

61st CONGRESS }
2d Session }

SENATE

{ DOCUMENT
No. 584 }

NATIONAL MONETARY COMMISSION

Interviews on the Banking and
Currency Systems of
Canada

By

A Subcommittee of the National Monetary
Commission



Washington : Government Printing Office : 1910

61st CONGRESS }
2d Session }

SENATE

{ DOCUMENT
No. 584

NATIONAL MONETARY COMMISSION

Interviews on the Banking and
Currency Systems of
Canada

By

A Subcommittee of the National Monetary
Commission



Washington : Government Printing Office : 1910

NATIONAL MONETARY COMMISSION.

NELSON W. ALDRICH, Rhode Island, *Chairman.*

EDWARD B. VREELAND, New York, *Vice-Chairman.*

JULIUS C. BURROWS, Michigan.

JOHN W. WEEKS, Massachusetts.

EUGENE HALE, Maine.

ROBERT W. BONYNGE, Colorado.

PHILANDER C. KNOX, Pennsylvania.

SYLVESTER C. SMITH, California.

THEODORE E. BURTON, Ohio.

LEMUEL P. PADGETT, Tennessee.

HENRY M. TELLER, Colorado.

GEORGE F. BURGESS, Texas.

HERNANDO D. MONEY, Mississippi.

ARSÈNE P. PUJO, Louisiana.

JOSEPH W. BAILEY, Texas.

ARTHUR B. SHELTON, *Secretary.*

A. PIATT ANDREW, *Special Assistant to Commission.*

INTERVIEWS ON THE BANKING AND CUR-
RENCY SYSTEMS OF CANADA.

By a subcommittee of the National Monetary Commission:

HON. EDWARD B. VREELAND, Chairman.

HON. JOHN W. WEEKS.

HON. ROBERT W. BONYNGE.

The committee was accompanied by Mr. Clifford Hubbell,
cashier of the Marine National Bank, Buffalo, N. Y.

THE EXPERIMENT ON THE BANKING AND CURRENCY SYSTEMS OF CANADA

By
J. H. BURNETT
and
J. H. BURNETT
with
J. H. BURNETT
and
J. H. BURNETT

TABLE OF CONTENTS.

	Page.
Interview with Henry C. McLeod, general manager of the Bank of Nova Scotia.....	9
Interview with George P. Scholfield, general manager of the Standard Bank of Canada.....	81
Interview with George H. Smith, secretary of the Canada Permanent Mortgage Corporation.....	110
Interview with Massey Morris, local manager of the Canadian Bank of Commerce at Toronto.....	117
Interview with Alexander Laird, general manager of the Canadian Bank of Commerce.....	123
Interview with Daniel R. Wilkie, general manager of the Imperial Bank of Canada.....	135
Interview with Sir Edward Clouston, general manager of the Bank of Montreal.....	153
Interview with H. V. Meredith, assistant general manager of the Bank of Montreal.....	190
Interview with M. J. A. Prendergast, general manager of the Banque d'Hochelaga.....	204
Answer of Canadian Minister of Finance to questions.....	212
Statistical tables.....	218

TABLE OF CONTENTS

1. Introduction

2. The Federal Reserve System

3. The Federal Reserve Bank of St. Louis

4. The Federal Reserve Bank of St. Louis - A History

5. The Federal Reserve Bank of St. Louis - A Description

6. The Federal Reserve Bank of St. Louis - A Summary

7. The Federal Reserve Bank of St. Louis - A Conclusion

8. The Federal Reserve Bank of St. Louis - A Bibliography

9. The Federal Reserve Bank of St. Louis - A Glossary

10. The Federal Reserve Bank of St. Louis - An Index

BANK OF NOVA SCOTIA.

Seventy-seventh general statement as at December 31, 1908.

ASSETS.		LIABILITIES.	
Specie-----	\$2,399,623.44	Deposits not bearing interest-----	\$6,418,908.81
Dominion notes, legal tenders-----	2,598,022.25	Deposits bearing interest-----	24,667,959.23
Notes of and checks on other banks-----	1,865,707.69	Interest accrued on deposits-----	131,230.93
Due from other banks in Canada-----	574.94		\$31,218,098.97
Due from other banks in foreign countries-----	1,953,006.11	Deposits by other banks in Canada-----	242,339.96
Sterling exchange-----	1,218,349.73	Deposits by other banks in United Kingdom-----	21,864.57
	10,035,284.16	Deposits by other banks in foreign countries-----	691,155.88
Investments (provincial, municipal, and other bonds)-----	6,699,958.95		955,360.41
Call loans, secured by bonds, debentures, and stocks-----	6,391,511.01	Notes in circulation-----	2,888,974.89
Call loans secured by grain and other staple commodities-----	3,675,727.67	Drafts drawn between branches outstanding-----	923,476.26
	\$26,802,481.79		3,812,451.15
Deposits with Dominion government for security of note circulation-----	151,236.81	Capital paid up-----	3,000,000.00
Loans to provinces and municipalities-----	338,341.13	Reserve fund-----	5,400,000.00
Current loans secured by bonds, debentures, and stocks-----	1,099,509.41	Reserve fund for loss in liquidating insolvent banks-----	100,000.00
Current loans secured by grain and other staple commodities-----	1,183,780.25	Profit and loss, balance carried to 1909-----	55,741.78
Overdrafts, secured-----	159,295.63	Rebate of interest at 6 per cent on time loans-----	114,560.72
Overdrafts, authorized but not specially secured-----	88,738.37	Dividend warrants outstanding-----	435.00
Notes and bills discounted and current-----	13,436,121.15	Dividend No. 156, payable January 2, 1909-----	90,000.00
Notes and bills overdue-----	714.35		8,760,737.50
Advances to the sovereign bank of Canada in connection with its liquidation-----	613,860.18		
Bank premises-----	850,409.48		
Stationery department-----	22,159.48		
	17,944,166.24		
	44,746,648.03		44,746,648.03

NOTE.—A contingent liability of \$200,000, in conjunction with several other banks in connection with the liquidation of the Ontario Bank, is not fully expressed in the above statement.
The latest return from Mandeville, Jamaica, is dated December 23, 1908, and the figures thereof are incorporated herein.

Interview with Henry C. McLeod, general manager of the Bank of Nova Scotia.

By Mr. VREELAND:

Q. What is your position?

A. I am general manager of the Bank of Nova Scotia.

Q. Are you located here?

A. I am located here.

Q. Where is the home office of your bank?

A. The home office is at Halifax; the executive is here.

Q. You would regard this as a better point from which to view the whole field than the home office, Halifax?

A. It is more central.

Q. Is it the practice of any of the other banks to have managers resident near the center of business?

A. No; it is not a general practice. We have interests in the West, interests in the United States, and it was found that Halifax was a point from which it was rather difficult to communicate promptly with some of the larger branches.

By Mr. WEEKS:

Q. Being the Bank of Nova Scotia, you would be bound to have your main office in Nova Scotia?

A. There is a sentiment of that kind.

By Mr. HUBBELL:

Q. You are not legally bound to do so?

A. No; we are not obliged to. We could apply to Parliament and have the head office transferred to Toronto, if it were so desired.

National Monetary Commission

By Mr. VREELAND:

Q. I was going to ask you a few questions with regard to the general banking laws; have you had occasion to give them any special attention, Mr. McLeod?

A. Not much more than the ordinary attention of a banker operating under them.

Q. The first general act, Mr. McLeod, relating to the banks of Canada seems to have passed in 1870 and 1871.

A. That is the first general act governing the banks of the whole country, with the exception of a temporary extension of the powers already granted by provincial charters; the extending act was passed in 1868.

Q. Each bank, as I understand, was chartered separately by the provinces before that.

A. Yes; by the provinces.

Q. When were the general amendments made to the act of 1871?

A. There were amendments made in 1873 and in 1875. In 1880 the act was revised and extended. In 1883 there was a small amendment, and in 1890 the act was revised and extended. The act was amended and extended in 1900.

Q. I notice that there seems to be some difference in the language of the law as applied to the Bank of British North America; do you know the cause for that? The amount of its circulation seems to be specified separately, and the provisions of the law that apply to it are separate.

A. The Bank of British North America has its head office in England, and there is no double liability; that

Banking and Currency Systems

bank is therefore allowed to issue a less amount of circulation.

Q. Three-fourths of capital?

A. Three-fourths.

Q. Was that bank chartered in England?

A. It is chartered in England, and is mentioned in the Canadian bank act as one of the banks to which the act applies.

Q. The law—that is, your general Dominion law—makes detailed provision for organizing banks, as regards public notice, the opening of stock books, and all such items of management; what then is the final step? Does the right to authorize the actual opening of a bank lie with the Dominion government or finance minister or your council?

