of opinion that this clause, from the point of view of the farmer or cattle-raiser in Quebec, would not be of very much value?—A. I do not think it would.

Q. You do not think it would be very helpful to them?—A. No. It would not.

By Mr. Aikins:

Q. You do not speak at all for western conditions?—A. No. I have been there once, but I could not undertake to speak for them.

Q. As I understand it, you are not in favour of the bank having a lien on threshed grain or cattle, in the province of Quebec?—A. I do not think it would amount to anything in Quebec, because the bank would not make use of it.

Q. You see no reason why the bank should not be given that power should occasion arise?—A. Oh, no. We have no objection to that.

By the Hon. Mr. White:

Q. I want to ask you a question with regard to section 82. I have a letter here, which the chairman has received from a prominent lawyer in Montreal, with regard to the provision that 'the bank may acquire and hold an absolute title in or to real or removable property mortgaged to it as security for a debt due or owing to it, either by the obtaining of a release of the equity of redemption in the mortgaged property or by procuring a foreclosure.....' The point he makes is this. (I will have to go into little explanation for the Committee to understand it). In the province of Ontario, when a mortagage on real estate is made, the mortgagee (the party who loans the money) acquires the real title, but that is subject to what is known as the equity of redemption, whereby the mortgagor, although he is dispossessed of the legal title in the land, may, upon payment of the principal of the mortgage and the amount of interest due, be entitled to a reconveyance. The essential difference between the law of the province of Ontario and the province of Quebec, with regard to so-called mortgages is this. In Ontario, the mortgagee has the legal title in the land. Now, I understand that in the province of Quebec the mortgagee does not acquire the legal title, but he acquires what is known as a real right. It is an hypothèque, that is to say, the property does not pass to him, but he has the right to sell it?—A. You can take a deed of sale, with the right of redeeming.

Q. That is analagous to the law in the province of Ontario?—A. Yes.

Q. Is that resorted to frequently, or is the hypothèque more usual? A. The hypothèque is the more usual.

Q. That is the point this writer makes. He evidently knows that section 82 has been provided, having regard to the condition of the law in the province of Quebec, where they have a chattel mortgage. He suggests that that should be amended in some way. Have you found any practical difficulty, or could you imagine any difficulty in the case of a bank, having an hypothèque by way of additional security? Supposing the bank you are connected with, had an hypotheque as security for a debt, have you ever experienced or heard of any difficulty in connection with the bank realizing on it?—A. Except that it would be in the nature of a second mortgage or something like that.

Q. How much does it cost to realize on such mortgage?—A. Four hundred to five hundred dollars.

Q. He suggests that the advantage is that there is a power to sell contained in the mortgage itself. That is, you do not have to go through any legal proceedings, but simply sell it in the usual way. Would you recommend that the Bank Act should be amended to apply that to the province of Quebec?—A. No objection.

By the Chairman:

Q. Clause 91, concerning the rate of interest a bank may charge. What have you to say as to that?—A. Well, I do not want to discuss exactly the rate of interest, but I believe that there should be only one rate. I know there would be reasons adduced that higher prices can be obtained in the west than in the east; but it seems to me that the high rate of the west results in taking money away from the east, and that is a bad thing. Business is tied up in Ontario and Quebec just now, because their money is being taken out west out of due proportion with the deposits they receive therefrom.

Mr. McCURDY.—And a little from the maritime provinces.

By Hon. Mr. White:

Q. You know our western friends have been complaining they do not get enough money.—A. They get too much; they are ruining us.

By Mr. Aikins:

Q. Would not the same thing apply to countries outside of Canada, where the bank has the right to do business?—A. Yes, but I will come to that later.

The CHAIRMAN.—Were you here, Mr. Aikins, when Mr. Pease gave his evidence about Cuba?

Mr. AIKINS.—I heard of it.

The CHAIRMAN.—The whole matter of outside banks was dealt with then.

Mr. AIKINS.—It does not vary my views one iota.

By the Chairman:

Q. What have you to say on section 153?—A. I will couple with that sections 140 and 58. In these penalty clauses, you have the word 'negligently' inserted. I believe it is a mistake to so word the Act as to leave loopholes through which men can escape. I think you will find that judges, as a rule, are lenient enough to give all the benefit possible to a man who may be prosecuted for negligence, and I think it is not necessary to put in advance in the clause that a man shall only be guilty if he wilfully signs this. A man is liable if he has knowingly and wilfully signed a declared dividend. You have got to prove that the man knew it.

Q. I understand your contention is that the word 'wilfully' should be taken out of clause 153A?—A. 153 and 140 also.

Q. Let us consider for a moment 153A, as to the making of any wilfully false or deceptive statement in any kind of return or report. Supposing you were the president of a bank having, let us say, 100 branches throughout Canada. It would not be possible for you to entirely check all the bookkeeping throughout all those offices?—A. No, but I am positive that if I were taken before a judge and proved that I did my best, I would not be condemned.

Q. But you see the making of any false statement is made a statutory crime. Now, if there was a mistake in the statement somewhere, even if you had been as diligent as you could be, you might be held to be criminally responsible. That is the reason why the word 'wilfully' is inserted there, in order that the intention might

be brought home to the man. If you look down at subsection 2, where it says if the statement is prepared negligently, you will see the effect of the two sections is that if a man wilfully makes a statement, then of course he should be punished, or if he negligently prepares it. If he can show he has been diligent and did not act wilfully he would not be found guilty. Have you considered that matter carefully?—A. What I have myself in view is, where a dividend was declared so as to impair the paid-up capital of the bank. Here is the provision:

> 'The directors who knowingly and wilfully concur in the declaration or making payable of any dividend or bonus, whereby the paid-up capital of the bank is impaired, shall be jointly and severally liable for the amount of such dividend or bonus as a debt due by them to the bank.'

Q. That is section 58?—A. Yes. Now, a director cannot declare a dividend without knowing that he is doing so. You might say that he is not in a position to find out whether the bank is able to declare a dividend. Well, in that case let him find out.

Q. Let me put this to you: Suppose you had a million dollars in loans and discounts that you had every reason to believe were perfectly good. Let us say that a period of severe depression sets in so that these became not worth a million dollars but only $500,000. You would not suggest, would you, that a man should be sent to jail if he had exercised ordinary business judgment with regard to those loans, though they were worth a million dollars, and felt justified in making a valuation on that basis?—A. I want to know if the law is good. I am not a lawyer and therefore cannot say. Let me give you an extreme case and let us see where the virtue of the law comes in. Suppose a bank is bankrupt and had no capital whatever, but the shareholders were still paid dividends and the depositors never got a cent. There is no curator would ever try to get a cent under this clause because under the words 'knowingly and wilfully' you cannot get a man condemned.

By Hon. Mr. White:

Q. That is Section 58. That is for the purpose of protecting a director, who, with his colleagues on the Board, declares a dividend, believing they are justified in doing so. If he knew to the contrary of course he should be liable?—A. That is not where the trouble comes in. It is not the fact that he knew to the contrary but that he does not take the trouble to ascertain.

Q. We do not want to make this Bank Act so drastic that no one in the world will be able to act under it. I have received a great number of complaints that it is too drastic?—A. It is pretty hard to get a man condemned when he comes before a judge with such adverbs through which he can always escape.

The CHAIRMAN.—Although we have passed Section 58 we may reopen the consideration of it later in view of Mr. Ducharme's representation.

By the Chairman:

Q. Now, the next clause, Mr. Ducharme.—A. I have got one other matter to call attention to here. In the old Act there was a clause numbered 126. That clause has been wiped out and there is nothing in the present bill indicating that it has been removed. I do not think the change is bad, in fact, in my opinion it is a good one. The old clause was to the effect that deposits lying in a bankrupt bank would not be proscribed and that the money would be available.

Mr. ROSS (Assistant Deputy Minister of Finance).—The clause to which you refer has simply been transferred to another part of the Bill to which it has some relation.

Mr. DUCHARME—Now let me take Sections 10 and 13.

The CHAIRMAN.—Sections 10 and 13 refer to the capital stock of banks and also to the amendment given notice of as to the advisability of having smaller banks.

Mr. DUCHARME.—To these questions I answer yes, and I would fix the amount at $100,000.

Q. Then you would like to see banks with a capital of $100,000?—A. Yes. In clauses 10 and 13 the law enacts that the subscribed capital of a bank cannot be less than $500,000 of which $250,000 is paid up.

If the legislature had only intended to insure the stability of the bank by fixing the minimum of their capital at so high a figure, they would not at the same time through Article 76 have given them the power of opening as many branches as they desire to open.

Is it not astonishing that a bank with a paid-up capital of $250,000 can have as many branches as another bank with a capital ten, twenty or one hundred times higher?

Such legislation was bound to be inimical to the organization of new banks and, by allowing the already existing ones to expand through our country, contribute to the centralization of money.

The Bankers' Association soon understood all the advantages they could take from these dispositions; so for the past few years we have seen a run of branch openings and a chase for new clients that would endanger the future of our banks if by other dispositions which I will discuss later on, they would not lead us to a money trust.

Moreover, the law does not fix—whatever be its paid up capital—the maximum amount of the deposit which a bank may receive, nor that of the bills that it can put into circulation if it does submit to the disposition of clause 61.

In 1900, Parliament, after the crises of 1899 and the failures of the Banques du Peuple and Ville Marie, realized that the Bank Act did not fulfill the public needs and could not satisfy those who demanded better securities for the depositors. But instead of endeavouring to find out the reason for these failures—of studying the defects or failings of the law and of the monthly reports, which necessitated rather arduous labor—and of making the necessary amendments to the Act, Parliament thought it more easy to cast aside its responsibility and let it rest on the banks.

The latter asked from Parliament more extensive powers in order, they said, to better protect the rights and interests of the shareholders, of the business, and of the depositors. Parliament fell in with this request and consented to insert in the Bank Act Sections 99 to 111 inclusively, entitled 'Purchases of Banks by the Banks'; 117 to 123 inclusively, imposing sequestration in cases of banking; 124 sanctioning the rules of the Bankers' Association, and Chapter 93 of the Statutes of 1900 creating the Association of Canadian Bankers. This association being composed of the general managers of almost all the banks.

These four measures, taken together, necessarily have resulted in a diminution of the number of banks, by causing the weaker ones to be absorbed by the stronger, and by preventing those that had suspended their payments from rising again.

Has it been considered also that by granting to the banks the right to open as many branches as they desired, the uneasiness in case of bankruptcy would be so much greater by reason of the greater number of branch banks? A bank having 200 branches, that would fail would carry ruin and perturbation in trade into 200 different localities. That fact alone would cause almost as much uneasiness or trouble as would the failure of 200 banks having no branches. Moreover, the liquidator being necessarily at the centre of the bank's operations, the clients of its branches could not receive the same accommodation as could those from the central bank.

The Bankers' Association is interested in helping a bank in danger because the suspension of payments always troubles the other banks by diminishing the public confidence; but it has no interest in coming to the aid of that bank when it falls. By helping it to rise again the shareholders and depositors could be saved from losses that are very often disastrous, but that bank would necessarily be weakened and exposed for some time to raids and to a new suspension of payment. The Bankers' Association

therefore does not desire to run such risk for fear of losing some deposits. That is why no bank has been seen to revive after having suspended payment since 1900, and we shall never see such a case until the sequestration clause has been repealed.

I do not think the Bankers' Association should enjoy such powers as the law confers upon it. It is as though you gave the Grocers' Association the power to appoint a curator for any grocer, or other storekeeper, that could not meet his notes. Imagine what that man would do if he were placed in the hands of an opponent at the end of ninety days; would he be in a position to resume business again. Therefore I think all these powers are too broad.

By the Chairman:

Q. From your banking experience do you think that any bank which has been wound up by the curator appointed by the Bankers' Association could have yielded more to its shareholders and depositors if it had been wound up in the way you suggest?—A. I believe it would.

Q. You think it would?—A. I believe that if the Jacques Cartier Bank had been put in the hands of the curator the depositors would not have got fifty cents on the dollar. But that was not done, and in consequence the depositors got one hundred cents on the dollar and the shareholders fifty cents.

Q. Please tell us something about the manner in which the Jacques Cartier Bank was wound up. It was wound up without the assistance of the Bankers' Association, was it not?—A. Yes.

Q. And according to your opinion had you a better settlement than if the Bankers' Association had carried out the winding up?—A. The Bankers' Association did not exist at that time. The Jacques Cartier Bank suspended on the 31st July, 1899. And the statute creating the Bankers' Association was not passed till 1900.

By Hon. Mr. White:

Q. Have you had much experience in the winding up of banks?—A. Only of one.

Q. Do you happen to know whether the costs, legal and otherwise, are excessive in such a proceeding?—A. Yes.

By Mr. Demers:

Q. Are you opposed to the Bankers' Association?—A. I am not opposed to the Bankers' Association, but I do not believe it is a proper organization to be entrusted with such powers. I think if the government were to appoint a commission, something on the lines of the Railway Commission, quite independent of politics and of the bankers, it would be much better not only with regard to banks that fail but also to banks that are financially sound and strong. We all know very well, it is no use shutting our eyes to the fact, that the Bankers' Association is merely a tool in the hands of three or four men who to-day control the whole of the finances of the country. If we ignore this fact, matters instead of improving will grow worse. We should have to-day 46 banks, whereas there are only 24. Twenty-two banks have disappeared, some by amalgamation and some by bankruptcy.

By Mr. McCurdy:

Q. The banks that were the subject of disaster were weak banks, they could not possibly have been saved anyway?—A. There is a certain amount of truth in that, but the Sovereign Bank, was a strong institution.

By Mr. Aikins:

Q. What about the Eastern Townships Bank?—A. That has not failed.

Q. The Eastern Townships Bank was taken over by the Canadian Bank of Commerce?—A. Yes, that is a disappearance, that is concentration. By and by you will have only two men controlling the finances of this country.

By Mr. McLean (Sunbury and Queens):

Q. With regard to the Sovereign Bank it was a going concern with a large amount of deposits and assets. The good-will of that bank was certainly worth something if it could have been disposed of?—A. I doubt that very much.

Q. Now although the bank had a Dominion charter, and deposits of $15,000,000, good-will and all, the shareholders did not receive anything from it, neither did the depositors. Surely that must have been worth something. The point is that the Sovereign Bank, a going concern, with large deposits, and customers all over the country, owing a certain amount of money, if they had known very much they could have sold the good-will for a large sum?—A. The good-will was worth a great deal if the bank had resumed business, otherwise there would be no value to it. If I had been a shareholder I would have said our charter was worth $200,000 or $300,000.

Q. The next point is that the shareholders did not receive anything for the good-will, the deposits or the banking business or the customers?—A. No. Supposing an ordinary firm failed and liquidated, the assets might be worth something, but the good-will would not be worth much.

By Hon. Mr. White:

Q. It depends upon the condition of the bank I think, and whether it is threatened in any way with insolvency, but at the moment of insolvency I should think it would be impossible to get anything for the good-will because of the competition.

Mr McLean (Sunbury and Queens).—The banks took over all this bank's business and divided it amongst themselves and gave nothing for it?

Hon. Mr. White.—I am inclined to think that on the whole they did not make very much out of it, in all these cases.

By Mr. Rainville:

Q. Do you think this concentration is due to the Bankers' Association?—A. Well, in this way: the moment a bank suspends payment there is no chance for it to resume business, none whatever; that is what I find very often. You may say that there are the proprietors, the shareholders, they are the owners of the bank, to look after the troubles of that bank, but the next morning they come and find another man there, appointed by whom?—A. By the Bankers' Association, who have no interest in that bank whatever, and who do not care a button for the depositors or the shareholders, they have no interest whatever in them.

By Hon. Mr. White:

Q. How many banks have head offices in Montreal now?—A. I never counted them.

Q. Quite a number, I believe?—A. Quite a few.

Q. And there is competition among them?—A. Yes, not so very keen.

Q. Are they in one, two, three or four hands? Are they not carrying on a fairly keen competition?—A. There is a competition.

Q. In opening branches and competing for business?—A. Yes.

Q. Are you seriously making the statement that the banking capital of the country is liable to get into two hands, or is that just an exaggeration?—A. Well, it is coming to it.

Q. Into two hands?—A. It is coming to it.

Q. The banks serve the country as a whole from the Atlantic to the Pacific?—A. They do lots of good.

Q. Do they serve the public in the maritime provinces, in Quebec, Ontario and the West?—A. All over the country.

Q. What abuse has there been of the banking system as far as you can see?—A. Well, it is pretty hard for me to tell what abuse there has been. I can only speak of the failed banks.

Q. You speak of failed banks?—A. Yes.

Q. Are you in favour of limiting the capital of banks or of the large bank system? —A. I believe in small banks.

Q. With a limited capital?—A. Yes, I would limit the strength of the capital, I do not believe the banks should go above the $15,000,000 or $20,000,000 mark.

Q. That is a pretty good sized bank?—A. I think if it goes above that it is a danger.

Q. How many banks are there in Canada with $15,000,000 capital?—A. I suppose there would be about three or four—the Montreal, Bank of Commerce—

Q. So that they have not yet got to that particular stage in which the limit you have mentioned has been reached except in the case of two banks?—A. Yes, but I believe that to counteract the danger of the money being monopolized the small banks would come in, and this is what I say on that point, if you will allow me.

'To escape this danger I would suggest to facilitate the organization of new banking institutions by reducing the minimum of capital. The Minister of Finance thinks that $250,000 of paid up capital is a small capital; that may be true in cities like Montreal, Toronto and a few others, but it could not be so in less important centres.' You see I do not agree with some people.

> 'It is very true that in the majority of the localities there is a branch bank, but these branches managed by the banks of the larger centres do not render as much service as the local banks. The latter shall always know better than a distant management the needs and the resources of the locality and would act in a safer way to prevent the money centralization.'

Now this is contrary to a great deal that has been said here. No one knows how much profit a bank makes. I deny that any man can come here and say what profit a bank really makes. The moment any shareholder tries to find out he learns very quickly that he cannot get the information.

By Mr. McCurdy:

Q. But you have the bank's annual statement which discloses its profit and loss account, do you not?—A. That is in the statement, I have one with me, and here is what it says, 'Profit and loss account, the net profits for the year, after making full provision for all bad and doubtful debts and deducting expenses, interest on deposits and rebate on current discounts, amounted to the sum of $835,000.' Is that a profit and loss account?

Q. Yes, it is signed by the general manager?—A. It is signed and states that they made $835,000, but they might have made $1,000,000 more.

Q. It says the net profits are so and so?—A. But that is not a profit and loss account. If you belong to any other institution you get a different kind of account from that.

By the Hon. Mr. White:

Q. What would you say it should contain?—A. It should show the affairs of the bank.

Q. You mean that it should particularize; how?—A. It should show how much profits on discounts, how much commission, how much profit was on their real estate, five or six accounts like that, so that it would show the different sources of revenue.

Q. You mean that it should show the gross profits from each source, and then, on the other side the cost of management?—A. Certainly.

Q. How would you appropriate the cost of management against current loans and discounts, you know that all the money is in one fund in a bank, and their revenue consists in what they make on loans and discounts, what they make in commissions, what they take in in rentals, and my difficulty would be how the banks would appro-

priate to the interest and discount branch of the business the expenses which would be properly chargeable against it. To my mind that would be a difficult thing?—A. Yes, but they would have the general account.

Q. You do not follow me. Here is a large business, extending all over Canada in which they derive a certain amount of revenue from interest on current loans and discounts, on short term loans, and on commissions. Then there are the expenses of the entire organization, and the amounts they pay depositors by way of interest which is charged against that. The difficulty I see in carrying out your plan is how you would appropriate all these expenses against, let us say, current loans and discounts, and against the moneys they might derive from call and short loans, and the real estate respectively, that would be rather a difficult thing to do?—A. You mean to charge a portion of the expense against each source of profit?

Q. Yes?—A. No, I mean the whole.

Q. How are you going to tell what they receive by way of net profits from current loans and discounts?—A. No, I would not say that. I want them to say that they make so much, say $500,000 this year from this source, and so much from the other.

Q. In the ordinary course?—A. Yes, give the revenue from each source, and say: 'We ave spent for management so much, we have spent for losses so much, and for different things, repairs and so forth, so much.'

Q. And then subtract that to get the net result?—A. Yes, it will not hide what we want to know. It is important that the shareholders should have this information, because you should never forget that the shareholder is the proprietor, and has the right to have any statement he desires about the affairs of his business.

By Mr. McCurdy:

Q. Your idea is that we should have publicity in regard to the bank's business? —A. I mean to say that the shareholder should know what is going on, and he does not know to-day. I know personally that in banks people rise up and inquire for particulars, but they cannot get them, they are sometimes laughed at when they inquire, and I say it is not fair. The shareholder is the proprietor, and, as such, he should have the right, and I have it somewhere where I suggest that any proprietor should have the right to get any information he wants from his bank.

By Mr. Nesbitt:

Q. They have that right now?—A. They have but they cannot use it.

Q. You cannot force them to use it?—A. No, they try but cannot get the information.

By the Chairman:

Q. Do I understand that the annual or special statement submitted by the directors to the shareholders should contain according to your opinion in addition to the conclusive information it now contains a detailed statement of the profit and loss account for the previous year?—A. That is what you have in Section 4, only what I say is this that up to the present time the banks have been making a kind of one account of profit and loss which is not one, and I think the intention of this clause is to make them give a profit and loss account which would be of some value, but I do not think you will get it.

Q. Your contention is that under sub-section 4 of Section 54 they will be required to give a profit and loss account, but that they give no details that are intelligible.?—A. No, they do not.

By Mr. Aikins:

Q. Do I understand from your statement that the profits for the year given in that statement do not actually show the profits that have been earned?—A. I do not know that I understand you right. It does not show the whole amount of the profits that they have earned.

Q. Have you the book you read from, will you let me see it?—A. Yes (handing book) it does not show the whole amount of profits for the year.

Q. Who does define doubtful debts?—A. How much is taken out for doubtful debts in that amount?

Q. Exactly.—A. I want to know.

Q. There may be very good assets put in as doubtful assets?—A. There may be.

Q. This statement does not really show what would be the profits of the bank for the year.

By Mr. Nesbitt:

Q. How would you have them show the doubtful debts?—A. A bank makes a statement of its assets and deducts the amount of bad and doubtful debts. The amount so deducted should be shown. When it is said that the profits are so much less doubtful debts, let the amount deducted for doubtful debts be shown.

Q. Do they not put that in now?—A. No, they do not.

Q. I do not understand you at all. Would you have them show the debts that are thought doubtful?—A. No. But when it is stated that a bank has made a profit of $100,000 after deducting bad and doubtful debts, I have a right to ask how much did you deduct for bad debts?

The CHAIRMAN.—In the last annual statement of the Canadian Bank of Commerce you see: Overdue debts, loss fully provided for.

Mr. NESBITT.—How much?

The CHAIRMAN.—There is no mention of how much. The overdue debts amounted to $487,738.94. Mr. Ducharme's contention is that he has no idea from that statement how much loss was deducted.

Mr. NESBITT.—Do they not say, Mr. Chairman, the amount of the overdue debts?

The CHAIRMAN.—Yes, but not how much the loss they have provided for.

By Mr. Nesbitt:

Q. I do not see why they should. I do not see who is to say when an overdue debt is a loss. I know various accounts, Mr. Ducharme, that looked to me an absolute loss, which I know personally were afterwards recovered. Who is to say they are an absolute loss?—A. This is not to find out whether a debt is bad or good, but to know how much the manager has deducted for bad debts.

Q. The Chairman just read—— A. He showed you the amount less the amount provided for.

By Hon. Mr. White:

Q. What would be your idea as to the value of that to the shareholder?—A. I think that if the profit and loss account had been made every year to the shareholders, half of the banks wrecked would never have been wrecked. If a proper statement is made they cannot deceive the shareholders the same as they do under the present system. If a bank is weak, with this kind of a profit and loss account they can hide all they wish.

By the Chairman:

Q. Your contention is that if a bank should make a big loss in the course of a year it would be possible so to hide that loss that the shareholders would have no idea of it when they get the annual statement?—A. Yes.

By Hon. Mr. White:

Q. Supposing they wanted to conceal a loss, would they show it as the amount written off for bad and doubtful debts?—A. If they did not, then they would be liable to the penalties of the Act.

Q. But are they not now liable?—A. Well, I really do not know if they are. Supposing a bank has a capital of $2,000,000, and an equal reserve, and they make a loss of $150,000. If they hide that loss, I do not believe they come within the law because they still have in the reserve the difference between $2,000,000 and $150,000.

Q. Would not their statement as to reserve be incorrect?—A. It might be; but that would not make them come under the law.

Q. Are you sure?—A. I think so. The law speaks of the impaired capital.

Q. I mean the express statement called for.

By Mr. Demers:

Q. Do you not think it would be well to put in an item as to amounts due by directors to a bank in the statement?—A. You could not put in the names. It would never do to put in the names. But as to the amount of loans to the directors, the highest loan and the lowest loan should be mentioned. There may be nine directors in the bank who may owe the bank $2,000,000. But if you take the highest and lowest amounts due by directors it would guide you very much.

The CHAIRMAN.—Mr. Demers, of course, is aware that the aggregate amount of loans to firms in which a bank's directors are interested is given in the monthly statement.

Mr. DEMERS.—I understand that, but I was referring especially to individual loans.

The CHAIRMAN.—As to how many individual loans?

Mr. DEMERS.—Yes.

By Mr. Demers:

Q. Would it not be well to include that information in the statement given to shareholders at the annual meeting?—A. You have it given now in the report, the amount due by directors.

Q. In general?—A. In general. Of course, you could not give it for every director, but if you had the highest and the lowest loans it would be a sufficient gnide for people to understand.

By the Chairman:

Q. In general terms your argument is that greater publicity in detail would be a deterrent to bank failure?—A. Yes. I think the shareholders are entitled to that information.

Q. You are speaking mainly from the shareholders' point of view?—A. Yes.

Q. Will you proceed then?—A. (Reads). The bank business is a remunerative one. Why deprive of it the citizens of a modest fair living, when they live in localities that demand only to be developed? I believe the minimum capital could be easily fixed at $100,000. A bank with a capital of $100,000, although less powerful, would be just as solid as another bank having a larger capital, if the law would apportion to the paid up capital the number of branches that a bank may open, and the total amount of the deposits that it may receive.

One should not compare a Canadian bank with a small capital to a state bank in the United States. It is true that these institutions often fail but they are rather companies of construction, loan and credit; they are not blanks in the sense of national banks in the United States or of our Canadian banks. It might also be stipulated that the paid-up capital of a bank should not exceed 10 or 15 millions; you might say 20 millions; for I consider it dangerous that the capital of a bank be too high. A daily newspaper has alluded to the great financial crisis which Australia went through a few years ago. At that time a bank which had a capital of one hundred million failed and the depositors lost all their money to the last cent.

I do not doubt that legislation in the sense that I have just indicated would be of great service to the public and the best means to escape the danger of a money trust and even to cause it to disappear completely.

The above shows that section 99 should be restricted as much as possible.

The CHAIRMAN.—Section 99 relates to purchasing the assets of a bank or amalgamation.

By Mr. McLean (Queens and Sunbury) :

Q. You have referred to the monthly statement put in by the banks, and as to certain changes that should be made. Can you suggest any change that could be made in the statement that would draw the attention of the Finance Department or of the persons interested in the bank to the unsound condition of the bank. For example, in the last statement that was put in by the Sovereign Bank—practically a truthful statement, they say, was there anything that would have drawn the attenion of the shareholders or the officers of the Finance Department to the condition of the bank?—A. No, I do not know.

Q. There was nothing. Then, in the case of any of the banks that have failed during the last four years, as far as this statement is concerned it was practically useless for the purpose of drawing the attention of the shareholders or the Finance Department to the condition of the bank?—A. That is correct.

Q. I want to ask you further on that point. It has been stated here that the cause of the failure of the banks in Ontario and the maritime provinces during the last five years has been due to large loans out of proportion to the capital and assets, made to a very few individuals. Is that the cause of the failures of the banks in Quebec during the past five years?—A. Sometimes.

Q. Was there any case of that kind?—A. There were some cases of that kind.

Q. As I understand, that was the cause of the failure of the bank at St. Stephen, N.B., a loan to one or two persons only; the Sovereign Bank loaned to three or four persons; and the Yarmouth Bank loaned to two persons. Now, I want to get your opinion as to this: Is it possible to have a statement so prepared that it would give notice to the public of these large loans made to a few individuals out of proportion to the assets and capital?—A. I do not believe that that would necessarily have to be made to the public. Of course it should be addressed to the shareholders; the shareholder is entitled to get it.

Q. Are there any amendments that we can make in the Bank Act by returns or by investigation or in any other way, to show the shareholders the amount of the very large loans that have been made out of proportion to capital and assets?—A. No. But the shareholders could in their by-law specify the largest amount to be loaned to one person or company, and instruct their auditor to report on the observance of these by-laws by the directors. As to the possibility of showing such large loans on the annual statement I do not see any other way than to treat them as loans to the directors.

By Mr. Demers:

Q. Do you think it would be well that the depositors should be represented at the annual general meeting, say, by men appointed by one hundred depositors?—A. Only in case of failure.

By Hon. Mr. White:

Q. Do you think that if directors had to show the provision they make for bad and doubtful debts they would be likely to show as large sums as they now write off when the amounts are not disclosed? My point is this: Do you think that directors would like it to appear publicly that they had written off a certain amount? The amount written off depends on judgment or discretion. The directors may say in a bank to-day: Here is a large volume of loans, $50,000,000; now it is probable that, while they all appear to be good, there will be some losses in connection with them; therefore we will write off $500,000. Supposing they had to show in their statement the amount written off, do you think they would hesitate to show as large an amount

as that, especially where the amount they decide to write off depends on their discretion and judgment? The point is whether you would be likely to accomplish what you have in mind. Of course, if the directors would do what you have in mind, it would be all right, but would they be likely to do it?—A. I suppose, in some cases, they would write off as much as the manager, and I think the losses would be much less if they knew those losses were to be shown to the shareholders.

Q. I don't mean actual losses, but I was thinking more of bad or doubtful debts, about which there might be a difference of opinion. For instance, one might say, write off 50 per cent, and another might say that the loan is perfectly good if we work it out, so that there is a great latitude of discretion. My point is, are they more likely to write off substantial sums, in the ordinary course, if the information is not disclosed to the public, as contrasted with what they would do if the amount so written off (say $500) were shown to the public, and brought on criticism from the public, saying 'Oh, those loans were reduced to the extent of $500?' You see, it is not a mathematical percentage.—A. I believe, in a case of that kind, the shareholders would see the necessity of forming a different opinion among themselves.

Q. Yes. I think so. Would not the shareholders be disposed to say 'These loans are perfectly good?'—A. I should think so.

Q. Take the statements that are sent in to the government. Suppose the directors desire not to disclose their real position. Would they be likely of their own volition, to send in a statement which would have the effect of calling attention to it at once?—A. I think there might be some hesitation in a case of that kind.

By Mr. Marshall:

Q. Supposing they had written off $500 and afterwards collected it, would not their showing be better next year? I don't think that is very material. But, turning to amalgamations, you said you were opposed to amalgamations of business, did you not?—A. Yes.

Q. It is not disadvantageous, in all cases. For instance, I may mention, that in my own town the Royal Bank acquired the Traders. We have two banks in the town now, Molsons and the Royal. The Royal is in a position to take accounts which the Traders Bank refused. Now that is certainly a case where an amalgamation has been an advantage, and consequently I cannot agree with you in regard to amalgamations.

By Mr. Maclean (Halifax):

Q. Upon what principle are you opposed to amalgamations?—A. On account of the centralization of money.

Q. What makes you opposed to centralization?—A. Well, in consequence of these amalgamations and this centralization of money, we have now only twenty-four banks where we had forty-six. I suppose by and by we shall have only twelve.

Q. What are your reasons against that?—A. The fewer banks, the greater concentration of money.

By Hon. Mr. White:

Q. Don't you think you should take into consideration the question of the distribution of branches? Let us say you had fifty small banks, which could not maintain more than say a thousand branches, altogether, that is, twenty apiece. Would the country be better served by these fifty small banks, or by let us say, ten large banks with two thousand branches? Is it not a question of the distribution of branches? —A. Of course the geographical distribution of branches is an important factor. In some places a branch may be better, and in others, a bank.

APPENDIX No. 2

By Mr. Maclean (Halifax):

Q. What do you mean by a bank?—A. A bank with $100,000 capital and upwards. I will give you an illustration, to make myself clear. In 1900 we had thirty-eight banks. They gathered up, altogether, $400,000,000 of deposits and assets. Eight other banks have been created since, but those forty-six are now reduced to twenty-four, and their total assets were over one and a half millions. That is to say, while the money invested has quadrupled, the banks have diminished by fifty per cent.

By Mr. Nesbitt:

Q. Have the branches representing the banks reduced or increased?—A. Increased. You have over three thousand branches to-day.

Q. And how many at the time you spoke of?—A. Almost none.

Q. You say that amalgamations result in the concentration of money. As long as the public are served equally as well by these amalgamations as when the banks are not concentrated, what harm is there in that?—A. No harm, but I do not think the amalgamations give as good service to the public. Some say they do, while others hold the contrary opinion.

By the Chairman:

Q. If there are no more questions on that, we can proceed. What have you to say in regard to Section 54?—A. I have grouped together the sections 54, 18B, 32 and Annex B, because these sections have a great relation to one another. Managers complain that the shareholders do not attend the meetings of the bank; they are often obliged to call some of them by telephone in order to constitute a quorum. It is easy to understand the reasons for such an indifference. If we examine the way the meetings are called, the use of the banks make of the system of votes by attorney, and the annual reports submitted to the shareholders, we can understand why the latter are not generally very anxious to attend the meetings. The Act (Section 21, sub-section 3) stipulates that the shareholders' meetings shall be called 30 days before holding the general meeting by public notice in a newspaper of the locality where the head office of the bank is located. It is certain that even the shareholders of the locality will not all of them see that notice in the newspaper. The distant shareholders whom the paper does not reach, the law apparently does not care about. However, as soon as the banks open up new branches, this second category of shareholders becomes more and more numerous and disseminated. According to section 32, the first section gives 'the right to one vote for each share the property of one shareholder on at least 30 days before the meeting.' Paragraph 2 stipulates that 'in all cases where the votes of the shareholders are taken, the vote shall be by ballot.' Paragraph 6 gives the shareholders the right to vote by proxy. These clauses would be to the benefit of the shareholders if Section 18, paragraph B, did not allow the board to exact by regulations that the proxies to be valuable must be inscribed upon the books of the bank at least 30 days before the date of the meetings. In this way if, perchance, the shareholder reads the notice of convocation, it is already too late for him to give or to renew his proxy. The managers have benefited by these contradictory clauses. They secure long in advance blank proxies, in behalf of some directors. As these proxies must be made or renewed in writing every two years which immediately precede the date of a meeting (section 32, paragraph 8) they very often take the precaution of forgetting to insert the date. It is then possible by postdating them to make them serve after the expiration of the delay fixed by the law. These blanks are carefully preserved.

I believe that the right of voting should also be modified. A man having 1,000 shares should not be entitled to 1,000 votes. I believe that a just manner of voting would be:—

1	vote up to	10	shares.	
2	votes up to	25	"	
3	"	50	"	
4	"	100	"	
6	"	250	"	
8	"	750	"	
10	"	1,000	"	and over,

or something to that effect.

Section 54 stipulates that the directors going out of office should submit to the meeting 'a complete and detailed statement of the business of the bank.' Here is one of the few clauses of the law which are favourable to the shareholders. The legislators certainly intended that the shareholders should know something of the administration of their bank; and by ordering the production of 'a complete and detailed statement of the business of the bank' they certainly meant that the board of directors should give to the shareholder a true financial report such as accountants prepare in any business firm. In these forms the different sources of profits and the different items of losses are given separately.

The shareholders of a bank are interested in knowing how much profit has been made by discount, by loans on stock, by investments belonging to the bank, by commissions, collections, exchanges and other sources. In the same way they are interested in knowing how much the management costs them, the interest paid to the depositors, the amount of the losses during the year, the amount put in reserve towards probable losses, &c., &c.

It has been seen previously that the notice of convocation is not read by the great majority of the shareholders. As for those who know the date of the meeting, the greater number do not go for they know that the board has in its possession the proxies of almost all the shareholders, and that they will not be able to have the meeting adopt anything if their motion is not agreeable to the manager and to the board of directors.

Moreover, the statements which the directors give of the administration of the bank are so vague and incomplete that the shareholders become more and more disinterested about these meetings and do not take the trouble to attend. The necessary changes to obviate these inconveniences ought, therefore, to be made in the law. As to the meetings, the law might decree that the shareholders should be notified by addressing to each of them a notice of convocation. This notice should be sent in a registered letter to the last known address in the bank's books, at least ten days before the meeting.

The vote by proxy should also be facilitated by the repeal of paragraph B of section 18. How can a shareholder foresee thirty days ahead, one of the numerous reasons that may prevent him from attending the meeting? Why should a shareholder who intended to be present at the meeting and who is prevented from doing so the day before, on account of an unforeseen reason, not be able to give his power of attorney to another shareholder who would represent him at that meeting?

Why, instead of stating that the proxies shall be 'inscribed before the thirty days' preceding the meeting, does not the law limit itself to stipulate that the procurations shall be signed within the thirty days previous to the meeting. It is not necessary that the powers of attorney be inscribed in advance upon the books of the bank. It is sufficient to have, as to-day, the list of the shareholders entitled to vote at the meeting prepared.

The managers will perhaps object that the procurations must be inscribed thirty days before holding the meeting in order to avoid surprises. What surprises? Do they fear that a shareholder, or a broker, might obtain proxies for a number of shares greater than that which represents the balance of ancient procurations left in their hands and thus prevent the election of the directors, submitted to the shareholders?

APPENDIX No. 2

I do not see that it would be so great an evil if the shareholders were free to elect directors of their own choice.

In any case, the law might rectify abuses by limiting the number of proxies which a shareholder could be entitled to hold and by stating that they would be valid only at the first meeting of the shareholders following the date of such a procuration, and at any of the adjourned sittings of the same meeting.

I even believe that if the proxies were suppressed by law the shareholders would be more eager to attend the meetings.

The financial report submitted by the directors to the shareholders is not sufficiently detailed to permit them to judge of the bank's management. In *Le Devoir* of February 12, 1910, I had asked that these reports should specify the amount of net profits, of the costs of administration, of the losses, &c.

In the Bill before the House, it is proposed to modify section 54 by the addition of the following clause: 4. 'The statement must also contain and indicate the account of profits and losses for the bank's fiscal year preceding the date of the general annual meeting.'

The object of this amendment must be to give the shareholders the details of the business management of the bank; but as under the heading of 'Profits and Losses' is the very incomplete report which the directors submit annually to the general meeting and which I have above quoted, the law should make it more explicit and take the necessary means to the effect that the banks may not any longer continue to fool both the parliament and the public in preparing in the manner I have said their account of gains and losses.

It would also be most important to send to each shareholder, together with the notice of the convocation of the meeting, a copy of the balance sheet and of the true account of gains and losses.

The shareholders, being provided with a detailed statement ten days at least before the meeting, would then have time to study these reports and to compare them with those of previous years; they would then be able to better appreciate the work accomplished during the year by the banks' managers.

It might be remarked that any shareholder who desires to be informed about the bank's business can always ask these details. The answer is easy. Never, to my knowledge, a shareholder so indiscreet as to put such questions, has received another answer but that the interests of the bank were opposed to the shareholders—who are, however, in reality the proprietors of the institution—knowing any more about it.

The amendments that I suggest would have, I believe, for effect to better inform the shareholders, to render the meetings more interesting and to lead them to take a more active part in the direction of the bank's business. The manager and the board of directors, thus stimulated—however zealous they are already in the interest of the institution—would become more active and prudent; and the bank's business would become more prosperous.

Clause 54 and Annex D.

The monthly statements made to the government and the annual ones to the shareholders ought to be similar.

The chapter of interpretations should stipulate what several items mean.

The debentures, stocks should be set in two columns; one for those quoted, the other for those not quoted.

The same thing for the loans and state that in the first case (for loans) it should not exceed the market quotation and, in the other case, the nominal value.

The current loans should also give the amount of personal notes (single name).

In regard to subsection L of section 54 the profit and loss account should show the amount of profit from each source of revenue and of each expenses item, more especially the salaries of the manager and the directors.

In my opinion a clause should be inserted in the Bill entitling any shareholder at any time to obtain all the information to which I have alluded.

By the Chairman:

Q. What have you to say with respect to section 56—appointment of auditors by shareholders?—A. In 1910 I had suggested that the auditor should be an expert accountant, appointed by the shareholders, and that in order to render the employee entirely independent of the manager and of the board of directors, a salary should be fixed by a statutory disposition scaled on the amount of business of the bank.

The law relating to the banking inspection said:

Clause 56.—'The directors may at any time inspect the books, the correspondence and the funds of the bank.

'2. Nobody, unless he be a director, has the right to examine the account of anyone dealing with the bank'.

This year three pages of the new Bill are devoted to the modification of this clause. I will try and summarize as clearly as possible the intended provisions. The new provision, section 56, provides that the shareholders, at each annual meeting, appoint one or several auditors who are to be in charge until the next general meeting.

Subsection 2 enacts that in default by the shareholders of making such appointment the Minister of Finance will, at the written request of a shareholder, appoint such auditor whose salaries will be fixed by the Governor in Council.

Subsection 4 enacts that nobody can be elected to the position of auditor unless a shareholder has given written notice to the bank, at its head office, at least twenty-one days before the general annual meeting, of his intention to appoint such person. The bank itself shall address by mail, at least fourteen days before meeting, a notice of the persons that have been proposed for such situation, together with the names of those who shall have proposed them.

Is that sufficiently queer? The proceeding in case of vacancy are no less queer. Note, however, that those provisions do not apply to the auditors already in office; the latter can be re-elected without such formality.

This article seems to signify that the auditors will be appointed by the shareholders being the proprietors of the bank; however, section 4 mixes this appointment in such a way that, as a matter of fact, it rests with the board of directors.

The clear intention that we must see in those provisions is the re-election of the same auditors. Such legislation is overwhelming. The shareholders who would be desirous to appoint or change one of the auditors at their general annual meeting will not be able to do so only if they are given to the board of directors at least twenty-one days before the meeting notice of their intention to propose an auditor, and if they have given the names of the party it is their desire to appoint. It amounts to saying that the proprietors of a commercial house will not be able to change their auditor if they have not given notice of such intention to their principle employees and if they have not given them the name of the party they are to choose twenty-one days before the closure of the books for the past year. How is it possible for the shareholders to appreciate the work of their auditor twenty-one days before they have seen his report? Why should not the majority of the shareholders present be free, on the very day of the meeting to appoint an auditor of their choice? Should the manager or the board of directors, forget or neglect to give by mail, to each of the shareholders, fourteen days before the meeting, notice of the names of the persons that will be submitted to the meeting and the names of those who are going to propose them, that would be sufficient to insure the re-election of the auditor in charge who is eligible without such formality. Here we can see the necessity of the amendments I suggested in order to incite the shareholders to attend in greater numbers the meeting of the bank; that is to say the sending of a true financial report at the same time as the notice of convocation, a few days before the meeting, and the modification or even the abolition of the system of voting by proxy.

I find in that legislation the same fallacious spirit that can be seen in several of the clauses of the Bank Act. As it is intended to deprive the shareholders of the

APPENDIX No. 2

free exercise of their rights, it would be more simple and more honest to say so right away and to decide that the board of directors and the auditor shall be appointed by the manager and that the shareholders will have nothing to say regarding the management of the affairs of their bank.

Certain people have been under the impression that if the inspection of the banks were made by employees appointed by the government we could discover the means of insuring a perfect administration. They have forgotten to add all the amendments that the law would require so that such inspection be made in a practical way. Should it be made at the head office only or in every branch? It is known that the number of those branches is unlimited and that some of them have more than 300.

If the inspection is made in every branch will the inspectors have to go in every place where there is a branch? Or will their attributions be regional and will they have to inspect all the branches that will have to be found within the limits of their respective territory, and such being the case to whom are they going to report?

Besides, how far would that inspection go? Will it embrace all the operations of the banks? Would those inspectors have to inquire officially of the standing of every customer and of the value of every effect? On what authority would an inspector report as to the solvability of the client or as to the value of those effects, especially if the latter are not known at the stock exchange? Others have insisted upon the limitation of the inspection to the head office under the pretence that there is the place where all the witnesses of the banks are to be found.