A. That is dealt with by the treasury board. The treasury board gives the final decision.

Q. Of which the finance minister is chairman?

A. Yes.

Q. It does not have to go to the Canadian parliament for ratification?

A. The charter is given by the Canadian government first and the treasury board passes upon the qualifications. The treasury board has to see that the requirements in regard to paid-up capital are carried out. But a new bank desiring to open its doors or to get a charter has first to make an application to the Dominion parliament.

Q. I had an idea that you had what we call free banking here now; in other words, that no special legislative act was necessary, but that any bank might open after complying with provisions of a general law.

National Monetary Commission

A. No.

Q. They still have first to get a charter from the parliament?

A. They have first to apply to parliament for a charter, and then the question arises whether they are entitled to get a charter.

Q. How would that be determined? Suppose they complied with the requirements as to capital and all the other features of the law, would it be granted as a matter of course?

A. It would be granted as a matter of course.

Q. I notice that the number of your banks is much smaller than twenty-five years ago.

A. Yes.

Q. The number of chartered banks is 31 now?

A. I think about 29 at present.

Q. Here is the last statement of banks acting under charter for the month of July, 1909. It seems to figure up 31, and the Sovereign is included in that.

A. Yes; that is a failed bank, and I think there are one or two others.

Q. The Sovereign is the only one. I do not think the Ontario is included.

A. There are two there, Mr. Vreeland. The St. Hyacinthe and the Sovereign.

Q. What was the other?

A. The St. Hyacinthe; so there are 29 doing business.

Q. Have any applications for charters been refused within the last ten years that you know of?

A. I can not recall that any applications have been refused.

Banking and Currency Systems

Q. How do the present chartered banks look upon it? Do they look with favor upon new banks, or do they think it is better to permit the old ones to grow and establish branches and become strong in that way?

A. They do not look with disfavor on a new bank that is started under proper auspices. The cause of the decline in number is the amalgamation of banks and the failure of banks. We have had a good many failures.

By Mr. WEEKS:

Q. Will you state how many in ten years; do you recall?

A. I can not give you the number for ten years, but I wrote a short letter on the subject some three years ago comparing the resulting failures of our system with yours.

By Mr. VREELAND:

Q. It was based upon the number started?

A. Yes. The failures in the United States were 5 per cent. Taking Canada from the year 1880 up to the date of my letter the failures were 25 per cent. Up to the present from the same date the percentage is 30 per cent.

By Mr. HUBBELL:

Q. That is the number of head offices, is it not?

A. Number of banks.

Q. You do not include the branches?

A. No; we do not include the branches.

By Mr. WEEKS:

Q. The casualties among Canadian banks have been, numerically, five times as great as among the United States national banks?

A. I wrote the article urging outside inspection of banks, and of course the letter made the case as strong

National Monetary Commission

as possible, but the facts as stated are correct nevertheless. Since then we have had three more failures.

By Mr. BONYNGE:

Q. That is, since 1906?

A. Since October, 1906; since the date of my letter.

Q. What banks have failed since that time?

A. The Sovereign, the Banque de St. Hyacinthe, and Banque St. Jean.

Q. Which was the largest of those three banks?

A. The Sovereign.

Q. What was its original capital?

A. It commenced business in May, 1902, with \$1,300,000, issued at 125.

Q. How much capital had it when it got into trouble?

A. Its capital was \$4,000,000, at the highest point, according to the books and statements.

Q. How much of it paid in?

A. All paid in, and all lost, with a good deal more, in that short time.

Q. You are familiar with the circumstances of its failure?

A. Yes.

Q. Would you object to stating?

A. Bad management—corrupt management.

Q. Corrupt management?

A. Yes; false returns. That is true of the Ontario bank as well.

Q. How long was the Ontario bank in operation?

A. The Ontario bank was started in 1856, and was probably insolvent for forty years before its failure.

Banking and Currency Systems

By Mr. VREELAND:

Q. I notice in the record of regulations of banks that the amount of discounts and loans to directors or firms in which they are interested is fixed by your by-laws. The Dominion laws do not cover liabilities and loans?

A. There is no limit.

Q. To either directors or anyone else?

A. No.

Q. So if there are any regulations of that kind they are in the by-laws of the institution?

A. By-laws are seldom published, so that any limit is practically a dead letter.

Q. I notice that the law provides that the business of banks shall be managed by a board of directors. I wish you to tell us, Mr. McLeod, to what extent the board of directors actually manages your banks? We have a good deal of discussion on that point in the States.

A. The directors supervise. They do not initiate business, and seldom pass upon it before it is transacted. The method is, we furnish our directors with the inspection reports of the branches as soon as they are made. We furnish them with a report every year by every manager on any loan or liability of the bank that amounts to a thousand dollars. That is, we have special reports. These reports come in from the branches with a report on each loan by each manager, and they are bound into volumes and sent, after they are examined by my department, to our directors. So that they have full information about all loans in the bank. They have this statement on the 31st of March for every year, showing every

National Monetary Commission

loan we have, full particulars, statement of the borrowers, etc. Then, in addition, we have the inspectors' report; so that they are as fully informed as they well can be with regard to loans.

Q. That would hardly be management?

A. It is supervision.

Q. After the event?

A. After the event.

Q. As a matter of fact, about the same as with us, the directors do not initiate and they do not to any extent make regulations under which the officers of the bank shall act?

A. They made regulations.

Q. That is their by-laws?

A. The general management, as a rule, suggests the regulations and they are submitted to the board for approval. Appointment of officers, and all that, lies with the general management, subject to confirmation by the board. I shall be pleased to give you a copy of our book of regulations if it would be of interest to you.

Mr. VREELAND. I shall be very glad to have it.

By Mr. BONYNGE:

Q. The book of regulations for your own bank?

A. The book of regulations for our own bank.

By Mr. VREELAND:

Q. There are a few points upon which I wish to get the practical information of bankers. How many kinds of banks? You have your commercial banks, and you have some savings banks separate from your savings departments and commercial?

Banking and Currency Systems

A. Very few savings banks.

Q. Those are all government?

A. No; they are not all government. There are a few trust companies, and a few savings and loan companies, and there are one or two savings banks.

Q. Then you have trust companies?

A. Yes.

Q. Do you have what you may call mortgage banks separate from trust companies or loan companies?

A. Yes, we have mortgage and savings companies.

Q. You have the postal banks?

A. Yes; government banks.

Q. Have you any private banks?

A. Very few.

Q. You have them?

A. Yes; but they are so few in number now as not to cut any figure.

Q. Your savings banks—there are more than two government savings banks left here?

A. The government savings banks now consist mainly of the postal savings bank. There are government savings banks in the lower provinces.

Q. Just the savings banks that are left from the time when the Province had charge of the banking laws?

A. Yes.

By Mr. BONYNGE:

Q. Is there any general law for the organization of savings banks?

A. No; the City and District Savings Bank of Montreal and the La Caisse d'Économie are the most important savings banks we have.

National Monetary Commission

By Mr. VREELAND:

Q. When did they get their charters?

A. Before 1850.

Q. Do they have capital stock?

A. Yes.

Q. Who owns the stock—general subscribers?

A. General stockholders.

Q. Do you know anything about any special limitations upon that bank which do not apply to the commercial banks?

A. Not at the moment.

Q. As to the investment of funds?

A. I can not recall those limitations at present.

Q. Tell us about your trust companies.

A. Our trust companies are very much of the same order as yours.

Q. They receive?

A. A provincial charter generally.

Q. They have to apply for a special charter?

A. Yes.

Q. They are not permitted to do commercial business? They do not discount commercial paper?

A. I think there is nothing to forbid that.

Q. You say that you have mortgage banks separate from your trust banks?

A. Mortgage and loan companies.

Q. Corresponding somewhat to our savings and loan associations?

A. I could not answer that. I could not say that they are similar, but we have some mortgage and loan companies.

Banking and Currency Systems

Q. You think 31 is the correct number of chartered banks?

A. Twenty-nine in actual active business.

Q. As to the number of other banks—of savings banks, and trust companies, that is other forms of banks—you have not the figures?

A. Postal savings banks 1,084 at the close of 1908. Dominion government savings banks 18 at the end of March, 1908.

Q. If possible, we should like to have the number of banks that have failed of each kind.

A. Sixteen chartered banks since 1880.

Q. And the losses to noteholders, if any, and depositors, if any.

A. Practically no loss to noteholders; depositors lost about \$3,000,000.

Q. I suppose that, where the chartered bank association takes over a bank and liquidates it and sustains the loss, information is not given freely as to what the loss is?

A. Knowledge of the loss would be available.

Q. The bankers usually say there is no loss at all?

A. When they take over a bank?

Q. Yes; they never undit a loss.

A. I am inclined to take exception to that. We have had painful demonstrations that losses do occur through assisting banks even in your country.

Q. They have plenty of losses, but I say the bankers concerned very seldom admit publicly there are any losses. I suppose note holders have never had a loss?

National Monetary Commission

A. Yes, they have losses. Not, I, think since 1890. Prior to that there were losses.

By Mr. BONYNGE:

Q. In 1890 was there any change in the law?

A. Yes; the banks became joint guarantors of circulation.

Q. That is when the fund was created?

A. Yes; when the fund was provided for.

By Mr. VREELAND:

Q. What reports are the commercial banks legally required to make now?

A. They report once a month.

Q. Is that report published?

A. That report is published by the government and by the leading financial papers.

Q. Have you a copy of your last report?

A. Not with me. I can give you a copy. You mean the government report of all the banks?

Q. The annual published report of your bank?

A. Yes; I will furnish you with one. You have the form of government report before you. That is a monthly report.

Q. The report of the government?

A. Yes.

Q. It is not published?

A. Yes.

Q. But it is published in bulk—all of them together?

A. With particulars.

Q. I mean each bank.

A. No.

Banking and Currency Systems

Q. There is no examination of any kind made by the government, Mr. McLeod?

A. None whatever.

Q. What examination of these banks is made by the banks themselves or by the association?

A. No examination is made by the association other than to verify the figures of circulation. The banks have inspectors that inspect the branches, but there is no independent examiner to inspect the general management. The general manager is practically supreme in so far as the accounts of the bank are concerned. The directors supervise the general manager, but directors in Canada are the same as they are in your country.

Q. The directors look at the end of the year?

A. They are not posted in detail.

Q. Is it customary for the by-laws of the bank to expose any limitation upon the size of loans to any individual?

A. No; it is not customary.

Q. All of the savings banks that you have here are capitalized?

A. The savings banks?

Q. Yes.

A. The savings banks we have in Canada outside of the chartered banks, the commercial banks, do not cut any considerable figure in the business of Canada, and I think you may almost eliminate them from consideration in that connection.

Q. And to organize any class of bank application must be made to parliament for a charter?

National Monetary Commission

A. Yes.

Q. In each specific case?

A. In each specific case.

By Mr. BONYNGE:

Q. All the chartered banks have savings accounts?

A. I think so.

Q. Do they make any difference in the manner in which they treat the deposits in the savings account and the commercial deposits?

A. None whatever.

Q. There are no rules or regulations governing the investment of savings accounts?

A. No; there are not any regulations or restrictions.

By Mr. WEEKS:

Q. Do you think that is wise?

• A. From the experience of Canadian banks with such accounts I do not see any objections. We find savings depositors no more dangerous in regard to sudden withdrawals than ordinary commercial depositors.

By Mr. VREELAND:

Q. You mean savings deposits?

A. Savings deposits.

Q. But the general rule is, is it not, to have time notice for a withdrawal in your savings accounts?

A. That is the rule, but not the practice. Withdrawals are made without notice.

Q. But under the law you have the right, in case of need, to put on the time notice?

A. I am in doubt about that, so much so that we publish our savings deposits as payable on demand.

Banking and Currency Systems

Q. From the general statement it would seem that about two-thirds of the deposits in Canada are time deposits.

A. The banks generally treat savings deposits as payable after notice. We treat our deposits on savings account as payable on demand. If a depositor wants to draw a check against a savings account, we very seldom call him to task for drawing the check.

Q. Is that the general practice?

A. That is the general practice. And where we make the practice of paying checks against savings accounts I think it would not be open to us some morning to notify the depositor that his account was payable after notice instead of on demand.

Q. What form of certificate or paper do you give to a customer upon a savings time deposit?

A. We give him a savings deposit book with information and regulations printed on the cover. Most banks include a regulation requiring ten or fifteen days' notice of withdrawals.

Q. Is that the usual notice for time deposits?

A. Mr. Vreeland spoke of savings deposits; these are deposit receipts as well, and deposit receipts are issued payable after notice. As a rule, we pay those without notice, but they are undoubtedly subject to notice if the bank asks for notice. The great bulk of savings in Canada is on the savings deposit with the pass-book system I speak of.

By Mr. BONYNGE:

Q. What proportion of deposits in the bank are savings deposits?

National Monetary Commission

A. I should suppose that about 70 per cent were savings deposits.

Q. Seventy per cent of the total deposits?

A. Yes; that percentage would include savings deposits and deposit receipts.

Q. And time deposits?

A. What you call a time certificate.

Q. Can you give the proportion of time deposits as distinguished from savings deposits?

A. I think I could give that from that return that you have there.

By Mr. VREELAND:

Q. It makes a distinction between demand deposits, twenty-two millions altogether, and deposits for which notice is required, four hundred and sixty-six.

A. The deposits of the Bank of Nova Scotia subject to notice in Canada are \$6,944,000; then we have deposits outside that—

Q. That is, in your bank?

A. That is in our bank. I was speaking of deposits elsewhere than in Canada. I presume we would have about \$10,000,000 subject to notice, and we have deposits by the public payable on demand in Canada, including the savings deposits, \$18,234,000; then we have a little over \$8,000,000 outside of Canada.

By Mr. BONYNGE:

Q. You pay the same interest on time deposits as on savings deposits?

A. The same interest.

Q. What rate of interest?

A. Three per cent.

Banking and Currency Systems

By Mr. VREELAND:

Q. Do any chartered savings banks in Canada pay 4 per cent interest?

A. Not that I know of. Some of the chartered banks pay a higher rate of interest on time deposits, but that is against the agreement with the other banks—in violation of the agreement.

By Mr. BONYNGE:

Q. You have an agreement between all the chartered banks as to the interest that you shall pay on deposits?

A. We have.

By Mr. WEEKS:

Q. Mr. McLeod, in your judgment, does the postal savings bank system work so that it gives good results to the government—to the people?

A. Well, I do not think it gives good results either to the government or to the people. I think the commercial banks would serve the people better if there were no postal savings banks.

Q. I understand there are about \$50,000,000 of deposits?

A. I have forgotten the figures.

Q. Is it true that this money is used as a current receipt by the government?

A. Yes.

Q. Do you think that is a wise governmental provision?

A. There are no reserves kept against these deposits.

Q. None whatever?

A. No; there are reserves kept against the legal-tender notes, or government notes, but not against the postal deposits.

National Monetary Commission

Q. Do you think that that system could be changed to suit your conditions so it would be of material advantage to the people of Canada?

A. I have not studied the matter closely, but I think there is always a danger in the government handling the savings, particularly in the matter of reserves. There are never adequate reserves kept. That is the experience in England. The postal savings in England are inadequately protected by reserves.

Q. Do you know whether these deposits come largely from places where there are no banks, or from the country generally?

A. They come from the country generally. There is always a percentage of people that prefer the government to a bank.

Q. What is the rate of interest paid?

A. Three per cent.

Q. From the date of deposit?

A. From the end of the month on which the deposit is made.

Q. Suppose the rate of interest which banks paid were 4 per cent and the government paid 1 per cent on postal deposits, do you think there would be any material postal deposits under those circumstances?

A. No; I do not.

Q. Do you think there would be any danger of people in time of distress withdrawing the money from the banks and depositing in postal savings banks under those circumstances?

A. Yes; then there would be, but I think our people are wonderfully quiet under disturbed conditions.

Banking and Currency Systems

Q. If that were the case it would simply add to the distress rather than lessen it, wouldn't it?

A. Yes.

By Mr. BONYNGE:

Q. Have the deposits of postal savings banks been increasing in recent years or decreasing?

A. I think they have been remaining about the same. I have not compared the figures with recent years.

Mr. KNIGHT. They are not increasing.

By Mr. VREELAND:

Q. What year were the postal banks established?

A. The postal banks have been in existence, I think, ever since confederation.

Q. That was 1867, was it?

A. About that time.

Q. Do you know how many postal banks there are now? I suppose, however, that the moneys are received at the post-office.

A. Yes.

Q. How many post-offices receive money for the postal fund?

A. Ten hundred and eighty-four.

Q. When they were started I notice 4 per cent interest was paid, then it was reduced to $3\frac{1}{2}$ per cent, and is now 3 per cent?

A. Yes.

Q. I assume that, when the interest was above the rate payable among the banks, the bank rate would naturally grow in order still to attract deposits?

National Monetary Commission

A. Yes; the banks paid about 4 per cent, I think, at that time. The banks would have to pay the same as the government.

Q. You found yourself obliged to pay the same interest as the government?

A. Yes; when we went below the interest paid by the government our deposits would fall off very materially.

Q. Do you know what class of people use the postal funds mostly?

A. All classes.

Q. Don't they have postal offices in the rural places of the country where you do not have branches of banks?

A. In some cases, I think.

Mr. KNIGHT. I do not think there is a case, Mr. McLeod. I can not recall a place in Nova Scotia.

Mr. McLEOD. The postal savings banks were not established in Nova Scotia until very recent years. I do not know how many there are now.

Q. You must have post-offices in a great number of small communities where there are no branches of banks?

Mr. KNIGHT. No; there would not be a savings bank there.

By Mr. WEEKS:

Q. You remember there were some government savings banks and not postal-savings banks?

A. In the upper provinces they had the postal banks instead of the savings banks. Recently there has been a change, they have been withdrawing the regular savings banks and establishing a post-office bank instead.