It is not likely to-day that the inspector could find at the head office all the financial cookery of the manager, but on the following day when the law was promulgated would not the managers be able to disseminate in each of their numerous branches the doubtful values of their assets? Do not the items 7 and 8 of the monthly report of the assets of the bank : '(7) Assets not otherwise included in the agencies and branches of the bank ; (8) Assets not otherwise included in the agencies and branches of the bank in foreign countries' open the door to abuses? Do not those two items allow some at bay managers to hide all their losses and all the witnesses of their assets?

With the provision of the law, the form of the present project and the few amendments that they intend to propose, the inspection by the government would have no noticeable results. It would not prevent loans to be made on fake values; and the manager of the bank could always put—even believe himself bound to put—in the columns 'Loans on demand on stocks,' the loans guaranteed by effect the value of which is either null or doubtful.

One must not forget that actually the law allows almost all the means that at bay bank managers have taken to protect the credit of their institution and to declare fictitious capitals. Even if the inspection was made by the government the same managers would always have the same means at their disposal. I am not ready to state that the inspections of banks by the government would not have some results; but it would at the same time contain dangers. Let the government be asked to modify the form of the monthly report that the banks are filling with them so that the government can be always aware if a bank always possesses assets that it can at any time realize equal to 25 p.c. of its obligations towards the public. Columns 10, 11, 12 and 13 of the form of the monthly report on which they rely to face the runs are not clear enough. They are allowed to put, and in fact they do put, too many of the commercial effect that cannot be realized on demand. It is greatly due to those columns that the managers of bankrupt banks have created fine statements which have been easily shaken.

That is the reason why I suggested to divide in the monthly report the assets into two distinct parts, so that in the columns containing the assets which can be realized immediately one could only see values of the highest type and loans on

demand guaranteed by commercial effect quoted at the exchange and not over 80 to 90 p.c. of the quotation of the last day of the month. The total amount of those columns ought to represent at least 25 p.c. of what is due by the bank to the public. For that it is necessary that it should be said in the chapter of the interpretation what constitutes the assets that can be realized immediately ; and the government could then appoint inspectors whose duty would be to audit at the head office of the bank the value of those assets. This way the banks would be sufficiently protected against a run. The Bankers' Association cannot seriously object to that partial inspection. As to the remainder let the Association leave to the shareholders an enough amount of latitude to allow themselves to watch the management of their bank; and we will no more be threatened of the fall of the institutions because a shareholder will have asked, at the general annual meeting, the cost of the administration or detail as to the loss and gains of the year.

Then subsections 4, 6, 7 and 8 ought to be struck out, and the shareholders should be at liberty to appoint their own auditor, whom I would designate under the name of censor or controller. The inspection by the government employees is neither practical, necessary nor proper. To make government inspection practical you will have to limit it so much that it will become worthless.

It is not necessary. The government should not interfere with the administration of banks only in so far as it may be necessary to protect to a certain extent the public at large, that is the depositors and holders of bank notes.

Experience has shown that in order to avoid any surprise a bank ought to have in silver or values entirely realizable on demand a sufficient amount to meet 25 p.c. of what it is indebted towards the public. It is important that that should be known. It is not proper. It is one of the prerogatives of the landlord or the proprietor to nominate the person to audit or investigate the true state of the affairs of their institution. I would give that power to the shareholders not to the manager, not to the directors, but to the shareholders themselves.

He ought to be elected by the majority of the shareholders present at the meeting, taking no notice of the proxy.

That leads me to speak again about the meeting of the shareholders. How is it that the shareholders do not attend in greater numbers those assemblies ? In the first place the convocation calling of meetings ought equally be made by letter.

The system of proxies ought to be abolished or changed and a complete report showing the loss and gain account given. When there is a difference of opinion between the board of directors and the controllers, the responsibility should remain with the board of management. At the annual meeting the censors will report to the shareholders who will take whatever action they think fit.

By Hon. Mr. White:

Q. The provision with respect to the appointment of an auditor by the English practice is supposed to be for the protection of an auditor doing his duty, and the shareholders. You evidently have the view it would work the other way. The idea of the English practice is that a conscientious auditor may not be placed in an embarrassing situation by being removed without notice. The idea is to prevent the auditor being suddenly displaced by the directors without notice and consideration?—A. It does not work well with shareholders, but it may with directors.

Q. Under the proposed English practice, everybody knows about the proposed change and the matter can be fully discussed. The intention is to protect the shareholders, not the directors.

By the Chairman:

Q. What have you to say regarding 18B: 'The record to be kept of proxies, and the time, not exceeding thirty days, within which proxies must be produced and recorded prior to a meeting, in order to entitle the holder to vote thereon?'—A. I think

it is most unfair that a man should be compelled to have his proxy in within thirty days, because he may not have received notice of the meeting thirty days before it took place, and consequently he would be too late with his proxy. I know there is a weak point in my argument, because this is a shareholders' by-law.

By Hon. Mr. White:

Q. Section 18 provides that the shareholders of the bank may regulate 'the record to be kept of proxies, and the time, not exceeding thirty days, within which proxies must be produced and recorded prior to a meeting, in order to entitle the holder to vote thereon.' I think the shareholders might make a by-law any time within the thirty day limit.

The CHAIRMAN.—Mr. Ducharme has only a few minutes more, so we had better proceed.

Mr. DUCHARME.—I wanted to speak about depositors.

Hon. Mr. WHITE.—Let us take up the matter of deposits now.

Mr. DUCHARME.—I want to say a few words on that subject and also on the question of gold reserves. Before doing so, however, I would like to point out that the English text and the French text of the Bill do not agree. The English text provides that the banks must deposit with trustees, while the French text reads that the banks can hold the gold in their own hands. In the latter case it would cease to be a central reserve.

Hon. Mr. WHITE.—The gold is to be kept by trustees to be named by the Bankers' Association. The trustees will probably be three banks and an institution like a trust company. There would then be joint custody of the gold, probably in Montreal. That is the idea.

Mr. DUCHARME.—The French translation does not say that.

Hon. Mr. WHITE.—Then the French translation is incorrect. The Bill as it reads in English is right.

Mr. DUCHARME.—Such a plan as you explain would be better.

By the Chairman:

Q. Would you care to know something about the guaranteeing of deposits ? I know that is a matter in which you are interested?—A. Before dealing with that may I be allowed to put in a petition from the Chambre du Commerce of Montreal, although I do not quite fully approve of their idea.

By Hon. Mr. White:

Q. On the guaranteeing of deposits —A. Yes.

(Petition handed in and filed.)

THE CHAMBER OF COMMERCE OF THE DISTRICT OF MONTREAL.

To the Right Honourable R. L. BORDEN, Prime Minister,
and the Honourable W. T. WHITE, Minister of Finance of Canada:

The humble petition of the Chamber of Commerce of the District of Montreal respectfully sheweth:—

1. That in order to expand, the commerce and industries of Canada need all the capital available in this country;

2. That a part of the population will rather put their savings in the Post Office or Government savings banks than in the banks, as they believe that the latter do not offer as good security;

3. That, on that account, the present total of deposits in the Post Office Savings Banks is (60) sixty millions of dollars, and that, before long, this figure will have increased considerably;

4. That, with a view to give more confidence to the public, the government should, in revising the Bank Act, insert a clause making it compulsory on the banks to create a special fund to be reserved as a guarantee for the deposits, in the same way as there exists a fund as guarantee for the notes in circulation;

5. That the public, should such a guarantee exist, would feel more inclined to trust their savings to the banks, rather than to the Post Office and Government Savings Banks, and that, thereby, commerce and industry would have at their disposal a larger amount of capital now unproductive;

6. That the State would in no way suffer from the establishment of such a guarantee fund, inasmuch as the administration of the millions now entrusted to it entails an annual deficit, since the government pays 3 per cent to depositors, and the administration costs at least from 1 per cent to 1¼ per cent, whilst the government can borrow at almost any time at 3½ per cent;

7. That the State would derive a great benefit in promoting the establishment of a guarantee fund for deposits, since, on that account, the millions which it keeps unproductive would yield a good deal more were they left at the disposal of commerce and industry, the net result being an increased prosperity for Canada;

8. That the banks, on the other hand, could not reasonably object to the establishment of such guarantee fund for savings deposits, considering that they would be the first parties to profit by such a reform, as the public would trust more savings to the banks; moreover, greater confidence being created by the fact of the existence of such a guarantee, the public will feel less inclined to initiate irrational runs on banks;

Wherefore the Chamber of Commerce of the District of Montreal respectfully prays that the Right Honourable Prime Minister of Canada and the Honourable Minister of Finance do cause to be inserted in the proposed 'Act respecting Banks and Banking', now under consideration, a clause making it compulsory for the banks to establish *a fund to be reserved as a guarantee for savings deposits,* in the same manner as they have a fund for the guarantee of the notes in circulation.

And your petitioners will ever pray.

The Chamber of Commerce
of the District of Montreal.

Mr. DUCHARME.—Let me say now that I do not approve of government inspection, for these reasons : I do not think it is practicable, reasonable or proper. I believe we could have a partial inspection by the government in this way : It has been admitted for the last 30 years that 25 per cent of available assets is all the bank requires to protect it against any possible run or surprise. Now all that the government wants to know is whether a bank is in a position to meet that condition. If it is there is no need to go any further. The moment the bank is in the position that it can stand up, without any danger of falling, that moment its position is secure. What security do you want more than that ? If you can so arrange it that a bank never will fail there is no danger of the depositors losing a cent. The only way to insure that is that the bank shall have 25 per cent of liquid assets on call, not supposed to be on call.

By Hon. Mr. White:

Q. Suppose a run on the bank took place that carried off 25 per cent of their assets so that the bank's liquid assets would have disappeared, in what position would the bank be?—A. That 25 per cent would be available, but I do not think you would require that amount, because in case of a run all the branches would not be affected. In large cities where the telephonic facilities exist, the run on a bank are now more

serious, but in the small towns where the branches are situated the facilities for communication are not so good and the news would not spread so rapidly and the bank branches scattered in all the provinces cannot be affected by a run. Therefore, in making provision for 25 per cent of the amount of total assets you have is more than sufficient to meet possible needs.

By Mr. McCurdy:

Q. In your opinion does the history of banking in Canada prove that if the banks are kept reasonably clean, there is no need of guaranteeing the deposits?—A. Yes. What I say is that by means of this 25 per cent you make provision for any emergency.

Now let me deal with the question of protection for the depositors. The best protection the depositors can be given is to insure the greatest possible stability to the banks. I have already stated that if the shareholders were given the full exercise of their rights, they would be more interested in the management of their bank, and would, most of the time, prevent the losses that occur either through lack of prudence, or otherwise, on the part of their managers. It is easily understood that if the shareholders succeed in protecting themselves, they give, at the same time, more security to the depositors; because, in case of failure, the shareholders cannot withdraw any dividend before the depositors are paid in full

It has also been seen that the bank circulation fund could be utilized to redeem circulated notes of the bankrupt banks; this would mean so much for the depositors, the circulation being actually paid by the depositors.

Should this fund be insufficient, all the remainder of the unpaid circulation notes could be charged in first against the assets.

By Hon. Mr. White:

Q. Instead of waiting until the assets are realized you would make them immediately available and let the banks rank upon them?—A. Yes, and at the same time save that additional percentage that you make the banks pay the depositors for the circulation.

By Mr. Aikins:

Q. Let me try to get your idea more clearly. You would apply the circulation fund in redemption of the notes first?—A. Yes, first.

Q. And if there was anything afterwards you would refund that circulation fund? —A. Yes; these funds could then rank as a depositor.

Q. You would pay it back to the circulation fund?—A. Certainly, the same as the depositors.

Why are the depositors in the Canadian banks in view of clause 131, section A, obliged to pay for the circulation notes of a failed bank, when, in a similar case, those of the British North America Bank are not? I have nothing to say against the fact that this section does not apply to the Bank of British North America; I would rather believe that it should be struck off the statute. We would then cause all the provisions of clause 19 of clause 61 to apply to every bank, which determines the circulation of the Bank of British North America's notes at 75 per cent of the paid-up capital, but allows it to circulate its notes for an additional amount of 25 per cent provided it leaves with the minister an equal amount in gold.

Sections B and C of the same article which provide that the deposits of both federal and provincial governments be privileged, that is paid by the depositors should also disappear from this statute.

By the Chairman:

Q. You mean the privileged deposits of the government?—A. Yes. I do not believe that privilege is fair.

By Mr. Aikins:

Q. You think that the government should rank with ordinary depositors?—A. Yes. Such legislation is ancient and there is no reason for its existence at the present time. One might object, perhaps, that there are fiduciary deposits, but it would be very easy to have those deposited in the savings banks of the federal government. Why should the federal and provincial governments be paid to the detriment of the depositors whose savings sometimes represent such an amount of sacrifice and privation? The latter have not, as the government have, all facilities to be well posted; and these losses of money are infinitely more detrimental to the depositors than to the state.

Now, as to clause 61, dealing with gold reserve. Before discussing these reserves I wish to draw the attention of the members of the Committee to the fact that the English text and the French text do not say the same thing.

The English text states that the banks will deposit that gold with the trustees, while the French translation says that the banks will deposit that gold in their own hands.

It is more than possible that this should really be the meaning of clause 5 when it says that the Bankers' Association, which in virtue of chapter 124 shall make the regulations concerning the keeping and the administration of these reserves; but I am asking myself how the translator can have translated 'with them' by 'chez elles.'

In these dispositions there are two dangers. In the first case the three or four managers who control the Banker's Association might abuse that power. Then if the banks are allowed to keep that gold at home will they not take advantage of it to lower their cash reserve and shall they not charge the depositors with this increase of circulation. It is only a disguised means of doubling their circulation. The banks say that they have never asked for this. It is easy to take it away from them. If the banks have no need for it, the country certainly does not need it.

If the banks were to buy in gold their circulation surplus, the government might utilize a part of that gold. The profit for the country would be better than a tax.

In subsection 4 and following of section 61 is established what is called a central gold reserve. This new disposition of the law permits the banks to increase their circulation to any figure, as long as they place into the hands of four trustees—three of whom shall be appointed by the Bankers' Association—gold currency to a sum equal to the amount of such an increase. They seem to desire giving much importance to this 'central gold reserve,' but I do not believe that it can be of great utility. Some bank managers think they have found in it the means of preventing the scarcity of money and of giving more elasticity to finance, but they are mistaken. How could the bank finance be held by giving them, let us say one hundred million of additional circulatiton if at the same time one hundred millions of their gold currency is paralyzed? The Act states that instead of gold currency the banks may deposit Dominion bills, but that comes to the same thing, since the banks cannot obtain Dominion bills except by paying them in gold. The only result of this legislation will be to replace the circulation of Dominion notes by that of the bank notes and to thus give the banks the benefit of bills which would be lost or destroyed in fires, wrecks or other accidents, but without any advantage to the government, the trade or the public.

Presently the banks can always satisfy the insufficiency of their circulation by using federal notes; they object to the fact that their clients may find it strange that a bank pays out in Dominion bills instead of paying in its own. The objection is not serious and cannot justify this complication by legislation.

I do not see why the government should not use a large half of the eighty-three millions of gold currency they have on hand; it would thus save a couple of million of interest per annum. This gold currency in the government cellars is completely unactive and is thus preserved only to answer to any demand of re-imbursement. The circulation of small notes will always be slow to return and the banks will always

need circulation among themselves for the compensation room. This saving would not only cover the printing expenses and other costs of this circulation but the government would find a profit in it. Let us not forget, moreover, that the trustees will be submitted to the Bankers' Association, which may regulate the keeping and the administration of the central gold reserve and the execution of the dispositions of the law as far as these reserves are concerned.

The payment of the circulation is apparently guaranteed by the funds of the bank; but in reality it is the depositors who are responsible and this fund, as many other clauses of the Act, is only a deception. It is very true that section 64 stipulates that the banks shall deposit with the government, to be affected to the redemption of the notes of bankrupt banks, a sum equal to 5 per cent of their mean circulation, but the sections 116 and 131 render these stipulations illusory. Section 116 obliges the liquidators, before closing the liquidation, to take from the assets of the bank sums sufficient to pay the outstanding bills as well as the interest at 5 per cent on these notes from the date of the suspension of the bank. Section 131 stipulates that the circulation and interests and the sums due to the federal and provincial governments shall be paid in full, before the depositors can receive one cent. So that it is the assets of the bank that is to say the depositors who are responsible for the circulation, and not the bank's funds. To reach the bank's funds the bank assets should not be sufficient to pay for the circulation.

There never was such a case. The rankest assets of a bank that failed have always been more than sufficient to pay for its paper currency.

A few years ago the banks under pretence of the scarcity of money obtained an order in council authorizing them to put into circulation during the harvest season (3 months) an additional amount of their bills. This circulation surplus should not exceed 30 per cent, that is to say 15 per cent of their paid-up capital and 15 per cent of their reserve. This year at section 61, subsections 14, 15, 16 and 18 they have caused to be introduced in the act the stipulation of this order in council and it is there stipulated that for this circulation surplus the banks will have an interest of 5 per cent per annum which interest shall be part of the consolidated revenue fund. There is no doubt that this order in council gave to the banks 33 millions of additional circulation with which they could during three months facilitate discount and accommodate their clients specially those of the West. It seems to have been forgotten however that at the end of the harvest season the values which the banks would have received in exchange for this circulation surplus would not have been all realized and that the banks would then be obliged to redeem a part of these notes by means of their ordinary assets, which would then be of a nature to embarrass somewhat their finances. As in every other case it has also been forgotten that this circulation surplus was a new charge for the depositors. I find it strange that it has been thus possible, by a simple order in council, to impose on them an additional responsibility of some 33 millions of dollars without consulting them or giving them any new guarantee. For excuse they say that the depositors do not need any guarantee because the banks receive in return values for an amount equal to his circulation surplus. This argument cannot stand. The banks that have failed had also received values for their circulation and for the deposits which had been entrusted to them and that did not prevent their depositors from losing half of their money. As long as sections 116 and 131 remain unamended, the banks' circulation will be a heavy load upon the depositors. It should then be necessary that the bank funds be really the first guarantee of the payment of circulation and that sections 116 and 131 should not apply except in the case where the bank's funds should be insufficient. This intervention, while it may be most favourable towards the depositors, could not injure the banks' circulation, as the guarantees would remain the same. Moreover, the banks might be obliged to increase their circulation fund which is presently of five millions by adding to it annually a sum equal to one per cent of their paid-up capital, until that fund has reached an amount sufficient to assure the government that the redemption of

the notes is fully guaranteed. The bank could not complain of having to pay that 1 per cent per annum, since that circulation, which costs them nothing, must bring to them an average of 4½ per cent per annum and that the government itself pays them 3 per cent on that bank fund. One might probably wonder why the banks are, more than the other corporations, compelled to report to the government and to give it guarantees. It is simply because they enjoy privileges which the other corporations do not possess. Thus, the law prohibits any person, in a corporation, to employ the word 'bank' or any equivalent in a foreign language. The banks have the right to receive deposits, even from those unqualified to contract—whatever be the age, the status or the condition of the person—and to reimburse the capital, in part or in whole, and to pay the interests without the need of the intervention of any other party or official employee. They may issue as circulation, their own notes and the law forbids any other person or company from doing the same. They may loan and they have the privilege of mortgaging for their loans uncut timber, unfinished ships, storage receipts, farm products, forest, quarry, mine or sea products, lake and river products, dairy or manufactured goods or unmanufactured goods. They have also the right of opening branches throughout the country and even abroad. If the government grants such great privileges to the banks that receive the people's savings, it should also, adopt laws for the protection of its armies, for life insurance, navigation, railways, and all institutions of public interest, whether for health or life protection, its savings or its goods, see also to the point that the law shall insure them all possible guarantee for the protection of the depositors.

As to 61 B.—Should the banks pay an annual tax for the privileges of issuing notes? I say no. I believe it would be preferable that the government reserve to itself the circulation of the $5, even the $10, if necessary, and utilize a portion of the gold it receives towards that circulation.

With respect to paragraph 61 C, dealing with currency, I believe that if the gold deposits in the government vaults made by the banks were slightly increased, the government would always be in a position to help the banks in commercial crises.

Article 65 should also be amended in such a manner as to provide that the circulation shall not bear interest immediately when the bank ceases its payment. Why should such circulation, which does not bear any interest when the bank is in operation, bear interest when the responsibilities of the depositors begin? Why should not the banks continue to pay on presentation the notes of a bankrupt bank? Those notes are guaranteed by the bank circulation fund, therefore any bank that would redeem them would have no trouble to get refunded by the state, with which such fund is deposited. These notes are consequently as value for them as any other value in circulation.

The Act, clause 116, obliges the liquidator, when the liquidation is closed, to leave with the minister a sum equal to the amount of the notes not yet claimed. Why should the depositors be forced to pay all the notes which will never be claimed because they have been destroyed by fire, shipwreck or other accidents? What becomes of the amounts that are in the vaults of the government, intended to meet the notes of banks that have failed, and that will never be claimed?

Clause 58 enacts that no dividend, nor any premium that would impair the paid up capital can be declared. The provision reads:—

> 'Directors who wilfully and knowingly concur in the declaration and the payment of any dividend or premium that would enter into the paid-up capital of the bank will be, jointly and severally, held responsible for the amount of the dividend or premium as a debt by them due to the bank.'

That clause that might have been to the advantage of the depositors has never been, and will never be, of any value as long as the words 'knowingly and wilfully' shall be left in it. Why should we allow the directors to hide themselves behind those words and not give themselves the trouble to find out whether their bank can

meet dividends ? The directors of most of the banks that have failed had, although the paid-up capital had been impaired and sometimes had entirely disappeared for some years, continued just the same as regularly to declare dividends. I am not aware, however, that in any case creditors have benefited by that clause. Let the Finance Department remain quiet. If the opportunity is ever given to take action in order to claim a refund of dividends declared in such a way, contrary to law, the directors that are concerned will find as many excuses as the law can produce. Not only ought the words 'knowingly and wilfully' be struck out, but a penalty should be provided for every infringement of this clause.

Committee adjourned until 4 o'clock p.m.

HOUSE OF COMMONS,
COMMITTEE ROOM, No. 101.
FRIDAY, April 18.

The Committee resumed at 4 p.m.

The examination of Mr. DUCHARME resumed.

Mr. DUCHARME.—I noticed this morning I made a mistake, when I read my note in reference to clause 54. I stated that I was referring to clause 56. Clause 54 refers to the statements to be prepared for the shareholders, while I discussed it as if it was 56, which deals with the nomination of auditors.

The CHAIRMAN.—You will have, before your evidence is printed, a typewritten copy submitted to you in which you may make any correction you see fit.—A. What I was saying was this that the circulation fund should be applied first to the payment of circulation, and if the law were changed to prevent any compensation, just as soon as the bank suspends payment, it would be an improvement upon existing conditions. I suppose we all know how the suspension is started, the bank has a run, and the managers of certain branches at once telephone and give warning to their clients and friends to come in and draw their money because the bank is getting a run.

By Hon. Mr. White:

Q. Do the banks do that?—A. The local managers and clerks do that in order to make friends and to prepare for a position if the banks do not resume business.

Q. You mean the other banks do that?—A. No, no, I mean the local manager and employees of the bank which is in trouble.

By Mr. Maclean (Halifax):

Q. You must mean the other banks?—A. No, I mean the bank on which there is a run. Just to illustrate, supposing there is a run on any bank in Ottawa, the manager of that branch at once telephones to his friends around here and says, 'We are getting a run, you had better get your money out.'

Q. Does that happen often?—A. No, but it is always the case when there is a run.

By the Chairman:

Q. Is that what actually occurred in the case of the City & District Savings Bank, in Montreal upon which there was a run recently?—A. I do not know if it was done then.

By Hon. Mr. White:

Q. I did not think the local manager would dare to do that, I could understand that he would attempt to allay any fear on the part of the depositors and to assure them that the bank was able to meet its obligations. Would it not be very serious for a local manager if he sent out notices of that kind and it afterwards turned out not

to be the case, and the bank continued business?—A. I have seen it done. If the bank is in a sound condition, and fully prepared to meet any emergency, the employees may not do that, but if the bank has been drained—I suppose you know what drained means—if the people have been drawing on the bank for certain days, the employees are aware of that, and if there is any uneasiness on the part of the bank they know it, and the moment that the run starts they at once notify their friends. I know it has been done in Montreal for a positive fact, and it was done by more than one bank. The manager at once takes the telephone and advises his own friends to come and get their money. But they do more than that. The bank stops payment say at three o'clock to-day, and the manager will write to the local branch and say the bank has suspended payment, giving him instructions, 'Don't pay any more.' I know as a positive fact that letter has been kept for more than a day without being opened because the local manager who received it knew what it contained and wanted to give a chance to his friends to draw out their money, and he paid out money the whole of the next day. I can give you the name of the bank if you wish, it was the Banque Ville Marie, and it happened at Chambly, where my residence is. I know the local manager who told his friends to come and get their money.

By Mr. Nesbitt:

Q. Don't you think you have a peculiar type of man down there?—A. No, I think we have the common type, and I believe you will find the same type in any city of the Dominion of Canada. Of course the consequence is, when the bank closes, many go there and get their money, some get their money by drawing their deposits out and others using their deposits to pay their note. I have seen more than that done with the Ville Marie Bank. I have seen people in Montreal selling their deposits in that bank to people who had notes maturing in the bank, and other people went with these deposits and took up their own notes. I know that in some cases the transaction was put into court and it was cancelled, but in many cases this was done. I think it is only fair that when a bank closes, from that moment out, there should be no more dealing done and any dealing that is done after that hour in any branch should be void.

By Hon. Mr. White:

Q. Are there no provisions under the Winding Up Act that would prevent any depositor from withdrawing his money under those circumstances or from retaining it if he has withdrawn it?—A. No, unless you put a clause in the law which says that any transaction made after the bank closes is null and void.

Q. But is there no provision in the Winding Up Act, or would it not apply to banks?—A. It will not if we haven't a specific clause in the Bank Act.

Q. There is no specific hour at which the suspension of a bank takes place?—A. As a rule it comes about three o'clock.

Q. It is pretty hard to say when it actually takes place.—A. I would say as soon as the head office closes up.

By Mr. Clark (North Bruce):

Q. In the case of the Farmers' Bank, if I am not mistaken, the branch offices in some places were taking in deposits after the head office had closed up. Is there any law by which those funds could be recoverable afterwards?—A. If you make a law there will be. There is no law at present. At present when the law fails, the civil law takes its course, and then comes the bankruptcy law. Of course according to the bankruptcy law there is compensation, and if I owe you five dollars, and you owe me five dollars, I have the right to pay you with that. That is the compensation law in Quebec and I expect it is in the province of Ontario as well. But you would not be able to do that if you had a law to prevent it.

APPENDIX No. 2

By Mr. Barker:

Q. Would not any law to prevent it only aggravate the trouble? If such a law were made would not everybody come rushing in to get their money?—A. I do not think so.

By Mr. Nesbitt:

Q. Would not that come under the statute of fraud?—A. No, because under the law, as it is now, you have the right to pay a man to whom you owe money in that way, and I do not think that a man who borrows money should have the right to pay his note with the money he has there, while the depositor who never borrowed any money from the bank, who never had any privilege whatever from the bank, still has to leave his money there and cannot get it.

By Mr. Barker:

Q. But if he first draws his money and then pays it on the note what remedy would you have?—A. You mean to say that if a man has a note that is due, or if the note is going to be due, he should be able to pay it with his deposit?

Q. If he first draws his money and then pays the note with it what is the difference?—A. If he does it before the bank suspends all right, but not afterwards.

By Mr. Nesbitt:

Q. He cannot do it afterwards?—A. Yes, he does.

By Hon. Mr. White:

Q. What Mr. Ducharme objects to is the manifest unfairness of any one having inside information that the bank is about to suspend, and being put in the position of obtaining payment while another customer cannot.—A. There is more than that. A bank suspends to-day. You can go to-morrow openly and say: 'Here is a cheque on that bank; I want to pay my note'; and the liquidator has to take it. That is not fair. The moment a bank suspends payment, everything should be stopped, and no man should be allowed to use any money in such bank to pay his own liabilities.

Q. Do I understand you to say that if a man has a note maturing he should not be allowed to pay it?—A. No.

Hon Mr. WHITE.—Then I suppose you are referring to the principle of set off, which is a very widely recognized principle. If a man owes a bank $1,000, and the bank owes that man the same amount, by the principle of set off, you are as you were in case of a failure?—A. Yes, I believe this principle of setting off should not be applied to banks. When the bank suspends payment, it has ninety days to resume business, and failing, when it is declared insolvent.

Q. Where are you going to draw the line?—A. I think that the moment a bank has suspended all transactions passed through the branches after such an hour should be all cancelled, and then all deposits of that bank should rank on the same footing.

Q. I am told that there is a judgment by Justice McCann where a man could recover in a case of that kind.—A. I think if this practice was stopped it would mean a great deal for the depositors.

Q. If a bank suspend payment it may be wound up under the terms of the Winding-up Act. Section 98 of that Act reads:—

> If any sale, deposit, pledge or transfer is made of any property real or personal———

That is very wide.

> —by a company in contemplation of insolvency under this Act, by way of security for payment by any creditor, or if any property, real or personal, movable or immovable, goods, effects or valuable security, are given by way of payment by such company to any creditor, whereby such creditor obtains or will obtain an unjust preference over the other creditors, such sale, deposit, pledge, transfer or payment shall be null and void.

I think that if a bank were in contemplation of insolvency that statute could be invoked?—A. I believe that only applies in case of a transfer of deposits.

Q. It says, 'if any sale, deposit, pledge or transfer is made within thirty days next before the commencement of the winding-up under this Act, or at any time afterwards, it shall be presumed to have been so made in contemplation of insolvency.' I believe the company or the bank cannot be heard to the contrary. I think that will go a long way to meet your difficulty.

By Mr. Clark (North Bruce):

Q. With respect to what Mr. Ducharme said a little while ago that he was opposed to the local manager and his friends having the opportunity of withdrawing their funds before the bank suspended, I know that in the case of the Farmers' Bank a similar thing was done, and some $35,000 was withdrawn. But this amount subsequently had to be paid back.

Mr. NESBITT.—Mr. Clarkson made them pay it back.

Mr. DUCHARME.—If I understand this law correctly, it says that if certain things are done within thirty days prior to a bank being insolvent, they may be recovered. But a bank is suspended ninety days before it is declared to be in bankruptcy. In the case cited of the Ville Marie Bank, the case was taken into court and the party who purchased the deposits lost. The court held that the party having a deposit could not sell it to another debtor for him to pay his debts. But I say it is not fair that the same man should pay his own debt with his deposit.

By the Chairman:

Q. The Committee understand the point, Mr. Ducharme.—A. There are some other matters I want to speak on in connection with section 54.

Q. As to fuller details in the report to the shareholders.—A. We discussed this morning subsection 4 of section 54. I think that the monthly report made to the government and the report made to the shareholders should be as much as possible the same. As it is now they are not the same; and I do not see why they should not be the same. And, further, I believe that the interpretation clauses are not full enough There are many items in the schedule that should be explained in the interpretation. The headings of some of the columns are too vague, and people do not know exactly what they mean.

Q. Can you give us some examples?—A. Under liabilities you have (*b*) reserve fund. The banks have more than one reserve fund; and when you say they should show the amount of the reserve fund against the capital or if you mean the different reserves they have. I know it has been denied here that there is a second reserve; but I know that they have.

By Mr. Macdonald (Pictou):

Q. Can you tell us a case of a bank which has a second reserve?—A. I know to-day where there is such a fund.

Q. Can you give the name of the bank?—A. No. You must be willing to take my word upon that. I am telling what I know actually exists.

Q. How do you expect the Committee to act on your information if you are not willing to give us all the facts?—A. I am not here to divulge the names of any banks.

By Hon. Mr. White:

Q. There is probably a little misunderstanding between yourself and the Committee. There has been an explanation given here of an inside reserve. I understand that if a bank has a body of loans and discounts of, let us say, $5,000,000, the banker will say: Here is a body of loans that we believe to be perfectly good; but it has been the common experience of bankers that loans that are thought to be per-

fectly good, some of them at least, may turn out to be not as good as they were thought to be and therefore they say it is a sound principle, in order that our assets may not be over-valued; instead of calling that five million dollars, call it four and a half million, and write that amount off, so that that body of assets, which, on the face, is five million dollars, becomes four and a half million dollars. So that there is no specific fund to an inside reserve. What is usually called an inside reserve is the amount that is written off the face as protection against possible liability in the future. There is no specific fund, because the books would not balance if there were. There cannot be a hidden inside reserve so carried in the books, because if you did have it, it would be in your assets. The way it is done is by writing it off, on the assumption that a number of those loans may turn out not to be so good.

Mr. McCURDY.—At the time the bank return is made, it is written off, so that it really forms a credit amount of the bank.

The CHAIRMAN.—Suppose, however, a bank should make an unexpected loss of $250,000. Would not there be a liability that, instead of taking 10 per cent off next year, they would take off 5 per cent? Would not that be probable?

Hon. Mr. WHITE.—It would depend on the earnings and the general situation. The object of it is this: supposing a bank meets with rather a heavy loss (as all do in the course of their experience), instead of writing that off their shown reserve, if they make provision in the way indicated, as against their loans and discounts, to that extent, it is a relief of the situation and the result is they do not show these losses taken out of their reserve.

By Mr. McCurdy:

Q. Is it your idea that the total of the bank's loans should be shown on one side of the account, and on the other side should appear the contingent account, or bad debt funds, as the case may be; and when it became necessary in one year to make a general provision, such as Mr. White has alluded to, against undisclosed losses, that they should be stated in the profit and loss account, as amount reserved against undisclosed losses? In that way, a shareholder would know how much was appropriated during the year against what were likely to become bad assets.—A. We are always turning around the same wheel. First of all, the banks show, in their statement, that they have deducted the amount, that is, so much has been taken out of the assets to cover up any future losses or incurred losses; but the point raised now is already covered by the statement that they are wiped out. When you say that you do not want to know the inside reserve, it means that you do not want the proprietor to know there has been any losses. You want to give the manager a chance to conceal from the shareholder—by means of an outside reserve he has created out of profits—that the bad debts are due to his own bad management. I quite understand there may be a necessity for providing against bad debts, and losses sometimes occur which may be so heavy that you cannot always increase your own assets; although, as has been repeated in this very Committee, one bank raised its assets by three and a half million dollars, to cover losses it had made. I don't want to be asked to prove that.

Q. Has it ever been contradicted?—A. If a man wants the proof, he can get it from the government reports, but if those losses are so heavy that they cannot be wiped out in one year, then the contention is that the manager should leave the loan standing there as good, until he is prepared to wipe it out. Nearly all the managers of banks that have failed—there may have been one or two rascals—have been honest people who wrecked their banks on that very principle. Let me illustrate that. Let us suppose that A and B, two bank managers, each meet with a loss of $100,000. A says, all right, I will let that stand and next year I am going to reduce it by $40,000 or $50,000 out of my profits. B says the same thing. A is lucky and succeeds in reducing his loss by $50,000, but B is unlucky and instead of wiping off any of the loss he loses another $100,000 and wrecks the bank. They are both working on the

same principle, trying to hide losses they have made from the shareholders, and I think the principle is wrong.

Q. Your idea is that the proprietor of a business is entitled to know full details of his business, and they should be shown in the report?—A. Yes, but we are getting away from the point I was discussing. What I wanted to ask was, what does reserve fund mean?

By Mr. Aikins:

Q. Can you suggest anything better than reserve fund, something more explicit? —A. Reserve fund is not a proper expression, because it is not a reserve, it is merely a surplus and should be called so.

Q. You would suggest the word surplus?—A. Yes. I do not know whether 'reserve fund' is right in the English language, but in the French language it is improper. It means a surplus of assets over your capital. I notice, in clause 54, the expression 'deposits bearing interest' and 'deposits not bearing interest.' I believe this is the proper expression and I think it should be used in the monthly report. It says there, however 'deposits payable after notice or on a fixed day.' That is needed. Everybody connected with banks knows perfectly well that it does not matter when a deposit becomes due whether it is a two month or three month deposit, when the depositor comes to the wicket he will get his money. Of course, his interest may be deducted or some other penalty imposed, but the bank has to pay its deposits when demanded, or expose itself to a run. The primary object of this clause was to inform the government whether a bank was able to meet any run without embarrassing itself. The clause was never used, however, nor has it ever been a guide to anybody, and I believe the expression 'deposits bearing interest' and 'not bearing interest' is proper and preferable. To-day if you want that statement you can get it by running from one bank to another gathering up all the reports and find out what is the proportion of deposits bearing interest to those not bearing interest and you will find that to-day it is over 3 per cent. The expression should appear in the monthly report in just the same form as in the shareholders' report and then the country would know what it is.

The CHAIRMAN.—It is in the annual report, but not in the monthly report. The monthly report is described in section 114.

By Mr. McCurdy:

Q. Before you leave the annual report to shareholders, would you give us the benefit of your observations on whether or not bonds should be detailed?—A. I am coming to that.

By the Hon. Mr. White:

Q. I do not quite understand the distinction you are making as to the monthly statement. I find in the monthly statement (Schedule D) that there are two items: deposits by the public, payable after notice or on a fixed day, in Canada; and deposits by the public, payable on demand in Canada. What is the point that you have in view?—A. I think it should be 'deposits bearing inerest' and 'not bearing interest,' as you have it in the shareholders' report.

Q. Don't you think that the point of that is not so much bearing interest, as to bring out the fact that notice is required to withdraw? That is the idea back of this: that it is desirable to know how much are the demand liabilities as opposed to the liabilities that are only payable after the lapse of a few days or a month. Don't you think it advisable that that should continue?—A. No. Not necessarily.

Q. Why?—A. Because deposits are always payable on demand.

APPENDIX No. 2

Q. I know that but let us take the case of a small bank with liquid assets, $500,000. It might have demand deposits, $500,000; it might have time deposits of say, $1,000,000. Now it would be in a position to pay its demand deposits, but not all its deposits, but it could gather time in paying the others in case of emergency. That has been the case in the United States all along.—A. I don't blame the bank trying to get time and this would not be affected by the change. There was another point I wished to speak on. Paragraph (*h*) Clause 54 reads: 'railway and other bonds, debentures and stocks, not exceeding market value.' It seems to me there should be a distinction made between those that are quoted on the market and those that are not.

By Mr. Aikins:

Q. Those that are listed and those that are not?—A. Those that are not listed.

By the Chairman:

Q. Do you think that the directors ought to append to the shareholders' report a statement of their bonds of this character?—A. It is the same thing as I told you this morning. When a man is interested in a bank and wants to know whether that bank is in a position to meet a run, the first thing he will try to find out is whether that bank has got liquid assets or assets immediately available, equal to 25 p.c. of its public liabilities, that is to the depositors and the circulation. If he finds that it has then he is reassured and remains quiet. These columns as they are there in the bank statement show what a liquid asset is. What was the object of the law in drawing a distinction between loans made on call and loans made on current notes? There was an object, what was it? It was to determine which were short loans and which were call loans. It was to make clear that it was money you could get at once. What guarantee does it give the public that the amount represented there is of good asset? Then loans and stocks should be divided between stocks and non-listed stocks.

By Mr. McCurdy:

Q. A great many unlisted securities are more valuable than listed securities, —A. That may be. In this case you have got to get so much money on demand.

Q. That could be realized on unlisted securities?—A. It might or might not. Now we come to item 12 of Schedule D: 'Canadian Municipal securities, and British, foreign and colonial public securities other than Canadian.' You might as well say 'British, foreign and colonial public securities.'

By the Chairman:

Q. It means securities that are not Canadian?—A. But it mentions Canadian municipal securities, too. Why not say Canadian municipal, and British, foreign and colonial public securities?

The CHAIRMAN.—We will make a note of that.

Mr. DUCHARME.—There is another question that was discussed this morning, and that is, what is a short loan? I think it should be a loan on call. We ought to be able to know from the reports published by the government whether the bank has got that 25 per cent of available assets of which I spoke.

By Mr. McCurdy:

Q. Before you leave that point, would you see any objection to attaching an appendix to the directors' report to the shareholders, giving a list of the securities owned by the bank? I may say that the Bank of Nova Scotia now does that voluntarily?—A. I would see no objection to that.

By the Chairman:

Q. Supposing a thorough auditor, appointed by the shareholders, goes carefully through the securities mentioned here—the railway and other bonds, debentures and stocks and so forth—and reports to the shareholders at their annual meeting that he had examined all these securities and was satisfied with them, would not that answer the same purpose as to publish the list?—A. It would. But if you remember my remarks made this morning, I did not use the term 'auditor.' I prefer to call him a censor or controller. That man should not only go there and verify the figures of the bank but should also verify the values. In case this man should not agree with the directors, that controller should make his report in writing and leave the responsibility on the directors. At the next general meeting he would come forward and put his case before the shareholders, who would deal with it as they thought proper. But there should be no friction during the term of office.

Another question: Should our banks have branches outside of Canada? I have raised this question in one of my articles but I have not come to any conclusion, although I said enough to show that I don't believe it is desirable. The loans outside of Canada were ninety-five million dollars more than the deposits received from there.

We cannot afford to let our money go outside. Now, there is an objection to that; the objection is that in the case of emergency we want some money. We do sometimes want money and we cannot always get it. In 1907 we could not get it and if one bank had started at that time in Montreal or Toronto with a run the whole country would have suffered. In order to overcome that I was thinking you might arrange our bank system and work it out, so that you could increase the gold reserve in the hands of the government. To-day you have, I forget the exact figures now, but no doubt you have $75,000,000 : I believe we should arrange our banking laws so as to increase the reserve. Somebody talks about taxing the banks. I do not believe in that, you might possibly do it but it is a question of constitutional right to do so; but supposing you have the right I do not believe in taxing the banking system, let the provincial government do that. If you could increase the gold reserve there is no danger whatever in the government using 50 per cent of that gold, none whatever. Therefore if you can imagine $100,000,000 to $200,000,000 in the treasury, you would have enough money there if at any time a crisis arises in this country; and the government could at once loan to these banks 50 cents on the dollar of their assets when trade is low; I do not mean to say a bank is failing, that is another thing,

Q. I do not follow you. How would the government get that gold?—A. For rescue and provide these funds.

By Hon. Mr. White:

Q. I do not follow you. How would the government get that gold ?—A. For instance, you have about $75,000,000 to-day.

Q. Which the banks can ask for because——A. But they cannot ask it all at once: of this $75,000,000 $22,500,000 is in small notes, and the other is all in notes between the banks. The banks will always require that money, they may sometime come to the government and ask for 10 per cent.

Q. They can come to-morrow and get that. They hold Dominion notes against that, and the Dominion must hold gold against those notes if they come for it?—A. I was discussing last year with a man from France who came here for the purpose of trying to start a new insurance company. Do you know the reason why he wouldn't come in? It was because policy holder had the right to come in and take the cash surrender value. 'Why, he said,' in France the directors have the right to do that but not the man; we do not want to be exposed to the possibility of everybody coming in one day and drawing it all out, we could not do it.' We are not so much scared about it in this country as they. It is the same with the cash reserves.

APPENDIX No. 2

By Mr. Maclean (Halifax):

Q. You haven't shown how the government is going to get that gold?—A. You have $75,000,000.

By Hon. Mr. White:

Q. But how do we get that?—A. From currency.

Q. But where from?—A. From the banks.

Q. What do they take it for?—A. In the way of notes.

Q. They could present those notes to-morrow and get the gold?—A. But we know they will not.

Q. But would the government dare to put itself in the position that it would not be able to meet with gold its notes payable on demand? Supposing I impair that reserve and to-morrow $50,000,000 of notes are presented and they say, 'We want gold,' what would I do?—A. If the government doesn't want to do that let them keep it there for the disposition of the banks.

Q. But that is the condition on which it is put there, that they can get it ?—A. I know that this gold reserve which is going into the hands of the government now they are going to keep in their own hands. I believe you can use a part of it the same as you use a part of the deposits; you do not keep all the money that is on deposit, you know perfectly well they will not come and get it. I was thinking in this connection that the government should carry its circulation, and should print all the bills, and instead of letting the banks have the right to circulate as much as the paid-up capital, as in this clause, and on the other hand if the Bank of British North America only has the right to circulate 75 per cent and up to a hundred if it pays up to 25 per cent cash, instead of having a system which is more or less troublesome and puts the people of this country in a difficult state, because if the Bank of British North America was to fail the circulation would rank with the depositors, who would be no better off than our own depositors, because clause 131 does not apply to the bank. I think that if the government would print all the bills and let the banks receive bills up to 200 per cent of their paid-up capital by depositing with the government 50 per cent in gold, the government. could not be any worse off than it is to-day. You would have 50 per cent of gold against the delivery of notes.