Banking and Currency Systems

By Mr. VREELAND:

Q. The post-office here receives funds for the postal savings bank?

A. I think so, although I could not answer you definitely on that point.

Q. As to competition for the business, Mr. McLeod, you think it is not increasing?

A. No, it is not increasing. The country is progressing very rapidly and the banking business of the country is increasing, and the government deposits are not increasing. They are remaining about stationary.

Q. The rate that your commercial banks pay as fixed by your association is 3 per cent?

A. Three per cent.

Q. And are there any of the banks that refuse to accede to the general agreement?

A. No; not at present.

By Mr. BONYNGE:

Q. Do any of the banks pay in excess of the amount agreed upon?

A. I think not.

Mr. VREELAND. Our report here shows the Northern Crown Bank refused to come in under the agreement; how is that, Mr. Knight? You are the secretary.

Mr. KNIGHT. May I ask you a question?

Mr. VREELAND. Yes.

Mr. KNIGHT. Whence do you get that information?

Mr. VREELAND. That is a report we had made by a man who looked over the banking system very carefully, and that information was given to him by some of your bankers.

National Monetary Commission

Mr. KNIGHT. I would not act upon it. You can not keep a man straight by an act of violence. If a man enters into an understanding with you and violates an agreement, it is of no use to introduce an isolated case like that as an indication what the system is.

Mr. VREELAND. It is very natural to inquire, Mr. Knight, how well the agreements of the association can be kept, and whether there are violations of them.

Mr. KNIGHT. Admirable; the Northern Crown is a new bank—comparatively new. It is the result of the union of two new banks, one of them the Northern Bank and the other the Crown Bank, which were managed by brothers; both of those men are now out of the bank and another man has the management of it. At the time that the Northern was run in I understand its branches through the northwest agreed to conform to the understanding with the other chartered banks. In the center, Winnipeg, they said they would not bind themselves in the dilapidated places all over the West, and they probably gathered some thousands of deposits by offering $3\frac{1}{2}$ per cent, or something like that. That is the plain story.

Mr. MCLEOD. It is simply a breach of agreement.

Mr. KNIGHT: That is a question of management. It has nothing to do with the system. The system is all right. It is like quarreling with the bank act. There is no quarreling with the bank act. The general manager is able to control affairs and do as he pleases without any supervision whatever. That is not a fault of the act.

Mr. COULSON. Banks are clearing houses and have clearing-house agreements and understandings with regard

Banking and Currency Systems

to rates, but occasionally those rates are broken. Sometimes an inspection will show a reason for departure from the rate, but in the great majority of cases—I should say ninety-nine out of a hundred, speaking of chartered banks and chartered managers—the agreements are kept. There are a few exceptions.

Mr. VREELAND. I should say they were very generally kept, in fact in a remarkable degree.

Mr. McLEOD. And with regard to the management, and the general manager becoming supreme, that is with us much as it is with you. You generally have in each bank one supreme head. I think it is well it should be so.

By Mr. VREELAND:

Q. Do you know the total number of branches in Canada?

A. I have not the figures.

Q. You do not have to pay in any additional capital for additional branches?

A. No.

Q. That is entirely within the province of the bank to determine?

A. Yes.

Q. Whether they increase their capital or not?

A. Yes.

Q. Deposits are kept at the head office as a rule, are they?

A. No, deposits are left at the branch. That is, the accounts of deposits, but we have some branches that practically are all deposits. There are branches that are practically all loans, and, of course, we draw the deposits

National Monetary Commission

from the branch that has no loans and give them to the branch that has loans and no deposits.

Q. Then the transfer of all loans or deposits from branches where they have no loans would give the head office an opportunity to send them wherever they would be needed?

A. In accounting only.

Q. The actual transfer of money?

A. Need not take place.

Q. Would not take place at all?

A. No. In fact at the head office we never keep any money. It is only accounts. We are merely a transfer station.

Q. The powers of your branch managers, I suppose, depend upon the size of the branch and upon the manager himself?

A. Exactly; mainly on the capacity of the manager.

Q. As a rule, at the small points they have authority to make loans of about \$1,000 or less without reporting to the home office?

A. That would be about it.

Q. And other points perhaps \$5,000?

A. Yes; and with a successful manager the limit is very much larger, perhaps \$25,000 or \$50,000 or \$100,000 to regular customers, but those things are regulated from day to day. If we have a good customer, a man that has kept his account with us for a good many years, and transactions have always been satisfactory, our manager knows quite well how far he may go with that individual. Loans to him might not be referred or approved

Banking and Currency Systems

before they are made, but the report is made immediately afterwards, and if we fail to approve we telegraph or write.

Q. How are managers selected? I suppose you grow them, do you not, in the older banks?

A. We grow them. They are selected by competition really. We endeavor to give the best man the best place.

Q. You mean competition between your own managers; if there is a removal, a promotion would be made?

A. The best man gets it.

Q. You select, then, a man who you think will fill the place; as you think, the best man?

A. Yes; if they have a good man in the management of a small branch, and there is a vacancy in a larger one, he is moved up a peg.

Q. How nearly are your rates of discount uniform among branches? Depends something upon the country, I suppose?

A. The rates are fairly uniform at 6 per cent.

Q. Rates of interest are fairly uniform at 3 per cent?

A. Rates of interest on time deposits are uniform at 3 per cent.

Q. And rates of discount are fairly uniform, you think, at 6 per cent?

A. At places.

Q. Aren't rates of discount much higher in places in the wheat country that is opening up in the west than in Ontario?

A. In some cases they are as high as seven, and I believe, with some banks, eight.

Q. Do rates of exchange go up accordingly? I suppose the deposits are small?

National Monetary Commission

A. The deposits are the same—3 per cent. I think we would take, speaking of ourselves, an account at Vancouver on the same terms we would take an account at Toronto and where the interest is 7 per cent and 8 per cent. These rates are applied to small loans, and for our own bank I do not think we have a loan at 8 per cent in the west. We adhere to the legal rate of 7 per cent.

Q. In small communities, where there is only one branch, rates might be a little higher?

A. Yes; that would apply to the eastern country as well.

Q. To what extent is there competition among branches; how do they compete? Your rates of interest and your rates of discount are about the same, I see. How do you compete? What are the inducements that you offer for new business?

A. Each bank is competing with the other for a share of the business as much as two grocery stores compete for a share of business in that section. One has nothing better to offer than the other, perhaps. It is generally a case of personal popularity of the local manager and the influence.

Q. Do not these branches sometimes get business by offering increased inducements, free exchange?

A. Quite often.

Q. Do they not have some leaders to locate the custom?

A. Yes.

Q. They go to the customers?

A. That is quite true.

Banking and Currency Systems

Q. But as a rule the amount of business is determined by the popularity of the people running the bank and its reputation?

A. Yes.

Q. All those things?

A. Yes.

Q. And not by better rates of interest or lower rates of discount?

A. As a rule it is the former influences that govern.

Q. What sized towns would you consider entitled to one or more branch banks?

A. We would consider a town with a thousand people entitled to a branch bank.

Q. Would there be likely to be more than one branch in a town of that size unless they had some special business?

A. In some places there are three or four.

Q. There would be some special reason—a large business of some kind, that is a center of grain shipments, or something of that kind?

A. It is more often a case of some bank putting in a branch and the other banks going in to protect the accounts they have in that section. There are places with not more than 250 inhabitants with one or more banks.

Q. There was some special reason?

A. No other reason than the reason I give, that some bank has started in there to cut off another bank from some of its business, and rather than lose its business the other has gone in and established an office.

National Monetary Commission

Q. What amount of deposits would you say justified a branch bank?

A. About \$200,000 to \$250,000 of deposits.

Q. In these small villages you speak of you would not expect to get that amount?

A. Sometimes we do. We might start in and it might be a year or two before we reached even a hundred thousand deposits, but they gradually grow until we might have \$200,000 or \$300,000 or \$400,000 in a surprisingly small place.

By Mr. BONYNGE:

Q. You have some branches where you have no deposits?

A. No; there are no branches where there are no deposits. There are branches where we have very small deposits, so small that they might, perhaps, be almost negligible.

Q. I thought you spoke some time ago of branches that had simply loans and no deposits?

A. That was practically all loans and practically no deposits, while another might have practically all deposits and practically no loans.

By Mr. VREELAND:

Q. In the business of a central bank like the Bank of England changes are made from time to time in the rates of discount. Is that done by your association?

A. The association does not deal with rates of discount or commissions.

Q. They deal only with rates of interest on deposits?

A. Rates of interest on deposits are fixed practically by association.

Banking and Currency Systems

Q. I should think that would be a fruitful field for competition among the banks.

A. I do not think it would be well to have competition shut off by agreement.

Q. Is there, as a matter of fact, a difference in rates offered by the banks on discounts?

A. Not a very great difference. If a bank finds it has more money than it should have it might possibly go down to 5 per cent. We have several accounts at 5 per cent, and I know some of our neighbors have the same.