By Mr. Maclean (Halifax):

Q. That would not be money, that would be paper.—A. No, that would be gold.

Q. No, paper, that's what it would be, paper.—A. All these bills would be stamped with the bank's name, so that in the whole Dominion you would only have one bill, no matter which bank you get it from it would be a similar bill, and, as I say, that circulation being guaranteed by this bank, which paid 50 per cent in gold, cash, and by the whole assets of the bank, the government stands no chance of losing any money.

By Hon. Mr. White:

Q. Supposing in the case of the Farmers' Bank, they had got notes and deposited 50 per cent in gold, and let us see how that would work out if they had made a complete clean up instead of a partial clean up; if they had lost everything would not the government have to pay the whole notes?—A. Then it would have a lien on the assets.

Q. But supposing the assets were all away, supposing they made a clean up altogether?—A. The Ville Marie depositors got thirty-five cents.

Q. What you really suggest is that the Dominion should issue notes against 50 per cent reserve through the bank?—A. Yes, and limit it to double the paid up capital. But of course I was not prepared to discuss that proposition at full length.

The CHAIRMAN.—That is rather too advanced, I think, for our present discussion.

By Mr. Aikins:

Q. Do I understand from your remarks that you think the banks incorporated in this country ought not to have branches or agencies abroad?—A. No, I do not approve of it, although, as I say, I had raised the question in the paper but never solved it. I never said it should not be but I said sufficient to show that I was not very favourable to it. Of course I believe sometimes it is proper to have a place where you can get some money.

Q. That is on call loans?—A. Call loans, yes.

Q. But do you not think it is an advantage to have branches in foreign countries or British possessions to do business?—A. No, I do not think we should.

Q. What about other branches in other places, do you think it is a disadvantage to Canada?—A. We have to be Britisher enough to allow the circulation to go there.

Q. But, of course, to the extent to which our circulation goes there it is withdrawn from Canada, the bills?—A. It is our notes go there and we get money for them.

By Hon. Mr. White:

Q. Do I understand you to indicate that you are opposed to banks having offices in Great Britain?—A. No, no, I am speaking of the United States. I believe we should as much as possible put all our money in this country.

By Mr. Maclean (Halifax):

Q. Would it not be a good thing to have Canadian banks scattered all over the world?—A. No, I do not think it would.

Q. Why not?—A. I do not think it would be a good thing; I do not think this country is sufficiently developed for that trading yet.

By Mr. Rainville:

Q. You said you are in favour of some kind of inspection of the banks, at the head office?—A. Yes.

Q. You are from the province of Quebec, and you know the facts of the case of the Bank of St. Hyacinthe?—A. Yes.

Q. You are aware of the fact that the Bank of St. Hyacinthe paid all its depositors 100 per cent with interest, and that that bank sold a good part of the assets and still out of that buying of the assets of that bank two or three gentlemen made fortunes?

Mr. BARKER.—Out of buying the assets?

Mr. RAINVILLE.—Two or three gentlemen made fortunes out of the purchase of part of those assets. The sale of all assets enabled the bank to pay 100 per cent to its depositors with interest. Now if there had been an inspector of the government who would have gone to the Bank of St. Hyacinthe at the time, would or would he not have been able to assure the shareholders that the bank was in sound condition and prevent the failure? Would that have been possible with inspection by the government or by the Bankers' Association?—A. I understand you want to know whether there is a possibility of getting out of the failure of the bank by such disposition of its assets.

Q. Yes?—A. The first two things to do in that respect are, first to take the lawyers out of it, and the next thing is to take away the Association representatives and let the shareholders take hold, of the bank, of their business. But I believe it would be wise if the government, not the Bankers' Association, sent a man who would be a dummy, a perfect dummy, who would see what was going on, and of course if anything wrong is happening he should report to the Minister who would then know how to deal with it. Send a dummy there to watch, and let the shareholders attend to the realization of the bank's assets.

APPENDIX No. 2

By Mr. Maclean (Halifax):

Q. Then you are not willing to allow the shareholders to attend to much else than the bank's business?—A. I would much rather see the bank wrecked by my vote than as a shareholder by the action of the general manager without my vote. If I wrecked it by my own deed, I accept responsibility, but if I have to suffer from the deeds of others, it is wrong. I believe there are among the shareholders some men who could easily see the best way of liquidating the bank's assets to the best advantage.

By Mr. Barker:

Q. Are they more competent than a thorough general manager who knows all about banking and understands it?—A. He is there; just the same I would not take him out, only I would let the shareholders come in and see how the thing is liquidated. As Mr. Rainville says, we know perfectly well that there have been a couple of fortunes made out of two or three bank failures, perhaps $200,000 in one case and $100,000 in another while the depositors only get 50 cents. The law should make it so that the shareholders would at once be interested in liquidating their own affairs if a bank has to be liquidated, and I believe that they would realize much more from their assets than under the present system.

By Mr. Rainville:

Q. In the Bank of St. Hyacinthe it is said there were fights all along amongst the depositors. I am inclined to think that if a man appointed by the government had gone there in time it would have been a good thing, and would have settled these matters, and the bank would not have failed, and no fortunes would have been made out of the winding-up of the bank.—A. I must tell you that I went through the resumption—if I may use the word—of a bank. The Jacques Cartier Bank, which had suspended, resumed business. To-day it is one of the strongest French Canadian banks we have in Montreal, but I must admit that this is due to the ability, energy and devotion of the manager, who certainly deserves every credit for having brought that bank to its present status. But you do not always get such good managers.

Q. Take the Banque du Peuple, it failed on account of the manager getting so uneasy that he lost his head.—A. The Banque du Peuple failed through the fault of the manager, and arising from that is one point that the reports of the government should specify. That bank failed through bad management. One of the worst features in that failure was the large number of over-drawn accounts of depositors. One firm had over $400,000 of an overdraft. I suppose you know how these balances are taken. The ledger keepers add up the ledger, and when they get to the end of it they deduct from the credit the amount of debit, and they only show as deposits the net result. Supposing there are $500,000 of deposits and $50,000 of over-drawn deposits; they would deduct the latter amount from the former and show the amount of deposits as $450,000. I believe that is the basis of the statement made that nine banks made false returns. This is done I believe in all banks.

By Mr. McCurdy:

Q. I do not think so.—A. The over-drawn accounts do not amount to much. Sometimes you have $25 or $50 overdrawn in a single account. In a few cases an account will be overdrawn $1,000 or $2,000, but that would only be in the case of a strong client. But in the case of the Banque du Peuple overdrafts were permitted to the amount of $400,000. One of the directors came in and said to the manager: 'I am told that'—I will give the name—'Mr. Clendenning owes us $400,000; is that a fact?' The manager replied that he did not think so, and he sent for his discount clerk who informed him that the amount of discounts was $80,000. The director went away thinking that $80,000 was not too much for a man like Mr. Clendenning.

By Mr. Maclean (Halifax):

Q. That is only the history of one bank.—A. But I believe there are overdrawn accounts in every bank, and I believe it should be shown in the returns.

By Mr. McCurdy:

Q. It is generally shown as part of the loans.—A. No, it is deducted from the deposits. The clerk makes out his ledger balance and takes it to the manager and says: Here is the amount of my ledger. The other ledgerkeepers do the same thing. I am stating this to remove any impressions there may be that this practice does not generally exist among the banks and we ought to provide a remedy for it, and the only way is that the banks shall show the full amount of their deposits and also in a special column the amount of their overdrafts.

Q. A government or a shareholders' audit would be just as effectual. Are you in favour of limiting the amount of loans to any one person?—A. Well, of course, that is pretty difficult. I believe, as a general thing, that it would be safe for a bank to loan not more than 10 per cent of its capital to any one shareholder or customer.

By the Chairman:

Q. It might be a joint stock company?—A. Yes, or a private individual. But there may be special cases where a bank can loan a larger amount than that.

By Mr. McCurdy:

Q. Would you favour limiting it at all?—A. I do not believe the bank should tie up its whole capital in one company.

Q. Should it be prohibited by law from tying up a certain percentage of its capital to one interest. In the case of the City of Glasgow Bank, it had loaned more than double its whole capital to one concern.—A. Sometimes a manager gets wild and goes into speculation. He may ruin the bank at one stroke. I would leave the shareholders enact their own by-law on the point.

Q. Are you in favour of having the paid officials of a bank as members of the board of directors?—A. Oh, no. A general manager is worth three directors by himself. If you put him on the board he is worth the whole five. I do not believe a general manager should be a director. There is another thing in connection with section 39, which I will read:

> 'If any part of the paid-up capital is lost the directors shall, if all the subscribed stock is not paid up, forthwith make calls upon the shareholders to an amount equal to the loss: Provided that all net profits shall be applied to make good such loss.'

It seems to me that it would be sound policy for you to strike out these words: 'If all the subscribed stock is not paid up,' so that the capital of the bank would not be impaired. You might then be in a position to do away with clause 125, or the double liability clause.

By Mr. Thompson (Yukon):

Q. I would like to ask Mr. Ducharme a question regarding the overdraft to which he has referred. Do I understand that these overdrafts are not included as loans in the bank's statement?—A. No, they are taken off the deposits.

Q. If A has an overdraft of $10, is that not shown as a loan to A?—A. No, not if it is in the ledger account.

By Mr. Maclean (Halifax):

Q. The banks always have a contract or understanding about overdrafts. There usually is collateral to cover these under the contract.—A. If a man wants $10,000 and has not got it, the bank as a rule will never allow him to overdraw that amount on his deposit; they will make him sign a personal note.

APPENDIX No. 2

By Mr. Thompson (Yukon):

Q. For instance, I have some C.P.R. stock which I wish to put up as collateral; I do not wish to sell it. I want to borrow $5,000 on it. How is that transaction arranged in the bank?—A. You turn over your stock to the bank, and they make you a loan of $5,000 against the stock.

Q. That loan would not be treated as an overdraft on my account?—A. No, the bank will credit you with the loan.

The CHAIRMAN.—They have loaned you that money.

Mr. DUCHARME.—The bank will make two entries: They will lend to you and credit the amount of the loan, and charge the amount of the cheque.

By Mr. McCurdy:

Q. Is the Canadian Bankers' Association a mutual improvement association, or was it not intended to be so originally?—A. It may be some day.

Q. I understood they used to have a course of lectures for their clerks?—A. That would not be a bad idea to teach their young men.

The CHAIRMAN.—Shall we thank Mr. Ducharme for having been with us?

By Mr. McCurdy:

Q. Mr. Ducharme has had considerable experience in liquidating banks. In one section of the Act a bank is allowed to hold real estate that has fallen into its hands for seven years and to get a renewal for another five years, making a total of twelve years in all in which they may hold real estate. Do you think that time too long, or not?—A. I think it too long. Of course, there are circumstances that we cannot very well regulate. A second mortgage on a property is always dangerous, and when a bank takes property from a party to cover indebtedness the property may be mortgaged for more than it is worth. So it is pretty hard to say how this should be regulated. The bank having a bad debt will take the property and keep it as long as it can to save it, and it should keep it as long as necessary. At the same time there may sometimes be speculation. We have to do the best we can, and I think it is best to leave this provision as it is, unless we can make it shorter.

The CHAIRMAN.—On behalf of the Committee I wish to thank Mr. Ducharme for his attendance here and the interesting statement that he has made to the Committee.

Witness retired.

The CHAIRMAN.—I have here a written statement from Mr. J. H. Plummer who was invited to appear before the Committee, but who will not be able to do so. If it is the wish of the Committee the document can be incorporated in the minutes.

There is also a statement to be prepared by Mr. Rourke giving a brief resumé of the government savings bank system and if the Committee will assent we will have it put in with the evidence.

Assented to.

We are also having put in the evidence the following statement from the *Canadian Almanac*: Insolvent banks and those having gone into liquidation since Confederation, 1867.

Insolvent Banks and Those having Gone into Liquidation since Confederation, 1867.

(From "A History of Banking in Canada," by permission.)

Name of Bank and Place of Head Office.	Date of Charter.	Date of Suspension.	Capital Stock at Date of Suspension.		Total Assets at Date of Suspension.	Total Liabilities at Date of Suspension.	Dividends Paid.	
			Capital Subscribed.	Capital Paid up.			Note-holders.	Depositors.
			$	$	$	$	Per cent	Per cent
1. Commercial Bank of New Brunswick, St. John.	Local, before Confederation.	Last return, July '68	600,000	600,000	1,222,454	671,420	In full	In full
2. Bank of Acadia, Liverpool, N.S.	35 Vic., ch. 55, June 14, '72	April 1873	500,000	100,000	213,346	106,914	*	50
3. Metropolitan Bank, Montreal.	34 Vic., ch. 39, Apr. 14, '71	Winding-up Act, passed 40 Vic., ch. 56 (1877), return, Oct. 1876.	1,000,000	800,170	779,225	293,379	In full	In full
4. Mechanic's Bank, Montreal.	Before Confederation.	May 1879	243,374	194,794	721,155	547,238	57½	57½
5. Consolidated Bank, Montreal.	Sept. 18, 1875, by amalgamation of City Bank and Royal Canadian, 69 Vic., ch. 44.	August, 1879	2,091,900	2,080,920	3,077,202	1,794,249	In full	In full
6. Bank of Liverpool, Liverpool, N.S.	34 Vic., ch. 42, Apr. 14, '71	October, 1879.	500,000	470,548	207,877	136,480	"	96
7. Stadacona Bank, Quebec.	35 Vic., ch. 58, June 14, '71	Voluntary liquidation July, 1879, Winding-up Act, 43 Vic., ch. 48, '80	1,000,000	991,890	1,335,675	341,500	"	In full
8. Exchange Bank of Canada, Montreal.	34 Vic., ch. 42, Apr. 14, '71	September, 1883.	500,000	500,000	3,335,907	2,431,935	"	66⅔
9. Maritime Bank of the Dominion of Canada, St. John, N.B.	35 Vic., ch. 58, June 14, '72	March, 1887.	321,900	321,900	1,825,993	1,409,482	"	10 6/10
10. Pictou Bank, Pictou, N. S.	36 Vic., ch. 76, May 23, '73	Under Act 50 Vic., ch. 54, Sept. 1887.	500,000	200,000	277,017	74,364	"	In full
11. Bank of London in Canada, London, Ont.	46 Vic., ch. 52, May 25, '83	August, 1887	1,000,000	241,101	1,132,108	838,339	"	"
12. Central Bank of Canada, Toronto.	46 Vic., ch. 50, May 25, '83	November, 1887.	500,000	500,000	3,231.518	2,631,378	"	99⅜
13. Federal Bank of Canada, Toronto; changed from the "Superior Bank of Canada".	35 Vic., ch. 59, 36 Vic., ch. 5, 37 Vic., ch. 57, May 26, 1874.	Voluntary liquidation Jan. 1888.	1,250,000	1,250,000	4,869,113	3,449,499	"	In full
14. Bank of Prince Edward Island, Charlottetown, P.E.I.	Local charter by Provincial Government.	November, 1881.	120,000	120,000	953,244	752,242	59	59

15. Commercial Bank of Manitoba, Winnipeg..	47 Vic.,ch.50, Apr. 19,'84	June 30,1893.....	740,700	552,650	2,951,151	1,341,251	In full	In full
16. Banque du Peuple, Montreal.....	7 Vic.,ch.66, June 27,'44	July 15, 1895..... ..	† 1,200,000	1,200,000	8,663,308	6,820,450	"	75½
17. Banque Ville-Marie, Montreal.....	25 Vic.,ch.51, June 14,'72	July 25. 1899.....	500,000	479,620	8,770,955	1,951,346	"	17½
18. Bank of Yarmouth, Yarmouth, N.S.....	22 Vic., ch. 90, Prov. of N.S., Apr. 15, 1859.	March 6, 1905. ...	300,000	300,000	820,143	479,323	"	In full
19. Ontario Bank, Toronto (formerly Bowmanville)	20 Vic.,ch.159,May 27,'57	Liquidation Oct. 13, 1906.	1,500,000	1,500,000	17,432,177	15,229,685	"	"
20. Sovereign Bank of Canada, Toronto.....	1 Edw.VII, ch. 114, May 23, 1901.	Voluntary liquadation Jan. 18, 1908.	3,000,000	3,000,000	18,594,357	15,544,534	"	"
21. Banque de St. Jean, St. Jean, P. Q.....	36 Vic., ch. 15, May 3, '73	April 28, 1908.....	500,200	316,386	914,104	556,882	"	.....
22. Banque de St. Hyacinthe, St. Hyacinthe .	36 Vic.,ch.77, May 23,'73	June 23, 1908..... .	504,600	331,235	1,580,097	1,282,362	"	.....
23. Farmers' Bank of Canada, Toronto.....	4 Ed. VII,ch.77,July 18, 1904.	December 20, 1910...	584,500	567,579	2,000,250	2,436,262	.....	.....

* This bank was only in existence three months and twenty-six days. It re-opened for a few days and redeemed a few thousands of its notes. This lasted only a day or two, and the remaining note-holders with the exception of the government got nothing. The Dominion government received 25 cents on the dollar on several thousand dellars worth of the notes which it held.

† The figures for the Banque du Peuple are as at July 31, 1895, sixteen days after actual date of suspension.

MEMORANDUM PREPARED BY MR. J. H. PLUMMER, GENERAL MANAGER OF THE DOMINION IRON AND STEEL CO. OF SYDNEY, N.S.

Audit.—I do not share the view that an auditor appointed by the shareholders, which usually means appointed by the directors under proxies held, is likely to be a mere tool of the Board, or that the work will be done in a complacent spirit. That has never been the experience in England, nor in Canada in other companies, and it is not likely to happen in Canadian banks. I regard as extremely remote the risk that a board of directors would bring about the appointment of an auditor who would be merely their creature, in the face of public opinion and of the knowledge that such an appointment would create distrust among other banks. I am not, in principle, in favour of extending the powers of the Bankers' Association, but in the absence of any other test for auditors it might be worth considering whether their judgment on the admission of any firm or person to a recognized list of auditors should not be obtained.

It is certain that the obligation to submit the bank's affairs to an independent firm, with a professional reputation to guard, would in the vast majority of cases be a sufficient deterrent from questionable transactions.

On one practical point an additional safeguard might readily be provided. The ultimate correctness of the bank's returns depends on the statements received from the branches, which in the nature of things cannot be verified by the auditors. It would be a wholesome check to extend to the senior officers of the branches who sign the branch returns, the same responsibility for their correctness as now attaches to the officers who sign the statement to the government.

In the result, however, it must be recognized that there is no way to secure absolute safety to depositors or shareholders; there can only be such safeguards instituted as are practicable without making business impossible. Men cannot be made honest or capable by Act of Parliament, and in my opinion if the Bank Act is to serve its purpose, which is primarily to give the country the banks which it needs and which are essential to its growth, Parliament will have done all that is practicable in this direction, when it requires a public audit.

Government Inspection.—Government inspection could only be criticised because of the serious public objections to it, it would not affect the banks very much. There is not the slightest doubt that it would create a false sense of security; that its adoption, or indeed the extension in any other direction of the principle of paternalism, would only lead people to become shareholders or depositors recklessly, and it would involve the government in the most unpleasant kind of responsibility, for it would be impossible to protect shareholders and depositors absolutely. The system would also have a hurtful influence on the willingness of bankers to help their customers in times of necessity

The chief objection, however, is the serious effect upon the public of a course which would seem to convert banks into quasi-public institutions having the imprimatur of the government. There is no doubt that such cases as the Farmers' Bank grow out of a belief of this kind existing even under the present Act. It is not conceivable, for instance, that the farmers who subscribed for stock in the Farmers' Bank would have done so but for an indefinite belief that the government looks after banks and would watch their investment for them; or that they would subscribe in the same way as for stock in an industrial company.

Guarantee of deposits.—The propositions under this head are so impossible that it seems scarcely worth while to mention them, but if it be considered that the proposed interest of 3 p.c. on all deposits payable after notice would amount to more than 25 p.c. of the capital of all the banks, which they would be expected to expose

to the risk of unsound and dishonest banking on the part of others, the unreasonableness of the proposal is clear. I do not suppose any bank would remain in business under such conditions.

On the question of interest on deposits, I think that if the Scotch system could be introduced it would be best for all concerned, that is, that the rate of interest should be fixed from time to time according to the value of money. To carry this out would involve the institution of a very definite working agreement, to which some people might object, but it would not differ much in principle from the well-recognized practice of maintaining uniform rates on railways.

Bank Note Circulation.—My views in this matter were recently set out in a communication to the press, of which I enclose a copy. To this I need only add that I regard all provisions for emergency circulation as make-shifts and open to objection. Where the circulation can only be increased by the deposit of gold it is of course of no avail except in providing currency in a form that is more convenient to handle. It locks up the available resources of the banks and the larger the movement of grain the greater the stringency. It is in fact an entire reversal of the very sound and satisfactory policy in respect to circulation which has hitherto prevailed. The proposal to tax circulation is discussed elsewhere.

The Promotion of Banking.—The effect of any changes in the banking system on the growth of banks should be considered. Are shareholders in banks making an adequate profit on their capital, or are they making more than they should get; are the conditions such as to induce people to invest money in banks and thereby build up the necessary banking facilities in Canada; and how would these matters be affected by any proposed changes?

There was a considerable amount of discussion in Parliament as to the excessive dividends said to be paid by banks, and this was urged as a sound reason for many innovations, among them an assessment to secure deposits, a tax on note issues so that the public might share in the profits from that source, &c.

The statement submitted to the Committee showing the mode in which the reserve funds of the banks have been built up is one of the points which comes up in this connection. If this statement is looked at carefully it will be seen that, with the exception of the banks that have been in existence for a very long period, the 'rests' have been largely built up by contributions from the shareholders, and that their return from their investment is not to be measured by the dividend on the stock itself, but at the very least by the income derived from their investment in the stock and the 'Rest' combined. This is the minimum, but I do not think it is fair not to measure by the stock and the whole of the 'Rest,' for the amounts that have been accumulated from profits are just as much the property of the shareholders as the money they paid in. They have been left in the banks by a prudent and self-denying desire to strengthen their property No one could gainsay their right to have taken out their profits if they had chosen to do so, nor, if they had been drawn during the past years, while the banks were building up their business, would the return have seemed an excessive one for the risks that shareholders take, or as compared with the earnings of capital otherwise invested. No successful business in Canada shows as low a return on capital as the dividends from bank stocks.

As a concrete case I would mention the Bank of Nova Scotia. It has been in existence for a very long period and during that time built up a considerable reserve, and in addition its shareholders have contributed more to the 'Rest' than they have paid up as capital; the shareholders are getting at present a dividend which is less than 7 per cent on the money they have actually paid in. More than this can be said; for each $100 share that they hold they have paid in, or accumulated in the bank, $280, on which their return is just 5 per cent.

As things are in Canada to-day I do not think the returns from banking, taking into consideration all advantages as well as disadvantages, are sufficient to attract capital for new banks; one of the best evidences of this is that many sound bank stocks can be bought at less than what may be called their 'break-up' value.

The note circulation contributes to the earnings, but not to the extent people generally suppose, for a considerable amount has to be carried as reserve, and the cost of maintaining the issue is not by any means negligible. To deprive the banks of this source of revenue by limiting their free issue of notes, or by imposing a tax on the note issue, would of course lessen the earnings and probably completely check the growth of banks in Canada; and no one can doubt that more banks are seriously needed.

Working Details.—Under this head I would like to comment on some of the proposals that are before the Committee.

The proposal to strike out clause 43 or to strike out subsection (*b*) of clause 42, which gives the bank a lien on the shares does not seem to me practicable or desirable.

The cases in which people have lost money by lending on the security of a certificate which they supposed to be a transfer giving them the right to shares in the bank, are so few and the danger is so remote that it does not justify so drastic an interference with the rights of the shareholders. If there had been any serious difficulties of this kind the banks would no doubt have protected the possible victims by some amendment of their form of certificate, which would make it clear that the possession or assignment of the certificate conevys no right to the holder.

The effort to substitute for the present system a stock certificate such as is customary where securities pass from hand to hand on the stock exchange, would be a dangerous innovation in the case of institutions of this character. It would tend to revive the excessive speculation in bank stocks which was so marked an evil in earlier days that it led to the prohibition of any loans by banks on the security of stocks of other banks, and would facilitate attacks on an attempt to control banks. It seems to me that there should be no person entitled to be regarded as a shareholder in a bank until he gets his shares transferred to him on the books of the bank.

Part of the object in changing this section is to get rid of the bank's lien on its own shares, but that seems to be an unreasonable interference with the internal arrangement of the shareholders. Speaking generally, every joint-stock company has the right, and many exercise it, to pass a by-law declaring that no transfer of shares may be made until the shareholder pays his debts to the company, a natural survival of the right that prevails in private co-partnerships. Unless the Parliament of Canada absolutely declares that a shareholder may transfer stock standing in his name to another, notwithstanding the state of his account with the company and notwithstanding any by-law which the shareholders have adopted, the proposed change in the Banking Act would not effect its object. If Parliament did ordain such an interference with the rights of shareholders it would enable a shareholder to give preference to a creditor other than the bank, and it would impair the shareholder's credit with the bank itself, which might conceivably have a far worse effect on his creditors than the existence of a lien of which everybody is aware.

Assignments under Section 88.—I do not think the changes proposed in this section will help materially, but they are at least harmless as between the bank and its customer, and there may be cases where they will help the credit of the borrower.

But the enforced registration of assignments would be destructive of business, and the interests most injured would inevitably be those of borrowers. The power given under this section makes banking somewhat easier, but, after all, it is for the borrower to give security which will be satisfactory to the lender, and any difficulty

which the Act throws in the way of this is a direct injury to the borrower. I doubt if it often happens that people trust a man because he has possession of goods which they know might already be pledged to his bankers. The people who might be misled in this way are his workmen, and their interests should be protected as is proposed in one of the amendments. As a matter of fact I think the general practice of banks has been to treat the claims of workmen as if the lien under provincial laws for wages was effective against the bank's security.

Section 91: Limitation of Charges.—I do not think anyone ever supposed that section 91 was intended to do more than fix the limit of interest which can be recovered by law under a contract, but, however that may be, any attempt to control the rates at which money may be borrowed inevitably recoils on the borrower. This is so well recognized that no one would now propose the imposition of a law of usury.

The proposal to amend section 91 by prohibiting any charge for keeping an account, while it seems to be intended to help a bank customer, in reality could do nothing of the kind. It would simply make the bank unwilling to take or keep accounts which were unprofitable. On this point it may be said that the banks in Canada are probably more liberal than in any other country. They keep hundreds of thousands of accounts which do not pay for the time and the stationery which they use up, but the policy is justified by the fact that in this way numerous valuable connections are ultimately built up.

Encouragement of Banking.—In early days Bank Acts were passed expressly for the encouragement of banking, and doubtless at the bottom the same reason still prevails, but in effect the public tendency is towards an unfriendly attitude to those who have responded to this encouragement. There is a spirit of grudging as to their receiving the fruits of their enterprise, which after all are no greater than are reaped in other lines, and they are threatened with constant interference in their affairs. That this must check the growth of banks is clear.

It would not be disputed that many of the changes affecting banks are urged by an honest desire to secure perfection, and an honest belief that it can be obtained by legislation, but, if we are to have banks, we must face the fact that absolute safety is impossible; that it certainly cannot be assured by legislation; that there are limits to the precautions and safeguards which may be adopted, and that, having done what is possible in that direction compatible with the operation of the banks, we must perforce trust to the honesty and ability of those who have the shareholders' interests in charge. If the interests of the depositors are urged as a reason for extra care, the answer is that the shareholders, through the capital they have invested, and their double liability, are the ultimate guarantors of the solvency of the banks, and in protecting their interests everyone is protected.

COST PER CENT SAVINGS BANK DEPOSITS.

Cost of management and interest paid—	
Government Savings Banks	3·14%
Post Office Savings Banks	3·12%
Average rate	3·133%
To which must be added interest on gold reserve (10% of balance) and interest on bank balance required to be held to meet withdrawals (say $500,000).	
Effective rate allowing interest on gold reserve and bank balance at 3%	3·451%

FOR FISCAL YEAR 1911-12.

Average balance	$57,600,000
Salaries, printing, &c	120,000
Interest paid depositors	1,680,303
Interest at 3% on gold reserve, $5,760,000	172,800
Interest at 3% on bank balance, $500,000	15,000
	$1,988,103

Under the regulations, deposits bear interest from the first day of the month succeeding that in which the deposit is made and interest is charged on withdrawals from the first day of the month in which the withdrawal is made. The gain in interest which is thus made ($36,398) offsets the charges for rent, fuel and light.

Government Savings Bank (Finance Department)—		
Average balance during 1911-12		$14,400,000
Salaries, &c	$ 30,000	
Interest paid	422,800	
	$452,800	3·14%
Post Office Savings Bank—		
Average balance during 1911-12		$43,200,000
Interest paid	$1,257,503	
Estimated cost of management (salaries, commissions, printing, &c)	90,000	
	$1,347,503	3·12%

	Government Savings Bank.	Post Office Savings Bank.	Total.
Deposits	$2,616,000	$11,054,877	
Withdrawals	3,147,000	12,303,688	
	$5,763,000	$23,358,565	$29,121,565
Averaging time when these amounts were not drawing interest as one-half month—amount of interest saved was	7,200	29,198	36,398

J. E. ROURKE,
Comptroller of Dominion Currency.

April 22, 1913.

APPENDIX No. 2

HOUSE OF COMMONS,
COMMITTEE ROOM No. 101,
WEDNESDAY, April 23, 1913.

The Committee met at 10 30 a.m., the chairman, Mr .Ames, presiding.

Hon. Mr. WHITE.—It was suggested yesterday, and with a good deal of force, that the fees, expenses and disbursements of the curators should not be fixed by the Association; that is, the Association should not be given, at all events, full power with regard to the fixing of these fees and disbursements. Undoubtedly the expenses in connection with curatorships are sometimes very, very heavy, and I have an amendment here which I think will meet the situation, if the committee approves.

Clause 123 will now read as follows:

> 'The remuneration of the curator for his services, and his expenses and disbursements in connection with the discharge of his duties, shall be fixed and determined by the Association, subject to the approval of the Judge of the Superior Court in the province in which the chief office of the bank is situate, and shall be paid out of the assets of the bank, and, in case of the winding-up of the bank, shall rank on the estate equally with the remuneration of the liquidator.'

Mr. AIKINS.—'Subject to the approval of the judge' would not mean very much, but if it were subject to its being fixed or amended by the judge, so that an application could be made to him to amend, reduce or add to it, it would be better, I think.

Hon. Mr. WHITE.—Will you suggest the words you would like inserted?

Mr. AIKINS.—Yes, if you give me till to-morrow morning.

Hon. Mr. WHITE.—If the principle is approved, then we will allow the legal members of the Committee to wrestle with the wording. Then in regard to clause 128, Mr. Northrup raised a point yesterday. I think, myself, that the clause is all right as it stands, but it goes pretty far and says: 'the directors shall make calls on the shareholders thereof, to the amount they deem necessary to pay all the debts and liabilities of the bank.' I suggest that we should put this in after the word bank: 'not exceeding the limit of liability of the shareholders hereinbefore specified.' I think that would meet any objections.

Suggestion of the Minister concurred in.

Colonel D. R. WILKIE, President, Canadian Bankers' Association, called and examined.

The CHAIRMAN.—The Committee will be very glad to hear anything you may care to present to them in regard to any portion of this Act we now have under consideration.

Mr. WILKIE.—This is an Act that the Bankers' Association have little or nothing to do with. To start with, the first thing we knew of the Act was when the members of the House had received their copies of the Act. So that we question it as much as you do in our efforts to bring about a good bill. Another thing, I do not intend to speak here this morning as president of the Bankers' Association, but as I am president of the Association and here, I am extremely obliged to you for the

opportunity of addressing this Committee. The Act has grown in one respect and another from the time of confederation until to-day and now contains many conditions that are the result of the development of this country from one ten year period to another. The emergency circulation for example is the result of the development in our great West. Bank notes are in demand owing to the development of the country until we find at this even dull season of the year that we are obliged to pay out government notes and anything we can lay our hands, on owing to our circulation being dangerously close to the authorized limit. Now if it were possible to extend emergency circulation to the twelve months in the year instead of only to the shorter period we would not be called on to support the Finance Minister in the proposed gold reserve and he would not be called upon to bring in that new expedient. If you see your way clear to allow the emergency circulation to continue over the whole twelve months you can dispense with the gold reserve circulation. I am not discussing this matter from a government point of view but merely from the standpoint of expediency, of supplying ample circulation to the whole country.

By Mr. Nesbitt:

Q. Would not the proposal now made by the Minister have the same effect as continuing the emergency circulation over the whole year?—A. Yes. It will have pretty much the same effect, except that it will tie up so much gold—or rather its equivalent in Dominion government notes, because I do not believe that any one is going to ship gold to Montreal or anywhere else when they can ship government notes. It is much easier to ship the notes and let the government carry the gold if they are willing to do it.

By Hon. Mr. White:

Q. We will have to make you pay for it, if you do.—A. The proposed gold reserve as it is called is not—I might just as well say so now because I have not yet seen it stated publicly—is not a reserve against any particular notes. It is just as well to understand, that it is not a reserve against particular notes that are issued in excess of the paid up capital of the banks.

By Mr. Nesbitt:

Q. That is the notes are not ear-marked?—A. No, the notes are not ear-marked.

Q. But still it is up to the amount?—A. Still up to the amount. I mention that so that there may be no misunderstanding on that point on the part of the House or of the public.

By Mr. Hughes (Kings, P.E.I.):

Q. Will the emergency circulation be sufficient in this country for the next ten years?—A. It is sufficient now, we cannot say anything about conditions ten years hence, but it will be enough for to-day. The present emergency circulation if it went over the whole year would be sufficient. That is all I have to say about the gold reserve, but it is absolutely necessary to have some basis for the circulation in excess of the present authorized amount or else everything will come to a stop.

By Mr. McCurdy:

Q. Could not that result be accomplished by the banks converting their reserve into capital?—A. When issuing more circulation?

Q. Certainly?—A. There is no provision in the Act by which you can do that.

Q. Their profits are either paid out in dividends or bonus or go into the reserve? —A. But a man may realize on his bonus and probably would, and you would not get your capital back. There is no provision in the Act by which that can be done. If there is provision in the Act by which the bonus can be paid all in one day and the call on new capital on the same day it might be accomplished.

APPENDIX No. 2

Q. Do you think that is advisable?—A. No, I do not. We have men who are in favour of reducing the reserve and applying it on capital account, but is it in the interest of the country?

Q. What is reserve?—A. I will tell you what it is. In the year 1880 we opened our office in Winnipeg and we made a great deal of money and added to our reserve. We did all sorts of wonderful things but in 1882 came the crash and we had to call on the reserve, and reduced that reserve by a considerable amount; I think we had to write off $200,000 and that was a large amount in those days. But if you have not a reserve you impair your capital and then you are subject to all sorts of dangers.

Q. Do you know of a case where a bank has touched its reserve fund within the last five or six years, and still been able to continue in business?—A. Not the reserve fund as it appears in the returns to the government, but a great many banks have done so from the provision made for losses, always excepting the Sovereign Bank, which, although practically a defunct institution, still retains its charter and will do so until the 1st July. I see that the Sovereign Bank's name is not on the list of chartered banks.

Hon. Mr. WHITE.—We have corrected that. We are continuing the Sovereign Bank with other banks.

By Mr. McCurdy:

Q. As a matter of banking practice would not the very fact of the bank encroaching on its reserve to-day practically be an admission of insolvency?—A. Oh no, I think that would show an amount of nerve on the part of the management—the board of directors and the general manager.

Q. I did not catch your answer.—A. I say that if the board of directors and the general manager encroached on a bank's reserve—that is to say withdrew from the reserve to provide for losses—I should consider them good bankers.

By Hon. Mr. White:

Q. That is the purpose of the reserve?—A. Yes.

By Mr. McCurdy:

Q. Do you not think it would injure the bank's credit ?—A. The Imperial Bank did it—

Q. A good many years ago?—A. Yes, and everybody said: 'They are not afraid and our stock went up in market price.

By Mr. Broder:

Q. That fund is there for the purpose of guarding against losses?—A. Yes, for that purpose.

By Mr. Sharpe (Ontario):

Q. There is no other fund for that purpose?—A. Oh, no. We had no fund in the days I spoke of.

Q. Yes, but in these days?—A. We put everything beyond ample provisions for bad debts and bank premium account to profit and loss account.

By Mr. Nesbitt:

Q. You have a provision for losses you have told us ?—A. Yes.

By Mr. McCurdy:

Q. What is the reserve fund? Is it the aim of a good banker to get a certain percentage on the paid-up capital, or a certain percentage on the liabilities or assets? —A. You ought to calculate both liabilities and assets, but principally the latter, because it is through the assets you are going to lose. You are not going to lose on your liabilities. And yet, if you have very large liabilities you should have a very

respectable reserve fund. But really, it is the assets upon which a bank should provide a reserve.

Q. There is a very great difference in the percentage held by different banks?—A. What are you speaking of now?

Q. I am speaking of the reserve.—A. The reserve profits?

Q. Yes. Is there any percentage that is recognized by bankers?—A. I have tried myself to keep it at 100 per cent.

Q. Some banks have gone beyond that?—A. Yes. I don't see why they do.

Q. You think that a hundred per cent reserve would be sufficient?—A. I think so, but it does not do any harm to go further. The more they go in that direction the better in one sense.

By Hon. Mr. White:

Q. I suppose that reserve can only be out of profits which may be distributed to shareholders, or out of premium?—A. The proportion of reserve to capital is in the first place based on surplus profits. Then it is added to by applying whatever proportion that bears to capital from premium on new stock.

Q. It is premium?—A. Yes.

Q. That premium goes into reserve?—A. That premium goes into reserve. Everything over the hundred per cent (par) goes into the reserve as premium.

By Mr. McCurdy:

Q. Do you think it would be a good suggestion, and an advisable provision, that shareholders might, at their annual meeting authorize the directors to dispose of blocks of the bank's new capital at not less than the combined amount of the capital and reserve, without offering them to the shareholders?—A. I do not think it would be safe because the bank is the shareholders and the shareholders are the bank. There is no distinction between them.

Q. I know, but suppose there should be a provision that at a previous annual meeting they had authorized such issue?—A. Which could be disposed of without being allotted to the shareholders?

Q. Yes.—A. That has been done several times by each individual shareholder signing a document making his allotment to a third party.

Q. And it very often happens that one or two shareholders would hold out and prevent the deal from going through?—A. Yes, or they have been bought off, probably.

By Mr. Nesbitt:

Q. If there is a certain amount of stock which the shareholders do not take, cannot you sell that to the public?—A. Under the present Bill we can do that. In the old Act there was no provision for selling the fractional amounts, nor for the amounts that were not allottable, but that is being provided for now.

Q. If I were a shareholder and did not take up my allotment the bank could sell it to anybody who wanted it?—A. Yes, but the bank would have to account for it. We have been in the habit of giving the excessive premium that we obtain from such shares to the shareholders.

Q. That is to say, the difference between what they had to pay and the market value?—A. Yes, the difference between what the shares brought and the figure at which they were allotted was given to the shareholder, who was entitled to that allotment, provided it was approved of by the shareholders.

Mr. BRODER.—Perhaps it would be better to allow Mr. Wilkie to make his general statement on the Bill first and then ask him questions.

The CHAIRMAN.—I think so.

Mr. WILKIE.—I did not bring any memoranda with me, but I would just as soon answer any questions that are put.

APPENDIX No. 2

By Mr. McCurdy:

Q. To follow up my line of questions. Might not the plan suggested place a bank in the position where it could place a large block of its stock abroad and bring this much-desired accommodation into the country without having to go through the formality of getting shareholders to resign their rights?—A. You would have to make pretty generous provision in order to induce foreign capital to come in here and be invested in bank stocks. It will not do to restrict the banks in every direction if you want to bring in foreign capital.

Q. That is true to a certain extent, but there is a good deal of foreign money invested in bank shares at the present time, is there not?—A. Not a great deal. The Bank of Commerce, as Sir Edmund Walker explained to you, have a large amout but that is owing to the fact of their taking over the Bank of British Columbia. The Bank of Montreal have a fair amount owing to their being represented in London for so many years. But that is not the case with the ordinary bank. I saw dividend cheques of our bank to the number of about one thousand going out, and I think there were only about fifty foreign shareholders altogether amongst them.

By the Chairman:

Q. Shareholders residing outside of Canada?—A. Shareholders residing in England.

By Mr. McCurdy:

Q. I have known of cases where large investors on the other side wished to enter into negotiations with a bank for the purchase of a large block of its shares. They were met with the answer that the bank could not deal with them, that they must go through the formality of having their shareholders resign their rights first.—A. That is right.

Q. The result was that the bank was not ready to do business with these people and in consequence the negotiations were dropped. Now, my proposition would be to particularly meet a case of that kind.—A. I do not think it would be safe. It is always to be borne in mind that the English capitalist does not want an investment which imposes upon him a double liability. The Bank of British North America has no double liability, and the consequence is their shares are well held in England. A bank with a double liability cannot expect an Englishman to buy its stock in preference to other investments.

Q. Is that the objection?—A. Yes.

Q. In that case, how do you explain the fact that he buys shares in the London and Joint Stock Bank with only a small paid-up capital?—A. I think they are all coming to a basis of fully paid-up capital. They are growing in that direction all the time.

Q. You will find a great many of them have only a small amount of paid-up capital.—A. That is the case with some of them, but the shareholders are in with friends and relations and not with strangers at a distance. I remember many years ago at the time of the Fenian Raid, there were a great many sales of English holdings in Canadian banks. Those holdings originated at the time the English troops were in Canada. I am speaking, of course, of Quebec province.

Mr. NICKLE.—What procedure does the Committee wish to adopt with respect to Mr. Wilkie? Do you wish him to finish his statement?

The CHAIRMAN.—We are trying to follow that procedure.

Mr. WILKIE.—Would you like me to speak on the inspection clause?

By Mr. Nickle:

Q. There are some questions I would like to ask you on the various points.—A. I am ready, sir.

Q. I want to ask you a few questions in regard to circulation.—A. I will be very glad to answer them.

Q. In regard to circulation, as I understand, it is simply a medium of exchange, a token of value.—A. Bank bills?

Q. Circulation as we use the term, I mean.—A. Yes, a token of value.

Q. Yes?—A. It is money.

Q. And money, to use Sir Edmund Walker's expression, is a counter—A. It is a method of exchanging one article for another.

Q. It is a representation of value?—A. Oh yes, certainly.

Q. You could call a bushel of wheat a dollar bill?—A. Yes, if the bank concerned is a good one.

Q. Now I understand under the present system you can get a Dominion $5 bill or any Dominion bill on depositing the gold—can you not?—A. Yes.

Q. With this central gold reserve you issue your own bills against a deposit of gold?—A. Yes.

Q. Will you explain to me how that increases the circulation advantages of Canada, or how it increases the circulation advantage of the bank? I fail to see how it increases the circulation advantage of the country?—A. Because the bank is willing to strain itself in order to pay out its own bills, all it has on hand, although these bills may represent gold. But when they have to pay out notes issued by other banks or pay out government notes, they give to the public, to the customer, the man who is drawing his money, the idea that the bank is in straitened circumstances because they are obliged to give bills from other banks or government notes. That is the great objection.

Q. The objection is sentimental rather than practical?—A. It is sentimental, certainly, very sentimental, and it is also practical because you always have your notes on hand at distant points, for instance Athabaska Landing, we have an office there. Suppose we are called upon to pay out a large amount of money we have our own notes on hand, and by depositing in the gold reserve at Montreal we at once make these notes available; otherwise, we will have to stop paying out our own bills or incur a severe penalty, which I can assure you, the Finance Minister loses no time in exacting—and I know it.

Q. Pretty generally then it is a case of adaptability, is it not?—A. It is sentimental and practical as well, as you say.

Q. Then going a little further, this new gold reserve being deposited with the Dominion government, the amount that each bank deposits with the government lies idle, so to speak?—A. Lies idle, yes, but it appears in the balance sheet, of course.

Q. But so far as the money earning capacity is concerned it lies idle?—A. Yes.

Q. Is not that an economic waste?—A. No, because the notes are all out earning money.

Q. But the gold is not?—A. No, you can't issue one against the other and have them both earning interest.

Q. Do you not do that when you issue notes against your paid-up capital?—A. Yes.

Q. Then you can have both earning money in that case?—A. But this gold reserve is after you have exhausted your authorized circulation.