Q. Then for good accounts the rates of discount would be quite an element in attracting custom?

A. Yes; quite an element.

Q. But you say that there is no understanding in your association as to rates of discount.

A. Absolutely no understanding either on those or on rates of commission.

Q. Rates of commission?

A. Absolutely no understanding.

Q. Commission upon what?

A. On collections and domestic exchange.

Q. Inasmuch as that is all left open?

A. And foreign exchange as well. There might be some understandings by banks in certain sections of the country as to rates of exchange, but there are no understandings of that kind within the association.

Q. You have two classes of deposits in the commercial banks; that is, your current deposits and current accounts that are subject to check?

A. Yes.

National Monetary Commission

Q. And your deposit accounts that are upon time and upon which interest is paid?

A. Yes.

Q. You have those two general divisions?

A. Yes.

Q. Is interest paid upon current accounts?

A. Rarely.

Q. Checking accounts?

A. Rarely.

Q. It is to some extent?

A. It is to some extent.

Q. In what portions, or in what cities, or in the rural districts?

A. Mostly in the cities.

Q. Upon what is that based, upon monthly balances?

A. Generally on a monthly balance.

Q. What is the ordinary rate, the same as other interest rates, or smaller?

A. A lower rate, generally 2 or 2½ per cent.

Q. How often is that changed by the association?

A. That is not dealt with by the association.

Q. Then your understanding relates merely to time deposits?

A. What they call time deposits.

Q. And not current deposits?

A. Yes; we could pay 3 per cent on our current deposits if we wished to do so. I must say that the practice of paying interest on current accounts is not general to the same extent as it is in your country. We very rarely have an account. It is very rare.

Banking and Currency Systems

Mr. KNIGHT. I do not think there is one case in a thousand of a current account.

Mr. McLEOD. I think I should be well within the truth in saying that we do not pay interest on 1 per cent of our current accounts.

Q. According to your statement to the Government here, about two-thirds of the deposits are put down as drawing interest. About two-thirds are put down as being subject to notice, that means interest, I suppose, in all those accounts, or most of them?

A. Yes.

Q. Of the other third, a large proportion, of course, would consist of current accounts. Since interest is paid on them also, that brings the proportion of your total deposits upon which interest is paid up to much more than two-thirds?

A. Yes; it would bring it up.

Q. I suppose it would be a mere guess as to the percentage?

A. Yes; for our own bank I can give you actual figures.

Q. Would you mind giving them?

A. I will give you our annual statement, with the actual figures at the end of last year.

Q. How generally is the checking system used with you?

A. The checking system against savings accounts?

Q. No; how largely is business done by checks instead of by cash?

A. Very largely.

Q. Is that true in the smaller towns and cities as well as the large cities?

A. Yes.

National Monetary Commission

Q. In towns of 500 inhabitants, wherever there is a branch bank, they usually do their business by check?

A. Yes.

Q. Are pay rolls usually paid by check or in cash?

A. In cash generally. You speak about small towns; in all small towns where there are branches practically every individual in that community will have an account with the bank, and he likes to pay his small bills by check, sometimes to the annoyance of the bank, but the checking system is very generally used.

Q. Of course, it would be a mere estimate on your part; could you give an estimate as to what proportion of the total business is done by check and what by cash?

A. I should suppose, speaking roughly, that 90 per cent of the business is done by check.

By Mr. BONYNGE:

About the same as ours.

A. You are a little above that, are you not?

I think we are about 90 per cent.

A. Speaking of your whole national system I think it amounts to more than that. The checking system is not quite as general with us as it is with you.

Q. Do you fix any limit for the account? That is to say, do you take any amount for a checking account, or does the depositor have to keep a certain balance?

A. Generally we take any amount he chooses to give us.

Q. You attend to the business regardless of the amount of balance he carries?

A. We do his business regardless of the amount of balance he carries.

Banking and Currency Systems

Q. Do you make any charge for keeping the account unless he keeps a certain balance?

A. Practically nothing.

By Mr. VREELAND:

Q. There are no provisions in the Canadian law in relation to reserves?

A. No.

Q. That is, as to the amount of reserves?

A. No.

Q. There is a provision, is there not, that of the cash reserves you keep on hand 40 per cent shall be Dominion notes?

A. Shall be in legal tenders, yes.

Q. It provides specifically it shall be Dominion notes, does it not?

A. Dominion notes and legal tenders are synonymous terms.

Q. Gold is a legal tender?

A. We call them legal tenders. We call paper money legal tenders.

Q. That is synonymous with Dominion notes?

A. Yes.

Q. What proportion of reserve do the banks generally find it necessary to keep on hand at their head office and at their branches?

A. The proportion has increased materially in the last ten or twelve years. Before that the reserve got down, I think, to about 7 per cent, in some cases $3\frac{1}{2}$ per cent. Now the reserve averages about 15 per cent.

Q. In cash?

A. Yes.

National Monetary Commission

Q. Is the bulk of your receipts kept at the home office or head office?

A. More at the bank than at the branches. As I said before, the head office never retains any cash. It is only a transfer station.

Q. In case you have need of reserve?

A. It is generally at the local branch. We ordinarily keep our reserves where they are most likely to be required.

Q. I supposed, upon the theory of your banking with a head office, that the cash reserves were kept largely at the head office with a view of placing them anywhere needed. If reserves are needed they are needed usually in cash.

A. In twelve years I have not had the custody of \$100 of the bank's money.

Q. Where are the bulk of the cash reserves kept at your bank?

A. They are kept at the branches in proportion, as near as we can, to where the deposits are likely to be called for.

Q. You mean by that, where customers are most likely to ask for loans?

A. No; when loans are asked for they are generally settled for with our banks. Often we make a loan and after that loan passes over, checks against that loan very likely come in through some other bank and come in through the clearings. We settle with the clearing house every morning. If a loan is made to a party out of town the checks would be likely to come through a competitor and would be settled for by a draft on Montreal, or a draft on

Banking and Currency Systems

Toronto, or a draft on Halifax, or some other point; so the reserves are not called for in that connection.

Mr. KNIGHT. Take Montreal—it is necessary to keep a large proportion of legal tenders or reserves, whichever you like to call it, in Montreal for a day's settlement. The settlement with us is effected in these specific legal tenders. In the clearing house you have got to settle with legal tenders or gold.

Q. As a rule your banks would keep more cash at points where these exchanges are made in large amounts?

Mr. KNIGHT. Yes.

Q. You would naturally keep more cash in Montreal and Toronto and other large points than in other places?

Mr. COULSON. Exactly—at the clearing-house centers.

Q. You say, Mr. McLeod, that the banks generally carry 15 per cent cash reserve now?

Mr. COULSON. I think last month the figures were about $13\frac{7}{10}$ per cent, or something of that kind.

Q. For all the banks together?

Mr. COULSON. For all the banks together. There is an understanding with the banks of the association that we are to keep 15 per cent in cash. It is voluntary; it is an understanding among us, and if they get below that the association might call their attention to it.

Mr. WEEKS. You think your reserve is sufficient to properly protect the business which the banks of Canada are doing?

Mr. McLEOD. I think it is sufficient to protect the business of any bank that is doing a prudent and legitimate business. That is, if its loans are made in a proper way.

National Monetary Commission

In other words, if it is a sound bank generally, that 15 per cent is sufficient under our conditions.

By Mr. VREELAND:

Q. What is the total amount of Dominion notes issued?

A. I can not answer that now offhand.

Q. The total amount issued?

Mr. COULSON. I think we had better furnish you that correct.

Q. Dominion notes, if I remember your law, up to the amount of \$30,000,000 are protected by at least 15 per cent gold reserve?

Mr. COULSON. Yes.

Q. And above that it must be full reserve?

Mr. COULSON. Yes; 15 per cent up to \$30,000,000 and Dominion debentures, and over and above that dollar for dollar in gold has to be kept.

Q. I understand as to the funds to be kept by savings banks no reserve is required by law?

Mr. COULSON. There is a reserve against that also, a separate reserve. A separate fund and a separate reserve.

Q. Dominion notes are payable upon demand, are they?

Mr. McLEOD. Yes.

A. In gold.

Q. Or silver?

A. Gold.

Mr. COULSON. Silver is not a legal tender here beyond \$10.

Q. Dominion notes are issued in ones, twos, threes, and fours, and then what do they skip to next?

Banking and Currency Systems

A. Ones and twos and then the larger numbers, twenties and hundreds and multiples of hundreds and up to thousands, and then they issue special; they have a special issue for the bank, legal tenders, for paying exchanges.

Q. Then the bank notes are not issued below five?

A. The bank notes are not issued below five, and above in multiples of five. Only in multiples of five.

Q. Is it the practice of your bank to keep what you may call a secondary reserve in the form of government securities or other securities?

A. Yes; banks generally have quite a large amount in other securities, but very seldom in government securities; generally in railway securities and municipal securities.

Mr. COULSON. Many of our banks keep a line of second securities in United States securities and railroad bonds. We usually keep large lines of sterling securities that are not as readily available. They are available enough, but very often in time of pressure it is difficult to get money from those.

Mr. McLEOD. Each bank formulates its own policy.

Q. I see all of your banks together up to July, 1909, had due from agencies, other than from other banks, the amount of \$10,000,000.

A. I am afraid that section is not very clear, Mr. Vreeland, for some banks include in it balances due by their own agencies abroad, and others include only the balances due by other banks.

Q. They do not all figure that alike?

A. They do not all figure that alike. Our government return is defective in that respect.

National Monetary Commission

By Mr. BONYNGE:

Q. Did you count the amount that you have on deposit with the Dominion as security for your notes as a part of your 15 per cent reserve?

A. No; we have it down at the foot of our list.

By Mr. VREELAND:

Q. You show the total Dominion and provincial government securities to the amount of \$12,600,000. Do you have any bond issues in the Dominion?

Mr. COULSON. They do not issue any special bonds for banks. It is the ordinary issue.

Q. That is a bond?

Mr. COULSON. Yes.

Q. They do have a bonded indebtedness?

Mr. COULSON. Yes; they do have a bonded indebtedness.

Q. What is the amount of the Dominion bonded indebtedness?

Mr. McLEOD. It is very heavy.

Mr. COULSON. I can not remember the figures. The bulk of that indebtedness is in Great Britain.

Q. You say \$22,000,000 of municipal securities and British or foreign securities other than Canadian. Do you consider all of those a secondary reserve upon which you could get the cash at short notice?

A. We so regard them and so place them in our statements, but we have gone through several panics and we have never realized on those securities. No doubt they would be available in case of absolute need.

Q. I was speaking from the standpoint of cash?

Banking and Currency Systems

A. Convertibility.

Mr. COULSON. The money that could be borrowed on them; I think you could always go out and borrow money on the securities unquestionably.

Mr. McLEOD. I do not agree with you.

Q. In case of a widespread demand for money in your banks, which would you consider most immediately available to bring in cash, commercial paper of any kind, or these bonds?

Mr. COULSON. A Canadian bank would never think of turning out any commercial paper. It is done occasionally. The bank does cover this kind of business paper in Canada.

Mr. COULSON. I am talking about uniform conditions to provide against extreme conditions. You can not profit and do business anticipating all the time; you would have such a time as you had in 1907, a universal suspension.

Mr. McLEOD. Our experience in 1907 was somewhat different from Mr. Coulson's. We kept the lid on as tight as possible, but endeavored not to press it too hard. We have applications from customers, the same as Mr. Coulson has, and recognized a few times in 1907 that we could not reduce loans in the aggregate. Every manager is anxious to extend his business, and he will have to pay out money to good customers, in the hope of holding their business in the future, so that in my opinion it is practically impossible to reduce loans in a time of pressure, such as 1907. That is, while the pressure is acute. If it continued for several months I have no doubt loans

National Monetary Commission

could be reduced, but it is scarcely practicable to reduce loans in time of pressure. Your municipal securities are available practically only to borrow against. I would not say that that was true of 1907, but it probably would have been true if we had allowed some banks to fail, as we might have allowed them to fail, instead of bolstering them up and liquidating them with open doors. Cash and balances abroad constituted about the only effective reserve.

Q. You speak of such extreme conditions?

A. Yes.

Mr. COULSON. Our eastern commercial demands were reduced and we paid off 80 per cent of them.

Mr. McLEOD. That would be through the west, but there were demands all over we could not ignore.

Mr. COULSON. The money we got from our eastern people went to the west to meet the crop and pay our obligations there; although they were heavy they were all complied with. There was no particular disturbance, so far as our payments were concerned, in the east.

Mr. McLEOD. The point I wish to make is, a bank to go on and do business must have some regard for the requirements of its customers, and in a time of stress it is impracticable to reduce loans materially. Your only reliance for cash reserves consists of cash in hand and balances abroad, or borrowing facilities abroad, if a panic is general; and by extending over London and other financial centers you are cut off from borrowing against securities.

Banking and Currency Systems

Q. Canada never has had, so far as I remember, what you may call a currency panic similar to that in the United States in 1907?

Mr. COULSON. No.

Q. You may have had runs upon individual banks or upon branches; doubtless have, I suppose. You never have had a widespread currency panic as we had.

Mr. MCLEOD. Our people do not seem to have got the run habit.

Mr. COULSON. They do not care.

Q. One very good reason for it appears here, that of taking over banks instead of permitting them to close their doors in the ordinary way, and having an association and liquidating them; their notes are good, their deposits are secure; of course all of those things help to preserve confidence of the public in your banking system and do away with runs, but perhaps in a country the size of the United States it would be impossible for us to run upon those lines. I mean to have an association and keep track of the banks and take them over and liquidate them.

Mr. COULSON. The Canadian banking system has never been in such a stress as you have. If we had been run upon to anything like the extent you were in 1907 I do not know where we should have been. We should simply have been in a state of universal suspension until we had made some headway. The standing of all the banks is such, and their securities so widespread, that it would be almost impossible to create a want of confidence in them such as you suggest.

Q. On account of their mutual support largely?

National Monetary Commission

Mr. COULSON. On account of their strong positions, with their large paid up capital and large paid up reserve. None of the largest banks have ever had any trouble in that way. Take, for instance, the Bank of Montreal.

Q. Is it your opinion that confidence is created by supporting and standing by each other, and by liquidating banks and paying off the depositors?

Mr. COULSON. That all helps, and we have a large paid up capital and paid up reserve, and upon that the government returns are issued from month to month and the people can use them.

Mr. McLEOD. They are not worth the paper they are written on.

Mr. COULSON. I say ninety-nine out of every hundred are fairly correct. I will not admit any such laxity in the government as to say they are not worth the paper they are written on at all.

Mr. McLEOD. I do not regard them as worth the paper they are written on, because there is no supervision. In the cases of the failed banks they have them made with every degree of falsification, and there is no check or supervision. When confidence is shaken these facts will become apparent to the public and will impair confidence rather than help the situation. Our records compiled from bank statements are valueless on account of the misstatements by the many banks that have failed.

Mr. COULSON. Can you tell me where a bank inspection has ever prevented a failure?

Mr. McLEOD. In the United States.

Mr. WEEKS. We are thoroughly committed to government inspection in our country.

Banking and Currency Systems

Mr. COULSON. There is supervision here. There is supervision within ourselves. You say the government report is not worth the paper it is written on.

Mr. McLEOD. I made that statement, but it may be subject to some modification. I adhere to my opinion that positive external inspection is an important feature, an indispensable feature, of every banking system.

Mr. WEEKS. We are committed to government inspection of our national banks and we may conclude from what has been said that Mr. McLeod would favor that from his standpoint in Canada and Mr. Coulson would not.

Q. Is there any connection between the amount of bank reserves and your bank rates of discount? I mean when your cash reserves are getting small do you increase your rates of discount for the purpose of building up or diminishing loans?

A. No; that is very seldom done.

Mr. COULSON. Two years ago we put up all rates on commercial accounts. The sentiment was to reduce every commitment.

Q. That was the sentiment among the members of your association, you mean?

Mr. COULSON. Yes; we did not want people to come in and make new commitments.

Mr. HUBBELL (cashier Marine Bank, Buffalo, N. Y.). Did not the element of profit come in there a little bit?

Mr. COULSON. True; of course it did. But that was not a feature. Our rate changed very little with our commercial customers. For a year we did charge them,

National Monetary Commission

but that was to keep them from wanting more than their ordinary requirements.

By Mr. VREELAND:

Q. There are no requirements in the laws about gold as a reserve?

A. No; with regard to the increasing of the rate, I think I am correct in saying that to 75 per cent of borrowers the rate would not be disturbed.

Q. That is, the regular customers of the bank, you mean?

A. Yes; I want to make the point, in Canada as distinguished from your system, that our rates are more even. We are not subject to anything like the fluctuations that come to your country owing to your present imperfect system.

Q. You refer more especially to New York City?

A. No; I think it applies generally throughout the country.

Q. I think our rates run pretty even outside of large centers.

A. Yes; I think that would be correct.

Q. To regular customers?

A. Yes.

Q. There is not much change in them?

A. That is about the same as here.

Q. Do your banks make any attempt to acquire gold for any purpose?

A. No.

Q. You have no special use for it?

A. We have no special use for it except for reserves.

Q. They have nothing to do with your note issues and no certain reason for your paying gold?

Banking and Currency Systems

A. The operation of the law in regard to holding 40 per cent of legal tenders is to preclude our acquiring any considerable amount of gold.

Q. Is to prevent it?

A. Yes; if we acquire the gold we have to acquire legal tenders practically to the same proportion.

By Mr. BONYNGE:

Q. Have you any means of knowing how much gold there is in circulation in Canada?

A. I could give you the amount.

Mr. COULSON. We haven't a Canadian circulation of gold. The gold in circulation is the United States gold.