Q. You say you cannot make the same money earn twice, but you do that when you issue notes against capital?—A. Issue notes against capital?

Q. Yes, issuing bills against your capital and at the same time making loans on your capital?—A. Yes, that is one of the privileges the banks have, but to a limited extent.

Q. I want to see if we cannot widen the privileges of the banks? The proposition made to us is first, that we by Act of Parliament should cut down the reserve we will say and make it paid-up capital, and give the banks the right to issue note circulation, as against that extra paid-up capital. That will give you increased circulation power, will it not?—A. Extra capital?

APPENDIX No. 2

Q. Yes. Supposing every bank in the country had a reserve of a hundred cents for every dollar of capital, and by a clause in the new Act we said that the reserve in each bank should be reduced one-half, and that the amount so taken from the reserve should *ipso facto* become capital, the right of circulation would attach to the increased capital?—A. No doubt of that.

Q. And there would be an economic saving, because you could issue against that capital rather than against the gold reserve?—A. Yes, that could be done.

Q. What objections is there against doing that?—A. Well, if you cut down the reserve it is just like destroying a part of a house and then starting to work to build it up again. The reserve is there to strengthen the institution.

Q. When you use the expression 'you destroy part of the house' would not the simile be better if you said, 'you use part of a house for another purpose'? You do not destroy it, you simply change it ?—A. No, because to pay the dividend for instance upon that additional capital you would have to reduce your dividend. If you were paying 10 per cent dividend before that and then took away half your reserve and converted it into capital, you could only pay 7 per cent upon the total capital as increased.

Q. It makes very little difference whether you pay 10 per cent on $100 or 7 per cent on $200. It is the same thing, as the shareholders do not get any dividend upon the reserve?—A. You bring down the market value. You come down at once from a 250 level to a 150 level and everybody wants to know what is the matter.

Q. You cannot change the economic value of that stock?—A. It is quite possible to provide for your suggestion; whether it is wise to do it or not is the question.

Hon. Mr. WHITE.—I do not desire to interrupt, but would you be good enough to ask the witness what the effect on the shareholders would be of imposing the double liability in respect of the new capital which would be created?

By Mr. Nickle:

Q. What effect do you think that would have upon the shareholders; of course it would increase their double liability?—A. Yes, it would increase the double liability.

Q. Do you think that would have a tendency to keep men from investing money in bank stocks?—A. Well, I think it has a tendency so far as many wealthy men are concerned, on strangers, people in England and elsewhere.

Q. You think the double liability has a deterrent influence?—A. It is an influence that any very wealthy men must consider. I do not think the comparatively poor man would consider it as much as the wealthy man although the poor man would suffer more.

Q. Taking another point of view, instead of this gold reserve how would it do to give power to increase the circulation to one half the amount of the reserve without increasing the paid up capital?—A. As an emergency?

Q. No, instead of the gold reserve ?—A. Well, you would destroy the whole basis of circulation. The emergency circulation is now based upon the paid up capital with the double liability except in the case of the Bank of British North America.

Q. Supposing we gave the power to issue circulation to the amount of the paid up capital, that will be protected by the double liability, and to one-half of the reserve, that will be protected by the circulation as against one-half of the reserve, would not there be in that case exactly the same security to the note holder and to the country?—A. I do not think so, because first, the losses of the bank are not losses of capital to start with but the loss of the reserve and the thicker the hide the longer it takes to penetrate it.

Q. All our circulation is issued against capital. You have the amount of capital plus the double liability as security?—A. Yes.

Q. Then if you also had the right in addition to issue against one-half of your reserve you would have the double liability and also the investment of half of the reserve as security against the circulation; and if the circulation became depleted the rates of circulation would become lowered. What objection is there to that, on prin-

ciple?—A. It is not sound to change the basis of circulation from one to another. You start out with the double liability basis, then you emerge on to thin ice. The further you extend, the thinner the ice, until you get to the limit of your circulation. Whereas the present basis is thick ice; the basis you propose would be thinner.

Q. I cannot quite follow you?—A. There is nothing behind the rest amount.

Q. We suppose you have a reserve of $100,000, and you are allowed to issue circulation to the amount of $50,000 against that, surely you have against that circulation the full reserve of $100,000. Now if the reserve were reduced to $80,000 then you would have your circulation against it reduced to $40,000. When you issue circulation against capital you have capital plus double liability; two to one; you also have the same security in the other case two to one?—A. It is more a question of expediency and safety. I don't think it would be safe and it might tempt some bankers to be sinners.

Q. Are there any sinners among the bankers?—A. Yes there are, and it would be very hard indeed to induce them to cut down their reserve if it is to be the basis of circulation. They would see things in a very different atmosphere.

Q. That is the answer I was working for. There would be a tendency on the part of the bank managers to interfere with the reserve if it did not give them the power to increase the circulation?—A. They might want to see the end of it.

Q. Speaking of this contingent losses fund, do you think this is a very substantial fund in the case of our Canadian banks at large?—A. What is it?

Q. You spoke of it?—A. Every bank has its assets valued down and has money put aside, at least I hope they have, to enable them to meet a loss at once.

Q. That is outside the reserve fund?—A. Certainly, outside the reserve fund.

Q. That is what I mean by that expression. And this is a substantially large fund in the aggregate?—A. I think in some cases they are. I know in one case, that of a bank which had lost a considerable amount of money, they were able to write it off from the provision they had made for unforeseen losses. It would not be safe to put all your surplus profits in the reserve exposed to the world and then afterwards say, I made a mistake and have withdrawn from it a portion to meet losses.

Q. Then do I understand you to say on principle you make this statement that wise banking demands that the reserve be kept constant, and that from time to time a substantial sum is set aside to cover the bank's losses?—A. To cover the depreciation in loans and investments, I should rather call it, because there is nowhere that depreciation is occurring more steadily than in Consols. The losses of the banks in England through the depreciation of Consols are very great and they are not afraid to write them off openly. They have written off £5,000,000 or more in England from Consols' account, it is not always the weak looking security that is the one that depreciates most.

Q. How is it done, by writing off from the assets a definite amount?—A. In England they are not afraid to write off losses boldly from their reserve if it is thought necessary.

Q. Then as I understand you the principle underlying banking is this, that you try to write enough off your assets to meet any losses that may subsequently accrue to the bank?—A. No, you do not write off your assets, you apply it on your assets. You apply whatever money you have made; you set enough aside to meet any possible losses on the assets.

Q. Then to get a balance when you do that, you must write something off on the other side somewhere, to balance your books. Suppose you get in 10 per cent on your stock, and that is paid out in dividends and you make another 2½ per cent, how do you balance it?—A. You apply it on your assets.

Q. Are these written off every year?—A. There ought to be a provision every year of about two per cent, I should think.

Q. How is that treated?—A. It is transferred to the reserve fund until the fund is complete.

Q. To which reserve fund?—A. To the outside, the apparent reserve fund. Supposing you have a capital of $5,000,000 and you have $4,900,000 in reserve, and you would think it proper to transfer $100,000 in order to make it $5,000,000 from, you might call it the inside reserve fund.

Q. Then in paying dividends you put a certain amount to the reserve, and a certain amount to the inside reserve fund, and when that gets larger than you think the necessities of the case require, you transfer a portion of it to the apparent reserve?—A. Yes.

By Mr. Aikins:

Q. As I understand it you have expressed the opinion that the banks of Canada require a greater note circulation?—A. A greater note circulation.

Q. The rights and privileges are given by the Dominion government to the banks for the advantage of Canada, I presume?—A. And only for that.

Q. Then, as I understand it under section 62, the privilege is given to the banks to issue some of their circulation in British possessions?—A. Yes.

Q. To the extent to which that circulation is issued in those British possessions, outside of Canada, to that extent the circulation is decreased in Canada?—A. The right of circulation is decreased, yes.

Q. And if the whole circulation is required in Canada the circulation is necessarily decreased in Canada?—A. Yes.

Q. Do you think, from the Canadian point of view, that this is a proper thing to do? When the privileges and rights are given to the Canadian banks for the benefit of the Canadian people should not there be corresponding duties and responsibilities to the Canadian people to give them the fullest possible banking facilities?—A. Of course there are great advantages in the opening up of trade routes and trade connections, and without knowing what that circulation is I could not say whether it makes any difference so far as Canada is concerned. I should require to know what is that circulation.

Q. Let me put the question to you in this way, the purpose of the Act is to give Canadian banking facilities?—A. The Canadian Bank Act is for the benefit of Canada, there is no doubt about that.

By Mr. Nesbitt:

Q. As a matter of fact, Mr. Wilkie, might it not be just as much for the benefit of Canada to open up trade facilities as any other form of business that the banks do?—A. It is very important that Canada should now look abroad and extend its operations. Our manufacturers and our agriculturists both need foreign markets.

Q. In answer to Mr. Nickle you said that if half of the reserve were taken away and put into capital that would increase your power to issue notes, but wouldn't the security to the depositors be decreased to that extent?—A. No. I think the security would be strengthened because it would create a double liability. If you take a million from the reserve fund and place it into capital, you not only add a million but you add the double liability.

Q. For the security of your depositors?—A. Yes.

Q. As a matter of fact, in the case of the banks that have failed, has the double liability turned out as good security as the reserve?—A. It is only when the reserve is exhausted that the double liability is resorted to. In the case of the Ontario Bank, if you remember, the double liability turned out much better than they expected.

Q. The liquidator of the Farmers' Bank does not expect it to turn out very well?—A. The liquidator of the Farmers' Bank told me the other day that he would not have enough money in hand to pay the notes, and we banks have got them.

Q. You will not get much sympathy. You said a few moments ago, also to Mr. Nickle, that the reserve against depreciation is not the apparent reserve, as you call it.—A. Yes.

Q. As a matter of fact is it not just a lowering of the valuation of your assets? You led him to believe that it was a fund.—A. It is applied in that way.

Q. That is to say, you decrease your assets on valuation, you do not really set aside a fund.—A We decrease the assets.

By Mr. Hughes (Kings, P.E.I.):

Q. You have said that you are in favor of making the emergency circulation permanent?—A. Not permanent but available all the year round.

Q. You would make it for twelve months instead of for only a portion of the year ?—A. I said that if we had that privilege there would be no occasion for the gold reserve circulation.

Q. That is 15 per cent of the capital and reserve combined, and the reserve in round figures is about equal to the capital of all the banks?—A. I do not remember the exact proportion, but it is very large.

Q. For the sake of my argument let us take it that way?—A. Yes.

Q. Now, Mr. Nickle was asking you if you were in favour of an increase in the circulation of 50 per cent of the reserve, and you were opposed to that on principle, I think you said.—A. Yes.

Q. Would not that be practically 30 per cent of the reserve, and would not that be making it permanent?—A. Quite right.

Q. Would that not be the principle Mr. Nickle was trying to advocate?—A. It would.

Q. To the extent of 30 per cent.—A. But mark you, I did not argue in favour of that. I merely spoke of conditions, provided the emergency circulation existed all the year round. I merely wanted to show why the gold reserve circulation is necessary, but I did not argue in favour of it as opposed to emergency circulation.

Q. But would it not be a good thing?—A. Oh, I don't know.

Q. In view of the needs of the business community?—A. It would be an advantage in enabling the trade of the country to be carried on with greater facility, there is no doubt about it. For instance, just now we have got to pull in here, there, and everywhere, to keep the circulation within bounds. When this new scheme is floated there will not be the same degree of pressure, but if the emergency circulation went over the whole year there would be no occasion for the gold reserves, and the government would receive five per cent interest on the whole amount in excess of the amount which the bank was authorized to issue under the present Act.

Q. It seems to me that would be practically allowing the banks to increase their circulation to the extent of 30 per cent of their reserve?—A. Thirty per cent of their capital.

Q. No, 30 per cent of their reserve and capital?—A. Yes.

Q. It would be equivalent to increasing the circulation to the extent of 30 per cent of the reserve?—A. If the capital and reserve are equal, but I do not think the proportions are quite equal.

Q. Yes, in round figures?—A. There is not very much difference. It is 115 millions and 107 millions

Q. Do you see any difference in principle?—A I see the difference between thirty and fifty.

Q That is all the difference?—A I see another thing. There would be occasion for the use of the thirty per cent—we will call it thirty per cent—all the year round.

, Q. Then it would be reduced?—A. It would go down; in fact it would be wiped out entirely.

Q. Do the banks not require to be careful and not issue up to authorized circulation lest they might exceed it?—A. If they do not issue their own notes they have got to issue other bank notes, it makes no difference.

Q. The banks do not issue up to their authorized capital?—A. No.

APPENDIX No. 2

Q. Particularly the banks that have a large number of branches?—A. Except during an emergency period.

Q. They do not do that, lest they might go beyond the authorized circulation?—A. No.

Q. What percentage do they reserve?—A. We try to keep within $300,000. Our circulation is nearly $7,000,000. When it comes to $400,000 of the $7,000,000 we pull in.

Q. And that reduces the loanable power of the bank?—A. No, because that is only a temporary situation, it does not last long.

Q. But during that period does it not?—A. And then it must be remembered that we have cash reserves to fall back upon. It I go to the Finance Department and get $40,000 of government notes I pay for it. That is what my cash reserves are for in part.

By Mr. Clark (North Bruce):

Q. That emergency circulation, I suppose, lasts three months of the year?—A. About six months, but as a matter of fact, if we had it now we would be making use of it.

Q. You are in favour of having the emergency circulation extend over the whole year?—A. I do not want to be understood as expressing the views of the Bankers' Association. I am only at liberty to express my own views on the matter. So far as our bank is concerned, I am quite willing to take the responsibility of continuing the emergency circulation over the whole yearr, but I would not like to speak for any other bank.

Q. In that case would the emergency circulation be available at the time of the moving of the western crop?—A. Yes, that is the period.

Q. You have not quite grasped my question. If the emergency circulation was in use for twelve months of the year would it be available at the time the real emergency arose?—A. Certainly it would. The difference is, Mr. Nickle suggested that we should increase our limit of circulation by an increase of our capital out of reserve.

Mr. NICKLE.—No, I did not.

Mr. WILKIE.—I thought you did.

Mr. NICKLE.—I put two hypothetical cases. First, whether you could increase your capital out of reserve by statutory enactment. Second, that the power of issuing circulation should be to the amount of the paid-up capital.

Mr. WILKIE.—Do not imagine that we do not appreciate the privilege of issuing notes, because we do. Personally, I should like to see the capital larger.

Mr. NICKLE.—I am with you

Mr. WILKIE.—But if you make all kinds of restrictions in the Bank Bill you will not secure the desired result. Personally, I would like to see more banking capital brought into the country.

By Mr. McCurdy:

Q. Could not that be better accomplished by allowing a bank to issue say 10 per cent of its assets?—A. I have never been in favour of doing that.

Q. For what reason?—A. For this reason: Take the assets of an insolvent bank, against which they have issued notes, these assets may turn out to be ridiculously small in value as compared with what was issued against them.

Q. But the soundness of the currency would not have been affected by the state of the assets. That is to say, if a bank only issued ten per cent of the assets?—A. If you do that, supposing your assets to be $70,000,000, and you issue $7,000,000 of notes. Under the present law the note is the first charge on the assets and on the double liability. But what good would a double liability of $1,000,000 be in providing for $7,000,000 or notes issued against $70,000,000 of supposed assets. Some bankers believe in that proportion, but I do not.

By Mr. Sharpe (Ontario):

Q. Speaking of the inside reserve fund, are the shareholders at their annual meeting informed by the directors of the conditions relating to that fund?—A. They would be, if they asked.

Q. As a matter of fact is it put in the annual statement?—A. Some of the banks have it in their profit and loss account. There is no reason to disguise it.

Q. Some of the banks conceal it, do they not?—A. They do not boast about it.

Q. I repeat, some of the banks do conceal it?—A. They do not boast. They do not want to say, 'Here are the funds that belong to you, and it is all right,' because they are afraid that any minute it may disappear. They are afraid of creating a false impression.

Q. The directors do not disclose this fund to the shareholders, anud the former are the only persons that have an accurate and true knowledge of the real condition of the assets?—A. No, the directors, the general manager, the inspectors and the whole bank staff.

Q. Would it not be fairer to the general body of shareholders to disclose the true and actual condition of the bank?—A. I think it would be rather unfair, because it would give them the idea that there as actually that amount there, over and above, sufficient to provide for losses.

Q. Does it bear any fixed proportion to the capital of the bank?—A. No.

Q. Well, I understand that a short time ago one of the large banks lost $5,000,000 or $7,000,000 down in Mexico, would it be written off that fund?—A. I didn't hear of that.

Q. Residing in Montreal, is it possible you haven't heard of that?—A. I do not live in Montreal, I reside in Toronto.

Q. Is it possible you haven't heard of the large loss in Mexico by one of the large banks?—A. I haven't heard of a large loss written off the inside reserve.

Q. But you have heard that there was a large loss?—A. Oh yes.

Q. I suppose everybody has heard of that?—A. Yes.

Q. Was that disclosed in the annual statement to shareholders of the bank?—A. I think it was—not in so many words—but I think it was.

By Mr. Cockshutt:

Q. In connection with the circulation, is it possible that an increase of gold coinage would help matters now?—A. Gold coinage? I am a great believer in gold, in clean gold, and from the very fact that the Minister has chosen to establish this circulation gold fund—you know there must be something in gold, and I would like to see a gold coinage, our own gold coinage, Canadian gold coined.

Q. You believe in a Canadian mint ?—A. I do, I believe that any one who does not believe in a Canadian mint is wanting in national spirit.

Q. If we had an increase in the gold coinage would not that help to relieve the circulation somewhat?—A. No, I do not believe it would.

Q. We had one witness here who stated that the people of Canada have an aversion to handling gold?—A. I do not think they have an aversion; but, the reason our people as you know are against gold is, that it is more convenient to carry money in paper than in gold. At the same time that does not affect the question of gold coinage. We should not have American eagles spreading their wings all over this country.

Q. Well then you would really advocate the increase of gold coinage at the mint? —A. The idea would be that the gold we produce in this country should be coined here. We produce a great deal of gold, and I am sorry to say the appliances at the mint do not permit of that gold being coined here. Take the Hollinger mine, they cannot smelt one ounce of that gold at the mint because the gold itself is of a quality that contains fumes and acid and things of that sort that should not escape. My

opinion is, that all the coins we have in this country should be Canadian, made out of Canadian gold and Canadian silver.

By the Chairman:

Q. Do you regard it as the duty of the mint to deal with ore that is still full of other impurities?—A. I do not speak of the ore, but of the gold bricks themselves.

Q. Those bricks are pure gold?—A. Yes; the bricks are almost pure gold but contain certain impurities.

By Mr. Cockshutt:

Q. The statement was made by a previous witness that New York or the foreign market would not take Canadian gold if you had it?—A. I should like to look it up and see what amount of gold has been sent to New York in the last ten years; I think it is infinitesimal. So far as sending gold to New York is concerned it is a very small consideration, and if you send gold to New York you could at times send British gold. British gold is worth $4.87½ as against $4.86-66/ par, so that with the Royal mint here turning out sovereigns any one who cared to do so could at the moment go into the business and ship gold from here, if he has a favourable express rate, and make money out of it.

Q. The intrinsic value of a five dollar or ten dollar Canadian gold piece is the same as that of any other country?—A. Just the same.

Q. Why should they refuse to take these coins? The statement was made here that you had to ship American or British coins because Canadian would not be accepted?—A. Because it has to be recoined before it passes in New York, and other foreign coinage would be the same.

Q. The statement has furthermore been made that gold coinage is a wasteful kind of circulation. Do you think that that is a true statement?—A. I do not know, the less it is in circulation the less waste there is; the only waste I know of is in the attrition of the gold in circulation, but put away in the vault it has no waste, and in this condition it can be the basis of circulation and without wastage.

Q. If we had $5,000,000 or $10,000,000 of gold coinage added to the circulation that the banks are enabled to use, would not that help out?—A. It would have to be paid for, and $5,000,000 or $10,000,000 had much better be deposited in the gold reserve fund and notes issued against it. It would be much more convenient. As to what kind of gold should be there, I should like to see Canadian gold.

By Mr. Nesbitt:

Q. There would be no use to have more gold there than would be required?—A. No.

Q. In connection with the Emergency circulation that you suggest, that could be used to advantage all the year round. I understood you to say that at present we might actually utilize the emergency circulation all the year round, that it is practically required at the present time?—A. There ought to be provision for it all the year round.

Q. Well, if the whole circulation, that is the ordinary circulation and the emergency circulation also were required all the year round wouldn't there be an emergency on top of an emergency in the autumn, as there is now?—A. There might be, that is true.

Q. Then you would require an additional circulation for two or three months time just the same as there is now?—A. Well, we have that in the gold reserve. We can issue any amount against the gold reserve.

By the Chairman:

Q. In other words, we simply want permission to issue a larger amount of notes than the paid-up capital?—A. Yes.

By Mr. Cockshutt:

Q. You want to issue an Emergency circulation on the basis of the gold reserve? —A. Well, I say that is all we have, that is the best we can get.

Q. If you issue gold, if you make payment in gold you would not require to issue so many bills for an emergency?—A. No, but we could not do it; we could not pay out gold in large quantities, we could not pay a farmer, for instance, or an elevator in the Northwest buying 30,000 bushels of grain in a day, they could not pay out that amount of gold.

By Hon. Mr. White:

Q. They would have to ship it there as well?—A. Certainly. I am very anxious to see a gold coinage. I do not think we will ever be a great people until we have our own coinage.

Q. You have not changed your view on that, in spite of others who do not hold that opinion?—A. I am the only banker who has come out openly, but there are many others of the same opinion; the late Mr. Wolferstan Thomas was the first Canadian who advocated it, and I am not very sure that Mr. Hague did not do so.

Hon. Mr. WHITE.—I want to say this, that while I do not desire in any way to limit the questions that members of the Committee desire to ask, I think it well that this witness should deal with two or three very important questions that we have to deal with here, and I would like to remind the committee that we cannot give more than this morning to the examination of this witness.

By Mr. Thompson (Yukon):

Q. Mr. Wilkie is a man after my own heart and has the right idea with regard to the gold circulation, that the gold circulation should be the basis of the national wealth. Can you tell me how much gold is in the reserve of our banks?—A. $37,000,-000. But that includes the gold that certain banks have abroad so that I cannot tell you the amount that is in Canada. All I know is that that is the outside amount, including the gold that is outside Canada.

Q. Do you know what percentage of that $37,000,000 is in American gold?—A. I think $30,000,000 anyway.

Q. Can you suggest to this Committee any means whereby that large percentage of American gold can be depleted and replaced by Canadian gold?—A. Yes, by our Mint melting it up and recoining it; they are doing that in England now, turning out sovereigns from foreign coins,, American and others. They did not do that for some time, but they are doing it now.

Q. Do you know of any reason why these reserves should not be composed of Canadian coins?—A. None whatever.

By Mr. Clark (North Bruce):

Q. Since Mr. Wilkie is the president of that much-abused Association, I think we would like to hear from the President of the Association something about the Association and its operations and jurisdiction over the banks.

The CHAIRMAN.—You are the President of the Bankers' Association, will you tell us what powers you have and what is done?—A. Its powers are very limited, and but for the responsibility we have in looking after the circulation of all the banks, and the authority we have to take charge of a suspended bank, not being solvent, by the appointment of a curator, I really do not know that we have powers, those are the only two powers of any importance.

By Mr. Aikins:

Q. Would you suggest that there be added to that the power of appointing an auditor for the banks?—A. No, I am very much opposed to that.

Q. Why?—A. Because it would throw into the hands of certain influential members of the Association, myself among the number, I am quite willing to say that I

would be one, a knowledge of the business of other banks, rival banks, which I think would be detrimental to the whole.

By Hon. Mr. White:

Q. Do you understand Mr. Aikins' question?—A. I did not understand him to ask the question you have answered. Do I understand you to say that the Bankers' Association should approve or appoint an auditor or inspector?

Mr. AIKINS.—I asked if he would approve of the Bankers' Association appointing the auditors?

By Hon. Mr. White:

Q. That they should assume the responsibility or what had you in mind? Is that what you had in mind?—A. Yes, I understood him to ask me if I approved of the Bankers' Association appointing the auditors.

By Mr. Clark (North Bruce):

Q. Has the Bankers Association any legal entity at all?—A. Oh, certainly.

Q. How is it composed?—A. It is composed of the general manager of every bank in Canada and three I think it is, are honorary presidents, who have the right to be present at our meetings but who do not vote.

Q. Has the Association any jurisdiction over the other banks at all and over the banks operations?—A. None whatever.

Q. Has it any way of finding out the condition of solvency, or the operations or methods of doing business?—A. None whatever.

Q. It does not amount to much then?—A. Well, it does not amount to as much as it ought to amount to, quite right. But the little powers we have, you see, may be curtailed. Taking the appointment of the curator and the remuneration of the curator, and the charge of the circulation, they are the two principal features of the Association.

Q. Every chartered bank is then connected with it?—A. Every chartered bank has to belong to it.

Q. Every new bank comes into it automatically?—A. Automatically, yes, there is no excuse.

Q. Would there be any way in which the Banker's Association in Canada could operate in the same way as the Clearing House Committee that Mr. Forgan spoke of? —A. I am glad you asked that question. This Clearing House Inspection Committee in the large cities of the United States was established during the years when the finances of the American Union were in a very bad way. These committees were started at that time so that the banks would be able to assist the weaker institutions so that they might know the standing of every bank. Therefore a committee was formed for the purpose of examining every bank, and they were in a position when a crisis came to say whether the weaker bank was worthy of being helped or not. It was a system of inspection established by the banks there as a means of self preservation. In that connection, I may say, that when Mr. McLeod gave here a comparison between the failures in Canada, and the number of failures in the United States, he forgot to tell you that every bank in the latter country, has failed twice in the past twenty years.

By Hon. Mr. White:

Q. Suspended cash payment, you mean?—A. Suspended cash payment. That is true of every bank in the United States.

By Mr. Thornton:

Q. Is it not a fact that the Bankers' Association have almost unlimited power, and that they can pass any by-law they wish?—A. No, sir. They can pass by-laws but they are of no effect until approved by the Minister of Finance. The Banker's Association have only certain powers.

Q. Does not the Bank Act give them power to pass by-laws in regard to banking?—A. No. Every such by-law has to be approved by the Minister of Finance.

Q. But they have the power to pass by-laws?—A. But the by-law is of no effect until it is approved.

By Mr. Sharpe (Ontario):

Q. Do the Bankers' Association now carry out their object and powers as outlined in their original Act of Incorporation? For example, in promoting the education and training of bank clerks?—A. I am afraid not.

Q. Do they not arrange for lectures and discussions on banking topics?—A. No, sir, but we are going to do it.

Q. Then you have got new inspiration?—A. We are going to do it.

Q. The Bankers' Association publish a journal?—A. Yes, we do.

Q. Did the Bankers' Association ever refuse the privileges of the Clearing House to the Sovereign Bank?—A. Never.

Q. The report has been circulated that owing to the Sovereign Bank increasing its rate of interest, and paying interest quarterly to its depositors, it was refused the privileges of the Clearing House.—A. Oh, no. The general manager of the Sovereign Bank denied that he had ever increased the rate of interest.

By Mr. Clark (North Bruce):

Q. That let him off?—A. Yes.

By Mr. Sharpe (Ontario):

Q. As a matter of fact the Bankers' Association was never very friendly to the management of the Sovereign Bank?—A. We did not approve of it because we knew it was wrong, but what could we do? You asked what we could do, we could do nothing.

Q. Are the dues that are paid to the Association fixed by the by-laws of that organization?—A. Yes.

Q. Is that in proportion to the capital of each bank?—A. Yes, that is the way the dues are assessed.

Q. Would it be a perfectly fair question to ask what dues are paid to the Association?—A. Last year was an abnormal year, and we had to make a special assessment of $6,500, which represented the shortage of the past ten years.

Q. Beside the annual dues you make special assessments?—A. We have made one.

Q. Then according to the exigencies of the situation you would make your assessment?—A. We do not spend any money. We pay for our own dinners.

Q. Are the by-laws of each bank filed with the Association?—A. No, I do not think they are. I have been rather unfortunate in one respect. I have been president of the Association for a few months, having been elected to this office for the second time. I was first elected president about ten years ago. But the secretary of the Association, Mr. Knight, who lives in Montreal, has been ill ever since I was appointed.

Q. So you are president, secretary and everything?—A. Yes, practically.

Q. Is there any agreement, either verbal or in writing, between the various members of the Bankers' Association, to restrict competition?—A. No, none at all.

Q. You make no agreement about the rate of interest?—A. We have no agreement about the rate of interest, but there is an understanding that we will not pay more than the government pay.

Q. That is a verbal agreement, is it not?—A. If there ever was anything else than a verbal agreement, it was some years ago, and I have never seen it. I am told that there was one—in fact I am quite sure there was an understanding some years ago, that we would not pay more than 3 per cent. Certain banks do pay more, we know they do, but there is no penalty. Any bank can pay more, there is nothing to prevent them.

Q. Roughly speaking, what is the number of directors in your bank?—A. Nine.

Q. Some banks have as many as twenty or twenty-five?—A. Oh no, not in this country.

Q. As many as twenty-two, I think.—A. Not in Canada.

Q. The Bank of Commerce I think has twenty-two directors.—A. No.

MR. MCCURDY.—Twenty-six.

By Mr. Sharpe (Ontario):

Q. In Canada banks have directors up to the number of twenty-two?—A. Do you think so? I do not think so. I should not think the Bank of Commerce had more than 12 or 15 directors.

MR. SHARPE (North Ontario).—I think I counted 22 the other day when Sir Edmund Walker was speaking.

Hon. MR. WHITE.—I think you counted the Trust Company. I do not think any Bank in Canada has 26 directors.

MR. MCCURDY.—The number is over 20.

Hon. MR. WHITE.—Then I stand corrected.

MR. WILKIE.—It is necessary now to have directors at different out-lying points.

By Mr. Sharpe (Ontario):

Q. How do they participate in the management by the Central Board?—A. They meet as often as they can.

Q. Do you have monthly meetings to pass on loans?—A. To grant credits, we do not pass on loans

Q. Well, to pass on lines of credit.—A. We have weekly meetings.

Q. Are those meetings of the executive committee of the board ?—A. Of as many members of the whole board as can come.

Q. Are the directors paid fees for attending, or do they get a salary for the year's work?—A. That is a matter of internal economy. I have always recommended the payment of a fixed sum and fees.

Q. Speaking of an inspection or audit, you read Mr. McLeod's testimony?—A. Yes.

Q. He suggested a system whereby the general managers would vote on auditors. Do you see any objection to that system?—A. Yes, I do not like it.

Q. You approve of the system of audit provided in the Act?—A. Yes, I would much rather have that.

Q. Have you any alternative system to propose?—A. No. I thought it was so important that the Bill should be put through without undue delay that I am prepared to support almost anything. At any rate, the Minister's proposition of an audit is all right.

Q. You think the proposition embodied in the Act is all right?—A. I do.

Q. Instead of calling it a shareholders' audit, why not be quite accurate and call it a directors' audit?—A. Because the directors do not appoint the auditor.

Q. They do in substance?—A. I do not think so.

Q. They dominate every annual meeting?—A. Not at all. The shareholders appoint the directors.

Q. Yes, I know, but as a matter of practice it is a well known fact I think——

The CHAIRMAN.—Ask the witness his opinion but do not try to make him answer in your way.

By Mr. Sharpe (North Ontario):

Q. Well, the directors dominate the shareholders, that is the way it works out by means of proxies and personal influence?—A. The directors are elected by shareholders, and nobody else. When the people go to invest their money in the shares of a bank they find out who the directors and the general manager are. They put their money into that stock and they subsequently re-elect these men as directors. So far

as proxies are concerned, I have never seen a proxy used in my life, and I have been a banker for fifty years.

Q. To your knowledge, what percentage of shareholders attend the annual meeting?—A. We give a very good luncheon, and it is a social gathering well known all over the country, so we get quite a number.

Q. You think the shareholders come to the free luncheon?—A. Yes, partly, I think they enjoy it; otherwise, I do not think we would have a very large meeting. For my part, I like a large meeting.

Q. As a matter of fact do you have a large meeting?—A. Yes, we have a good attendance.

Q. What percentage, can you tell us roughly?—A. I should say 60 or 70 people are in attendance.

Q. What is your total number of shareholders?—A. Oh, lots.

Q. Several hundred?—A. Oh, we have a thousand.

Q. You would not call 60 or 70 out of a thousand a very large percentage?—A. Yes, I do, because a great many of our shareholders are women, a great many are children, and a great many shares more are held by persons now deceased.

Q. I suppose they vote on proxy, do they, for the directors?—A. Well, this is not a parliamentary election.

Q. Speaking seriously, do not the directors, as a matter of practice, control the annual meeting?—A. Control it?

Q. Yes, by a majority of votes?—A. I have never seen them control it. Really I have never seen the directors step in and control the meeting.

Q. What I mean is, the directors have a majority of the votes in their possession or under their control?—A. Our directors are very large shareholders.

Q. And they would be in the majority?—A. Of those present?

Q. Yes?—A. Very likely.

Q. And the directors, by reason of controlling the votes and by reason of their influence would have the appointment of the inspector or auditor?—A. I suppose it would really amount to this, that the principal shareholders in the bank would have the most say.

Q. Speaking of the losses and the failures under our banking system during the past four or five years?—A. Yes.

Q. The losses have always occurred, have they not, through the failures at the head office?—A. No, not at all.

Q. Well, take the instance of the Ontario Bank ?—A. I wish I had the figures here that I was preparing. I was getting some ready but I did not expect to be called so soon.

Q. Speaking of the Ontario Bank, were there not defalcations at the head office? —A. Suppose the Ontario Bank had had an office in New York, wouldn't the losses have occurred in New York?

Q. But that bank had its head office in Toronto, and that is where the defalcations occurred?—A. That is where the failure occurred.

Q. The same way with the Farmers' Bank?—A. Yes.

Q. And the same with the Sovereign Bank?—A. No, I should not say so.

Q. Was not that failure the result of loans made?—A. There were loans made.

Q. Through the United States banks?—A. The losses of the Sovereign Bank were made through advancing money to brokers, but I would like you to distinguish between the head office, and the head office branch—that is to say the branch at the head office. The head offices do not transact any banking as a rule. An inspector could get through the inspection of my head office in half an hour, because there is nothing to show. I do not keep any money there.

Q. Do you not think that an inspector on visiting the Farmers' Bank or the Ontario Bank could have noticed the defalcation?—A. Probably in the case of the Farmers' Bank he would.

APPENDIX No. 2

Q. And would not the moral effect of government inspection or external inspection have any weight with a man like that?—A. I do not think it would have the slightest effect on Travers, because we sent our inspectors to make investigations. The Bankers' Association had information that a package of bills had been taken out of the bank and conveyed to Utica, or somewhere else and we sent our inspector there to find out about it. There were the books and documents and there were the bills.

Q. Did Travers refute the authority of the Bankers' Association?—A. He tried to.

Q. But he could not repudiate the authority of a man appointed under Act of Parliament, could he?—A. No, he could not.

Q. So if a man were acting under the authority of the Bank Act in going and making his inspection of a head office, he would carry that weight, would he not?—A. Certainly.

Q. And Travers or no other person could repudiate that authority?—A. Certainly not.

Q. Do you think that if an outside inspector of the government would step in and look into the affairs of the bank it would have some deterrent effect on improper operations?—A. It is utterly impossible, you cannot have government inspection, it is a physical impossibility.

Q. But leave the government inspection out, say external inspection?—A. The shortage at Toronto might have been occasioned at any of its branches.

Q. Do you mean to say that one of the branches might lose $500,000 to the bank?—A. All our losses have been at our branches.

Q. But that would have been known at the head office?—A. Yes.

Q. But if the inspector had the authority to inspect not only the head office but any of the branches, he would have the opportunity to inspect those branches?—A. He would.

Q. It would not be merely a moral effect, but it would have a positive effect?—A. The moral effect would be there, but supposing it is down at Porto Rico, or Cuba, or London, England, or the City of Mexico.

Q. They have a national system of inspection in the United States.—A. Which is a failure.

Q. Mr. Forgan, if you read his evidence, said he would not abolish the system?—A. Yes, it terrorizes.

Q. He said the moral effect was good; do you care to disagree with that?—A. I would not like to see it abolished in the United States, they have a very different banking system, they have units.

Q. Corresponding with branches of the Canadian system?—A. Yes.

By the Chairman:

Q. Does it correspond with our system?—A. He means in number.

By Mr. Sharpe (Ontario):

Q. You have a system of inspection of the various branches, have you not?—A. Yes.

Q. And it is a very rigid system?—A. Yes.

Q. You would not care to abolish that system?—A. No.

Q. You believe in inspection of the branches?—A. Yes.

Q. But you do not believe in the inspection of the head office?—My head office is inspected.

Q. By whom?—A. By the directors.

Q. Who inspects the directors?—A. The shareholders, I suppose.

Q. Does the shareholder of his own motion ever have the right to go into the bank and look over the securities?—A. No, you would not like that.

Q. You would not say the shareholders have supervision over the directors?—A. You understand that the Bank Act says that a man cannot, no one can come into the Bank and inspect the accounts, that is against the law.

Q. I was not suggesting that should be done?—A. I thought you were.

Q. Do you think we require any other system outside what is provided in the Bank Act?—A. I am prepared to support what is in the present Act because I think it is the most expedient system, and it is not like the laws of the Medes and Persians, you can change it the next year if it does not suit.

Q. Do you think there should be any limitation to loans to directors, for instance?—A. Our directors do not borrow enough.

Q. Do you think there should be any limitation?—A. Oh, I think it would be wise, I do not think the directors ought to borrow too much.

Q. You are not opposed to the suggestion to put a legal limit on the amount they should borrow?—A. I think it is already provided for, the shareholders who control and own the bank have the right to do that.

Q. They may do it?—A. Yes, they can do it.

Q. In the United States they have a limitation of the amount a bank can loan to any individual up to 10 per cent.

Q. Mr. McLeod says he is in favour of a limitation in Canada up to 25 per cent. What would you say as to that?—A. 25 per cent of the paid-up capital is a large amount.

Q. To any one company or to any one individual?—A. In the United States they resort to the practice, $100,000 is the limit, and they discount notes for $99,900, and a bank I heard of the other day had ten of those notes.

Q. Would you be in favour of the limitation of the loaning powers of a bank?—A. No, I would let the shareholders decide that. I would set the limit through the shareholders.

By Mr. Nickle:

Q. I am reading now from some evidence that Mr. Forgan gave, and am transposing it into the first person. He said: 'I would be in favour of external audit and inspection, provided this Committee could devise an adequate scheme that would prevent the state becoming involved through indirect responsibility.' Would you agree with that?—A. I would like you to repeat that question.

Q. 'I would be in favour of external audit and inspection, provided this Committee could devise an adequate scheme that would prevent the state becoming involved through indirect responsibility'?—A. Yes, that is very plain; he states that the state would become involved in responsibility if they did it.

Q. I am afraid you do not apprehend the point. I will read it again. He said: 'I would be in favour of external audit and inspection, provided this Committee could devise an adequate scheme that would prevent the state becoming involved through indirect responsibility.' Do you agree with Mr. Forgan's conclusion?—A. Well, it is not a fair question to ask me, because he has nothing to propose. What he says is that the state would become involved; he is a very clever man, and he says, 'I cannot discover any method by which it can be done.'

Q. There is one thing I would like to figure up, it is not of very great importance, in regard to the duty of the shareholders. As a matter of fact, does not the bank, as distinguished from the shareholders, send out prior to the annual meeting to each shareholder a power of attorney in blank in favour of the directors or some officer of the bank?—A. I think every company does it, not only the banks, they all do it.

Q. And so, because the shareholders have confidence in their directors, as a rule they sign these proxies more or less unanimously and return them to the head office?—A. Yes.

Q. So that when the annual meeting is held as a rule, the bank, as distinguished from the shareholders, or the officials of the bank, are in a condition to poll a majority of the votes polled, if they so desire?—A. The officials? What do you mean by officials?

APPENDIX No. 2

Q. I mean those who control the directors?—A. You mean the directors; no official is allowed to vote.

Q. Then by the directors?—A. Of course the directors do.

Q. Then it comes to this that when the annual meeting of the bank is held as a rule the directors are in a position to control the meeting either by their own vote or the proxies if necessity requires?—A. If they have the proxies.

Q. And, as a rule, they have the proxies?—A. Yes.

Q. Then in regard to the question of the inadequacy of the inspection, are you not aware as a fact that an official of a certain bank went into the Ontario Bank in order to advise the head office of another bank whether they should take it over, and in one week he was able to report against it?—A. I have heard that stated.

Q. I was careful how I worded my question. I asked if you are not aware as a fact that it occurred?—A. I would not like to swear to it. I have been informed, that is as far as I ought to go.

Q. Have you any reason to assume that the understanding that you have as to that is incorrect?—A. No.

Q. Then I had reasonable ground for saying that this could be ascertained within a week?—A. I would not like to say within a week.

Q. Make it two weeks, then, a reasonably short time. An official of another bank was able to report against the Ontario Bank being taken over by the bank which employed him?—A. By his bank.

Q. By his bank?—A. I could not say that it was because insolvency had been discovered.

Q. In considering the financial standing of the institution he was not of the opinion that it was of such a character as would justify the other bank taking it over? —A. I suppose it would go quite as far as that, because it is only hearsay. I know this, however, that another bank took it over a week afterwards.

Q. Why?—A. To pay its debts.

Q. And saved the financial situation in the country?—A. I don't say it saved the financial situation.

Q. Was not that bank taken over by the Bank of Montreal simply to save the financial situation of the country at the time?—A. The Bank of Montreal made an awful good bargain, made an awful lot of money out of it—for themselves.

Q. And they wanted to uphold the banking system of the nation?—A. They did it at the request of the Ontario Bank themselves and with the approval of the other banks.

Q. That situation was forced upon them by the Ontario Bank's having closed their doors?—A. They had not closed their doors. If they had, there would have been no object in the Bank of Montreal taking it over.

Q. They took it over at 2 o'clock Saturday afternoon, after they had closed for the day?—A. No, in the morning.

Q. On the Monday morning?—A. I am not sure whether it was not Friday morning.

Q. I know they closed their doors for the day and it was taken over by the Bank of Montreal?—A. The Ontario Bank liquidation was one of the most beautiful and successful operations that has ever taken place.

Q. You speak from the point of view of the shareholders?—A. Yes, the shareholders, and if the same thing had been done with the Sovereign Bank, if they had been wiped out in the same way the shareholders would have saved a large amount of money instead of being loaded with trouble.

Q. Do you think it was satisfactory for the shareholders of the Ontario Bank?— A. I do, I think they should be satisfied, and I think they are, I never heard any objection.

Q. Then from your point of view the audit as established under the Act is the best possible thing that you, as a banker could devise?—A. Yes.

Q. As applicable to our banking conditions?—A. It is absolutely. I do not think it would be wise, as Mr. McLeod suggested, to have the managers of the other banks, rival banks, select the auditors from whom the shareholders would be obliged to choose.

Q. Then you think it should be left with the shareholders, that it should be their duty to nominate and appoint any one, no matter whom?—A. Any one that they think qualified.

Q. To do the auditing?—A. Yes, I would advocate that the man, whoever is appointed by the bank, be approved by the Minister of Finance, but I can well understand that the Minister of Finance thinks it is not fair to place any Minister in that position where he is to say that a person is or is not qualified or a desirable person to appoint.

Q. Then you think it is advisable that these auditors should be pronounced upon by some authoritative body?—A. If the Finance Minister would undertake it I am sure we would all be very glad.

Q. Could it not be managed that this board from whom the auditors should be chosen would be stamped with the approval of the general managers of the banks or the Bankers' Association?—A. No, I do not think they ought to be allowed to interfere.

Q. Not in any shape or form?—A. No, I do not think it is right for me to have anything to say about who shall be appointed auditor of the Bank of Montreal. I do not think it would be right.

Q. Then in respect to your own bank, as the Finance Minister refuses to accept this responsibility, and you do not think the Bankers' Association should have this responsibility, and as the scheme as outlined is inadequate. would you leave it wide open and not do anything?—A. No, I say you should order that the shareholders should appoint auditors for the purpose.

Q. How are we going to determine, as legislators, the competency of those auditors? That is what bothers me.—A. You remember with the old Insolvent Act, during the last three or four years of its existence, up to that time everybody was somewhat particular as regards the choice of official assignee, and when the government decided to do away with the Act, I think Sir John was in power in those days, anyone could be an official assignee; the political pressure became so great that any person could obtain appointment, and I think you can well imagine the state of things which resulted; there might be the same condition of affairs as regards the banks, and anyone might be appointed official auditor.