By Mr. VREELAND:

Q. Very little of it seen?

A. Very little gold in actual circulation.

Q. The money that is carried in the pockets of people would be silver and your Dominion notes of small sizes and your bank notes?

A. And the bank notes.

Q. Very little gold in circulation?

Mr. COULSON. Very little.

Q. Your banks make no attempt to acquire or keep gold. It has no special relation to the system except that it is the standard of value and your Dominion notes are redeemable in gold?

A. Yes.

By Mr. HUBBELL:

Q. Mr. McLeod, do you have a prevailing rate of exchange here? Is there a prevailing rate of premium and discount between the banks?

National Monetary Commission

A. That rate fluctuates.

Q. Is that a matter of daily market?

A. Yes; a matter of daily market.

Q. Between the banks?

A. Between the banks.

Q. How high does that reach?

Mr. COULSON. Don't ask us. Go back to 1897. I think it was as late as five years ago we had some collections due near Boston and our correspondent had sent up clearing-house certificates on a Boston clearing house, and I telegraphed him they were no use to us, and he telegraphed back to cancel the arrangement.

By Mr. VREELAND:

Q. We will take up note issues, Mr. McLeod, and ask you a few questions about that. The amount that can be issued is the paid in capital of the bank besides the emergency act of 1908.

A. The emergency act.

Q. And with the further exception of the Bank of North America, which can issue up to 75 per cent of its capital.

A. Yes.

Q. The note holders have a security and a first lien upon the assets of the bank?

Mr. COULSON. Yes; the assets of the bank.

Q. They have also the 5 per cent of total circulation in hands of government?

Mr. COULSON. It is 5 per cent, calculated on the highest amount circulated during the year.

Q. By each bank?

Banking and Currency Systems

Mr. COULSON. By each bank. It is adjusted every year.

Mr. WEEKS. Has the emergency circulation ever been used?

Mr. KNIGHT. A little last year.

Mr. McLEOD. I do not know who did use it, and I do not want to know.

Q. Mr. McLeod, your business in Canada is increasing so fast that, unless you materially increase your bank capital, I should think you would soon get to a point where you would have to have more circulation than you can get; what are you going to do about that?

A. That is a problem we shall have to meet, and I presume it will be up for discussion at the same time as the modification of the bank act. The act is under consideration now.

Mr. COULSON. The true way is to increase the capital.

Mr. McLEOD. No bank not on the verge of insolvency would use that emergency circulation.

Q. To what extent are your notes legal tender?

A. They are not legal tender at all.

Q. Aren't banks obliged to receive the notes of other banks?

A. Well, in payment of debts they do receive them. They are not obliged to receive them.

Q. They are not obliged to?

A. No.

Q. Then if a customer comes in to pay his notes at your bank you are not obliged to receive the notes issued by another bank?

A. No.

National Monetary Commission

Mr. COULSON. You can demand legal tender.

Q. They are not made legal tender by mutual arrangement?

A. No.

Q. They are only legal tender to the bank that issues them?

A. Yes; they are an offset.

Q. Limited to that?

A. Yes.

Q. What is the government tax upon your bank notes?

A. No tax.

Q. No tax whatever?

A. No; we are not taxed at all, except in the matter of the provision for 40 per cent of our reserve in legal tender.

Q. Who pays the expenses of issuing them?

A. The issuing bank.

Q. Each bank?

A. Yes.

Q. Does the Dominion make the arrangement for their printing?

A. Each bank makes its own provisions under the supervision of the Banking Association.

Q. But each bank makes its own arrangement about their design and the total of the issue?

A. Yes; they are issued to the bank direct on the advice of the association. That latter arrangement is under a recent date—the last six or seven years.

Q. What is the average time that they stay out before they are redeemed?

A. I think the average life of a note is less than a year.

Banking and Currency Systems

Mr. BONYNGE. Sixty-six days is the limit.

Mr. KNIGHT. You refer to a different matter.

Q. Are you able to keep notes in circulation in Toronto?

A. I think there is a large amount of the bank notes in circulation in Toronto. Perhaps the percentage would be as great as in the country. The distance from the centers, of course, tends to leave the notes out longer. They are longer in transmission.

Q. You have so many notes in circulation in Canada that the average time each note would stay out must be very short?

A. We could only estimate.

Q. They would come back to the clearing house?

A. Yes.

Q. The same as checks?

A. Yes.

Q. And presented to you for payment?

A. Yes.

Q. So the average time of circulation in the city of Toronto would be very small?

A. Would probably be small; yes.

Q. Whereas, say, in the early distribution it would not take them long to get to points where they would be redeemed?

A. Yes.

Mr. COULSON. Take the average circulation—we have had some estimates on that during the actual season of circulation, that is about sixty days.

Mr. MCLEOD. From the time you put it out?

Mr. COULSON. Yes.

National Monetary Commission

Q. All of your notes are redeemed about six times a year?

Mr. COULSON. I am speaking of the Toronto demand; a note stays out about an average of sixty days, and that is the case particularly in the west. It is coming in and going out, and the average is about sixty days.

Mr. McLEOD. I do not know any way you can get reliable figures on that better than to take an issue that you have decided to cancel and take an average time that issue would be out. At the present time those figures would compare unfavorably with the figures that would have been made ten years ago, before we got up to the maximum of our circulation, and for the present time they are not reliable. I do not think the average circulation of a note is as long as Mr. Coulson's estimate.

Mr. COULSON. We have had some experience of pay rolls on some of the railway systems, and the average of a circulation paid up from one end of the country to the other is just thirty days, and we have tested that on two or three occasions. That is for our own guidance, but when you come to the moving of a crop where money is paid out to the customers, of course, the bank gives each man a ticket with two or three dollars, and he then takes it to the bank or to the merchant, and the merchant may have it for some little time. The time it will take getting back to the redemption center will average nearly sixty days.

Mr. McLEOD. Sitting here discussing this subject has brought back to me one of my early experiences in banking. It was in an isolated community where the

Banking and Currency Systems

operations were buying and shipping grain. The bank had a capital of \$100,000. Under the Provincial law it had the right to issue \$3 to \$1 of its capital in circulation. On one Saturday evening all our circulation was outstanding. Over Sunday the winter set in, the harbors froze up, the vessels had to put to sea, loaded or partially loaded. By the middle of the week our circulation was much reduced; we had received exchange for the cargoes and within a month the circulation was down to normal; the notes had gone out, had paid the farmers for the grain, they had been paid by the farmer to the shopkeeper and by the shopkeeper deposited in the bank. The shopkeepers had bought out bills on London, thereby paying their debts abroad, and the whole operation was completed. When an elastic currency is spoken of, I often think of that example of elasticity.

By Mr. WEEKS:

Q. What would you do if Mr. Coulson appeared in your bank some morning with a million dollars of your bills?

A. Pay the bills.

Q. How would you pay them?

By Mr. VREELAND:

Q. Draft on London?

A. I think we could satisfy Mr. Coulson in a very short time.

Mr. COULSON. I think so.

Q. Suppose he did not want to be satisfied; what could he demand?

A. He could demand gold or legal-tender notes.

Q. I suppose he could limit his demand to two things, could he?

National Monetary Commission

A. Yes; he could limit his demand to legal tender.

Q. You would not have an amount like this in just gold at any one of your offices, Toronto for instance?

A. Yes; practically.

Q. Take the Winnipeg office, for instance.

A. No; that is a very extreme case. There is no possibility in the world that anyone could get so much of our notes for presentation at one time.

Q. I am assuming some person is vicious and wants to damage you.

A. Yes.

Q. I want to see how you would get out of that, what would happen?

Mr. COULSON. We would go to our neighbor and try to get them to sell an exchange on New York and get the money on it.

Q. That is not legal tender.

Mr. COULSON. If I was in that position, I should go to the Bank of Montreal straight and say I am short, I have the money in London, I should buy my exchange and give him the money. If your credit is good, there is no trouble about it.

Mr. WEEKS. What you would do would be to stand by one another under those circumstances?

Mr. COULSON. Undoubtedly.

Mr. MCLEOD. If that should happen, of course, we should go to another bank—that would be a most extreme case. We should say: "There is a party that has collected our notes until he has acquired a million of them; the man comes in and demands legal tenders against us; we

Banking and Currency Systems

will pay you legal tenders in Winnipeg, Montreal, St. John, or Halifax, or we will transfer funds to your credit in New York or London. We want the legal tenders to use now." Or we might say: "We will replace the legal tenders as soon as the express companies can get the legal tenders here." There would be no difficulty about that matter.

Mr. COULSON. The other banks would simply come to the rescue.

By Mr. VREELAND:

Q. There is absolutely no tax on this circulation?

A. No tax.

Mr. COULSON. There was in times past.

Q. When was that discontinued?

Mr. COULSON. That was discontinued thirty years ago.