Q. I do not want to get off the question of public audit, I just want to follow that line a little further. You say nothing would have influenced Travers.—A. Nothing good, no.

Q. Do you think that there are no other Travers' anywhere in banking, or that there is never going to be another Travers?—A. There has only been one.

Q. I would say there have been three. How about Mr. McGill?—A. Poor McGill, I have always been sorry for him, I do not think he could help himself or benefited by his wrong-doing.

Q. How about Stewart?—A. Oh well, Pierpont Morgan is responsible for Stewart he killed him by kindness.

Q. I think you are a man of charitable disposition, if you think the public should be left at the mercy of men of the temperament of Travers, McGill and Stewart?—A. The public?

Q. That the public should be left at the mercy of men of that type?—A. No, I do not say that.

Q. I want to see if you cannot make some suggestion to enable this Committee to arrive at a method of legislation that will prevent irresponsible and viciously inclined men from abusing their powers.—A. You see in these cases you have mentioned there are exceptional circumstances. With regard to the Farmers' Bank, no

doubt you know how that arose, and you know there is a claim in against the country for payment of those depositors and of course a claim for the payment of the notes owing to the so-called irregular issue of charter. The Sovereign Bank is a case, which I think you could apply. There the depositors and the note holders would have had grave reason for taking exception if they had lost their money, but they did not, they got everything that was coming to them. So far as the Ontario Bank is concerned, the depositors were paid in full so that there again you are confined strictly to Travers.

Q. What I am trying to get at is a principle, and perhaps my language is inadequate for expressing my ideas, but I am trying to make myself clear. You admit you have seen irresponsible and viciously inclined men in control of these financial institutions, and I suppose, judging from experience—the only thing on which we can found our knowledge at all—there are likely to be again men of that character in control of banks Now, are you taking the position that this Committee should admit its inability to meet such a situation, and that we should not try to form a method that will prevent the recurrence of such failures?—A. I say there was only one such case. I say that McGill was led astray in his endeavours to help out the bank. I do not think he went in to make any money himself.

Q. I am not saying that he did?—A. Therefore, I would not call such conduct vicious in the sense you mean.

Q. I would call it vicious when a man risks the capital of a bank in such speculation?—A. You are quite right, but he was not only to blame.

Q. That is a technical justification?—A. There is really no justification.

Q. This man was in control of the bank?—A. I do not know that; some people say he was not.

Q. Then let us assume he was not?—A. What you really want to know is whether I can suggest any better scheme than the scheme suggested by the Minister of Finance. I say I know of none, and that the scheme proposed by the minister is ample and sufficient.

Q. That is your answer?—A. That is my answer. Remember the Minister has a right to send for those auditors and question them and get all the information he wants from them without the interference of anybody.

By Hon. Mr. White:

Q. I want to ask you some questions without having to in any way examine or cross-examine. What I think the Committee and myself are anxious to do if possible—if the plan suggested in the Act is finally adopted—is to qualify these auditors, to make sure that these auditors, no matter whether they are appointed by the shareholders or appointed by the directors on the proxies of the shareholders, to ensure that these auditors will be men of such integrity, character and ability, that the recurrence of such failures as the Farmers' Bank will not likely take place. Now, we all realize—at least I realize fully because I was connected a very great deal with it last year—that the matter is full of difficulty, but this is the point we are all labouring at. I am going to ask you a question so as to get the benefit of your advice, and I want to state one of the difficulties that occurred to me is in the Minister selecting or approving of the auditors. In the first place there are, we will say, fifty firms of accountants, chartered or otherwise, in the city of Toronto, probably as many more in Montreal and in all other large cities. I do not see myself on what principle—unless there is some conviction against him—on what principle a public man could reject a firm of auditors apparently in good standing, carrying on their business in a community. That is one of the difficulties that occurred to me. The Minister would say, 'Here are fifty firms.' He might make inquiries and say these bear all reputable men, so far as I can understand, and men of fair ability.' It would seem to me to be extremely difficult for the Minister—I say extremely difficult having regard also to the fact that we know pressure is brought to bear in the interests of particular firms

and of governments, which perhaps should be withstood, but nevertheless it is a fact—to fix upon a list. Now, would it be possible for the Canadian Bankers' Association, as an association, or for the general managers of the banks, as suggested by Mr. McLeod, although he did not suggest what I am now going to propose, would it be possible for the Bankers' Association to make a selection of a firm of auditors in Canada, who, in their judgment, would be competent to make a bank audit, with the power of the Minister to accept or to reject, whichever would be decided upon? Would it or would it not be feasible, in your judgment, in order to help this Committee to try and reach the thing we all have in view, namely qualified auditors—would the Bankers' Association find any reasonable difficulty in the way of assisting the minister in the making of a selection of competent auditors throughout Canada from whom banks at their annual meeting might choose auditors——

The CHAIRMAN.—Naming a panel?

Hon. Mr. WHITE.—Yes, naming a panel, as the Chairman has said.

A. In doing that it would throw the responsibility of appointing the auditors upon the Bankers' Association. They would be held responsible for the selection of the auditors and it would be destructive, I think, of the independent audit. The banks themselves would audit themselves. That would tend to the creation of a ring, and, I think, would be rather injurious.

Q. Then I understand your view on that point to be that the responsibility would be placed on the Association and that it might interfere with the independence of audit?—A. Yes.

Q. Does the last appeal to you as a strong objection? That is to say it might interfere with the independence of audit, and might create a ring, that the audit would be in a sense done by the banks themselves?—A. The audit would be done by the banks themselves, that is my principal objection.

Q. One other point a little apart from that: take the case of the Ontario Bank and the falsification of entries which took place at the head office. In connection with banks having offices all over the world, is it possible, that, by collusion, frauds take place at any office and on a large scale, is it necessarily confined to the head office?—A. No, not necessarily. Losses by fraud may occur in the United States branches.

Q. Then does it get back in the last analysis to the integrity, character and ability of the man in charge?—A. Yes.

Q. Are you sure about that?—A. Yes.

Q. You have no doubt about it?—A. No doubt about it. It comes down to this in the long run: as I told you, the losses, in my experience, that have occurred, or nine-tenths of them, were at outlying branches. I do not mean to say that we have never had any, but any important ones that we have had have all been outside.

Q. Supposing you desire to make a thorough inspection of a bank so as to vouch for its standing in the community, would you be satisfied with an inspection at the head office only?—A. No, that would be absolutely absurd. As I told you before, an inspector can go through our head office in half an hour. But to go over $70,000,000 of assets—that is the amount we have—with twenty or twenty-five millions out of that amount scattered over the Northwest and British Columbia, one half of it probably, it would simply mislead me; if I depended upon it, and my inspector came in and said he had inspected the head office and it was all right, and then for me to go to sleep again quite satisfied. That would simply spell ruin.

Q. Just one more question: supposing you take a bank having, let us say, 100 or 200 branches, many of them very important banks in leading centres, what would you consider necessary, by way of inspection, in order to assure yourself, as an experienced banker, of the true position of that bank so as to be able to vouch for it to the public?—A. I would first of all send out copies of accounts to every correspondent and have the accounts adjusted. I would have a notice sent out to every depositor in the bank in order to find out whether the amount that appeared on

deposit to the person's credit or debit was correct. That would be absolutely necessary. In the meantime I would have to send my inspectors to the offices all over the country. In our case we have 110 offices, and it takes us seven months to inspect them.

Q. With your staff?—A. With our staff, and we have a good many inspectors.

Q. Would a simultaneous audit be necessary?—A. The audit to be correct ought to be simultaneous, otherwise the 'goods' may go from one office to another and do double duty.

Q. Would you say that current loans and discounts should be inspected, in order to ascertain whether they are good or not, at all the offices of the bank, such as I have just mentioned all over the world?—A. That is utterly and physically impossible, it cannot be done. I have been reading all the winter letters from our inspectors, so as to keep in touch with what is going on all over the country, and it is utterly impossible for any system of inspection to cover the assets of a Canadian bank if it is attempted to be done, otherwise than over a long period of time.

Q. There is a provision of the Bank Act at present, whereby the Minister of Finance may examine into the affairs of a bank at any time, either through the auditor or otherwise. I was going to ask you if the Association had knowledge, as I think it probably has, of improper practices on the part of a bank such as the Farmers' bank? —A. Yes.

Q. I was going to ask you as to whether it would not be proper for the Bankers' Association to bring that fact to the attention of the Minister, so that he could investigate. I believe myself that a competent inspector can go into a bank that is in a bad condition and in a short time ascertain that fact in a general way. I do not believe myself that a continuous inspection that will be of value can be made unless it is as thorough as the banks themselves institute all over the country. That is my own opinion, and I give it for what it is worth. Now, would it not be feasible and proper for the Canadian Bankers' Association, having the knowledge that a bank is in the situation that the Farmers' Bank was, and mismanaged the way that bank was, to pass on that information to the Minister, so that he could make the investigation provided for in the Act?—A. That would have to be done in writing.

Q. Supposing they did have to do it in writing, would or would it not, be in the interests of the Bankers' Association and of the banks generally that that should be done?—A. Certainly, but the Bankers' Association in doing so would be meddlesome, under its present constitution.

Q. I know, but we want them to be meddlesome sometimes, we want them to be very meddlesome properly?—A. If you could encourage the Association to do that we would do it.

Hon. Mr. WHITE.—Then I think I would encourage them, that is my view, because I believe the Clearing House Association in the United States has been a wonderfully useful institution, a most effectual institution for the inspection of the banks. Now, the Canadian Bankers' Association corresponds to that in a different way—I say in a different way because, on account of our branches, the situation is radically different from the American situation as pointed out by Mr. Forgan. Now, information comes to the Canadian Bankers' Association that would never come to anybody else in the world, because they are in the business themselves, they get information and get to be wise with regard to the affairs of a particular bank. If a connection could be established between the Canadian Bankers' Association and the Minister, whereby anything that the bank may apprehend in the way of improper or grossly improper banking, could be brought quickly to the attention of the latter, such a provision might be very effective, and that is the idea I had in introducing it.

By Mr. Aikins:

Q. If some such obligation were put upon the Bankers' Association to do that, and their communications to the Minister were privileged, is it not possible that such

a provision might be made effective?—A. I think it will be made effective by the authority the Minister has to send an auditor into the bank.

Q. But I mean outside of the auditor?—A. The Minister can choose whom he likes.

By Mr. McCurdy:

Q. You are satisfied, I presume, with the financial condition of your bank?—A. Yes, perfectly.

Q. Why are you satisfied?—A. Because I know it well, I know it by heart.

Q. Do you visit the branches yourself?—A. It is not necessary for me to do that. It would be a physical impossibility, as I said before, but I have trusted officers.

Q. You have full inspectors' reports at your office?—A. Yes

Q. From which you can satisfy yourself as to the bank's condition, whether it is good or bad?—A. Yes.

Q. It is not necessary, therefore, to send an external bank inspector to visit all the branches?—A. Oh, yes. The inspector must visit them. There are a dozen inspectors and it takes them seven months to get through their work.

Q. Any external examiner appointed would have access to the reports, and be able to come to a conclusion just the same as you do, from an examination of those reports? —A. I do not know. I read Mr. McLeod's statement (I think Sir Edmund Walker quoted it) that he employed a firm in Edinburgh because they did not know anything about Canada.

Q. You have nine directors. How much of their time do they give to the affairs of the bank?—A. Well, I do not know. Sir William White, for instance, has an office in our Winnipeg building and is in it every day.

Q. And speaking of your board?—A. I have to take them separately, because they live at different places. Sir William White lives in Winnipeg. Mr. Turner lives in Quebec, and is in the bank every day, I fancy.

Q. Let me put it in this way: does the director who gives the smallest part of his time to the bank devote three hours a week to it?—A. Not that much, because the one who gives the smallest part of his time is Mr. Ramsay, who looks after our interests in Scotland. Attending board meetings is not the sole duty of a director. I do not see how I can answer you any better than that.

Q. Would it be fair to say they do not spend more than one tenth of their total time on the affairs of the bank?—A. I do not suppose they would spend one-tenth.

Q. I assume that before allowing their names to be used as directors, they have satisfied themselves as to the bank's conditions?—A. They do not allow their names to be used.

Q. But they are directors?—A. They are directors elected.

Q. They take the responsibility of assuring shareholders that the affairs of the bank are in good condition?—A. Yes.

Q. And they feel justified in assuming that responsibility after giving only one-tenth of their time to the bank?—A. They take that responsibility before they have given one minute of their time. They take it in the first place.

Q. The point I wish to make is this: If a director can be assured of a bank's position, by giving less than one-tenth of his time to the affairs of that bank, could not an external examiner, having access to the same information as that director, also come to an intelligent conclusion?—A. If you can punish an external examiner for being wrong, in the same way as a director can be sent to the penitentiary, it might be so, but there is no punishment for inspectors who go wrong.

By Mr. Thornton:

Q. Had you any idea, when the Farmers' Bank received its certificate, that it was starting on an unsound basis?—A. I think everybody thought so. I certainly did.

APPENDIX No. 2

Q. All the bank managers had that idea?—A. They all thought so. Of course they knew it was possible to start it on right principles. In scattering their shares all over the country I think they did a very wise thing. There was nothing in that to make people suspicious.

Q. When was the Farmers' Bank admitted to the Bankers' Association?—A. The moment it got its charter from the Minister of Finance.

Q. Had the Bankers' Association power to prevent that bank becoming a member? —A. No.

Q. They became a member automatically?—A. Yes.

Q. Did the managers of the different banks in the Association take any steps to inform the people of their suspicions?—A. No. They had no right to do that.

Q. Why not?—A. Because they did not know anything definite; they only knew that such management was likely to lead to trouble. They had no knowledge of the large loan to the Keeley mine. That was quite a surprise to them when they heard it.

Q. Yet there was a suspicion in the minds of the managers that something was wrong?—A. That something would be wrong.

Q. Would it not have been wise to have had a provision in the Bank Act, whereby the Bankers' Association could have legally stopped the wrong they suspected?— A. Certainly it would have been an advantage.

Q. Should not the Bank Act of to-day provide for an emergency of that kind?— A. I think the Minister of Finance said he is going to do something.

Hon. Mr. WHITE.—What I had in mind, Mr. Thornton, is this. I think it is almost impossible to provide legislation imposing on an institution the duty of passing on information of that character, because there would be degrees of impropriety, so to speak, in management, the determining of which would be a matter of judgment. I do not believe you can deal with that by legislation, but I think there ought to be a closer relation between the Bankers' Association and the Minister in regard to banks that may get in a bad way.

Mr. THORNTON.—In the county that I represent, many people have suffered by the failure of a private bank. They have also lost, as shareholders, in the Ontario Bank, the Sovereign Bank, and some of them in the Farmers' Bank, and these people write me, 'Where can we put our money so that it shall be safe?' The point is this: A great many people have lost confidence in the banking system of our country, and what the Committee wants to do, if possible, is to revise the Bank Act so as to restore the confidence that has been lost. That is the object we have in view, and there ought to be some kind of government supervision, or at least some power, whereby this object could be attained.

By Mr. Aikins:

Q. Just one question arising out of the difficulty of auditing branches of Canadian banks outside of Canada—is it not quite possible, under our existing system of returns, for a bank having agencies abroad to enter up, as due by foreign agents, the whole amount of investments in a foreign country, although those investments may consist only of past due bills?—A. Under the present system of returns I think that is possible. I do not know about the new Act. The new Act, I see, reads 'and correspondents,' and I think that does away with the greatest part of the danger, but it is open to interpretation. By the present Act, a bank may choose entering in its balance sheet rendered to the government its foreign items separately or in bulk. They can leave out all their foreign liabilities in the shape of deposits, providing their foreign loans are equal to deposits, but this, I hope, will be overcome by the new Act.

Q. In what way would you suggest?—A. By putting in the necessary words if 'correspondents' does not mean other banks than their own agencies.

By Hon. Mr. White:

Q. 'Correspondents' means other than their own banks?—A. I know you intended that, but I do not think——

Q. I do not believe that a bank's office in New York would be called its correspondent.

By Mr. Aikins:

Q. What do you think the interpretation of 'correspondent' should be—outside branches?—A. No; another bank acting as agent.

By Hon. Mr. White:

Q. An agent.—A. It will bring into the balance sheet all the items that are now excluded, and there could be millions and millions.

By Mr. Nesbitt:

Q. If the present suggestion of the Minister with reference to audit comes into force, would you advise that a copy of the report of each bank be sent to the Minister? —A. I think that the Minister has a right to demand a copy of the auditor's report. I think it is provided in the Act that he should be furnished with one.

The CHAIRMAN.—I am sure I am expressing the sentiments of the Committee when I say we are greatly obliged to Mr. Wilkie for giving evidence before us. (Loud applause.)

Witness retired.

Committee adjourned.

EXHIBITS

LIST OF EXHIBITS.

PAGE.

No. 1.—Letter from H. C. McLeod, dated New York, April 8, 1913, *re* Audit or Inspection of banks.. 671

No. 2.—Pamphlet issued in 1909 by H. C. McLeod on the Necessity of External Examination of banks.. 672

No. 3.—Address by J. B. Forgan on Clearing House Bank Examinations.. 693

No. 4.—Address by J. B. Forgan on Guaranty of National Bank Deposits.. 698

No. 5.—Address by J. B. Forgan on Bank Supervision and Management.. 713

EXHIBIT No. 1

THE WALDORF-ASTORIA,
NEW YORK, April 8, 1913.

H. B. AMES, Esq.,
Chairman, Committee of Banking and Commerce,
Ottawa, Canada.

DEAR MR. AMES,—With reference to the audit or inspection of the banks, while my original thought that the audit board with an expert banker and accountant at its head is the ideal method, it has been pointed out by some bankers, whose opinions I respect, that from a practical standpoint, there may be difficulties in obtaining real satisfaction in the working of the plan. Some weight may be attached to the objection that the head may become unbearably autocratic.

A compromise method has been suggested, which compromise will, I have little doubt, work out to be a good form of external examination. It is as follows:

The shareholders of each bank shall, at their annual meeting, nominate six auditors for the ensuing year. These nominations shall be advised to the Canadian Bankers' Association. From this list, two names shall be selected by the association by *secret ballot,* which two names shall be submitted to the Finance Minister, for his approval.

For the first audit, special general meetings shall be called for the purpose of appointing auditors for the current year. In the event of the death or inability of an auditor so appointed, a selection may be made from the other four persons nominated at the shareholders' meeting of the bank, or the Finance Minister may appoint an auditor or auditors. Should any bank fail to appoint auditors, it shall be the duty of the Finance Minister to appoint such auditors.

I think there is merit in any method under which each bank will frequently have a change of auditors, and this is a feature of the audit board, but this method has not been tried in other countries.

I would urge that the Minister of Finance should discourage the plan of having the same auditors approve the balance sheet of any one bank year after year; a system under which the auditors are likely to regard themselves as employees of the bank, and subject to the general manager's favour. Auditors should not act for one institution for more than two years in succession; possibly as much may be accomplished by the practice, or unwritten law, of the department, as by an enactment regarding rotation of auditors.

With the rapid expansion of banking figures the Bank Act will likely need attention before the expiration of ten years. I therefore second the suggestion that whatever the term for which the charters may be renewed, that they be limited or extended by the words 'or until further amended or otherwise legislated upon.' This will cover the objections of the foreign purchaser of shares, that the banks have only a limited legal existence and the shares are therefore undesirable.

On going minutely into the statistics of banking, I found I had underestimated the average amount of interest bearing deposits for the years 1907-1912, and consequently the rate of earnings on bank funds quoted to your Committee was $\frac{1}{16}$ of one per cent too low. I at once sent corrected figures to the press; I shall forward you one of these printed statements as soon as they follow me here.

I am sailing with my family on the *Olympic* on Saturday.

Yours faithfully,

H. C. McLEOD.

EXHIBIT No. 2.

BANK INSPECTION—THE NECESSITY FOR EXTERNAL EXAMINATION.

The first edition of this pamphlet was printed on November 15, 1909, and copies were sent to the general managers of Canadian banks. A conference of bankers followed, from which a faint hope was indulged that the bankers would go on record in favour of some effective system of inspection. This hope led to withholding the pamphlet from general distribution pending action by the Canadian Bankers' Association at its meeting on November 25, 1909. A motion that the substance of the suggested amendment to the Bank Act (see page 37) should be adopted as a recommendation to the Finance Minister, did not receive other support than to be referred to a committee quite out of sympathy with inspection from without. The pamphlet is therefore presented to legislators, to bank shareholders, and to the public generally. Facts are the best arguments, and even bankers opposed to the scheme of external inspection herein suggested admit that the arguments presented are unanswerable. I ask careful perusal, unbiased judgment, and independent action.

H. C. McLEOD.

TORONTO, November 26, 1909.

BANK INSPECTION.

Announcement has been made that the Bank Act will be revised during the present session of Parliament. This, therefore, seems an opportune time to give some extended consideration to the desirability of adopting in Canada government inspectiontion of banks, or the independent audit of banks by other means. I have long been convinced of the needfulness of independent examination, and advocated its adoption at the last decennial revision of the Bank Act. The weakest point in the Canadian banking system is the lack of any check on the direction and general management, and to this defect failures are mainly due. The government examination of the United States, and the independent audit of Great Britain and other countries, in effect investigate the conditions under which each bank is governed. The supervision of banks which is advocated is is not experimental; in one form or another it is in vogue in countries transacting more than three-fourths of the business of the world.

On November 22, 1906, the 'Globe' published an article over my signature urging external examination of banks.[1] That article called attention to bank failures in Canada, which were twenty-five per cent in number within the preceding twenty-five years, while in the United States even an imperfect system of examination had reduced failures to five per cent. The article, although generally commended by the public, called forth criticism by some bankers opposed to external examination. Sir Edward Clouston in his annual address, of December 3, 1906, to the shareholders of the Bank of Montreal, said:—

'During the last quarter of a century, by failures of banks which could be organized under our present banking laws, the loss to depositors has been under $750,000. The noteholders, of course, have lost nothing. I speak only of banks that could be organized under our present Acts. Other banks during that period failed, involving loss to both depositors and noteholders, but they were acting under old charters, and under conditions which do not now exist—in one case there was no double liability. Out of the twelve banks that have suspended since 1880 five only could obtain charters under our present system.'

[1] The letter appears in the addendum, page 27.

APPENDIX No. 2

Of the banks in existence at the commencement of the period mentioned by Sir Edward Clouston, some were organized under provincial charters with smaller capitalization than the Canadian Bank Act requires; some were eligible to be organized under the present Act; all were permitted to do business under the Act. A number of each kind failed, not for the reason of size, but on account of the quality of the management, which in all cases was reckless, in most cases fraudulent. If it be argued that small banks are more prone to disaster than large ones, the low percentage of failures in the United States, where the banks average very small in comparison with Canadian banks, gives increased weight to my contention. With capable management a bank of $200,000 capital is not more liable to disaster than a bank of $2,000,000 capital: the one must be content with a small circle of operation; the other must avoid the temptation to reach out with the dash and daring that in too many instances, for want of restraint, has resulted in menace and wreck. Splendid examples of banks that started with exceedingly small beginnings may be cited from the list of active Canadian banks. Without prudent management capital is short lived; lack of prudence, which often progresses to fraud, is what external examination should disclose.

Sir Edward Clouston seemingly intimates that statistics of failures in Canada that take in the eighties are too remote. Investigating the period, 1893-1909, it is found that at the beginning there were thirty-nine banks, not under suspension, reporting to the government ; nine new banks have since commenced business, making forty-eight in all; ten have disappeared through mergers, and nine, or about nineteen per cent of the whole, have joined the 'majority,' leaving at present twenty-nine banks in active operation. I say 'majority' advisedly, for investigation shows that in the history of incorporated banks in British North America, the list of failures exceeds in length the list of institutions active in 1909.[1] To claim that our present system has an effective restraining influence on bank management is to argue against the statistics, and to urge a virtue in the Bank Act that experience shows is wanting.

In respect to the claim that less than $750,000 was lost to depositors by banks entitled to organize under the present Act, it is worthy of note that, although joint stock banking in Australia was commenced in 1816, up to the bank crisis of 1893 depositors in Australian banks had been wholly free from loss.[2] In that year the Australasian banking crisis culminated, with liabilities of suspended banks exceeding in volume the aggregate liabilities of all suspended companies and firms during any financial crisis that has ever occurred within the British Empire. I shall again refer to this crisis.

As early as 1875 the audit of banks was a subject of discussion in Canada. I quote from an article of that time: 'Now, the only way in which an examination of a bank with branches could be carried out would be by a simultaneous audit at all points on the same day.' Strangely enough, the same argument is the most prominent to-day; despite the audit of all the banks in Great Britain, in Australia, in Switzerland, in Austria and in Russia. In Germany, the subject of bank audit is now under discussion. The branch banking system prevails in all those countries, some banks having more than twice as many branches as any bank in Canada. If there be any Canadian bank of which a fairly clear insight cannot be obtained by intelligent auditors within a week, by examination at the head office alone, that bank's system is out-of-date, and a chartered accountant's assistance might not be amiss for the purpose of improving it. In our investigation of the causes of failure of banks operating branches, we have not found one instance in which failure was due to bad management at the branches. The general management is always at fault, and the directors are frequently involved. There is almost no other history of the cause of bank disasters in Canada, and the

[1] Mr. Coulson's remarks at the annual meeting of the Bank of Toronto, January 9, 1907, are interesting. (See addendum, page 35.)

[2] Mr. Cork's paper of 1894 on the crisis of 1893: 'It had been the proud boast of Australians up to this crisis that no creditor of an Australian bank had ever lost by the banks.'

same appears to be true of other countries having similar systems of banking. We have no record of fraudulent failure in which the vicious conditions existing could not have been readily detected by an expert at the head office of the bank. The assumption that a simultaneous inspection of every office is necessary to an efficient examination of a bank's condition would therefore appear to be groundless. In fact examination of a bank's branches by auditors from without is not necessary. The correctness of this statement should appeal to all practical inspectors; and the proposal to forestall and minimize disaster, by regular examination of the places where disaster is known to originate, should appear to the layman, as well as to the expert. to be all that is essential at present.

Before the stoppage of the City of Glasgaw Bank, the directors applied to the other Glasgow banks for assistance. After protest by the directors against the indignity of the requirement of an examination, *a chartered accountant with only four hours' examination* was enabled to form a definite opinion, and he advised that the application be denied, as the bank was irretrievably wrecked. This examination was made at the head office. In accordance with the almost invariable rule in such cases, the business of the branches had been properly conducted and was sound. This bank had one hundred and thirty-three branches.

The article of 1875, from which the foregoing quotation is made, concludes as follows: 'We shall have to trust as heretofore to the honour of bank officials, and surely, considering the high character enjoyed hitherto by those in the positions of president and cashier of our banking institutions, the country may well rely with a great deal of confidence on their representations.' To the writer of that article the then future presented the same assurances that the present affords. But, what of the subsequent record of fabricated balance sheets and fraudulent management? We may most wisely estimate the future by the past, and on that estimate urge legislators, if not bank shareholders, to call for bank inspection from without. Since banking began, the overwhelming majority of managers and directors have been and are entitled to the utmost confidence and the greatest respect. There have been many other managers and directors whose high social standing and seeming success have induced implicit confidence by the public, until their banks came under examination, when it was found that confidence had been abused, and that which from the outside looked like brilliant financiering was criminal recklessness. One of the features of the criminal trial of the City of Glasgow Bank directors was the number of witnesses of highest respectability that came forward to testify to the exceptionally high standing of the parties at the bar.[1]

The Montreal *Witness* of November 3, 1906, published a letter by a distinguished banker, from which the following is a quotation: 'it might interest the *Witness* to know that many years ago, at the periodical renewal of the bank charters at Ottawa, the government had apparently prepared themselves to establish this very scheme of independent audit. The matter was introduced and elaborately discussed by the Deputy Finance Minister, who knew that the bankers were all opposed to it; and as proof of its feasibility quoted from the *English Bankers' Magazine* a report of one of the largest Australian banks doing a business much larger than the Bank of Montreal. This report had attached to it a certificate of its correctness by a firm of English auditors of the usual high standing such as the one referred to by Mr. Elmsly. It was contended that this was proof enough of the practicability as well as the wisdom of the practice. Unfortunately for the Minister and his deputy, one of the bankers present happened to pick up the *Bankers' Magazine* just quoted from, and, on turning to the statement of the bank referred to, found on the opposite page a report of another Australasian bank—the Bank of New Zealand—equally good in all respects to the one quoted from, equally large, and apparently equally satisfactorily in every way.[1] It had also the usual certificate by the high class English auditors. The report was dated only a few months back, yet the banker was able to inform the Minister and his deputy

[1] Addendum, page 19, conclusion of Lord Advocate Watson's address.

[1] The Bank of New Zealand is now in a very strong position.

APPENDIX No. 2

that since the date of the report the bank in question had confessed to the loss of its whole reserve fund—a very large amount—and part of its capital. The banker put down the book with the remark: 'Comment is useless.' I think the *Witness* may make the same remark if it looks more carefully into the subject.'

Before reaching the conclusion indicated by the dramatic incident related, it will be well to consider the cause of the crisis in Australasia, and to ascertain whether it was the result of fraudulent book-keeping or of a general decline in values following a period of inflation. For some years before the crisis, bank deposits had grown steadily and rapidly, through advertising and 'touting,' not only in the colonies but in Great Britain. As bank deposits increased, competition for loans became keener, in order to keep employed the rapidly increasing bank funds. This competition encouraged loans on real estate, and induced speculation and inflation generally. We are told: 'The spirit of speculation ran mad, and financiers and adventurers of every kind had a carnival of dissipation with other people's money.' Land companies, building societies and other speculative companies were formed in considerable numbers; some closely affiliated with leading banks. Revelations of fraudulent management followed in due course, destroying confidence in even the old and legitimate building societies and land companies; causing a general smash of these corporations, and bringing the bank crisis of 1893 in the wake. The unwisdom of banks being permitted to virtually own or to affiliate with speculative or promoting companies, by whatever alluring name they may be called, is emphasized by this lesson from afar. A feature of the bank crisis was the comparative freedom of the banks from fraud and falsification. Nathaniel Cork, in his paper on the subject, says: 'No director or manager of any one of the thirteen reconstructed banks has been charged with prostituting his bank to his individual ends, and they are free from any taint of dishonour.' Growing distrust of the weaker banks, augmented by rumours published by unscrupulous journals of the yellow type, hastened their failure, and as distrust extended to the more conservative banks, a general and rapid shrinkage of values ensued, from which depression recovery has not been complete.

Bankers in decrying external examination are prone to refer to this cataclysm of 1893. A glimpse at the statistics may be instructive. Of fourteen banks that suspended in that year, thirteen were reconstructed.[1] The City of Melbourne Bank failed in 1895, the Standard Bank in 1899, and the Australian Joint Stock Bank now admits insolvency and is proposing reorganization. We may therefore count four failures out of twenty-three banks in existence at the commencement of 1893. From 1893 to 1909, with general prosperity, rapidly increasing bank deposits and advancing values, Canada shows failures of nearly one in five, while Australia, despite the long incubating causes of the panic referred to, with consequent shrinkage in bank deposits and in values, has a failure list which, from the statistics available at this writing, appears to be approximately one in six. We would seem to require to seek the records of some of the States of the American Union, during the wild-cat banking period of about sixty years ago, to find statistics with which our system may make favourable comparison. Whoever seeks the reason for this unfavourable result must reach the conclusion that the chief cause is want of supervision of the direction and general management of Canadian banks.

Prior to the crisis of 1893 the audit of banks in Australia seems to have been provided for in the acts of incorporation of the several banks; yet, in 1896, the Government of Victoria enacted an amendment to the Companies' Act, under which the banks were operating, making an audit compulsory by auditors whose qualifications are set out in the Act. This Act is an emphatic expression of opinion of those most capable of judging of the causes of the disaster; just as the audit of banks,

[1] The Bank of Van Diemans Land failed in August, 1891, and the Mercantile Bank of Australia in March, 1892.

which became universal in Great Britain after the City of Glasgow Bank failure, was an expression of the view of British bankers on the necessity for an external audit.[1] Of course, banks in Great Britain and Australia have their departments for internal inspection, but experience in these countries has shown that an additional protection is essential, just as Canadian experience has demonstrated that fabricated balance sheets will occasionally appear so long as there is no proper supervision of the general management and of the direction. Auditing from the outside has had the same salutary effect in Great Britain, under the branch banking system, that government examination has had in the United States, where banks are not permitted to have branches.

Mr. B. E. Walker's statement, of the 8th January, 1907, that there are many forms of possible loss which no government inspection or audit could detect, is not an argument against external examination.[1] Those who urge such external examination do not put forth the claim that thereby bank losses will cease. The best internal regulations fail to some extent and must ever fail so long as human judgment is fallible. Mr. Walker will not argue that for the reason that losses, and even irregularities, may occasionally escape the keen eye of a bank's regular inspector that inspectors are of no material service. Internal inspection is indispensable to any bank with branches, as every banker knows; notwithstanding that, in rare cases, it practically fails. The same fallibility applies to external inspection, perhaps to a somewhat greater extent, for the reason that external examination is more casual.

The trend of banking in all countries has shown that external examination is necessary; and, therefore, countries having in the aggregate about eighty per cent of the banking power of the world have adopted external examination of banks in some form. Before the civil war, banks in the United States failed to an enormous percentage of the whole number. We cannot suppose that the devastation of that war was conducive to stability in banking, yet, forty-three years thereafter, the disasters, as pointed out in my letter to the *Globe*, averaged only five and a half per cent according to number.[2] No person can gainsay that the improvement is mainly due to external examination adopted in 1863. At present there is probably not a banker of any standing within that country who would argue that banking there could be successfully carried on by the present system if the examination were eliminated.

Mr. Walker argues that the shareholders have the power to secure any kind of inspection or audit they want. There can hardly be a more perfect system of inspection and supervision of loans, from within, than that described in the ninth annual report of the Federal Bank of Canada.[1] Although the shareholders and the public received the assurance of the existence of an excellent system of internal examination, the system as described could have existed only in the examination. Evidently the statement improved the credit of the bank, for at its failure the losses aggregated about seven million dollars.[2] We need not refer to the control of the shareholders' meetings by the unworthy president of the Bank of London, nor lengthen this paper by similar references to other banks that have failed. Shareholders, outside of electing directors, take little interest in the bank of which they are proprietors; indeed they rarely take trouble to attend the annual meetings in sufficient number to form more than a quorum. In almost all cases, the directors and the management arrange beforehand the transactions of the annual meetings, and the shareholders in perfect confidence acquiesce.

Much has been written about management by directors, and in numerous cases directors have been held up in the pillory of the press for the reason that their bank had failed through the manipulations and deceptions of the general management. Lord Moncrieff, (Lord Justice-Clerk), charging the jury in the City of Glasgow case,

[1] The Western Bank of the Royal British Bank failed some years earlier. Both fraudulent.
[1] An extract from Mr. Walker's address appears in the addendum, page 34.
[2] See letter in the addendum, page 28.
[1] An extract from the report is given in the addendum, page 20.
[2] Monetary *Times*, Vol. 27, page 165.

APPENDIX No. 2

gave a practical view of the duty of directors and one that will appeal to bankers; he said: 'You have heard a good deal about what the duties of a director of such an institution are; and from the views that were quoted to you by my learned friend Mr. Trayner as having been expressed by the court in former cases I have nothing to suggest in the way of dissent. A director is generally a man who has other avocations to attend to. He is not a professional banker. He is not expected to do the duty of a professional banker, as we all know. He is a man selected from his position, from his character, from the influence he may bring to bear upon the welfare of the bank, and from the trust and confidence which are reposed in his integrity and in his general ability. But I need not say that it is no part of his duty to take charge of the accounts of the bank. He is entitled to trust the officials of the bank who are there for that purpose, and as long as he has no reason to suspect the integrity of the officials, it can be no matter of imputation to him that he trusts to the statements of the officials of the bank acting within the proper duties of the department which has been entrusted to them. You may assume that. It will not, however, follow from that, that where special circumstances arise to bring under the notice of the directors particular interests connected with the joint stock company, there may not ensue an obligation of inquiry and an obligation of action which might not be necessarily inferred from the nature of the position which they hold. We must look this matter plainly in the face as it actually occurs in practical life. Remark has been made on the amounts—the extraordinary amounts—disclosed in this case—amounts that take one's breath away as applied to ordinary commercial concerns; but we must not assume that in the inception of the said history which we have had detailed here during the last fortnight there was anything abnormal whatever.'

Whatever may be said of the privileges and the duties of directors, the fact remains that too frequently the general management of banks falls into the hands of the incompetent and unworthy. In cases where the directors are not involved they generally seek to do their duty; sometimes to find, after many years, that they have been systematically deceived. All, or practically all, of the directors of the Ontario Bank, although they gave what they thought to be the most careful attention to the bank's affairs, remained perfectly satisfied and proud of the solidity of their bank, until within a few weeks of the closing of its doors.

Viewing the development along the lines of safety of commercial banking in other countries, which has been shown to be greatly aided by external examination, surprise may be expressed that with a few exceptions the general managers of banks in Canada are opposed to the adoption of any of the systems of examination in vogue elsewhere. But the banks of Canada are more than commercial banks. In their much advertised capacity of savings banks they absorb a great portion of the floating wealth of the country. Much of the savings of the thrifty that are thus acquired comes from depositors not in a position to judge, or incapable of judging, of the quality of the management of the bank selected as a depository. Mr. Walker's claim, that it is not difficult to estimate the quality of the management of a bank, is correct, when applied to the facilities that a general manager may have of judging of a competitor, but depositors as a rule have not the technical knowledge necessary to a correct judgment. In this respect, the depositor of small means should be safeguarded. Another feature that entitles the savings depositor to consideration in banking legislation, is the fact that he is merely a general creditor of the bank in which his savings are placed. Noteholders are protected by the conditions of the law which make a bank's notes the first claim on its assets. The government is protected in that its claims come next; the savings depositor falls into the last class, that of the ordinary creditor who is paid only after the noteholder and the government. It seems only fair and reasonable that a class of creditors so little able as a rule, to afford the loss or even the temporary withholding of their small savings, and so little able to judge of the quality of the institutions in which their savings are lodged, should have the protection that may be afforded by external examination. The following extract from the report of 1907 of

Mr. Pierre Jay, Bank Commissioner of the State of Massachusetts, is a clear statement of the manner in which the necessity for protecting the savings depositor is generally recognized in other countries:

'The savings of those of small means, both in the United States and in foreign countries, have always been regarded as entitled to exceptional protection. Laws have been enacted carefully regulating the loans and securities in which savings may be invested by the agencies authorized to receive them. The Massachusetts Saving Bank laws have served as the models for those of many other States, and the system of savings banks which has grown up under them is one of the great achievements of the Commonwealth.

'The Governor in his inaugural address wisely recommended that the investment of savings deposits should be uniform in all institutions authorized by the Commonwealth to receive such deposits; in order that, whether he puts his savings in savings banks or foreign banking corporations or trust companies, the savings depositor may know that they are invested in the same kind of loans and securities, and are equally safe.'

In Canada, as we have already shown, instead of receiving protection, savings depositors are entitled to rank on the residue of a bank's assets only as general creditors. Depositors, large and small, have been placing their savings in Canadian banks since banking began in this country. In former years, the volume of deposits was moderate, but during the past twelve years there has been an enormous expansion in the totals. Most banks have dealt with these savings in a legitimate way. We know that in some banks that have failed, money has been dumped by the general management by hundreds of thousands of dollars, and even millions of dollars, into speculation or into promotion schemes. It is true that in recent years depositors have not suffered by the larger failures. This is not due to any protection thrown over them by legislation, but to the self-preserving action of bankers, combining to avoid the disturbance of credit and the distress that would be caused by suspension and ordinary liquidation. One unfortunate result of such combinations of banks is the idea that has gone abroad among depositors that deposits now are as safe in one bank as in another; an idea that is likely to be distressfully dissipated when the next bank wreck occurs.

From the arguments presented herein, it is apparent that the want of stability in our banks is not due to conditions appertaining to the business of the country. These conditions have been such as should insure success of banking institutions operating under any financial system entitled to exist unchanged. Despite favouring conditions, bank disasters have been of more frequent occurrence here than elsewhere, due in most, if not in all cases to causes removable by external supervision. We have seen that inspection from within is useless to prevent the failures that arise from the fraudulence of the general management, in which the directors often share. Where the directors perform their duty they are often deceived by the misrepresentations of the management. The directors and the general management of corporations of all kinds are accustomed to control the voting power at the regular shareholders' meetings: therefore, the suggestion that shareholders may have any audit they want is not a remedy that would be applied generally and effectively. The only reasonable conclusion, in regard to the means to be adopted for the prevention of bank failure, is that the remedy must be by verification of the work of the general management. That remedy can be applied at the head office, where the evidence is available on which the general management prepares the statements furnished to the public. The custom of auditors and examiners of a bank having branches is to examine the inspection reports made by the bank's regular inspectors, as well as to pay special attention to the accounts from any branch having transactions out of the ordinary, in magnitude or otherwise. We have shown that these methods are practised in other countries having a branch banking system, as well as in countries where the branch banking system does not prevail, and that the results are salutary.

APPENDIX No. 2

In presenting this subject I have thought it well to reproduce, in the form of an addendum, pertinent articles that have appeared in the press, including those articles that present the most potent arguments against examination of banks from without, my desire being to give the reader the opportunity of readily reaching a judgment on this matter, which has such a vital connection with the financial and commercial prosperity of the country.

ADDENDUM.

CITY OF GLASGOW BANK—CRIMINAL TRIAL OF GENERAL MANAGER AND DIRECTORS.

Conclusion of the address by the Prosecuting Attorney, Lord Advocate Watson:—

'Gentlemen, I have only one word to say in conclusion, and I regret that that word should have been forced upon me by the enormous mass we have had in the present case of evidence of character. I don't ask you to lay aside for one moment the fact that these were gentlemen of position and of high repute. They are entitled to any fair presumption arising from their having such repute; but to press that evidence to the length to which it has been pressed by witness after witness in that box, is the most preposterous thing I have ever heard in a court of justice. If it be true that not one of them is capable of committing such an offence, nobody did it—a very singular result. Evidence of character in connection with certain offences is a valuable ingredient in determining the guilt or innocence of the accused; but I tell you, in a charge of this sort, evidence of character—although it is not to be laid aside—means that you are not to treat them as if they were men of bad charcter; it amounts to no more; I tell you that an offence such as this is impossible except to a man of good character. If a man has not a good repute—if a man has a bad repute—you will never find him in the position of a director of a great bank, entrusted with millions by the public, or in a position to work that wreck upon any institution which has befallen the City of Glasgow Bank.'

September 12, 1879: Montreal *Star* states:—

'Sir Francis Hincks is reported to have said: "If anyone believes that a bank manager cannot keep the true state of affairs from the directors, that man knows nothing of banking."

NOTE.—Sir Francis Hincks was formerly Minister of Finance of Canada. Unfortunately for him he was President of the City Bank, Montreal, which merged with the Royal Canadian Bank into the Consolidated Bank of which Sir Francis became president. Doubtless each of the merged banks was insolvent at the time of the amalgamation, May, 1876. The new bank lasted about three years, the end being disastrous to all concerned, disclosing the usual features of bank wreckage.

DIRECTORS' ASSURANCES OF SUPERVISION—FEDERAL BANK OF CANADA.

Extract from President's address at the 9th annual meeting, June 19, 1883:—

'When you consider that before any credits are granted they are carefully discussed by the board; when you consider every application for credit or discount is first transmitted by the local manager accompanied by a full report as to the customers' business, character and means, that weekly, monthly and quarterly statements are received at the head office, carefully examined by the general manager, inspector and assistants, as also by the board, you will agree that the system and supervision cannot be well improved and that losses are thereby, if not avoided, at all events, reduced to a minimum.

IMPROVE BANK INSPECTION.

Extract from letter of 'Trustee' to Monetary *Times*, October 22, 1906, page 602, Vol. 40:—

'A bank inspector is seldom, if ever, a skilled accountant. He is, I understand, never appointed by the shareholders but always by the directors, or by the manager himself, and is supposed not infrequently to be a special favorite of his manager.

'If this be so, how can there be a really independent and impartial investigation by such an inspector?

'Whether a body of government inspectors should be appointed, or whether independent skilled professional accountants should be employed, I am satisfied that, if as rigid investigations were conducted regularly into the affairs of our banks, as are now conducted into the affairs of our mortgage loan companies, such disastrous failures (for the shareholders) as that of the ill-fated Ontario Bank, could not occur.'

Extract from artice, 'Direction, detection,' *Monetary Times*, October 27, 1906, page 597, Vol. 40:—

'The main check on the general manager is the active interest taken in the bank's affairs by the directors. Of Canadian directors as a whole, Mr. Eckhardt writes in liberal praise, and specially commends their "full attendance at the semi-weekly board meetings."'

BANK INSPECTION.

Copy of letter by Mr. Thomas Fyshe which appeared in the Montreal *Witness* of October 29, 1906:—

'To the Editor of the *Witness*: Sir,—I regret to see from your recent issues that you are taking a stand in favor of government bank inspection, apparently impelled thereto by the recent shameful collapse of the Ontario Bank. This proposition has been under discussion at every renewal of the bank charters, extending back for over thirty years, with the result that the opinion of the bankers is almost unanimously opposed to it. It is a simple matter of fact, that the legislation on which our admirable banking system is founded, was the work almost entirely of the bankers, who have had many strenuous fights with the politicians to prevent the introduction into Canada of American banking ideas, which would have been fatal to our system and disastrous to the country. The Americans today are cursed with a banking and currency system which is a disgrace to them, and which the united wisdom of the country seems unable to cope with. If we had been guided by our politicians we should probably have reached a similar situation. On the contrary, our bankers convinced the politicians that so far as banking was concerned, they knew better than the Yankees, with the result that we now have a banking system second to none in existence, the advantages of which to the nation are everywhere conspicuous. Owing as much as they do to the bankers of the country for this great service, it is to be hoped that the people of Canada, before tinkering with the Bank Act, with the view of establishing government inspection, will take counsel with our bankers, and be guided by their judgment, as being a matter which they thoroughly understand, and which the public do not.

'It has become too much the habit to appeal to the government to regulate everything that goes wrong, forgetting the tremendous seriousness and significance of making a new law which may work a hundred times more mischief than it is designed to remedy.

'Better, perhaps, to bear the ills we have than fly to others which are not unlikely to be worse—even at the suggestion of such a respected organ of public opinion as the *Witness*.

APPENDIX No. 2

'There is this other view of the case : Why should any great public effort be made to maintain in existence such institutions as the Ontario Bank has shown itself to be? No government inspection could ever have changed it, or made it worthy of living.

'Such institutions are designed by their very nature to be crushed out sooner or later, and the sooner the better.

'If, instead of thinking of establishing government inspection with the view of bolstering up weak institutions, which have little warrant for existing at all, the government would seriously consider the unwisdom of continually chartering new banks as they are applied for, by people with more ambition than sense, they would confer a much more substantial benefit on the country, by refusing to create institutions which the country does not need, and which when created, are likely in time to go the way of the Ontario Bank.

'70 McTavish street, Oct. 26, 1906. THOS. FYSHE.'

BANK INSPECTION.

Copy of article in Montreal *Witness,* October 29, 1906:

'Mr. Thomas Fyshe, the distinguished banker, in his letter to the *Witness* to-day, deprecates government bank inspection Mr. Fyshe, however, offers no help in the present crisis. What the public is principally concerned about is, that something should be done, and as early as possible, to prevent a recurrence of such a disaster as that of the Ontario Bank. For years that bank has been rotten and its notes illegal, and yet the Bankers' Association did not know anything about it. Neither did its own directors. So soon, however, as the books of the head office came under examination surprising frauds were obvious. The position that the *Witness* takes is that if the Ontario Bank's affairs had been independently audited the bank could not have got into such a deplorable condition, or, at worst, would have been put out of business long ago. Whether the inspection should be done by the government or by the Bankers' Association is a question open to discussion. An independent audit of some kind is evidently needed and should in each case be demanded by shareholders. Professional accountants, acting on behalf of the Finance Department and the shareholders is the method favoured in some quarters. No one could think of asking for the unelastic banking system of the United States. There may be special auditing difficulties as the result of our extensive branch system, but a head office audit would, so far as appears, cover the public need. The banks themselves look pretty well after the branches. The failure of the Bank of Yarmouth, last year, and the present Ontario Bank fiasco are sufficient proof of the necessity for reforms. Mr Fyshe himself says:

'"It has become too much the habit to appeal to the government to regulate everything that goes wrong, forgetting the tremendous seriousness and significance of making a new law which may work a hundred times more mischief than it is designed to remedy.

'"Better, perhaps, to bear the ills we have than fly to others which are not unlikely to be worse—even at the suggestion of such a respected organ of public opinion as the *Witness.*

'"There is this other view of the case : Why should any great public effort be made to maintain in existence such institutions as the Ontario Bank has shown itself to be. No government inspection could ever have changed it, or made it worthy of living.

'"Such institutions are destined by their very nature to be crushed out sooner or later, and the sooner, the better."

'Such inspection as we advocate would surely have resulted in something better and not worse than the present state of things. It would indeed have resulted in the closing of that institution long ago, which, to all outward appearance, was so flourishing right up to the last annual meeting (when the dividend was increased), and for some time afterwards. Take one point: The bank had illegally bought up its own shares, so as to bolster up the market and give the shares bought and sold by the public a fictitious value. We agree with Mr. Fyshe in his view, that the sooner such a calamity-carrying piece of deceit is put an end to, the better. It appears to us that it is for our bankers now to suggest what safeguards will guard our banks against the popular suspicion which is liable to grow out of such revelations, and in times of excitement fall upon the just as well as the unjust.'

AGAINST SHAREHOLDERS' AUDITING.

Extract from letter by 'Accountant' to *Monetary Times,* dated October 31, 1906, Page 668, Vol. 40:

'Why cannot the boards of directors of banking institutions appoint one of themselves, an expert in this line, as supervisor of inspectors, with a title commensurate with the dignity and authority of the position, to report to the board in the same way as the Railways' 4th vice-president? Their doing so will give them protection against themselves and against excessive authority and fraud on the part of their general manager or loss through their agencies. Government inspection is necessary for the protection of depositors, and I suppose the reason it did not protect the Ontario Bank will be found to be inadequate personal inspection; but the directors and shareholders have the means and should take steps to protect themselves independently.

'ACCOUNTANT.'

THE INDEPENDENT AUDIT.

Copy of letter by Mr. Thos. Fyshe which appeared in the Montreal *Witness* of November 3, 1906:

'To the Editor of the *Witness*: Sir,—If the *Witness* desires to retain its reputation for good judgment and serious purpose, I think it should be a little more careful about its action in recommending so confidently what it calls the 'independent audit' as the 'cure-all' against bank failures.

'In to-day's issue it quotes Mr. A. F. C. Ross as saying: 'In my opinion an independent audit would be the best possible safeguard a bank could get.'. It also quotes Mr. Black, another accountant, as saying that 'as a principle (whatever that may mean) an independent audit would be a very good thing." It also refers its readers to a letter from Mr. Elmsly, of the Bank of British North America, which states that the bank "has always had one of the most reputable firms of chartered accountants in London to audit the accounts of the bank." What is likely to be the good of an audit of accounts in London prepared under the supervision of its general manager and managers, scattered from Montreal and New York to San Francisco and Dawson City? And is an audit of accounts all that is wanted? Bankers know that what is necessary to secure certainty is an audit of the facts or valuation of the assets, which is a very different thing.

'Then, what are we to think of the weight to be attached to the *Witness's* urgent recommendation of a new law, based on the statements of two accountants, that it would be a good thing for the country? It would certainly be a good thing for the accountants, but this is hardly conclusive. The bankers, I presume, should not be

consulted, for, although they know more about the matter than anybody else, still they are the parties the public must be protected against. Because a bank fails occasionally and discloses rascality on the part of its manager, is it reasonable to make a new law to provide against all bankers being rascals?

'It is surely worth considering first whether the game would be worth the candle, even if you could attain the object.

'What forecast has the *Witness* made in its own mind of the probable working of this new institution it so highly recommends, after it has been in existence for a few years, and has got thoroughly accommodated to the mechanical, slipshod and perfunctory methods of government officialdom?

'It might interest the *Witness* to know that many years ago, at the periodical renewal of the bank charters at Ottawa, the government had apparently prepared themselves to establish this very scheme of independent audit. The matter was introduced and elaborately discussed by the Deputy Finance Minister, who knew that the bankers were all opposed to it; and as proof of its feasibility quoted from the *English Bankers' Magazine* a report of one of the large Australian banks doing a business much larger than the Bank of Montreal. This report had attached to it a certificate of its correctness by a firm of English auditors of the usual high standing, such as the one referred to by Mr. Elmsly. It was contended that this was proof enough of the practicability as well as of the wisdom of the practice. Unfortunately for the minister and his deputy, one of the bankers present happened to pick up the *Bankers' Magazine* just quoted from, and, on turning to the statement of the bank referred to, found on the opposite page a report of another Australian bank—the Bank of New Zealand—equally good in all respects to the one quoted from, equally large, and apparently equally satisfactory in every way. It had also the usual certificate by the high class English auditors. The report was dated only a few months back, yet the banker was able to inform the minister and his deputy that since the date of the report the bank in question had confessed to the loss of its whole reserve fund—a very large amount—and part of its capital. The banker put down the book with the remark: "Comment is useless." I think the *Witness* may make the same remark if it looks more carefully into the subject.

'The *Witness* thinks to strengthen its case by instancing our system of insurance inspection, the value of which it seems to have a high opinion. The state of things disclosed by the present insurance investigation is a scandal to the country. There is hardly a company, unless there be one in the west, that has reaped anything but discredit from it, while some have reaped deep disgrace. Yet for a great many years, there has been in this country a system of rigid government inspection, based on the insurance law, with its strict limitation as to investments, etc.

'Contrast this state of things with that which exists in the Old Country, where their Life Insurance companies are as conspicuous for their merits as ours are for their demerits, notwithstanding that the English law virtually gives them carte blanche as to their investments, and requires only that they be given full publicity.

'A better argument than this could hardly be found against the *Witness's* position.

THOS. FYSHE.'

November 1, 1906.

Copy of article in Montreal *Witness* of November 3, 1906:

'Mr. Fyshe, the distinguished banker is mistaken in thinking that the *Witness* recommends the independent auditing of banks as a "cure-all." We have been careful to say that it was not. It might not save everything or everybody, but would surely prevent, for instance, such a scandal as that of the Ontario Bank, even if the bank had had to be closed up or go under sooner or later. Mr. Fyshe says that government inspection did not prevent the insurance companies from doing those things they ought not to have done. While there is some truth in that, it is a fact that everything

brought out in public was found in the note-books of the insurance department, that the audit was honest, precise and careful, and that every management in the country acted with it continually before its eyes, and that even investments which managements had thought wise were withdrawn and reinvested upon the department's representation. However, the whole insurance case will come up for discussion when the commission makes its report, and, perhaps earlier, if that is long delayed. In the meantime, does Mr. Fyshe think that bank managements would come out any better if the way they had invested the public's money for the past few decades were similarly probed? Would he recommend such an investigation instead of an independent audit'

BANK AUDITS AND INSPECTION.

Extract from article in *Monetary Times,* November 3, 1906, Page 634, Vol. 40:—

'The employment of independent chartered accountants as auditors did not prevent the suspension of hundreds of Australian banks in 1893.* The employment of an independent auditor would surely have prevented the Ontario Bank fiasco. The trouble at the Ontario Bank was not in lack of government inspection, but, apparently in lack of inspection altogether at the head office. The Ontario Bank seems to have been quite an exception in that regard. Its general manager had no experience in a head office before he took the reins. No other general manager of a Canadian bank would be able to raise in New York, on his own word, more money than would obviously be necessary for his current personal expenditure while on the business of the bank, without a voucher signed by two officers of the institution.'

WHAT THE BANKERS THINK.

Extract from article in *Monetary Times,* November 10, 1906, Page 669, Vol. 40:

'The general view among Canadian bankers continues to be that government inspection is not desirable; would not achieve thorough knowledge of a bank's affairs, and might indeed be harmful because giving the public an impression of governmental guarantee, while the officials from Ottawa know no more than any other inspector would or could.

'There is one among the general managers of banks who approves of government inspection, but probably he stands alone.

'Inspection of the banks by government officials must be simultaneous to be effective. *If not done all at the same time they would inevitably "get out of one another's way," that is to say one bank might—supposing it to be in difficulties—arrange for assistance from another friendly bank which had already been inspected.*' (The italics are ours.)

APPOINT TWO GENERAL MANAGERS.

Extract from letter by 'Banker' to *Monetary Times,* November 17, 1906, page 117, vol. 40:—

'As a careful reader of your paper for many years, permit me to express briefly my view upon the question of bank inspection. Some writers favour an independent audit; others inspection by government officers. Either could readily be made at the head office of any bank, and be efficient, so far as mere figures are concerned. Bank bookkeeping is very simple and easily understood by any competent accountant. Inspection of branches would be unnecessary as it is invariably at the head office that "crooked work" is done, branches being well inspected by the banks themselves. But neither an auditor nor a government inspector could possibly express a valuable opinion upon the assets covered by the balance sheet of any bank. Only an officer of the bank itself could do that, and he would have to be experienced and trustworthy.

* Sixteen banks suspended in 1891, 1892 and 1893, of which three failed in that time.

APPENDIX No. 2

'Inspection of any kind would not prevent wrongdoing; they would merely disclose it, and that not always.

'The question is to find the party guilty of such, and if possible apply a remedy.

'A recent correspondent of yours put his finger on the spot when he said: "Under our present system the general manager has become the king of the institution. He is in a position to hoodwink the board of directors, and no other official of the company dare say a word to them as to the conduct of its affairs, no matter how bad he might know them to be."'

CALL FOR AN INDEPENDENT INSPECTION OF BANKS.

Copy of letter by Mr. H. C. McLeod, General Manager of the Bank of Nova Scotia which appeared in the Toronto *Globe* of November 22, 1906:—

'To the Editor of *The Globe:* Through the press and from the platform the banking system of Canada is lauded as being the best in the world. In many particulars the system is admirable, our elastic bank currency and the readiness with which the banking requirements of new districts are met by branch extension being its strongest features. However, it is not without defects, some of them of vital importance. Of these the most prominent is the lack of external inspection, which experience in the western hemisphere has demonstrated to be essential. The public have been reminded of this necessity by the recent failure of the Ontario Bank and the leading papers of the country are almost a unit in demanding reform in this particular. The reasonableness of this demand is made clear by a review of Canadian banking history since 1880 and before, and is confirmed by the experiences of our near neighbours prior to the civil war. In 1880 there were in existence in Canada forty-one banks; since then seven have been incorporated and have commenced business, making a total of forty-eight banks. Of this total twelve have failed and some others have saved themselves by amalgamation. The failures are, therefore, twenty-five per cent within a period of twenty-six years, the last ten of which were years of unexampled prosperity, with steadily rising deposits, conditions under which even insolvent banks seldom close their doors. Most, if not all, of the above mentioned failures were fraudulent, and it is now plainly evident that a few hours' examination by a skilled banker would have disclosed an insolvent condition in any one of the banks, years before it collapsed. In each of the two most recent disasters a correct diagnosis could have been made ten or more years ago. Some urge that the government should call for special returns, but what value should attach to special returns from the Bank of Yarmouth, from the Ontario Bank, or from any of the other wrecks gone before? They would simply have enlarged the piles of incorrect and deceptive bank returns in the Finance Department. What is written by one having unusual facilities for observation is eminently true; "It is extremely rare to find a bank has failed without some of the officers committing fraudulent or illegal acts to hide it." There is at least sufficient truth in the above to dispose of the suggestion of special returns and to dispel faith in the return of badly managed banks.

'Some Canadian bankers, including one writer, whose words are entitled to great weight contend that government inspection has failed in the United States. Under the National Bank Act of that country there has been a somewhat imperfect system of bank examination, and a more imperfect system by some of the State Bank departments. I say imperfect, for, under the national system there were employed last year 78 examiners, whose duties required the making of no less than 11,516 inspections each year! For the forty-three years during which the National Bank Act has been in operation there have been established 7,966 banks. Of these, 460 have failed, the failures being equal to 5½ per cent of the whole number for the period. As for the banks, other than national, with a more imperfect system of inspection, or no system at all, the failures reached 17½ per cent. The comparison of the percentages appears as follows:

National banks failed in 43 years..	5½ per cent.
Other U. S. banks failed in 43 years..	17½ "
Canadian banks failed in 26 years..	25 "
National banks failed in 26 years (same period)..	5 "

'External inspection must not be regarded as an unfailing cure; it has its limitations, and the best that can be said of it is that it is a preventative that, if properly applied, will make bank failure almost unknown. An inspector cannot discover an embezzlement until after the act is committed; neither can he avoid a ruinously bad debt made before his visit, but the progress toward failure is generally slow and in the majority of cases a prudent inspector would, by his advice and authority, save the situation and direct the management into safe channels.

'The subject of the establishment of an affective bureau of inspection is one of the utmost importance, for, unless it is founded on conservative lines, in which the interests of all sound institutions are carefully conserved, much more harm than benefit would ensue. Bank shareholders are the parties with the major interest at stake, and for the present, the subject would be better if left to them and to their representatives, in the hope that a satisfactory solution of the problem may be reached.'

H. C. McLeod.

Toronto, November 21, 1906.

BANK INSPECTION FROM WITHIN.

Copy of an article which appeared in *The Globe* of November 28, 1906:

'About three weeks ago *The Globe* threw out the suggestion that, whatever might be the merits or efficiency of government inspection of the transactions of a chartered bank, it might be a good thing to have an officer appointed by the board of directors, who would be independent of the general manager, and whose duty it would be to inspect, in the fullest sense of that term, the head office as well as any branches he might choose to visit. One suggestion included the idea that this official, howsoever entitled, should report to the directors, not to the manager, and that he should inform the board of the dealings of the directors individually with the bank. Such reports as a competent official, armed with such inquisitorial authority could make to his board might be of great advantage to the bank, because they would be the best practicable guarantee to the depositing and note-holding public that no questionable transactions were tolerated in the institution.

'It is interesting to learn, from a report in another column, that the directors of the Traders' Bank of Canada have taken a new departure in the line of the above suggestion, and have actually appointed a directors' auditor and president's assistant. While this is the first formal appointment to the position so designated, it appears from the published statement that the system described has already been tried by the Traders' Bank with satisfactory results. It would not be surprising to find the precedent thus set followed by other banks, to the general advantage of the community.'

BANK INSPECTION FROM WITHOUT.

Copy of letter by Mr. McLeod which appeared in *The Globe* of November 29, 1906:

'To the Editor of *The Globe*: With reference to a leading article in your issue of to-day under the above caption, I most respectfully beg to ask what benefit would have accrued from an inspection by an employee of the bank and a special representative of the board of directors in any of the following mentioned failures:—The Exchange Bank of Canada, the Maritime Bank of Canada, the Bank of London, the Central Bank of Canada, the Federal Bank of Canada, Commercial Bank of Manitoba, Banque Ville Marie, the Bank of Yarmouth, or indeed of almost any other bank that has failed, omitting the Ontario Bank, the facts of which failure are now the subject of inquiry by the courts.

APPENDIX No. 2

'From the history of bank disasters, it appears that, while there are exceptions, the rule is, that at least the directors dominating, have knowledge of, or are directly concerned in, the failure of their bank, and often they are the cause of the disaster. The remedy is external inspection, and that remedy was applied in Scotland after the failure of the City of Glasgow Bank in 1878. There, in each case, chartered accountants are appointed to audit the bank and to verify its statements. The same plan is in vogue throughout the United Kingdom.'

H. C. McLEOD.

Toronto, November 28, 1906.

MORE ABOUT BANK INSPECTION.

Copy of an article which appeared in *The Globe* of November 29, 1906:

'Mr. H. C. McLeod, general manager of the Bank of Nova Scotia, discounts the suggestion that a useful purpose would be served by a special official on the staff of a bank whose duties are confidentially inquisitorial, whose standing is not subject to the approval of the general manager, and whose services are at the call of the president, or of the board of directors, or of any individual member of the directorate. He cites instances in which such an officer would be handicapped because, he says: "The rule is that at least the directors dominating have knowledge of, or are directly concerned in, the failure of their bank, and often they are the cause of the disaster." Granted that dishonest "directors dominating" would be able to dismiss or circumvent any of their employees, what is contemplated in the appointment of such an official is that the directors are honest as well as capable, and are desirous of obtaining all useful information concerning the operations of their bank. Assuming that the directors are dishonest and the general manager dishonest, not only could the bank's own inspection be defeated, but even "external inspection" might be deceived. In any case "inspection from within" is a protection provided by the bank itself, its shareholders, or its directors, while "external inspection" being a matter for the government, or the Bankers' Association, or some other outside interest. The one does not exclude the other.'

OUTSIDE BANK INSPECTION.

Copy of letter by Mr. Thomas Fyshe which appeared in the Montreal *Witness* of December 1, 1906:

'To the Editor of the *Witness:* Sir,—Allow me to congratulate you on having found among the bankers a supporter of your proposal to establish a system of outside bank inspection. I am afraid, however, that it will take more than all the assistance you can get both from Mr. McLeod and your correspondent, "Observer," to make out a good case for the establishment of any such foolish machinery.

'You say, "An effective bureau of inspection would have saved the Banque du Peuple, the Banque Ville Marie, the Ontario Bank and others from their worst evils, even if it did not save them altogether."

'Setting aside the necessary definition of your phrase, "an effective bureau of inspection," and supposing such a thing were objectionable, in my opinion it could not have done any such work as you claim. It is hardly possible to conceive of such results being brought about by any possible audit or inspection.

'What manager or director in control of any of our banks would be content to be taken charge of, like so many stupid, errant schoolboys, and twisted or guided or bullied into a condition of fitness, by irresponsible auditors or inspectors, carrying probably less weight than some of their own clerks?

'You talk of "inspection," but what you evidently have in mind is some kind of regenerating apparatus for achieving a combination of moral and mental reform, rounded out and completed with a special banking training by means of which

unprincipled and incompetent bank managers and directors can be transformed into efficient specimens of their kind, and the institutions they are connected with so saved.

'But if it had been possible for an effective bureau of inspection to save the banks named from failing, would it have been a good thing for the community? I say, most emphatically, no. Death is as necessary in this world as life, and, when efficiency has gone out of an institution, in God's name, let it die. Its place will be taken by something better. What the community wants is efficiency; and it can have that only from the powerful institutions, owing their strength to spontaneous growth from within, not to buttressing up and watching care from the outside.

'Nature's way of working is to obtain strength and efficiency by establishing a struggle for life, and causing the fittest, because the strongest, to survive. The *Witness* and its supporters know better. They say—let all live, good and bad, strong and weak alike, and let the community establish machinery to take charge of the incompetent and bad, and reform them, and make them competent so that they may continue to hold their position, and the weak institutions with which they are connected be kept alive, and things made pleasant all round—and damn the expense!

'But Nature will have none of it. Strength will continue to rule till the end of time; and we shall only waste our time and energy and money by trying to make the virtually dead or dying to live.

'The world is already suffering to a deplorable extent from its ever-growing army of non-producers, but the *Witness* still calls for more.

'The *Witness,* I am glad to see, has a high opinion of the Bank of Nova Scotia. It is probably, for its size, the strongest bank in the country, and it deserves all the credit that it has, both for the work it has done, the position it has achieved, and for the men it has raised. But it might interest the *Witness* to know that, thirty-five years ago, that bank had an experience not unlike that of the "Ontario," of recent date. Its manager took to speculating to an enormous extent with the bank's money, on his own account, and caused such loss to the bank as to endanger its credit and existence. Fortunately, however, there was then, as now, no government, or outside inspection to enable the carping press and gaping public to get in their fine work; otherwise, the bank, instead of living to be a blessing to the country and a credit to all connected with it, would in all probability, have been speedily hurried to a dishonoured grave. As an example in this discussion it is well worth pondering over.'

THOS. FYSHE.

70 McTavish street, November 27, 1906.

BANK INSPECTION.

Extract from letter by the Vice-President of the Institute of Chartered Accountants of Ontario, *Mail and Empire,* December 1, 1906:

'The failure of the Ontario Bank has drawn special attention to the point in bank administration at which there is no watchdog—the general ledger at the head office. Here is the reservoir into which pour the streams of statements from the inspected branches, and from this source are drawn the facts and figures that present the bank's condition monthly to the government and half-yearly to the shareholders.'

'Outside and independent inspection and thorough audit is possible here, and it should be instituted forthwith in the interest of the public and the shareholders, and for the preservation of the deservedly high reputation that Canadian banks have achieved. The president of the Ontario Bank certified that the bank's statements to the government and shareholders were true ; the other presidents do the same thing. Does anyone believe that presidents know of their own knowledge, reached by personal checking and inspection, that the figures presented are even approximately correct? Let us continue to have the signature of the general manager to a bank's statement; he ought to know ; he is paid for knoing, and should be held to grim responsibility, but

APPENDIX No. 2

let us also have the verification by independent, competent accountants, wholly free from the influence of the general manager and the directors, that the statements presented are true abstracts from the bank's ledger at the head office and actually represent its financial condition at the date of issue.

'A former president of a Canadian bank, an eminent statesman, one who had been Finance Minister of Canada, I refer to the late Sir Francis Hincks, was arrested on a charge similar to that made against the president of the Ontario Bank. The prosecution failed because Sir Francis could not, any more than could Mr. Cockburn, be certain that what he signed was true, but the law (very absurdly, I think) made his signature obligatory.

'J. W. JOHNSON, F.C.A.

'Belleville, November 9, 1906.'

THE EASTERN TOWNSHIPS BANK.

Extract from the Directors' Report presented at the annual meeting, December 5, 1906, 'Monetary Times,' page 884, vol. 40:

'The wrecking of the Ontario Bank is one of the unfortunate incidents of the year. That the failure of such a large institution did not cause any disturbance in financial circles, and that its creditors were not seriously inconvenienced is a matter of congratulation. It has, however, again raised the question of government or independent inspection, and the matter is now under consideration by the Bankers' Association and the Finance Department of the government. Your board would favour any well-devised system which will safeguard the interests of the shareholders and the public.'

BANK OF OTTAWA.

Extract from the President's reference to the failure of the Ontario Bank in his address at the annual meeting held December 12, 1906, 'Monetary Times', page 934, vol. 40:

'This incident has evidently originated some suggestions which have appeared in print demanding a better safeguard of the interests of stockholders by improved methods in the performance of the several duties of bank directors and officers.

THE MOLSONS BANK.

Extract from an article in 'Monetary Times,' December 15, 1906, page 871, vol 40:

'Mr. Elliott, General Manager of the Molsons Bank, has joined Mr. McLeod, of the Bank of Nova Scotia, in the advocacy of outside inspection. But there is no reason to think that there is more than an influential, though numerically weak, minority in favour of this radical departure, which would only weaken responsibility where it should be strengthened.'

CANADIAN BANK OF COMMERCE.

Extract from Mr. B. E. Walker's reference to the failure of the Ontario Bank in his address to shareholders at the annual meeting, January 8, 1907. 'Monetary Times,' page 1049, vol. 40:

'Neither government inspection nor compulsory audit can do for us what our trained bankers do. Still, if government inspection or compulsory audit would give any substantial protection to the general public we would not object. These systems, however, must more or less create the impression that they afford a protection which they cannot in the nature of things possibly afford. We do not mean to say that such an examination would not have discovered some of the deceit recently laid bare in the bank referred to, but we do say that there are many forms of possible loss to shareholders which no government inspection or audit by a chartered accountant could detect.

'In the last analysis a bank must be judged by its board and by the men who constitute its management, not merely at head office, but at its branches, and it is not so difficult as some would have us think to judge whether a bank is carefully officered and safely managed or not.

'We need not expect that bank officers can be made wise or honest by legislation, nor can any legislature successfully protect innocent people from the effects of their own bad judgment and lack of business skill in selecting their investments. Besides, it is to be borne in mind that the shareholders of any bank have sufficient power, without further legislation to secure any kind of inspection or audit they may desire.'

BANK OF TORONTO.

Extract from the General Manager's Address at the fifty-first annual meeting held January 9, 1907, page 1051, Vol. 40:—

'Looking back over the period of fifty years, we are reminded of the changes that have taken place in the banking institutions of the country. We are prepared to find changes in a business community amongst the ordinary mercantile houses, but in connection with financial institutions, we are led to consider it natural for them to exhibit greater stability. The record of the past, however, does not show that this is a necessary result.

'When the Bank of Toronto opened its doors in 1856 there were twelve chartered banks in the provinces of Ontario and Quebec. Of these there are only five doing business to-day. In the next succeeding ten years thirteen new banks were formed; of these five are left. In all twenty-two banks in these two provinces have gone out of existence since we began to do business. Including those mentioned, eighty banks have opened for business in various parts of the Dominion, and of these only thirty-six now remain, the others having passed out of existence, either by suspensions, liquidation, or having been absorbed by some of the remaining banks.'

ON THEIR DELIVERANCE.

Extracts from an article in 'Monetary Times,' February 7, 1907, page 1223, Vol. 40:—

'We were told we had earned a very large dividend. The bank as a matter of fact so far as its branches were concerned, with its millions of discount business, was in first-class condition, but from being a bank it was turned into a bucket shop.'—Ex-President Cockburn of the Ontario Bank.

'I never was more sure of anything in my life than "that the bank was in a very good condition."'—Hon. Richard Harcourt, ex-director of the Ontario Bank.

'The Ontario Bank collapse contains warnings enough for everybody. Like every other monetary event it produces teachings that are apt to be distorted. The lesson here is that of ordinary efficiency of business control; and not a call for outside officiousness. If you have incompetents in command any amount of government inspection will not remedy the affliction. It will only supply a crutch to weakness when weakness needs a spur. And so, let us await the dividend to Ontario Bank shareholders,[1] and trust for a merciful eventide for the unfortunate gentlemen who henceforth will experience much freedom and little responsibility in the realm of strenuous working-day finance."

AMEND THE BANK ACT.

Copy of article which appeared in the 'Mail and Empire' of February 4, 1907:—

'The sentence received by Charles McGill punishes him and it may deter others in a like position of trust from committing a like crime. But it can in no way compensate the shareholders of the Ontario Bank. To them a little timely prevention on the part of the law would have been worth a thousand times more than its penalties for the accomplished crime. The offence for which the ex-general manager of the On-

[1] A dividend, forsooth!

APPENDIX No. 2

tario Bank is now to serve five years in the penitentiary was not one nipped in the bud while its effects were yet comparatively harmless, but it was one found out only after the ruin of the bank had been completed. The wrecking process was not the work of a day or a week, or of any short period, but it will probably be found to have been continued over a series of years. No long protracted operations of dishonesty could have been possible had the law provided independent tests and automatic checks such as are employed in British banking. An independent audit would have exposed the first departure from the path of rectitude. Had there been such an audit the general manager would have been stopped early in his course of wrongdoing, and would doubtless have been removed before he could have greatly impaired the bank's resources. As it was, his dishonesty worked on insidiously until the bank's paid-up capital and its rest were all but wasted away. To say that the lack of an auditor serves to sharpen the vigilance of shareholders is really to admit the importance of the auditor's functions. If keen watchfulness on the part of shareholders is of prime necessity, then why not systematize that watchfulness in the form of an audit service? It is as the representative of the shareholders directly and of the general public indirectly that an auditor would carry on his inquiries. His activity would be serviceable to depositors and noteholders as well as to shareholders. With the right kind of auditing the very beginning of evil in the Ontario Bank would have been detected, and we should not have had to wait until the capital is gone and a really great crime has to be punished. The inquiry into the wrecking of the Ontario Bank has gone far enough to indicate very clearly to the government the points for immediate amendments in the Bank Act. In the first place the Finance Minister should have some means of verifying statements sent in by bank officials. That is, there should be government inspection. In the second place, there ought to be an independent audit. At a time when our banks are increasing in number and still more rapidly increasing in the aggregate of their capital, it is in the highest degree important that the weaknesses which have been laid bare in the Ontario Bank case should at once receive the attention of Parliament."

Extract from report of Grand Jury at Assizes in Toronto, February, 1907, 'Evening Telegram,' Ferbuary 5, 1907:

Referring to the case of Charles McGill and the Ontario Bank, we are of the opinion that it is the duty of the Government to at once establish some system of inspection of our banking and other monetary institutions that will safeguard the investing public from deceitful and fraudulent statements issued by boards of directors, who, apparently, in this instance, have been grossly negligent of their duty as trustees for the shareholders of the bank.

The following suggestions for amendment to the Bank Act were presented to the annual meeting of the Canadian Bankers' Association, 25th November, 1909, and received no support:

'1. The Association shall appoint a board of audiors hereinafter called the board. The board so appointed shall make an annual examination of each bank and, if such examination is satisfactory, shall through the chairman of the board cause to be certified the annual statement issued by the bank to its shareholders. This certification shall state that, in the judgment of the auditors, the statement is a fair statement and a conservative representation of the bank's affairs. No statement or balance sheet shall be issued without such certificate.

'2. The board shall consist of not less than seven full members, of whom four shall form a quorum, and of not less than seven associate members, all of whom shall be elected by vote of the general managers of all the banks, and one-tenth of such vote being recorded against a candidate for either full or associate membership shall exclude him from election. The chairman of the board shall be appointed from the members of the board by a vote of the general managers of the banks.

'3. Save as hereinafter provided, no candidate shall be eligible for election as a full member of the board unless he has had five years' previous experience in bank auditing, but a candidate having experience may be elected a full member of the board by the unanimous vote of the general managers. After five years' experience in bank auditing an associate member may be elected a full member by the vote of the general managers.

'4. No candidate shall be eligible for election, either as a full or as an associate member of the board, unless he is a member of the Canadian Board of Chartered Accountants, or of the Ontario Board of Chartered Accountants, or of the Institute of Chartered Accountants for England and Wales, or the Scottish Chartered Accountants, or of such other body of auditors or accountants as may be approved by the Association.

'5. No director or officer of any bank shall be capable of being appointed on the board.

'6. Any member or associate of the board may at any time be removed therefrom, with or without cause shown, by a majority vote of the general managers of all the banks.

'7. The executive of the Association shall annually appoint for each bank from the board, an auditor or auditors, of whom at least one shall be a full member. But in no case shall a member, who has been elected to the board notwithstanding opposition, be eligible to audit the accounts of the bank or banks whose general manager has opposed his election.

'8. The auditor or auditors so appointed shall for that year, audit the accounts of the bank particularly and carefully with reference to the annual statement issued by the bank to its shareholders. The auditors shall, for that purpose, make an examination of the head office of the bank, and shall examine any of the branches if such examination shall seem to them to be desirable.

'9. Every auditor of a bank shall, for the purpose of such audit, have the right of access, at all times, to the books, accounts and vouchers of the bank, and shall be entitled to require from the directors and officers of the bank such information and explanation as may be necessary for the performance of the duties of the auditors.

'10. The auditors shall make a report to the chairman of the board on the accounts examined by them, and on every annual statement and balance sheet proposed to be laid before the shareholders of the bank in general meeting during their tenure of office, and the report shall state:

(*a*) Whether in their judgment the inspection of the branches is regularly and efficiently performed by the bank's regular inspectors.

(*b*) Whether the general supervision of the loans and investments appears to be thorough.

(*c*) Whether they have obtained all the information and explanations they have required.

(*d*) Whether in their opinion, the balance sheet referred to in the report is properly drawn up so as to exhibit a fair and conservative view of the state of the bank's affairs.

'11. Such report shall be in writing and shall be signed by the auditors aforesaid in duplicate. Both duplicates shall be delivered to the chairman of the board. One duplicate shall be filed by him and the other shall be delivered by the chairman to the directors of the bank. The chairman of the board shall not permit inspection of the duplicate filed with him by any person except the general manager of the bank interested, unless as hereinafter provided.

'12. If the auditors' report is satisfactory, the chairman of the board shall certify the statement of the bank.

'13. In case the examining auditors decline to certify the statement of a bank, the report of the auditors shall be considered by the board without delay, and the directors and general manager of the bank may appear before the board. Should

the board affirm the action of the examining auditors, the facts shall be at once reported to the executive committee of the Association, and through the Association to the Minister of Finance. Thereupon a direction may be made by the executive of the Association, with the concurrence of the Minister of Finance, if, in their opinion, it is right and proper so to do, that the chairman of the board do certify such statement, and the chairman of the board shall accordingly certify the statement; or a direction may be made that the bank do alter its statement to accord with the judgment of the board.

'14. Every person appointed to the board of auditors shall, before assuming his position on the board, subscribe and make a statutory declaration in the words following:

'I will not at any time discuss or divulge to any person, save in accordance 'with the provisions of the Bank Act, any information which I may acquire 'directly or indirectly regarding any chartered bank of Canada, or any of its 'affairs, or the affairs of its clients, whether such information is acquired by me 'as a member of the board of auditors of the Bankers' Association or otherwise."

'15. The appointment of members and associates to the board of auditors shall be made at a meeting of the Association. In case any general manager is not present at such meeting he shall nevertheless have the right to vote on the question of such appointment, and may do so by letter despatched to the secretary of the Association within one week after notice of such proposed appointment has been received at the head office of the bank, in default of which his vote shall be recorded as in favour of the candidate.

'16. In case the Association fails to appoint a board of auditors, as herein provided, within six months from the passing of this Act, it shall be the duty of the Minister of Finance forthwith to appoint such Board."

EXHIBIT No. 3.

CLEARING HOUSE BANK EXAMINATIONS BY JAMES B. FORGAN.

CLEARING HOUSE BANK EXAMINATIONS.

AN ADDRESS by James B. Forgan, President The First National Bank of Chicago, at the Fifteenth Annual Dinner of the Bankers' Club of Detroit, Saturday evening, December 7, 1912.

CLEARING HOUSE BANK EXAMINATIONS.

Chicago was the pioneer in Clearing House Bank Examinations.

They were inaugurated there in 1906 after the failure of a National bank and two state banks. These institutions were under the direct management of one man who was president of the three. The condition of their affairs when disclosed surprised and appalled the other Chicago bankers. The liabilities of the private ventures of the president had gradually accumulated in the three banks until they had absorbed the entire capital and surplus of all three, amounting to $3,500,000, and 44 per cent of their aggregate deposits of $27,000,000, one-third of which was public funds.

The condition in the National bank had developed through a period of years during which the comptroller of the currency, through the semi-annual reports of his examiners, had been kept fully advised of what was going on. Among the assets were found nineteen fictitious loans for $90,000 each represented by so-called memorandum notes. Each memorandum note purported to be secured by $100,000 of second mortgage bonds of the Wisconsin and Michigan Railway Company. This road was controlled by the bank president, and the bonds proved worthless. The first mortgage bonds of the same road, $952,000 of which (being almost the entire issue) were also

among the assets of the banks, were finally disposed of at about twenty-three cents on the dollar. These memorandum notes did not, on the face of them, even pretend to be the obligation of *bona fide* borrowers. The ostensible signatures on them although in different names, were all in the handwriting of the clerk who filled them out and who wrote plainly in red ink across the face of each the words 'Memorandum Note.' They could not deceive anyone who saw them and they did not deceive the National Bank examiners who reported to the comptroller the facts in connection with them.

Another of the irregularities discovered was that so-called certificates signed by the treasurer of one of the president's railroads, purporting to call for $2,000,000 of its bonds when issued, had been treated and reported as bonds on hand. All the bonds permissible under the conditions of the mortgage securing them had previously been issued and sold and there could be no further issue of them until a contemplated extension of the road was completed. Some grading for this extension had been done but the work was abandoned and the bonds called for by the so-called certificates were never issued.

Up to the time of their failure all three banks paid substantial dividends to their shareholders, the National bank 12 per cent regular and 3 per cent extra and the state banks 10 per cent and 8 per cent respectively, besides which they showed substantial growth in their surpluses. The market quotation for their stocks was $380, $350 and $240 per share and there were sales at these prices.

Although cognizant of these irregularities and of the accumulating obligations in the bank of the president's private enterprises the comptroller apparently could not or at all events did not take measures to stop them by other means than those of expostulation and reproof until matters became so bad that they simply could not be permitted to go further.

When at last drastic measures were decided upon the comptroller and the State auditor, acting together on a Saturday afternoon after the vaults of the three banks had been closed with time locks set for Monday morning, notified our Clearing House Committee that unless provision were made for payment in full of the deposits, none of the banks would be permitted to open for business on Monday morning and they would be put in the hands of receivers.

Business conditions were strained and the time was therefore particularly unfavourable for permitting the failure of three prominent banks. The effects of such a calamity it was feared would have extended far beyond the confines of Chicago.

With but a superficial statement from the president of the condition of his various ventures, some of which were in course of construction, and with only a vague knowledge of the realizable value of their obligations, the Clearing House Committee hurriedly made a tentative estimate of the realizable value of the assets of the three banks and of the deficiency in them to meet their deposit liabilities. These estimates have since proved remarkably near the final outcome. To prevent a panic the remaining Chicago banks, facing an inevitable heavy loss, assumed the deposit liabilities of the three banks and took over their assets under a limited guaranty of the directors. This action besides providing for payment of the depositors in full, relieved the bondsmen of their responsibility for the $8,200,000 of public funds in the bank and the shareholders of their double liability on their stock. These three classes of vitally interested individuals will probably never fully appreciate what the action of the associated banks meant for them. Subsequent developments have shown that in liquidation the assets of the three banks plus the double liability of their shareholders, had it been collected, would have been insufficient to pay their deposit liabilities.

The situation was thus protected from a general disturbance of public confidence, but it was done at the cost of a very heavy loss, foreseen at the time and since then realized by the participating banks.

The statements of the National bank made five times a year to the comptroller's department, copies of which were rendered to the Clearing House Committee and on which it had implicitly relied, failed to disclose these conditions.

APPENDIX No. 2

I have given you these details of this unfortunate affair because they show so clearly the limitations of governmental supervision of banks under our national banking law as it has been interpreted by the courts and by the legal advisers of the comptroller's department.

Let me draw your attention to a few of the legal restrictions which limit the comptroller's power to act in such cases.

1. Under the National Bank Act no obligation due a bank is considered bad until interest is past due six months and not then, if it is secured or in process of collection.

2. The comptroller may appoint a receiver when he concludes that a bank is insolvent. But here again he has been hampered by the legal definition of insolvency, which is 'inability to pay current debts as they mature.'

3. The making of a National Bank report to the comptroller so long as it is in accordance with the bank's books, however erroneous it may be as to actual values, which alone disclose a bank's true condition, cannot be construed as a misdemeanor.

These legal restrictions are presumably the reason why some banks have been permitted to persistently publish to the public the figures of their statements as rendered to the comptroller of the currency after they are known to have met with heavy losses and have failed to provide for them by charging them to profit and loss. That this has been permitted in some cases is notorious. The case of the Chicago National Bank and a recent one in a large central city are conspicuous examples because of their size. Undoubtedly as a rule the published statements of the banks are reliable, but there are a few exceptions, with which, in view of the legal restrictions which govern his action, the comptroller finds himself unable to cope. These exceptions however frequently result in failures and catastrophes. The comptroller cannot legally take drastic measures with such banks until they perform some act of insolvency or when he believes their capitals to be impaired, which being a matter of judgment in regard to the realizable value of their assets, is frequently difficult to prove.

Clearing Houses as a rule are associations voluntarily established primarily for the convenience of their members in effecting their daily exchanges. In this process however the members have to trust each other for large amounts in the shape of daily balances payable in cash. Each bank member therefore becomes interested in the integrity of all and all in each. But beyond this, in view of the awful calamities caused by bank failures and of the fact that the failure of one Clearing House bank affects the confidence of the community in all, they become vitally interested in the maintenance among themselves of conservative management and proper business methods. Hence, only such banks as can stand a satisfactory preliminary examination are admitted to membership, and only those whose conditions continue to be satisfactory to a duly appointed committee, can enjoy clearing house privileges. Member, and non-member banks clearing through members are required to render to this committee copies of the tsatements they make to the comptroller or to the State auditor five times a year.

These disclosures in connection with the failures of these three banks showed the associated banks of Chicago that statements so rendered, which up to that time had been all the Clearing House Committee had to rely upon and which, as published, from the basis of the standing and credit of banks with the public could not be implicitly relied upon. It was therefore unanimously resolved to adopt a system of supervision, under which there would be some assurance that such conditions could never again develop in any bank connected with the Chicago Clearing House Association. There was therefore organized a bureau of examination in connection with the Clearing House.

The strength of this bureau lies in the fact that it was thus evolved by the voluntary action of the associated banks for their individual benefit and protection. We were fully aware that external supervision under whatever authority it may be exercised does not absolutely guarantee sound and safe banking in individual cases. Honourable and intelligent initiative management can alone be relied on for the ultimate success of individual banks. But judicious and intelligent supervision in

the mutual interest of all fosters and encourages conservative management in each. We further saw that it would not do to have the entire business of the individual banks disclosed to a committee made up of competitors in the business. We therefore devised the plan of appointing a competent examiner with a sufficient force of assistants to make as thorough an examination as possible of each at least once a year and report his findings in full detail to its directors. In this way as thorough an examination is made of each bank as would be made if the directors of their own initiative employed an outside expert to examine their banks and report to them. The examiner's complete report of each bank is sent to its president, the directors are all notified of its existence and are asked to personally peruse it and to acknowledge to the examiner the receipt of his notice. If, in the course of his examination, the examiner finds any bad debts, depreciated assets or other losses unprovided for, so that at a fair valuation the assets do not offset the liabilities, including the capital, surplus and undivided profits, as shown in the balance sheet, or if he discovers any irregularities in connection with the bookkeeping or management he reports such findings to the Clearing House Committee. The committee does not see the examiner's complete report as tendered to the directors. All that is found satisfactory is so reported to the committee without detail. If conditions are so bad as to make it necessary the committee has the right to call for a copy of the complete report so that it may deal intelligently with the case, but this is only when bad business so permeates the bank as to render its condition precarious. Thus, as nothing but bad and undesirable business comes to the committee's attention, the members of it have no advantage through their position in competition with the other banks for desirable business.

Neither the examiner nor the committee is hampered with restrictive rules and regulations. The examiner simply examines and reports upon the condition of each bank as he finds it the same as any other expert examiner would do if employed by the directors for the purpose. Anything affecting the integrity of a bank's statement as rendered under oath to the government and to the clearing house and as published is reported to the Clearing House Committee. This is the whole matter in a nutshell. We have simply established two rules applicable to all banks connected with our Clearing House Association and even these are unwritten. The first is that our statements as made and published must reveal the true conditions of our banks on the basis of their assets at a fair valuation being sufficient to offset their liabilities including capital, surplus and undivided profits. In other words, their capital, surplus and undivided profits must always be represented by the approximate value, reasonably estimated, of their assets in excess of the amount of their liabilities to the public. The second is that from an ethical standpoint the management of our banks must be honourable and straight, and their records and reports reliable. The Clearing House Committee, duly elected once a year, are with the examiner's reports to guide them, the judges as to whether the statements rendered to them by the banks five times a year are reasonably correct from the standpoint of these two unwritten rules. As already stated, we are not hampered with technical rules or regulations or even with legal definitions or interpretations. We investigate and treat all on a reasonable business basis. Our committee might find difficulty in defining a bad debt while they could recognize one if they saw it. They might regard as a bad debt an obligation on which interest has been paid six months in advance instead of having to wait until it is six months past due before they can so consider it. They regard the making and publishing of erroneous statements of a bank's condition as morally wrong, and therefore not permissible among banks associated together for their mutual benefit and protection, even if the making of such is not legally regarded as a misdemeanor. And they do not have to wait until a bank is actually insolvent in a legal sense before they can call it to time. A bank's statement must, on the basis of the examiner's report, be found reasonably accurate by the committee or it cannot continue to enjoy clearing house privileges.

APPENDIX No. 2

As to the ability of an examiner to pick out and report on bad debts and depreciated assets he soon acquires a sufficient knowledge of local conditions to enable him to do so with reasonable accuracy. He subscribes to the commercial agencies and has the entire banking fraternity with which to consult as to the standing of any obligor or as to the value of any security. The longer he is on the job the more information he acquires and the more proficient he becomes. Besides having been for several years a bank inspector myself I have had considerable experience with bank auditors and examiners, and my observation is that anyone of ordinary intelligence with a bank training and with adequate sources of information at his command can very soon classify a bank's assets with reasonable accuracy.

It has been my practice to divide bank assets into five classes and for convenience to name them in dairy terms such as cream, sweet milk, skim milk, sour milk and sediment. The cream consists of such prime investments, whether in notes or bonds, as can be relied on to be paid at maturity or as can be readily sold and converted into cash. The sweet milk is that line of desirable loans made to good customers who keep satisfactory average balances, and whose legitimate business requirements the banker is under obligation to consider and must consider in order to keep their business. The skim milk is represented by business which is not quite as good as it was thought to be when it was taken on, and therefore requires special care and attention although no loss on it is anticipated. The sour milk is business which has become so bad that at least partial loss can be reasonably anticipated on it which should be provided for. And the sediment is business so bad that a large percentage of loss on it is so inevitable that it can no longer be considered a legitimate or desirable bank asset and should be charged off.

The cream and the sweet milk are readily recognizable, the skim milk will as a rule disclose some complications or other indications of conditions connected with it which make it undesirable as a bank asset at its face value. With these three classes segregated there are left the sour milk and the sediment. To keep a bank as sweet and clean as a model dairy these two last named classes of assets must be constantly eliminated. When discovered by the examiner they are reported to the Clearing House Committee because if a bank's statment is to disclose its true condition the loss on them should be provided for. There is little fear of the members of the Committee competing for such business.

As to the practical working of Clearing House examinations in Chicago during the six years of their existence, I can only say that it has proved in every way most satisfactory and successful. There has been neither friction nor unpleasantness. Bank directors realize the great benefits derived and are unstinted in their praise of them. They are greatly assisted by these reports in keeping themselves informed on the condition of their banks and they readily co-operate with the Clearing House Committee in the correction or elimination of anything open to criticism. Our experience has been that the banks have almost unanimously adopted every suggestion made by the Committee. I cannot of course discuss such details as would show its efficacy. I can only say that the results have been most satisfactory to all concerned, and that much good has been accomplished for the Chicago banks individually and collectively.

The organization being entirely voluntary partakes somewhat of the nature of a gentleman's agreement, under which each bank binds itself to conduct its business under proper methods. The effectiveness of the method lies in the fact that they are all measured by the same standard, viz.: that their statements as rendered to the Clearing House Association must be satisfactory to the Committee, in view of the examiner's reports upon them, otherwise they cannot continue to enjoy clearing house privileges.

In no sense, however, does the Committee assume responsibility for the individual management of the banks or for the quality of all the loans current in them. This responsibility must always rest on the officers and directors of each bank.

All the Committee undertakes is to pass judgment, based on the examiner's report, on the reasonable integrity of each bank's assets and the general reliability of its statement. In the fact that the members of the Committee are posted on local credits and financial affairs lies the superior efficacy of Clearing House supervision. But the Committee is not omnipotent, it is only an ordinary human agency. It has no control of the initiative management of the banks under its supervision and under ordinary circumstances they are only examined once a year. The Committee fully realizes the heavy responsibility laid upon it. It has no easy problem to decide as to when or what action should be taken in connection with the condition of a badly managed bank. Conditions must become bad indeed and expostulation must have been exhausted before any supervisory authority, however constituted, will assume the responsibility of action that might lead to the closing of a bank's doors. If it were otherwise and such action were taken simply because something of minor importance in the bank was considered unsatisfactory such authority would be accused of causing a solvent bank to close and would be blamed not only by its stockholders, but by its depositors in whose behalf the action would be taken. We have had no difficulty in securing the co-operation of all our banks and it can now be relied on that no such conditions as caused us to organize our examination bureau can ever again develop in any bank connected with our clearing house.

Bank supervision by examination on the part of a Clearing House Committee, while probably the best and the most effective external supervision possible, has its limitations, which should be recognized by the intelligent public, and should not be held to a degree of responsibility which it does not assume.

Chicago's lead in the inauguration of an examining bureau in connection with its Clearing House Association has been followed by Cincinnati, Cleveland, Columbus, Kansas City (Mo.), Los Angeles, Milwaukee, Minneapolis, St. Paul, New York, New Orleans, Nashville, Oklahoma City, Philadelphia, Portland (Oregon), San Francisco, St. Louis, and St. Joseph (Mo.). Three of these cities viz.: Kansas City, Milwaukee and St. Joseph, instead of having their own examiners, employ certified public accountants to make their examinations. So far as I have learned, and I have heard from nearly all of these cities, clearing house bank examinations have proved eminently satisfactory to all the banks in them.

APPENDIX.

EXHIBIT No. 4.

GUARANTY OF NATIONAL BANK DEPOSITS—BY JAMES B. FORGAN, PRESIDENT FIRST NATIONAL BANK, CHICAGO, ILLINOIS.

SHOULD NATIONAL BANK DEPOSITS BE GUARANTEED BY THE GOVERNMENT OR BY A DEPOSIT WITH THE GOVERNMENT—IN EITHER CASE THE NECESSARY FUND TO BE RAISED BY TAXING ALL THE BANKS ON THEIR DEPOSITS?

AN ADDRESS DELIVERED BY JAMES B. FORGAN, PRESIDENT FIRST NATIONAL BANK, CHICAGO, ILLINOIS, BEFORE THE ANNUAL MEETING OF GROUP TWO OF THE BANKERS' ASSOCIATION OF THE STATE OF ILLINOIS, HELD AT PEORIA, JUNE 11, 1908.

SHOULD NATIONAL BANK DEPOSITS BE GUARANTEED BY THE GOVERNMENT OR BY A DEPOSIT WITH THE GOVERNMENT—IN EITHER CASE THE NECESSARY FUND TO BE RAISED BY TAXING ALL THE BANKS ON THEIR DEPOSITS?

In the recent public discussion of this question those who have undertaken to answer it in the affirmative have used very plausible arguments, which will undoubtedly appeal to many, who, without going thoroughly into the equities of the propo-

sition, desire to be relieved of the necessity of discriminating between one bank and another, and to have the assurance that their deposit is absolutely safe in whatever bank it may be placed. This would not be for the good of the public. It would put the people to sleep and give the rogues full scope. It is not a good thing for people that they should be treated as children or non-entities and relieved by their government of the necessity of exercising ordinary judgment and discretion in their personal affairs. It would certainly not tend to improve either their business acumen or their social efficiency.

So far as the purely business community is concerned, to be relieved of the necessity for such discrimination could not fail to have a most demoralizing effect, tending to general carelessness and looseness in the management of business. The entire credit system on which the business of the country is built up has its very basis in the business man's discrimination.

Let us analyse the relations existing between banks and their customers and ascertain if there is anything in that relationship to justify the proposition that in the banking business the good should be taxed to pay for the bad; ability taxed to pay for incompetency; honesty taxed to pay for dishonesty; experience and training taxed to pay for the errors of inexperience and lack of training; and knowledge taxed to pay for the mistakes of ignorance.

It has been charged that bankers opposed to a guaranty of deposits put the interests of their stockholders above the interests of their depositors, and that they are essentially selfish in so doing. Those who make this charge take an erroneous view of the relations existing between a bank and its depositors. The depositor invariably gets a *quid pro quo* for the use of his money. This may be in the shape of interest on his balance at a rate agreed upon; or it may be in the facilities which the bank affords him in conducting his business, such as collecting for him customers' cheques drawn on points all over the country and supplying him with exchange and a convenient method of paying his debts. Furthermore, in connection with commercial deposits, there existes an understanding in regard to fully 75 per cent. of them that the customer will not only be a depositor but a borrower. It is well understood that the average deposit kept should be in proper proportion to the line of credit granted. All customers are not borrowers at the same time. Each season has its own set of borrowers, so that at a time when customers in one line of business are repaying their loans, others in another line of business find it necessary to borrow. This is strikingly illustrated by the seasonal requirements of the agricultural implement manufacturers and the grain merchants. The former collect from the farmers as soon as crops are marketed and pay up their bank indebtedness incurred during the Spring and Summer to enable them to produce, sell and deliver the implements to the farmers; the latter, i. e., the grain merchants, borrow to buy and pay for the farmers' grain as soon as it is ready for market and to carry it through the Winter. They repay their indebtedness again in the Spring just at the time when the agricultural implement men have to borrow. So it runs all through the various lines of business. Large customers in certain lines accumulate large bank balances just when those in other lines are large borrowers.

The following figures recently taken from the books of The First National Bank of Chicago show the relation existing between that bank and its customers in regard to their deposits and their loans. In round figures the bank has from its customers

a total of commercial and personal deposits amounting to. $38,000,000 00
and the total loaned to customers who are also depositors amounts to 50,000,000 00

so that the bank's loans to its regular customers exceed their aggregate deposits by $12,000,000 00

These figures show that a very large part of the bank's deposits is based upon loans made to depositors. Of the loans amounting to $50,000,000.00 about $10,000,000.00 could be made immediately available for liquidating an equal amount of deposits by

simply returning to the depositors their own obligations as an offset to the amount at their credit. These figures are, I believe, a fair index of conditions prevailing in connection with the deposits and loans of all commercial banks in the large cities of the country. It is, therefore, evident that the relation existing between a bank and its depositors is purely one of contract, and the depositor has no claim on the bank other than to have the contract fulfilled.

This being the case, a banker cannot possibly serve the interests of his depositors better than by carefully looking after the interests of his stockholders. In the management of his business he cannot possibly separate the interests of his stockholders from those of his depositors. It is equally in the interest of both that the bank should be kept strong, liquid and clean as to its assets; that its management should be conservative in regard to loans; and that proper banking principles should be strictly adhered to. The suggestion that a banker can put the interests of his stockholders above those of his depositors is therefore absurd. It is on the stockholders that losses resulting from his mistakes will first fall, and if their interests are protected so that their investment is secure no possible loss can befall depositors.

It has been proposed to divide the country into twenty districts, putting the banks in each district under the immediate supervision of a board of commissioners to be elected by the banks themselves. These commissioners are to appoint their own examiners and it is expected that they would be able not only to diminish the number of bank failures in their districts, but that they would see to it that the banks do not make bad loans or acquire doubtful assets. It has been further proposed to make the banks in each district primarily responsible for twenty-five per cent of all losses that may occur by bank failures in their district. It is astonishing that this proposal should have won over to the side of the government guaranty scheme some men who have heretofore been conspicuous for the soundness of their views on financial subjects. With the inadequate control which supervision by examination of the banks affords, it seems to me that no man with a proper sense of the responsibility to be assumed would accept membership on such a commission, and that it would be nothing short of an outrage to hold the solvent banks of a district responsible for losses through failures caused by practices absolutely beyond their control.

In conection with the supervision of banks by means of examinations, a very erroneous idea seems to prevail. I trust I shall not be misunderstood in what I say on this subject. I regard government examinations as a very essential part of our present banking system, and effective for good as far as they go. They have steadily improved in both national and state administrations during the last fifteen years. There is, however, still room for improvement, especially in regard to the qualifications and efficiency of the men employed as examiners. Political influence still has too much to do with their appointment. Civil service rules, in connection with compensation adequate to secure men of experience, would add materially to the efficiency of the department. A competent examiner—and there are many such now in the government employ—while he cannot pass judgment on all the loans in a bank, can, after a careful examination, or a series of examinations, form a wonderfully correct judgment as to the general character of its assets and as to whether its management is good or bad, conservative or reckless, honest or dishonest. But there are several degrees between the extremes of good and bad and between the extremes of conservative and reckless management, while in the case of dishonesty it is not always easy to find evidence that will prove it, because the greatest care is always taken to hide it. Examinations as they are now conducted have a most beneficial influence on bank management, especially by way of restraint. The correspondence carried on by the comptroller based on the examiners' report does an inestimable amount of good in the way of forcing bank officers to comply with the law and in compelling them to face and provide for known losses as they occur. Supervision by examination does not, however, carry with it control of management and cannot, therefore, be held responsible for either errors of judgment or lapses of integrity. Examination is always an event after the act, having no control over a bank's initiative, which rests

exclusively with the executive officers and directors and depends entirely on their business ability, judgment and honesty of purpose. Such a board of commisisoners as has been proposed would not have control over the making of loans or the transactions entered into by each individual bank when and as they are made. After loans are made it is too late. The bank's money has been paid out and it has instead the loans or other assets, good, bad, or indifferent. To illustrate what it is expected to accomplish by the appointment of such a commission, to assume charge of all the banks in a given district, the practice in connection with the management of branch banks in other countries has been used. It is pointed out that several hundred branches are controlled and directed by a general manager and board of directors, and it is assumed that such a commission could similarly control and direct all the banks in its district. Under the branch bank system the branches are all integral parts of one institution and are governed and directed from the head office. Under our system each bank stands alone and has absolute control of its own affairs. Among the branches of the same bank there is no competition and the general management is that of one institution, all parts working harmoniously together. Under our system we would not only have active competition among the individual banks of the district, but the members of the commission themselves would be in active competition with one another and with many of the other banks under their jurisdiction. The general manager under the branch system is absolutely autocratic in the exercise of his judgment and the branch managers are all his subordinate officers subject to his instructions. He is consulted in regard to credits before they are granted and examinations or inspections afterwards are largely for the purpose of seeing that his instructions have been carried out. If they have not, he has the power to discipline or remove the manager. Our banks must continue each to be responsible for the management of its own business and examinations by officers acting under commissioners and could only ascertain, and that inadequately, how efficiently the bankers are exercising their individual judgment. Under our individual bank system it is now and will always continue to be the fact that conditions must become very bad indeed before existing authority, in whomsoever placed, will take summary proceedings to close a bank. If it were otherwise, and prompt and timely action were taken, that authority would be blamed for causing the failure of a solvent institution, not only by its stockholders, but by its depositors themselves, in whose interest the action would be taken. Besides being a heavy responsibility it is often no easy task to decide as to the solvency or insolvency of a bank, which depends largely on the solvency or insolvency of its customers, many of whom might be forced to failure by the closing of the bank. For these reasons it is quite evident that under our individual bank system no supervision by any authority, however constituted, could resemble the supervision as conducted by the general management of branch banks or approach it in efficiency.

It must also be borne in mind that the guaranteeing of deposits in national banks, either by the federal government or by a fund in the government's hands for the purpose, would disastrously affect state banks in which are deposited the great bulk of all the savings of the people, for comparatively few national banks accept savings deposits. State banks and trust companies as a rule combine commercial banking with savings bank business, and if the public should have the assurance that deposits in national banks are guaranteed by the government, or practically so, they would most assuredly discriminate against the state institutions. The federal government cannot assume jurisdiction over the state banks, and it surely may be taken for granted that in justice to them no such law affecting national banks would be passed by Congress until a similarly sophistical measure were passed in all the state legislatures—ostensibly for the benefit, but as I believe to the demoralization of the state banks, the injury of the public and the undoing of the entire business community.

In a former utterance on this subject, I argued that a bank's good-will is one of its valuable assets, and I have been criticised for making such a claim and told that

'it is difficult to conceive of a more selfish argument.' I claim that the strong, well-managed and conservative banks of the country, be they large or small, have a standing and credit with the public, on which the value of their good-will is based, which are not accorded to the weak and badly managed institutions. Discrimination as now exercised by the public deters to some extent the dishonest from engaging in the business, or at all events prevents them from succeeding in it. Discrimination of the public, like everything human, is not perfect, and the unworthy do occasionally become established in the business of banking and appear to flourish, but they never meet with permanent success. Many banks have made for themselves excellent records and have built up good reputations which form the basis of a good-will on which the investing public places a tangible value, not merely in sentiment, but in dollars and cents. This good-will, such banks as enjoy it are not willing to have swept away by legislation of a socialistic character. It would be confiscation of the vested rights and property of their stockholders and practically confiscation of character. Nor are such banks willing to be taxed for the purpose of being reduced in public estimation to the same level with those that have neither record, reputation nor consequent good-will to commend them.

It has been stated in an argument against what I have thus claimed that 'good-will is largely an advantage created by law,'....' that the good-will which I measure in dollars and cents is not entirely due to good management,' but to the fact that national banks are organized under the National-Bank Act and 'are inspected and regulated by law.' It is not I, nor any other executive bank officer, who measures the good-will of his bank in dollars and cents, but the discriminating and investing public. This is only one of many confusions of ideas that appear in the plausible arguments of those who discuss the subject without a practical knowledge of it. As all national banks are organized and operate under the same law and are subject to the same governmental regulation and supervision, and as the good-will is not measured by the investing public in the same number of dollars and cents in each instance, it is evident that the law, under which they all operate, and the regulation and inspection, to which they are all equally subject, have nothing whatever to do with the varying value of the good-will.

I quote the following from an article by Mr. S. S. Cook of Minneapolis, which forcefully expresses that for which I am contending:

'When a banking institution appeals to the public for deposits, upon what grounds does it solicit the necessary confidence? Briefly these. (1) Amount of capital; (2) accumulation of surplus; (3) personality of the management. The amount of capital with its stockholders' liability suggests financial strength. Surplus, especially if earned, denotes capable management and wise provision for possible emergencies. But it is the third element—personality—which constitutes both foundation and superstructure of every banking institution that ever existed or ever will exist. Unless a banker be a man of more than ordinary capacity, possessed of a keen sense of responsibility and absolute integrity, he cannot long maintain himself or his institution and disaster will fall upon him and his depositors. Shall we say to this class of men that henceforth the deposits in their banks shall be no safer than in the banks of their competitors who may be men of less ability, whose sense of responsibility is dulled by selfishness, and whose standards of honour are low? And in addition shall we demand that they assess themselves to pay the creditors of the latter class? But that is what guaranteeing of deposits means.'

The following from an editorial in the *Baltimore News* is also very much to the point and I take the liberty of quoting it:

'The great objection to any guarantee project is that, on the face of it, it eliminates what has, throughout the history of banking, constituted the most distinctive and perhaps the most vital characteristic of the banking business—the peculiar necessity under which it lies of maintaining a reputation for care, prudence, foresight and sagacity, that no other business requires for its successful prosecution. Make

APPENDIX No. 2

all banks equally safe either by a government guarantee or by the guarantee furnished by a compulsory scheme of co-insurance of deposits, and it is plain that this distinctive requirement laid upon bankers in order that they may be able to command that confidence which is essential to success in their business is removed. The placing of reckless and speculative banks on the same level with the best managed and most conservative would tend to introduce a competition all along the line calculated to drag all of them down to the level of the least meritorious. The prohibition of rates of interest higher than two per cent removes, in a measure, one form that this competition would take; but it does not remove it completely, nor does it touch other forms which are probably more dangerous than that presented by the offer of interest on deposits. Unless the banking business is to be reduced to a lifeless and purely mechanical function by the introduction of a minute supervision of the details of its operation under a system of cast-iron rules, competition will be bound to exist in it in some form. Under the present state of things, that competition takes shape in two diametrically opposite sets of qualities, one set tending to increase the bank's business through the offering of inducements and the taking of speculative risks, and the other set looking to increase of business through superlatively capable, shrewd, sagacious and responsible management. The balance between these two has made the banking business what it is—and its record is magnificent. The very argument on which the proposed guarantee method rests is the almost infinitesimal percentage of loss that has actually been experienced by depositors in national banks. To get rid of the uncertainty that is at times caused by the existence of even this infinitesimal percentage of recorded losses would be, in itself, a great advantage; but the question is whether it would not gradually but steadily sap the vitality of the whole system, and land us in the end in a far worse condition than any we have known.'

Let me further quote from a recognized authority on such subjects, Professor J. Laurence Laughlin, head of the Department of Political Economy in the University of Chicago. Dealing with the socialistic feature of the proposition he says:

'There is no more justice in laying the depositor's losses, for which he is not responsible, upon others who are also not responsible for the losses than there would be for A, who had been robbed by B, to ask that his honest neighbour, C, should be robbed to make up his loss. No matter how confidingly A had trusted B, C is not responsible for A's voluntary acts. Similarly the honest and efficient banks cannot in justice be asked to make up to a depositor in a failed bank losses for which the honest and efficient banks have no responsibility whatever. All reason, all justice, demand that the punishment be inflicted on the doer of the wrong and not on the innocent neighbour. In fact, the ethical justification for taxing sound banks to cover the lapses of unsound banks has no existence whatever. It is unmoral. Moreover, it is a question whether the courts would enforce such a law against the rights of property. More than that, it is not supported by any theory of political experience, but the socialistic. The advocates of insurance deplore the suggestion that it is socialistic, and are as much horrified by the mention of socialism as the devil is by the sight of the cross; and yet what does the analysis show? It is not necessary to explain to intelligent readers that socialism is not opposed to individualism; socialists look to the state to do for them what they admit they cannot do for themselves under a system of free competition. They charge against the forms of society what is due to the deficiencies of human nature, assuming that a change in the forms of society will change elemental human nature. The failure to hold their own in the struggle of life is the incentive to socialistic thinking. Disagreeable as it may sound, in reality socialism is the philosophy of failure. To be asked to be relieved from the ill success, or risk, of one's own business venture is of the very essence of socialism. When human nature has changed its spots, and can be trusted to go straight without existing incentives, then we may begin to remove the dread of loss from those who make mistakes without expecting a depreciation of human fibre. It is only because men must look

out for themselves that they differ in business fibre from women and children who are separated from the world of competitive effort. One may admit all the distress arising from the inability of the depositor to draw his deposits in cash; and yet one would not, as a consequence, need to demand insurance against every emergency in which misery may arise from the hazards of business. The essential idea in the scheme for guaranteeing deposits in commercial banks is to relieve a man from responsibility for using bad business judgment; and it is based on the principle of freeing men from the results of all business engagements in which there may be a risk of loss. If we once begin on this principle, we must care for all those who have entered into the relation of creditor to another. The scheme is the product of a narrow mind which has seen only one superficial phase of the problem, and which has hurried to a general conclusion without having studied the wide-reaching effects of an enervating and impractical policy.'

Let me still further quote from a Canadian banking authority of lifelong experience. He wrote me lately on the subject as follows:

'The proposal hits at the roots of all morals in the matter of credit, because an effort to make by law the credit of one banking unit as great as that of another, and thus to counteract the essential principles which cause one banking unit to have good credit and another bad credit, is as mischievous as it is absurd. If such a thing were attempted, all the units which by their upright behaviour have created for themselves good credit would have to retire from business or else submit to a scheme of co-operation which would give without consideration to other units who have been unable to create credit for themselves a share of one of the most valuable assets in banking. Men co-operate for mutual advantage, but when co-operation is enforced by law for the benefit of some and to the loss of others, socialism in that particular matter has been achieved. Again, is it not clear that the tendency of such a law would be to cause banks to distribute their surplus profits? What would be the object of any bank accumulating surplus profits if the credit of all banks is to be alike, and how absurd it would be for shareholders to allow reserve profits to remain undistributed if they were subject to attack in order to pay the losses of other dishonestly managed banks.'

Our banking system is by no means perfect. Notwithstanding its defects, however, statistics show that the losses to depositors during the last forty-two years have amounted to only one twenty-sixth of one per cent per annum of the aggregate deposits.* This small percentage of loss, constitutes a mere fraction of the interest annually paid to depositors by the banks. Under all the circumstances, with our system of free banking and 6,811 individual banks organized under it, this record is magnificent and the depositing public ought to be satisfied with it.

Under better systems, it is true, loss to depositors has been entirely eliminated. This has been accomplished by developing and perfecting them along proper lines and on scientific principles, and it is for us to emulate such examples along similar lines in improving our system and methods. We should not resort to an experiment that would sap the vitality of the banks, interfere with nature's law of the survival of the fittest (which is as potent in the banking business as in any other line of human endeavour), place the banking business of our country on a socialistic basis and reduce all the banks and all the bankers of the country to a common level, the level of mediocrity or worse.

After over forty years experience of banking under a system, in connection with which the public has had every incentive to discriminate between good and bad banks, the record of loss to depositors is one twenty-sixth of one per cent per annum. With all incentive for such discrimination removed, who can tell what percentage might be required during the next forty years? It is quite conceivable that it might lead to the

* See tables number 47 on page 161 and number 77 on page 362, report of the Comptroller of the Currency for 1907.

APPENDIX No. 2

utter collapse of our banking system and all the ramifying commercial interests interwoven with it. It is said that even with a mutual guaranty of deposits banks would not be organized to fail, but, to succeed as now. But now banks do not succeed unless they enjoy public confidence, which is attained through conservative, able and honest management. Human effort follows the line of least resistance. If banking ceases to be attractive to the honest and careful, because of the lack of incentive in it for such to excel in the business and in public estimation, it will very soon attract the dishonest and reckless and banks will be organized with the distinct purpose of following such practices as inevitably lead to failure.

Disastrous results followed such an experiment tried in New York State under the safety fund law enacted in 1829. History records that *' the stocks of the new banks were sought for with much eagerness both by investors at home and from other states. The latter were induced to purchase because of the popularity and supposed safety of the safety fund system, and the former by the hope that the demand from abroad would force the stock to a premium which they could realize by selling out after holding the stock a short time. Contests for the control of the institutions had the effect of increasing the number of subscriptions, and the bank commissioners speak of the number of applications for new acts of incorporation as far exceeding any prudent calculations of profitable investment.' The guaranty tax was one-half of one per cent on the capital of the banks, and the original intention of the law was undoubtedly that it should protect noteholders only, but as the law read 'notes and other debts' the courts construed this to mean all liabilities of the banks including their deposits. As soon as the courts had so decided and it was known that the deposits were guaranteed by the fund, it is recorded that *' a fictitious credit seems to have been given to the chartered institutions, which was used by some of them in recklessly contracting debts for the emolument of their managers.' Through bank failures in consequence of this recklessness, the fund became insolvent and the plan was abandoned. This is the natural result of such legislation, and if introduced into our national system, history would repeat itself and the result would be nothing short of a public calamity.

Careful consideration of these matters cannot fail to reveal the injustice of taxing the sound and conservatively managed banks, which are in the great majority, for the benefit of the few that are unsound and recklessly managed. The sound banks do not need and would never have any call on the guaranty fund to which they would contribute, while the unsound and recklessly managed institutions would build up their business on both sides of their balance sheets, *i.e.*, in both their deposits and their loans, by granting their customers accommodations contrary to all sound banking principles and methods. The unsound banks would actually take business away from the sound ones with specious promises, to which conservatively managed banks would not resort, and on reckless terms, with which they would not compete, while to the extent of their contributions to the guaranty fund the sound institutions would support the unsound in their recklessness, besides giving them a standing and credit which they could not otherwise obtain. By a wide-open policy as to credits granted, a reckless banker could build up a mushroom business, with which no examiner, comptroller, clearing house committee, nor any other authority might find good grounds for interfering otherwise than by criticism, expostulation and advice, until some such occurrence as the failure of some customer would compel the bank to stop, and so uncover the whole festering cesspool of bad credits and reckless banking. Shrewdness and good judgment might have anticipated the final outcome, but no one would be willing to assume the responsibility of taking drastic action on the strength of his fears. No system of supervision by bank examination, however perfect, will ever make an honest man out of a rascal, and has not Solomon said: 'Though thou

* See History of Banking, by John J. Knox, pp. 406-409.

shouldest bray a fool in a mortar among wheat with a pestle, yet will not his foolishness depart from him.'

With such influences at work as would exist under a system of guaranteed deposits, what percentages of taxation would be required to maintain the guaranty fund? In attempting to answer this question the advocates of the proposal are not agreed. In fact, as might be expected where only guessing can be attempted, they are widely apart in their suggestions. It must always be borne in mind when dealing with this phase of the subject, that taxes, howsoever levied, whether on capital, deposits, total resources, or profits, are invariably a direct charge on the capital employed. When capital engages in bankings as in any other line of business, it is invested subject to all fixed charges, including taxes of all kinds, and the profits can only be reckoned after these have been provided for. It should, therefore, be considered to what extent a tax on deposits would encroach on the earning capacity of capital invested. Based on the statistics of the First National Bank of Chicago for the past eight years, after allowing five per cent on the average capital employed, the average net profit on deposits, including revenue from all sources, has been just three-qarters of one per cent per annum. Taking all the national banks together, whatever percentage of tax is levied on deposits means a tax of something more than six times as great a percentage on paid-in capital. Mr. Fowler's proposition that five per cent of deposits should be placed in the guaranty fund and that the banks be allowed one per cent per annum on it, would mean that one-third of the paid-in capital of all the national banks would be tied up on an earning basis of one per cent. This is easily figured. The aggregate deposits of the national banks are in round figures $6,000,000,000, five per cent of which would be $300,000,000, and the aggregate capital is in round figures $900,000,000. Applying this average to each bank would mean that one-third of the capital invested by the stockholders for the protection of the depositors in their own individual bank, organized in their own community, under a management of their own selection and under local conditions with which they are entirely familiar, would be transferred to a guaranty fund for the protection of the depositors in the other 6,810 national banks organized all over the country, under conditions and management of which they have neither knowledge nor control and in which they have no special interest. This would not only be grossly unjust to present bank stockholders who did not invest their money with any such understanding as to the risk involved in the business, but it would cause a heavy curtailment of the profits which they have heretofore enjoyed and on which they had a right to calculate when under the laws and conditions then existing they invested their money. It would, moreover, from the standpoint of conservation, be an almost prohibitive barrier to the investment of new capital in the banking business. The proposition that such balances in the guaranty fund should count as part of the lawful cash reserves of the banks does not help matters any and is as absurd as it is impractical and unscientific. Banks' reserves must necessarily be kept in lawful money, or in balances readily convertible into cash. Balances in the guaranty fund would not be so convertible. They would not be subject to the checks of the banks, nor otherwise available to them for debt paying purposes. How then could they form a part of the lawful cash reserves of solvent banks actively doing business? They would not be available for any purpose until after banks have failed or have gone out of business. The Oklahoma law is more moderate as to the amount to be kept in the fund. It imposes a tax of only one per cent on deposits to be maintained by future assessments, unlimited as to amount. It is practically an unlimited joint and several liability of each bank for every other bank. It will be interesting to watch developments under the Oklahoma law. Already the bankers are squirming under it. At a meeting of over two hundred bankers from all over the State recently held in Guthrie to discuss the deposit guaranty law, it was resolved to endeavour to have the law amended so that instead of making the banks assessed pay the assess-

ments as soon as they are made, that the State hold demand certificates of deposit against them to be met when the necessity for funds arises. This is a fine proposition? But why not? Why should not guaranteed banks be good depositries for their own guaranty fund? All they have to do is to increase the deposit liability of each bank by the amount of its contribution to the fund. What will the outcome be if our banking systems are to be regulated by such sophistries? Mr. W. J. Bryan considers the Oklahoma tax unnecessarily high, and has expressed his belief that one-quarter of one per cent. would be ample. Just what he means by this is not quite clear. As he compares his proposed rate of one-quarter of one per cent. with the Oklahoma rate of one per cent, it is to be assumed that it is the amount of the guaranty fund on hand that is to be reduced to one-quarter of one per cent of aggregate bank deposits and that the unlimited liability of all the banks for future assessments would be enforced. Mr. A. H. Revell, the Chicago champion of the deposit insurance idea, suggests a straight tax on deposits of one-tenth of one per cent per annum. Were I to choose among these propositions I would prefer Mr. Revell's suggestion which would fix a limit on the liability and would enable the banks to figure definitely on the tax as a fixed charge against their business. Even one-tenth of one per cent, however, on deposits would mean six-tenths of one per cent on paid-in capital and would be equal to about thirteen per cent of the present net earnings of banks on their deposits. It would therefore form a material and important item in the fixed expenses of the business, and would ultimately correspondingly increase bank charges to the public.

Anything that can be legally and equitably done to protect the depositors, to raise the standard of the banks and of the men engaged in the banking business, to protect the honest banker against the dishonest one, to keep those engaged in the business honest and to punish those who are dishonest, should be enacted into law, and the laws for such purposes cannot be made too rigid. But to attempt to make all banks equally safe by passing a law that would establish an artificial credit for the incompetent and the dishonest, enabling them to offer all sorts of specious inducements to the public for business, and thus creating illegitimate and ruinous competition against sound and conservative bankers, would have in the long run contrary and disastrous results. By the passage of such a law the rascal would be tempted to become a national banker, and to cover himself with a mantle of credit which otherwise it would be impossible for him to acquire and which would be provided for him by and at the expense of all the good national banks in the country. This would not be a 'square deal.' It would place a premium on dishonesty and reckless banking and tend to abate the ambition of good bankers everywhere to excel in their calling and to acquire that good name, which Solomon says, 'Is rather to be chosen than great riches.' The proposal is abhorrent to business sense as well as to justice and equity.

ADDENDUM.

BENEFITS CLAIMED TO BE DERIVED FROM GUARANTY OF BANK DEPOSITS SUMMARIZED BY HON. A. H. REVELL REVIEWED BY JAMES B. FORGAN.

Mr. A. H. Revell, a prominent merchant and politician of Chicago, who contests with Mr. W. J. Bryan the honour of originating the idea of guaranteeing bank deposits, claiming to have suggested it to the comptroller of the currency under President Cleveland and again some four years ago in a magazine article, has recently published a book on the subject. His book contains a long, tedious and, as it appears to me, an irrelevant argument in favor of guaranteeing bank deposits. In it he gives a summary of the benefits to be derived from his proposal. It would indeed be strange if in connection with a proposition so widely advocated it could not be shown that there

would be some benefits to be derived from it. It is, however, only in accord with a 'square deal' that, before any action be taken, investigation be made as to whether the benefits claimed would not be obtained at the expense of justice and equity, and if from a comprehensive view of the proposition its effect would not be more harmful than beneficial to the people as a whole. I will as briefly as possible review the benefits claimed by Mr. Revell seriatim, my object being to show to what extent they may be regarded as real benefits and at what cost they would be obtained. In other words, I raise the question in regard to them—is the game worth the candle?

1. 'It will prevent losses and hardship to depositors.'

It could only at best do this to the extent of one twenty-sixth of one per cent. per annum of the amount involved which as shown by the experience of the past forty-two years has been the percentage of loss. This, however, would be at the expense of the sound and conservatively managed banks, many of which would themselves be creditors of the failed banks while they would not be responsible for the failures nor for the losses to depositors caused by them. They should not, therefore, in justice and equity, be taxed to pay for them.

2. 'It will promote sound banking.'

The way to promote sound banking is to establish sound principles in our banking system and methods; to encourage honesty and conservatism in bank management and to discourage the reverse; to recognize honesty, ability, experience and training where they exist; and to reward such bankers as have these virtues with the pre-eminence which is their due and with the confidence to which they are entitled. These qualities in bank management are fundamental to the promotion of sound banking. What is there that will tend to promote sound banking in the proposal to make the bank of ample responsibility and with honest, capable, shrewd and sagacious management no better in the estimation of the public than the one having inadequate responsibility and dishonest and incapable management? Is it not reasonable to assume that it would have the very reverse effect, and tend to reduce all to the level of the least meritorious?

3. 'It will reduce the number and seriousness of bank failures.'

I have already admitted that it might reduce losses to depositors, and by the same imposition on the good banks it might to the same extent reduce the serious effects of bank failures, which is only another way of stating the same thing. I fail, however, to see how it would tend to reduce the number of them. If, as I have claimed, it would encourage the unprincipled and incompetent to enter the banking business, recognizing that the guaranty fund would make all banks equal in public estimation, it would lower the standard of bank management and of bank assets; and deterioration in these would mean more and worse failures, not fewer or less serious.

4. 'It will eliminate failures of sound banks forced by runs.'

This is quite unnecessary. I have been about forty years in the business and I cannot recall a single case of the failure of a sound bank that could be attributed to an unwarranted run on it by depositors. I have known of runs on sound banks caused by idle rumour or misinformation, but in every case their soundness has either been established to the satisfaction of depositors, or other banks have rendered the assistance necessary to prevent failure. The tendency in banking is entirely the reverse. So ready are banks generally to go to the assistance of others in distress and to prevent failure, if possible, that they will do so in cases where the term 'sound' would be far from describing actual conditions. I believe that no bank honestly managed, pursuing a proper policy and correct methods—and surely none other can be designated sound—need ever be forced to fail by a run of its depositors. Examination by a government examiner, Clearing House Committee, or other competent authority, if it be really sound, would promptly re-establish confidence among its depositors. Moreover, if sound it would always have in addition to its regular cash reserves ample available and convertible assets on which to realize or to borrow.

APPENDIX No. 2

5. 'It will protect assets of failed banks against forced sacrifice.'

Unless it is intended to pay the deposits of failed banks out of the guaranty fund immediately after their failure—and surely such a proposition is too evidently impracticable and preposterous for serious consideration—I cannot see how it would have any influence on the liquidation of their assets. Were deposits to be so paid, it would tend, I should think, to rapidity of liquidation for the maintenance of the fund and therefore to enforced sacrifice of assets. Otherwise liquidation would proceed under the same law, the same authority and therefore under the same methods as now pertain.

6. 'It will quicken competition in the banking world.'

Yes, and I would be sorry for the banking world, for the kind and quality of the competition that would be induced and encouraged by it would be that of the dishonest, the ignorant and the incompetent. These classes of bankers being able to offer to their customers as security for their deposits the guaranty fund, maintained at the expense of all the other banks, would certainly quicken competition, but of a most undesirable kind. The field would just suit a dishonest man, enabling him to mislead and hoodwink the public and to carry on his nefarious methods for his own aggrandizement. But do we want such competition and would it be wise to encourage it? I think not. Then, let us have nothing in our banking laws for the encouragement and support of rascals in the business.

7. 'It will raise all State and National banks to the same high level.'

This implies that State banks would either be included under the Federal law, or that similar laws would have to be passed by each State for its own banks. State banks could not, as I understand it, be included under a Federal law. Different laws regulating the matter would therefore have to be passed in each State which would produce 'confusion worse confounded' for scarcely two of them would be alike. However this may be, it would only be in the artificially created estimation of the public that all banks would be on the same level. The convertibility of assets and the quality of management form the true measure of the standing and strength of all banks, and these would not be raised to a higher level, but would be reduced to a lower. No chain is stronger than its weakest link, and banks bound together under the proposed guaranty system would not all be lifted to the plane of the highest, but they would all be reduced to a mediocre average.

8. 'It will justify governmental patronage of banks by rendering it effective for protection, which it is not now.'

Mr. Revell does not make his meaning quite clear to me here and I am not sure that I catch his point. I presume, however, he means that were such a guaranty fund as he proposes established and were government deposits protected under it, the government would be justified in trusting the banks without requiring from them, as it does now, a pledge of its own bonds as security for its deposits. If this is what he means, I agree with him. It does seem to me, however, that it should be possible to devise in this country a banking system under which the government, having direct supervision of the banks, would be able to trust such of them as it may select for depositories without special security or mutual guaranty. The ethical question could, however, be raised and urged with absolute justice and great force of argument as to why the banks not enjoying governmental patronage should be taxed to guarantee the government's deposits with those that do. But it is not necessary to provide such a guaranty for the protection of the government. As between the national banks and the government, it has always been well able to look out for itself. The government's requirement of a pledge of its own bonds as security for its deposits in banks creates a special use and market for them at a price which they would not otherwise command. In the government's case therefore it pays to be distrustful of the banks.

9. *'It will insure continuance of public confidence and thereby prevent panics—a service of incalculable benefit to commerce and to every member of the population.'*

This would be true were it possible for the guaranty fund to give assurance to the public that under any and all circumstances and at all times each bank would be ready to pay its depositors promptly on demand. But this it cannot do. It can only provide that in the event of a bank's failing to pay its depositors promptly on demand whatever ultimate deficiency may develop in the process of liquidation would be made good. In a collapse of credit, produced by over-expansion of business, such a fund could not supply the banks with the wherewithal to pay their deposits over their counters or through the clearing houses. Financial crises are not due merely to the public state of mind which leads to runs on banks. Such a state of mind spreads the conflagration after the fire has been started; but lack of confidence and bank runs are consequences, not causes of bad conditions. Financial catastrophies are the results of periods of extravagance, over-trading, inflation of values, and undue expansion of credit. These conditions develop periodically and then the failure of some big banking or other concern or some other untoward circumstance vividly attracts public attention to existing conditions, and panic ensues. Frightened depositors then want their money and they want it promptly on demand. Under such circumstances it would be as illogical as futile to refuse a depositor his money and tell him not to worry because ultimately he would be paid in full out of the guaranty fund. His natural answer would be that he is not worrying as to how he is to be paid after the bank fails, that he needs his money now that the bank is open for business and that he wants it before it closes its doors. The trouble is, and he would realize it, that the bank has to fail before recourse can be had to the guaranty fund. Such a proposition would not enable a going bank to settle with its customers. If a depositor cannot get his money out of a bank when he asks for it just then he becomes panic-stricken and most anxious to have it in his own possession. The fact that he will ultimately collect it in full, with the knowledge that the bank must fail before the process of collection commences, would neither serve his purpose nor inspire him with confidence to leave it. The guaranty fund would not, therefore, insure continuance of public confidence, prevent panics, nor be of the incalculable benefit to commerce that is claimed.

The next three benefits mentioned are as follows:—

10. *'In addition to preventing withdrawals by runs on banks, it will add, it is estimated, almost a billion dollars of money, now hoarded (in and out of banks) to our circulating medium, and eliminate the need for more or less doubtful financial legislation.'*

11. *'It will, in this and other ways, materially increase the volume and profits of business.'*

12. *'It will directly and greatly increase the business of profits of bankers.'*

The two last named being contingent on the one preceding them, we can deal with these three alleged benefits together.

I do not know who is authority for the billion dollar estimate of the money now being hoarded. It is, however, only equivalent to saying that there is a large amount of money being hoarded. The billion dollars must be treated as a figure of speech and not as a reliable estimate of the actual amount in hiding for there are neither statistics nor other data on which any one could base such an estimate. We are, therefore, in the air as to the amount that might be added to our circulating medium and as to its effect on the volume and profits of general business. As to its directly and greatly increasing the business and profits of bankers, there seems to be some confusion in Mr. Revell's premises. He says that money is now being hoarded 'in and out of banks.' This implies that the banks are hoarding money in excess of their

APPENDIX No. 2

legal reserve requirements despite a business demand for it. The only way banks can be accused of hoarding money is by refusing to lend it out when it is wanted. What inducement they would have under the guarantee of deposit system to loan out the money they are now accused of hoarding, I cannot imagine, unless it be that they might feel warranted in expanding loans, in being more speculative, and in assuming greater risks, relying on their depositors looking to the guarantee fund as the main source of their strength, instead of relying, as they must now do, for the maintenance of their credit on their cash reserves and the liquid character of their resources. This would be natural under the circumstances, and it only affords another indication of the evil tendencies of the proposition on bank management. As to its eliminating the need for 'more or less doubtful financial legislation,' the query naturally arises why such legislation need be 'more or less doubtful' unless it is to be determined by theorists, agitators and others having no knowledge or experience in banking and financial matters, who persist in stirring up the minds of the people with their vagaries and their unwise and unsound suggestions. Every scientific and successful banking system in the world to-day has been established after full investigation and deliberate consideration by those whose knowledge and training and experience have made them financial experts. Nor can we hope to have a wise determination of the needs of our banking and currency system until it is left to similar expert authority.

13. *'It will encourage thrift, the keystone of character and good citizenship—the soundest trait a nation can acquire.'*

There is no dispute as to the desirability of cultivating thrift or as to its excellence as a national trait. It will not tend to encourage and develop thrift, however, to relieve the thrifty of the necessity of exercising shrewdness and the power of discernment, two qualities without which thrift cannot be developed to any purpose nor can its benefits be fully realized. The thrifty man is now as careful in deciding where he will deposit his money as he is in deciding on a permanent investment for it. Other things being equal, however, if you can induce him to believe that all banks are safe and all equally good for his purpose, he will yield to that part of his thrifty nature which induces him to deposit his money where he can get the most for it. Thus he will unwittingly cater to the irresponsible, reckless, speculative or dishonest banker, who not being regulated by conservative principles, nor by proper business methods, will not hesitate to pay him more for his money than it is worth for legitimate banking purposes. Ultimately, he will find himself involved in the wreck of an unsound institution, with his money tied up indefinitely, and even if he gets it eventually out of the guaranty fund he will be discouraged as well as inconvenienced by the law's delay.

14. *'It will tend to remove from the public contemplation the disgraceful and sensational spectacles of betrayed confidence and shattered integrity represented by great bank failures—and which cannot but have a most deteriorating influence upon public morals.'*

If the above comments are sound regarding the alleged benefits of guaranteeing bank deposits and if the scheme would tend to the demoralization of the banking business and to the reduction of all bankers to the level of the least meritorious—the public would have for its contemplation more of the disgraceful and sensational spectacles of betrayed confidence and shattered integrity represented by bank failures than it has ever experienced or dreamed of.

15. *'In the same way it will serve to materially raise the profession of the banker, his position and himself in the public estimation.'*

How is it possible to materially raise the profession of the banker, his position and himself in the estimation of the public, when for all practical purposes the public would be relieved of the necessity of considering him, his qualifications or his character at all? In the eyes of the public the crows would be as white as the doves, or

the doves as black as the crows. How could a banker establish for himself or his bank in a community where there exist no necessity for discrimination among banks or bankers, no degree of merit and no standards by which he may measure himself or by which he or his bank can be measured? He would be reduced to a mere integral unit in a pernicious system, a mere cog in a wheel, with his ambition to succeed dulled and without any incentive to individual excellence.

The argument of the book concludes as follows: 'We insure against death and injury and illness and incapacity, against fire, water, wind and the quaking of the earth, against burglars and embezzlers; we insure our ships and the cargoes in them, we insure our credits, we insure our workmen against injury. Why not insure our prosperity—for that is practically what insurance of bank deposits means, as I have endeavoured to set forth.'

But let me ask: Who pays for such insurance? Is it not invaribly the party whose body or property is exposed to the risk against which insurance is sought? When a man pays his premium to a life insurance company he does not expect all other life insurance companies to guarantee that his policy will be paid. Nor when we insure our credits in any line of business, do we expect all the competitors of our debtor who are engaged in the same line of business to guarantee the debt. Moreover, insurance policies whether they be issued for protection against death, accident, fire, wind or water, earthquakes, burglars or embezzlers are contracts differing in no material way from the contracts existing between banks and their depositors. Insurance is another legitimate branch of the body commercial and insurance companies are organized along the same lines as are banks. They are corporations established under and regulated by law. Their capital at the risk of the business and the reputation they can establish and maintain for honest and efficient management afford the only assurance on which their customers can rely for the fulfilment of their contracts. Their policies are their obligations to pay a specified sum of money under certain circumstances or conditions. To make the analogy complete between them and the banks a tax should be levied on the aggregate amount of outstanding insurance contracts issued by each company so that all companies and all their policies will be made equally good and secure by a fund similar to that proposed for the banks. Guaranty companies now make a business of insuring for depositors their bank deposits, which is a legitimate line of insurance. It is an entirely new suggestion that the premium for insurance on a man's money voluntarily deposited in a bank, should be paid by all that bank's competitors in business. If the stockholders of all the banks are thus to be taxed to pay the depositors of a few unfortunate, unsuccessful, or badly or dishonestly managed banks, why not tax all warehousemen to protect the storage of grain, wool, butter, eggs, cheese, cotton, etc.? Why not tax all manufacturers and merchants to pay the creditors of the unsuccessful or delinquent among them? Why not tax the successful in all ranks of life to support the unsuccessful? Why not tax property and wealth to the point of an equal division of this world's goods? These are surely the logical results of such a proposal. The failures in business in the United States for the past four years are given by R. G. Dun & Co. as follows:—

	No.	Liabilities.	Assets.
In 1904..	12,199	$144,202,311	$ 84,438,075
1905..	11,520	102,676,172	57,826,090
1906..	10,682	119,201,515	66,610,322
1907..	11,725	197,385,225	138,535,645
Total for four years..	46,126	$563,465,223	$347,410,132

These failures necessarily entailed heavy losses on the banks. Why should not all other business concerns be taxed to guarantee the obligations of every other debtor? If John Smith & Co., manufacturers, should give a bank their note for $10,000 and

APPENDIX No. 2

receive from the bank credit for it in their deposit account, is there any better reason why all other banks should be taxed to guarantee the bank's deposit obligation than there is that all other manufacturers should be taxed to guarantee John Smith & Co.'s note obligation? Let us 'insure our prosperity' completely. Why stop half way? Such an arrangement would make it as easy for the banker as for the customer. It would relieve him of the necessity of exercising discrimination.

EXHIBIT No. 5.

BANK SUPERVISION AND MANAGEMENT, BY JAMES B. FORGAN.

THE EFFICACY AND THE LIMITATIONS OF BANK SUPERVISION BY EXAMINATION AND THE RESPONSIBLE SOURCE OF BANK MANAGEMENT.

AN ADDRESS DELIVERED BY JAMES B. FORGAN, PRESIDENT THE FIRST NATIONAL BANK OF CHICAGO, AT THE CONVENTION OF THE AMERICAN BANKERS' ASSOCIATION, CHICAGO, SEPTEMBER 17, 1909.

THE EFFICACY AND THE LIMITATIONS OF BANK SUPERVISION BY EXAMINATION AND THE RESPONSIBLE SOURCE OF BANK MANAGEMENT.

Bankers and their customers alike are deeply interested in this subject. For some years past this interest has manifested itself in a growing demand that bank supervision should be as thorough, and bank examinations, as efficient as it is possible to make them. In response to this demand there has been a steady development of method and a widening of scope in government examinations—both national and state; the Clearing House Associations of some of our larger cities have organized examination bureaus; and private audits by chartered accountants have become of much more general and more frequent use. These developments have greatly enhanced the efficacy of bank supervision and improved the efficiency of bank examinations.

So marked have been these developments and improvements that there seems now some danger that the limitations of bank supervision by examination will be overlooked and that too much reliance will be placed in the efficacy of external supervision. The public must not be deluded into the belief that official examinations will relieve them of the fundamental duty of exercising their own discrimination in the selection of a bank. The entire credit system on which the business of the country is built up having its very basis in the exercise of such discrimination, any delusion which proposes to relieve the public of it would, morally and economically, be most injurious, tending to carelessness and general demoralization in business affairs as well as to a lowering of the standard of business sagacity and social efficiency.

There is a growing tendency on the part of the public to blame government or other authorities charged with the supervision of banks by examinations for failures when they occur. This tendency of public opinion I regard as unfortunate, untenable and unjust. In considering these questions let me call your attention to three kinds of bank supervision:—

First—By the government in the interest of the public.
Second—By the Clearing House Committee in the interest of associated banks.
Third—By the directors in the interest of their stockholders and depositors.

As state supervision is modeled after that of the national government and serves the same purpose, we may confine our consideration of government supervision to that authorized by the National Bank Act and conducted by the comptroller of the currency.

The authority of the comptroller of the currency is of course statutory, which places limitations on his jurisdiction and restricts it to such powers as are conferred upon him by the National Bank Act. The powers thus conferred upon him, briefly stated, are as follows:—

In connection with bank organization he is empowered—

1. To require a copy of the articles of association,
2. To approve each bank's name and its organization certificate,
3. To authorize banks to begin business,
4. To certify payment of stock,
5. To compel oaths of directors;

And during bank operation—

1. To approve or disapprove increase or decrease of capital stock,
2. To require reports from banks and to fine them for refusal.
3. To designate or approve additional reserve cities and additional central reserve cities,
4. To appoint a receiver—

a. When a bank has refused to redeem its circulating notes, or
b. When it shall be dissolved and its franchises declared forfeited, or
c. When a creditor obtains a judgment against it which remains unsatisfied thirty days, or
d. When he shall be satisfied of its insolvency, or
e. When its legal reserve is short and it fails to make it good within thirty days, or
f. When its capital is impaired and it fails to pay it up after three months' notice,

5. To appoint examiners who shall examine into all the affairs of the bank, examine officers and agents and make their reports to him.

The Act gives him inquisitorial power as to amount of assets, but only inferentially as to character of assets. He is required to 'examine into all the affairs of the bank' and is given discretionary power to decide when an impairment of capital takes place and to take summary action thereon. In order to do so he must, of course, investigate and pass upon the value of the assets. It is not, generally speaking, his function to exercise his judgment as to current credits so long as they are within legal limits as to amount. The exercise of such judgment would neither be desirable nor practicable. That responsibility rests on the bank's officers and directors. The comptroller seems to be unnecessarily hampered by legal restriction in determining when losses have occurred. Under the terms of the Act no obligation due a bank can be considered bad until interest is past due, six months, and not then if it is secured or in process of collection. Such a narrow definition of a bad debt can only embarrass him and his examiners in arriving at a correct conclusion as to the impairment of a bank's capital. Under his power to appoint a receiver he is given the power to decide when a bank is insolvent. He is again hampered here by the Federal Courts' definition of insolvency, which is 'inability to pay current debts as they mature,' and he could be enjoined in the District Court for any abusive exercise of his discretion.

Notwithstanding these limitations and restrictions, I believe it may truthfully be said that under no other banking system in the world are such executive authority and plenary powers conferred on any one man as are vested in the comptroller of the currency. Nor do the laws of other countries place such restrictions and limitations on banking operations as are placed on those of our national banks.

Considerable attention has recently been directed to the possibility of improving the government's supervision of national banks by the passage of further restrictive laws and by extending the comptroller's powers so that he may enforce them by fining or otherwise punishing those who break them. If all the suggestions that

APPENDIX No. 2

have been made along this line were enacted into law the comptroller's office would become so overburdened with executive duties that no man with any proper sense of the responsibility involved would accept the position. The more general and undefined the powers of the comptroller are, the more useful to our banking system will the administration of his office be made. To charge him with specific duties, which are impractical because impossible of fulfilment, will only weaken the administration of his office and detract from its usefulness. Any attempt to regulate individual bank management by specific legal enactments and to hold the comptroller responsible for their enforcement would prove futile, for as has been well said by Senator Aldrich in this connection, 'we cannot legislate good judgment and honest purpose into the minds and hearts of men.' Realizing this, our legislators should be careful that bank management is not hampered with such petty legal restrictions as only retard the natural and legitimate development of the business, stunt the growth of individual banks and impair their ability to compete for international business with the older and greater banks of other countries.

Under our system of free, individual and purely local banking, rising industries of all kinds in any given locality must provide themselves with banking facilities by organizing and usually controlling their own local banks. The natural tendency of this is to place the management of new banks directly under the control of their principal local borrowers; hence, our banking laws had to be strongly restrictive and prohibitive. This is a weakness inherent in our system of numerous small independent banks.

It is evident, however, that restrictive measures which may be necessary to regulate a country bank with very limited resources, when applied to large city banks with resources aggregating many millions, would prove exceedingly irksome, tending only to retard their progress, curtail their legitimate enterprise and impair their usefulness to the community.

Some evils which it is sought to correct by further restrictive legislation are, as I have already intimated, inherent in our system. For instance, there is found in some of our small banks a large line of trade paper entirely out of proper proportion to their resources and frequently discounted for the president or a director or for corporations in which they are interested. It has been proposed to place legal limitations on the aggregate amount of such paper which a bank can discount for any one customer. It is, of course, the abuse and not the legitimate use of banking facilities which it is sought to prevent by this legislation. By thus attempting, however, to prevent such abuses which only occur in a few cases, the legitimate and helpful use of banking facilities may be seriously curtailed. If the credits as originally granted by the bank's customer have been carefully and judiciously made and the paper has all been taken by him in good faith for merchandise sold and delivered, and if these facts have been properly checked up by the banker, as they should be, a safer, sounder or more legitimate line of discounted paper cannot be conceived. The only limitations necessary to be placed on it, other than the bank's capacity to handle it, are such as every sensible banker will place for himself, viz.: a limit on the amount of the obligations of each individual maker, in proportion to his standing and credit, as these may easily be ascertained on inquiry.

In the great majority of cases it is the prosperous industries in a community that require banking facilities and their successful owners that take steps to provide them. As a rule, the officers appointed are honest and trustworthy, comprehending their fiduciary relationship to their depositors as well as to their stockholders and having due regard to the well recognized principles and methods of banking as well as proper respect for the banking laws under which the bank is organized. Hence, fortunately, success is the usual result and failure the rare exception, as is shown by the small percentage of failures that take place. Abuses calling for governmental interference creep in when the men in control of a bank through recklessness or mismanagement

are unsuccessful in their enterprises. Under their baleful influence, the executive officers appointed and controlled by them, gradually forgetting their responsibility as trustees, ignoring correct principles of banking and defying the law, become demoralized and permit the use of the bank's facilities for improper purposes. By granting constant renewals of what were originally trade notes, instead of enforcing their payment, they permit their controlling borrowers to carry along their delinquent debtors. Gradually, accommodation notes are permitted to go through as representing actual transactions, until the parties in control of the bank, besides having borrowed on their obligations all the law permits, have become liable as endorsers on a wholly unwarranted line of discounted paper, which is not what it professes to be, but is composed of renewals of bad credits, accommodations, kites, or otherwise worthless paper, together with all the other abominations to which mismanagement and bad banking fall heir. Such a condition of affairs is a most difficult one for the comptroller or his examiners to handle. The longer it lasts the worse it becomes, and it is difficult from a legal standpoint to allege a cause for action. The only thing that can be done is to promptly take exception to such business in its incipient stages, keep on objecting to it and finally take action when it becomes so bad that an impairment of capital or insolvency takes place.

This evil, however, diminishes as industries grow and increase, and banks grow with them. Villages become towns, and towns cities, and banks develop with them, increasing their resources, diversifying their business, distributing their credit risks and gradually becoming independent of any single controlling interest or influence. Just as in other lines of business, the weak and poorly managed drop out of the race and the strong and well managed survive. With our business rush and rapid growth, together with the necessity there has been of employing men to manage our banks who have had no previous knowledge or experience in the business, the wonder is that failures have been so few. The results afford no basis for serious complaint against the comptroller's department as it has been administered and disclose but little necessity for new laws to regulate it or bank examinations as they are conducted under it. Both are developing as the system develops and are steadily improving in efficiency.

Many of the suggested changes in the administrative features of the National Bank Act are such as under the general powers conferred upon them, the comptroller, his deputy and examiners can best work out for themselves. Some of them however are quite necessary and desirable. It would, for instance, be ideal to have a corps of trained examiners, adequately paid by salary and under civil service rules, both as to their appointment and the tenure of their office. Also to make the position of comptroller of the currency such as to inspire the ambition of leading and successful bankers to fill it. But these suggestions, however desirable, do not seem practical or available at the present time. They must await the further development of our system and in the meantime we should take such practical steps as may make them possible in the future. Good, capable and faithful service is not always nor mainly dependent upon adequate remuneration. This is conspicuously the case in the public service. The fact affords no excuse, however, for perpetrating and perpetuating a palpable injustice. The pay of the comptroller is now and has long been totally inadequate. As a matter of simple justice as well as of sound public policy his salary should at least equal that of the presidents of large city banks. Instead of being regarded as a position from which bank presidents may be graduated, the comptrollership should be considered a post-graduate honor and a distinction of the highest order to be conferred on men who have previously filled a president's position and demonstrated their ability by the success they have achieved. These ideals can hardly be realized, however, so long as the acceptance of the honour by one holding such a position would mean the reduction of his income by from one-half to two-thirds, besides having to give up a permanent position for one of limited term of service.

The pay of the comptroller's deputies and examiners should also be such as to command the services of experienced and competent men. The policy adopted by the

APPENDIX No. 2

present comptroller of appointing as examiners men of previous banking experience, giving preference to those who have been connected with sound, progressive and well-managed institutions and refusing to consider applications from officers or employees of badly managed banks, cannot be too highly commended. However, as he will have to compete for the services of such men with practically all the good banks in the country, their remuneration should be made such as will enable him to do so successfully.

It is most desirable, almost essential, that bank examiners should have had a bank training. Without it, unless they are men of very exceptional natural ability and adaptability, they are liable to be impractical in their work and erroneous in their judgment, applying theories to problems which will not solve them and failing to exercise that sound judgment which as a rule is only acquired through practical experience in the business. On the other hand, the experience of a bank examiner is of incalculable value in the evolution of a bank training, provided he has previously been long enough in the banking business to have acquired something of what may be called the banking sense—a sort of intuition by which a banker reaches conclusions and makes decisions that are generally his best. Policies controlling successful bank management must be in accord with the laws of political economy and with sound financial theories. Such laws and theories will not, however, solve the problems connected with individual applications for loans, no two of which are ever alike. The theoretical banker, who knows it all and can give you a definite rule for all he does, is not generally the successful one. Accompanying theoretical knowledge there must be sound judgment and applied common sense. Bankers have human nature to deal with in all its varying propensities. They must, as Burns advises,

> 'Keek thro' ev'ry other man,
> 'Wi' sharpen'd, sly inspection.'

Not coming into daily contact with the borrowing public and having constantly to pass judgment on transactions after they have been completed, bank examiners have little opportunity for the development of this banking sense, and unless they have by previous experience acquired it, they are very liable to get into a too critical frame of mind and to become over-technical and theoretical in forming their judgments. Having been a bank examiner myself I speak from experience. The value of a bank's resources cannot be measured by the rules of mathematics, accountantcy, political economy or finance, and yet bank examiners, as well as bankers, should be familiar with all of these sciences.

A year ago when playing golf on the old links at St. Andrews, Scotland, I saw a party of players coming towards me with quite a gallery following them, showing that they were recognized as experts at the game. Turning to the old man who was carrying my clubs, I asked him who the players were, which he told me. Recognizing among their names that of a well known authority on the game, I remarked that I supposed he was a very good player. 'Weel' said the caddy 'he used to be among the best, but two years ago he wrote a book on the science of golf and he has not been much of a player since.' I have sometimes wondered since if there was not some practical sense in the old man's observation. The gentleman's close attention to the technique of the game may possibly have affected his natural ability to play it; while thinking of how to place his feet he may have neglected to keep his eye on the ball.

Borrowing from their own banks by officers and directors is another matter which it is thought should be regulated by further prohibitive or restrictive legislation. That there has been serious abuse of banking privileges along this line is only too true, but, as I have already pointed out, it is due to an evil lying at the very foundation of the development of our banking system, the arbitrary prohibition of which now would be almost revolutionary. The trouble lies in one man being permitted to

act on both sides of a transaction, i.e., both as borrower and lender. Officially, he passes judgment on his personal credit, and it is not human nature that he should degrade himself in his own estimation. Bank directors who know their responsibilities and care to assume them will not permit such practices.

It may be necessary under our system to do as some of our State legislatures have already done, prohibit loans to salaried officers, except with the full consent of the board of directors, regularly recorded in their minutes. It is a mistake, however, to pass laws which are too easily circumvented. It only induces evasion which is always demoralizing. As a rule, salaried officers of banks should have little occasion to borrow, and it is open to question if when they do they should not do so at their own banks, always on satisfactory security and with the knowledge and approval of their directors; never, in my opinion, otherwise. It is certainly better so than that they should be compelled to go to some officer of another bank, or to some personal friend and customer, with whom reciprocal arrangements for mutual accommodation could be so easily established.

However this may be, it is certain that to absolutely prohibit loans to directors, or to place legal restrictions on loans to them, or to corporations in which they are interested, that do not apply to other customers, would completely upset our present banking system, destroy the integrity of its directorate and seriously impair its usefulness. The best directors banks can have, and those they now do have, are the men connected with the leading commercial and manufacturing industries whose close touch with business affairs makes them the best judges of credits in their various communities. If, by being directors, they are debarred from the legitimate banking facilities to which they are entitled, they will cease to be directors, and the inevitable result will be that dummies will take their places, possibly to do their bidding. The demoralizing effect of such a condition of affairs, affecting practically every bank in the system, can easier be imagined than described. It does not follow from this that the present practice of showing directors' liabilities in reports to the comptroller should be discontinued, or that examiners should not take special cognizance of them to see that the bank is not being illegitimately or unreasonably used for the special benefit of those controlling it. This is always a legitimate and most necessary subject of investigation. It will, however, be found in nearly every case that the best loans in the banks are those to its directors, who are engaged in the legitimate, successful and profitable enterprises of the communities in which they live.

A serious defect in the Bank Act, as the courts have interpreted it, is that false reports made to the comptroller are not a misdemeanor as are false entries in the books and false statements made with intent to injure or defraud the bank itself. This is all wrong and should be promptly corrected. The making of false reports to the comptroller should be regarded as the most heinous offence of its kind and should be punished accordingly. A false report to him means a fraud on the public whose representative he is. It should be part of the duty of examiners to check up reports made to the comptroller. The integrity of the system depends on the reliability of the statements made from time to time to the comptroller and published in the newspapers. There should be no weakness in the administration of the comptroller's office in regard to the criminal prosecution of bank officers who are guilty of falsification or misrepresentation. Such offences should be nipped in the bud. When an examiner discovers anything in the books, the securities, the loans or the records that misrepresents actual conditions it should be a case for criminal proceedings and the law should be such as to facilitate prompt action.

At an early stage of my banking career the inviolability of bank reports was strongly impressed on my mind. A bank agent in my native town misappropriated some of the bank's money. According to the rules of the bank a monthly statement had to be rendered to the head office. In this statement the agent and accountant had both to certify that they had counted the cash and that it was all on hand as stated. The regular accountant being absent, a clerk, who was a friend of mine and

APPENDIX No. 2

whose honesty was unquestioned, was temporarily filling his place and it became his duty to sign the statement. The agent, claiming that he had something important to attend to and that he wished the statement dispatched at once, induced the young man to sign it, without giving him opportunity to count the cash in his custody, but promised that he would do so next morning. The next day he put him off again and after a few days, when the young man found that the agent had no intention of fulfilling his promise, he wrote his brother, who happened to be a clerk in the inspector's department at the head office in Glasgow. He simply stated the facts to his brother and asked his advice under the circumstances. His brother showed the letter to the head inspector who promptly dispatched two men to the branch to investigate. They found a deficiency in the agent's cash, and had both him and the clerk arrested, the former on a charge of embezzlement, the latter for having signed a false bank statement. The agent was tried and sentenced to the penitentiary inside of thirty days, and it was only due to the action of the leading men of the community who, knowing the circumstances got up a largely signed petition to the court in the young man's behalf that he escaped punishment, but the incident ended his banking career, and he is now a respectable farmer in this country.

There is a matter on which a difference of opinion has for some years existed between the comptroller's department and some of the most conservatively managed banks in the system. While it may not be considered germane to my subject, I should like, if I do not weary you, to discuss it now I refer to the contingent account not shown in the published statement. Like many other banking practices, sound when kept within reasonable limits, it is susceptible of abuse and may be made the means of misrepresenting a bank's true condition. When built up beyond reasonable limits and its existence is only known to the officers, directors and a few favored stockholders, great injustice may result. Outside shareholders, ignorant of the true book value of their stock and of its real earning power, might be induced to sell it to inside parties at much less than its actual value. This, however, would be a misdemeanour on the part of the officers and directors and could be controlled by the Criminal Code as other frauds are. The injury would, however, be confined to the deceived shareholders. No harm could come to depositors from a bank being stronger than its statement discloses. In the interest of the bank itself as an institution, as well as in the interest of the stockholders who own it, a reasonable contingent fund is desirable and generally necessary. Such a fund furnishes a reserve strength to protect a bank's resources against contingencies of which there are plenty. In exceptionally prosperous years when profits are large, provision should be made for possible losses in lean years. Thus a bank's earning powers can be steadied and sudden or violent changes in the book value of its stock prevented, much to the benefit of the stockholders. For example, the year 1908 was one of abnormally large banking profits, while so far this year, owing to the low rates prevailing for money, profits have been abnormally small. Last year therefore it was possible to make liberal allowance for losses, and in view of the panic, just then passed, it was good banking that this should have been very generally done. This year, there has been no margin of profit on current business out of which after paying dividends the usual necessary provision for losses can be made. At the close of 1908, it might have been impractical to specifically apply the amount then appropriated, while in view of general business conditions and their effect on the bank's customers the directors had good reason to anticipate considerable loss on current loans, and when they had thus cause to expect it who will say that it was anything short of their duty to provide for it? It is neither necessary nor advisable that whenever loss is threatened on the accounts of certain customers still actively doing business a portion of their current loans should be charged off as if loss on them had already occurred. Such an appropriation should be made as in the judgment of the directors seems necessary, charging it to profit and loss account and crediting it to contingent account, where it can remain until the anticipated losses materialize,

which they generally do. Such appropriations should, of course, be regularly shown in the statement of profit and loss account rendered to the comptroller, and the contingent fund should be kept in the general ledger open to the investigation of examiners. In my judgment no sound, conservatively managed bank can afford to be without such a fund. It protects the new shareholder who invests in the stock at the market price, based on the bank's published statements, against fluctuating values of its resources in consequence of losses having to be provided for on loans or other assets in existence at the time he makes the investment, and I think he is entitled to such protection. Further, it has a most beneficial effect on the management to feel that the bank is running ahead, instead of lagging behind in the procession.

The comptroller's department will doubtless agree with all I have thus far said on this subject, but will ask why the contingent fund should not be shown in the published statements as undivided profits are? It will claim that the public and the shareholders are entitled to know the actual condition of the bank, which they cannot do if there are hidden profits not shown in the statements. My answer is that there are or should be no hidden profits. The contingent fund represents an amount which the directors have deemed it necessary to deduct from the profits and set aside to provide for anticipated losses in current loans in order to maintain their integrity. While, therefore, the ledger and balance book will show the fund in a special account, when a statement of the bank is published the amount of it can quite properly be applied where it belongs. It should be deducted from the current loans, reducing the amount of them as published to the realizable value placed on them by the directors.

The main thing looked for by the public from governmental supervision is reasonable assurance that bank statements, which are mere figures after all, can be relied on. In view of this and of the natural desire on the part of bank management to make the best showing possible in their published statements, and the general tendency along this line, it would be a wholesome policy on the part of the comptroller to encourage it, if not to require the maintenance by the banks of a reasonable contingent fund. It would lead to the keeping of an anchor to the windward for the benefit of all concerned. It would certainly be an improvement on the present erroneous practice, against which no exception seems to be taken. I refer to the very general practice followed by the banks of overstating their accumulated profits by including in them discount on time loans collected in advance. All notes discounted up to the date of the statement appear in it at their face value, while their real value is the price at which they are purchased, that is, they are subject to the rate of discount received on them from the time the statement is made to the various dates of their maturities. How would a banker regard a customer's statement, if he learned that in taking inventory of stock on hand, the customer had added the selling profit to the cost price, thus 'counting his chickens before they are hatched,' and yet in bank statements this is the common rule to which correctly made statements are the rare exceptions.*

The objects being the maintenance of the integrity of the assets and the adjustment of profits and losses one year with another, so that the growth of the surplus may

* Since the above was written my attention has been directed to some pertinent remarks on this subject by Mr. H. C. McLeod, General Manager of the Bank of Nova Scotia, Canada. In his report for 1901 referring to the bank's annual statement in which these words appear 'Losses by bad debts estimated and provided for', he goes on to say—'By scrutinizing the assets as shown, these words will appear almost meaningless unless they signify more than that the notes and bills overdue have been provided for, and they are intended and expected to be understood as having a deeper meaning. Doubtless those who have perused the history of this institution, issued a few months since, will have observed that progress has not been steady, even during the past thirty years. Good times and bad times succeed each other. The period from 1875 to 1885, with its lack of progress and struggle to earn dividends, though under excellent management, will long be remembered. Although it was a bad period for profits, it was fruitful of experience, costly experience; the most valuable lesson being that to make appropriations for losses after they are ascertained is unreliable and incorrect.

APPENDIX No. 2

be solid as well as steady and uninterrupted, the publication of the fluctuating amount of the contingent fund would only confuse the public, hurt the bank and nullify all the benefit to be derived from it. Rather than show it in the published statement it had better remain in profit and loss account as part of which, if shown, it would erroneously continue to be reckoned. A short statement by each bank to the effect that proper provision has been made for all known or anticipated losses and that loans are shown in the published statement at what is believed to be their estimated realizable value would be more satisfactory to the public and more easily understood by it.

The National Association of Credit Men, from whom, I have noticed, there emanates from time to time a good deal of sound business sense, recently appointed committees of their state organizations to investigate the condition of the state banking laws. After careful investigation these committees are required to answer to a general committee of the National Association the following questions:

1. 'Does your state have a state banking department with a superintendent at its head appointed by the governor?'
2. 'Is your state banking law considered by bankers, lawyers and business men generally adequate in its requirements in the way of—

a. Maintenance of reserve,
b. Frequent and searching examinations and authoritative supervision,
c. Prevention of over-extension of credit to heavy borrowers,
d. Penalties for the making of false statements of condition,
e. Economic liquidation in cases of failure?'

These questions it strikes me furnish an almost complete synopsis of everything that government supervision can be expected to accomplish, and, with the exception of providing for adequate punishment for the making of false reports to the comptroller, our National Bank Act already covers them all. With adequate pay provided for the comptroller, his deputies and examiners and with some unessential amendments in minor details the powers now conferred upon these officials appear to me to be quite sufficient to enable them to accomplish all that can possibly be accomplished through governmental supervision.*

The department in its methods is showing its ability to keep abreast with the development of the banking system and its administration is steadily improving in the value and reliability of its service both to the banks and the public. As an illustration of this and of the ability of the department officers to develop their own methods under the general powers they now possess without specific legal enactments for every move they make, which would hinder and hamper more than they help them, let me draw your attention to some of the department regulations recently inaugurated:

Bank examiners can be neither stockholders nor borrowers from national banks.

From the record you will see one year in which an actual loss is shown, more than the regular profits for the year having been required to pay losses on assets that a few months before were good in the opinion of most capable bankers, who have since attained marked distinction in their calling. The simple fact is, experience shows that by taking a long period of time, a certain percentage of the total loans made must be provided for as bad, with the natural conclusion that the scientific method is to provide that percentage each year, thus ensuring comparatively steady progress. This plan in in agreement with the acknowledged fact that losses creep in during good times, to be detected later when credits are more carefully administered. For life insurance companies, actuaries readily calculate with mathematical precision the loss to be realized from the death rate, and while this bank's experience does not permit of the same accuracy the death rate in our assets may be more correctly measured by the methods indicated than by any others known to us.'

* Since this was written the comptroller of the currency has expressed himself as follows:

'After a year's trial of the Bank Act, I can say to you frankly that it gives me all the power I want, and even more. If I were today to go again before the National Currency Commission, and the question were asked me as to what changes were necessary, I would answer, that in my opinion the only essential change was one giving bank examiners in the country districts more compensation.

'Of course, some trivial administrative features of the Act could be made a little better but I do not want and I do not believe any other comptroller will ever want, any more actual power than the present banking law now gives.'

Savings banks, trust companies or other state banking institutions allied with national banks are examined simultaneously with them.

Bank examiners are to be selected from men of previous banking experience who have been connected with sound, progressive and well managed institutions.

Banks are classified in the department according to the character of their management and such as are classified poor are being examined four times a year in the presence of their directors, from whom a letter is required promising that conditions subject to criticism will be attended to and corrected, while those whose management is classified as very bad are being handled in a still more vigorous manner.

Examiners are now required to make such careful and complete reports in writing of all evidence discovered by them tending to show criminal violation of the Federal Statutes, that the Department of Justice may determine from them without further investigation whether or not there has been a criminal violation of law.

The national bank examiners through the country have been divided into eleven districts with a chairman appointed by the comptroller for each district. Examiners in each district are required to meet twice a year to have a general discussion of methods of examination and to prepare reports of banks in the district whose condition is unsatisfactory and of any lines of doubtful credit in them; each examiner to report to the chairman for his own particular section and the chairman to furnish the comptroller with a complete report of the proceedings, retaining a copy for reference at future meetings. The chairman of each district at his discretion can report to the chairman of any other district such information as he may deem advantageous.

The efficacy of government supervision by examination lies primarily in its restraining influence on bank management. The knowledge that the banks are to be examined holds the officers in check. This followed by the criticisms of the comptroller based on the examiners' reports is efficacious in inducing or compelling bankers to comply with the law and with proper banking methods and to face and provide for losses as they occur. This should afford the public reasonable assurance. Such are the benefits to be derived from governmental supervision, and the degree of their accomplishment is the measure of their efficacy. All external supervision is, however, based on the examination and consideration of transactions after they have occurred. It cannot control the making of loans or investments at the time they are made. It has no control of initiative management. It cannot, therefore, be held responsible for errors of judgment or lapses of integrity. Its business is to discover such and its efficacy depends upon its ability to do so. It is at best a human device and in common with all such devices its limitations should not be ignored or forgotten.

The next branch of our subject is 'Clearing House Supervision in the Interest of Associated Banks.' As you are doubtless all aware this method of local supervision was first inaugurated in Chicago three years ago. Its main strength is derived from the fact that it was evolved from the voluntary action of the banks themselves for their own benefit individually, and for their protection collectively. Thus 'its just powers are derived from the consent of the governed.' Similar bureaus have since been organized in St. Louis, Minneapolis, St. Paul, San Francisco, Kansas City, Philadelphia, St. Joseph, Milwaukee and Los Angeles, while other cities are showing their interest by investigating our methods and the benefits to be derived from them.

A short statement of the Chicago method may therefore be of interest to you. Neither the committee having the matter in charge nor the examiner are hampered in their work by any code of rules and regulations adopted by the associated banks. Both were given an absolutely free hand. The committee was by resolution instructed to secure the services of a suitable man of experience to examine the seventeen members and some forty non-member banks clearing through members. Having secured the services of such a man, the committee in turn instructed him to engage the necessary help (he has now five assistants) and proceed in his own way to make thorough examinations of all the banks. The following extract from the original

APPENDIX No. 2

letter addressed by the committee to the president of each bank will fully explain the method adopted:—

'The examiner will furnish you for the use of your directors a detailed report on the condition of your bank at the date of his examination. He will file in the clearing house vault, under his own custody, a copy of such detailed report. He will also make a separate report to the Clearing House Committee expressing in general terms his opinion of the condition of each bank as he finds it and calling special attention to any unwarranted conditions or gross irregularties discovered. His detailed reports will not be examined by the Clearing House Committee except when it may appear necessary to do so from the general report of conditions made to it.'

And the following from a letter sent out later to the directors of each bank as the first examinations of them were completed, will show that the method was intended to benefit directors and that their co-operation in correcting anything open to criticism was desired and expected by the committee:—

'The Clearing House Committee, desiring the co-operation of bank directors in maintaining a high standard in the condition of banks in the city, has requested the official examiner to notify the directors of each bank, individually, when he has completed and delivered his report to the president so that every director will have an opportunity of perusing it. The committee urges upon every director that he should, as a part of his directorial duty, carefully examine such reports as promptly as possible after he receives notice of their existence.'

Bank directors have been most enthusiastic in their commendation of the method. They find that it gives them an opportunity of judging of their bank's condition as a whole, which the mere passing upon individual loans at their meetings does not afford.

Our experience has been that the banks have almost unanimously adopted every suggestion made by the committee. The method has worked with but little friction, and while I cannot discuss such details as would show its efficacy, I can say that the result has been most satisfactory to all concerned and that much good has been accomplished for the Chicago banks individually and collectively. The organization being entirely voluntary partakes somewhat of the nature of a gentleman's agreement, under which each bank binds itself to conduct its business under proper methods. The disciplinary effectiveness of the method lies in the fact that they are all measured by the same standard, viz.: that their statements as rendered to the Clearing House Association shall be satisfactory to the committee, in view of the examiner's reports upon them, otherwise they cannot continue to enjoy clearing house privileges. In no sense, however, does the association or its committee assume responsibility for the individual management of the banks or for the quality of all the loans current in them. This responsibility, as I have said before, rests, and must always rest, on the officers and directors of each bank. All the committee undertakes is to pass judgment, and that only approximately being based on the examiner's report, on the reasonable integrity of each bank's assets and the general reliability of its statements. In the fact that the members of the committee are well posted on local credits and financial affairs, lies the superior efficacy of clearing house supervision. But the committee is not omnipotent, it is only an ordinary human agency. Like the comptroller, it has no control of the initative management of the banks under its supervision. It fully realizes the heavy responsibility laid upon it. It is no easy problem to decide when summary action should be taken in connection with a badly managed bank's condition, which depends on the condition of its customers, while both they and it are interdependent on each other. Conditions must become very bad and expostulation be exhausted before any supervisory authority, however constituted, will assume the responsibility of action that will lead to the closing of a bank's doors. If it were

otherwise and such action were taken simply because something in the bank was unsatisfactory such authority would be accused of shutting up a solvent institution, not only by its stockholders, but by its depositors themselves in whose behalf the action would be taken.

It may, therefore, be said that bank supervision by examination on the part of a clearing house committee, while probably the best and the most effective external supervision possible, has its limitations, which should be recognized by the intelligent public, and it should not be held to a degree of responsibility which it does not assume.

We will now consider supervision by directors in whom is vested the primary responsibility for bank management. Their supervision is in the combined interests of the stockholders who elect them and of the depositors who confide in them. They govern and direct as a board, requiring the presence of a quorum for the transaction of business. Their official actions and the responsibility they assume are therefore collective and not individual. They are not expected to devote their entire time and attention to the affairs of the bank and their supervision is necessarily more or less intermittent. They appoint and fix the remuneration of the officers and for cause can discipline or discharge them. Thus they, and they alone, control the initiative of management and on them must rest the final responsibility for it. The officers appointed by them dispose of their time and their talents to the bank for the consideration of their salaries and assume the daily details of management.

Such being the established relations it becomes the primary duty of the directors to hold the officers to a strict accountability, not only for integrity and honesty in motive and action, but for efficient and successful service. It will go without saying that the power of the directors to discipline or discharge officers should be promptly exercised on the discovery of dishonesty, deception or bad faith, either in their personal or their official capacity, or for dissolute or improper conduct in their private life. It is equally essential however that the same power should be exercised in cases of incompetency, bad judgment, recklessness, speculation or whatever there may be in the make-up of the officers that injuriously affects the management or deprives it of public confidence and success. In the exercise of this prerogative, probably more than in any other way, directors are prone to neglect their duty. It is not an agreeable one and collectively they are disposed to evade it even when individually they realize the necessity for it. It is without doubt the primary responsibility placed upon them, and its evasion must be held responsible for much of the disaster resulting from bank failures due either to incompetent or to dishonest management.

The same ordinary prudence which men exercise in their own affairs is required of bank directors. The application of it differs with the varying circumstances of the banks. Just as men of small or moderate affairs can undertake the personal management in detail of their own business, while those of large affairs must of necessity employ others to manage for them and must relieve themselves of details, so bank directors under similar circumstances may assume the details of management or appoint others to do so. Their delegating authority to others does not, however, relieve them of responsibility for the direction and supervision of the management or of keeping in touch with what is done. In banks of moderate size this can be accomplished by committees. In the largest banks, however, it becomes necessary for the directors to delegate even the details of their supervisory duties to experts and to rely on their investigations and reports for an intelligent knowledge of what is being done and of their bank's condition. Systematic organization is necessary, whether a bank is small or large, and directors must see to it that one of its results is that they are kept fully posted as to the bank's operations and condition. This can be accomplished quite as effectively in large as in small banks through the employment of competent auditors either permanently or when they are wanted. Such auditors in their investigations should represent the directors and should report direct to them, uninfluenced

APPENDIX No. 2

by any of the executive officers. But, howsoever it may be accomplished, it is up to the directors to keep themselves posted as to their bank's operations to the extent of enabling them to form a correct opinion of actual conditions in them and to judge of the integrity and ability of the management, as it is conducted by the officers, to whom they have delegated managerial powers. Only thus can they intelligently exercise their control of the management, a responsibility from which there can be no escape.

The progressive success or lack of success in bank management can be fairly well discovered by the periodical classification of a bank's loans and investments. This classification should be conscientiously made outside of the executive officers. It may be done by a committee of directors or by a competent auditor, at whose disposal must be placed the statements of customers and all the information available in the credit department. The assets can be divided into five classes, and the result will I think disclose to the directors the necessity for a contingent fund, such as I have advocated. The percentage of each class to the aggregate total should be shown and the periodical classifications compared with each other. This will disclose the progressive condition of the assets, whether they are growing better or worse, and from the result the management may be judged. I suggest the following classification:

1. Good desirable business,
2. Fair business risks,
3. Business not desirable as a new proposition, but which policy makes it necessary to carry along for the purpose of gradual liquidation.
4. Loans which should be liquidated and on which more or less loss is probable.
5. Loans so bad that they should be charged off now.

The respective percentage of these five categories forms a very good criterion of the character of a bank's management. It must be the constant and unremitting aim of its officers to reduce class three to its smallest possible proportion and to eliminate entirely the fourth and fifth classes.

Co-operation among all supervisory powers is most desirable. National and State government examiners should consult and co-operate with each other and, where the opportunities exist, with the clearing house examiners. The comptroller and the State banking commissioners might, with propriety and with much benefit to both systems, establish confidential relations with each other and with the different clearing house committees, and all should keep in close touch with the bank directors and take them into their confidence regarding everything open to criticism in their banks. They are all engaged in the work of raising banking standards and improving banking conditions and they should avail themselves of every opportunity for co-operating towards these highly desirable ends.

External supervision alone, under whatever authority it may be exercised, it is needless to repeat, cannot establish safe and sound banking. Honourable and intelligent initiative management must be relied on for the ultimate success of individual banks. As now administered, however, governmental and clearing house supervision are doing a great deal (in my opinion as much as can reasonably be expected of them) along the line of purging and purifying our system, raising our standards of banking and giving to the business a character which conduces to that healthful tone so essential to the commercial, industrial and social life of the nation.