Q. What tax do you pay to the government?

Mr. COULSON. We pay none now on the circulation.

Q. You would be obliged to keep a tax reserve. I do not see how you figure it as a tax on circulation.

Mr. KNIGHT. It takes the place of a tax.

Mr. McLEOD. The interest is the tax.

Q. I am asking if it costs the bank anything?

A. No, it does not.

Mr. COULSON. It saves the government interest.

Q. The government saves interest on that amount of the Dominion notes, but I am talking about your bank?

Mr. COULSON. It costs us nothing.

Q. There is absolutely no tax upon circulation?

Mr. COULSON. No, sir.

Q. Direct or indirect?

National Monetary Commission

Mr. COULSON. No.

Q. What Dominion tax do you pay to the government?

Mr. COULSON. We pay it to the government.

Mr. McLEOD. Provincial governments and cities.

Q. Do you pay anything to the Dominion government?

A. Nothing.

Q. No regular tax at all?

A. Nothing.

Q. If a bank fails to pay its notes, they immediately commence drawing interest, do they not?

Mr. COULSON. Yes; after a bank has suspended.

Q. That has the effect of taking them out of circulation?

Mr. COULSON. Yes.

Q. Banks or some one else would commence accumulating them and holding them?

Mr. COULSON. Yes; they keep them until the suspended bank is in a position to pay them.

Q. I assume the banks generally hold them?

Mr. COULSON. Yes.

Q. And get 5 per cent interest?

Mr. COULSON. And get 5 per cent interest.

Q. Until they are paid by the——

Mr. COULSON. Receiver or liquidator.

Q. You are not obliged to hold any reserves against your notes?

Mr. COULSON. Not specially, except that 5 per cent that is held in the redemption fund.

Mr. McLEOD. And that is not available.

Banking and Currency Systems

Q. Are banks liable for the notes of failed banks, or rather banks having notes of failed banks, beyond 5 per cent?

Mr. COULSON. Yes.

Mr. McLEOD. After the 5 per cent fund is exhausted further calls would be made on the banks by small percentages. I think the percentage is limited—a certain per cent within one year. We are not guarantors for actual payment. I think it is not to exceed 1 per cent per year.

Q. The information which was given us was that if the assets of the bank were not sufficient, and if the 5 per cent was not sufficient primarily, the other banks would be guarantors of the notes?

A. That is correct.

Q. And on that they are to pay——

A. So much per year.

By Mr. BONYNGE:

Q. Until you have made up the full amount?

A. Yes.

Mr. KNIGHT. Of course, you know that fund has never been touched since it was created?

Mr. VREELAND. The 5 per cent fund?

Mr. KNIGHT. Yes.

Q. Tell us how soon these notes of failed banks would be paid out of the redemption fund. That is, how soon would the notes be paid from the redemption fund after the government had judicial notice of the failure of a bank?

A. That, as has just been said, never has been put to a practical test.

Mr. COULSON. The first moneys collected are applied in redemption of notes issued, and whatever proportion they

National Monetary Commission

may bear to the entire issue, the liquidator notifies the banks that on a certain day he will pay that proportion and interest.

Mr. McLEOD. That is not the question. As I understand it, Mr. Vreeland wishes to know how soon that fund could be made available; that 5 per cent fund—how soon the government guaranty under the notes would be available to the note holders.

Q. How soon are these notes of a failed bank redeemed?

Mr. COULSON. Just as soon as the liquidation provides a fund for it.

Mr. McLEOD. The notes have, in practice, been redeemed as fast as they have been presented.

Q. That is, you mean that, in practice, the other banks have taken over the failed bank?

A. No; where there is a liquidator. Take the case of the Bank of Yarmouth; it was not taken over.

Q. When a bank fails here, doesn't it close its doors?

A. Yes; it closes its doors.

Q. When would its notes be presented for payment?

A. The notes go into the other banks and go through a liquidator and are so paid.

Q. Who is the liquidator?

A. Take the case of the Bank of Yarmouth; the banks did not interfere at all with that bank failure, and the notes were collected by the other banks and were paid by the liquidator.

Mr. KNIGHT. Yes.

Mr. BONYNGE. The court appointed the liquidator, I suppose?

Banking and Currency Systems

Mr. VREELAND. No; the association has a curator.

A. A curator or a liquidator.

Mr. BONYNGE. Who appoints the liquidator?

Mr. KNIGHT. The court.

Q. The curator is one appointed by the association, and the court appoints a liquidator to close up the affairs of a bank?

Mr. KNIGHT. Yes.

By Mr. VREELAND:

Q. Is that always so? Haven't other banks ever taken hold of a bank and liquidated it themselves without letting it go to a liquidator?

A. I mean where a bank absolutely fails and is not assisted by the other banks. I am speaking of an absolutely failed bank.

Q. I understood it was not the exception, but the practice, for the other banks or the association to take over a failed bank?

Mr. KNIGHT. No.

A. No; that has not been the practice.

Mr. COULSON. That has only happened in two cases.

Q. The practice is to let them close?

Mr. COULSON. The practice is to let them close.

Q. Is that a growing practice?

Mr. COULSON. It is.

Mr. HUBBELL. It is a matter entirely of self-preservation?

Mr. COULSON. It might be that.

Mr. VREELAND. Ordinarily, then, first the associated banks appoint a curator?

National Monetary Commission

Mr. COULSON. Yes.

Q. What are his duties?

Mr. COULSON. He takes possession and takes charge, collects in anything outstanding.

Mr. McLEOD. He takes the management of the operation and directs everything else in fact.

Q. How long does he stay?

Mr. COULSON. Until the liquidation is completed. When the liquidator is appointed, he stays until he winds it up.

Q. When is a liquidator appointed?

Mr. COULSON. Just as soon as an application is made.

Q. I mean just when—to distinguish what the curator does and when his duties end, and when somebody else may be appointed. What has the curator done in the meantime?

Mr. COULSON. I think in the Bank of Yarmouth the curator was continued almost to the end.

By Mr. BONYNGE:

Q. His duties ceased as curator and he became the liquidator?

Mr. KNIGHT. No; he was appointed liquidator formally.

Mr. McLEOD. The bank was being wound up before there was a liquidator appointed.

By Mr. VREELAND:

Q. I understand the practice is that the executive council, in case of a failed bank, appoints a curator?

Mr. KNIGHT. Yes.

Q. Who immediately takes charge of the bank and proceeds to liquidate it?

Mr. KNIGHT. Yes.

Q. Collects in its drafts and pays off its indebtedness?

Banking and Currency Systems

Mr. KNIGHT. Yes.

Q. Then upon whose application does the court appoint a liquidator who is usually the curator?

Mr. McLEOD. He may be appointed on the application of a stockholder, or a creditor, or of the association, I believe.

Mr. KNIGHT. Yes; let me give you an illustration. The last bank that failed before the Yarmouth was the Ville Marie. Three liquidators were appointed in the ordinary way; they were appointed by the court. Not one of the three was a practical banker; not one of the three had an eye to economy, expense, or the exigencies of the situation; and these three parties sat together for nearly eight years and practically lived off the bank, without any purpose of winding it up. The first bank that failed after the Ville Marie was the bank mentioned by Mr. McLeod, the Bank of Yarmouth. The liquidator wound the bank up inside of nine months.

Q. Either upon the application of the association, or upon the application of some stockholder, or of someone—I suppose any creditor—a liquidator is appointed by the court who is usually the curator who has been in charge?

A. Yes.

Q. And he proceeds to finish the liquidation of the bank?

A. Yes; by taking the necessary legal proceedings that could only be taken by a liquidator.

Mr. BONYNGE. What does the government do with the 5 per cent guaranty fund that you deposit?

A. It becomes——

Mr. COULSON. They spend it.

Q. What do they do with it after they collect it?

National Monetary Commission

Mr. COULSON. Treat it the same as if it was savings banks deposits.

Mr. KNIGHT. They pay the bank's interest.

Q. They pay bank's interest on it?

Mr. KNIGHT. Yes.

Q. It is a loan to the Government?

Mr. COULSON. It is a loan to the Government upon which they pay interest.

Mr. WEEKS. Suppose some of the notes of the Sovereign Bank came into your possession, would you get 5 per cent on them until they were liquidated?

Mr. McLEOD. After a certain date.

Mr. COULSON. Until the liquidator gives notice.

Q. Then interest stops?

Mr. COULSON. Then interest stops.

Q. What would prevent your holding those notes and drawing interest for a long time?

Mr. COULSON. The notice. After that they cease to bear interest.

Q. Do you think that the inspection methods which you have for determining how much circulation a bank has out are sufficient to prevent fraud provided the officers of a bank want to perpetrate a fraud?

Mr. McLEOD. I think they are. We have a statement from the engravers supplied to the association.

Q. What engravers?

A. Generally the American Bank Note Company. A record is made of that by the secretary of the association. The notes are passed on to the bank. They are issued. They are destroyed by the directors. Of course, if the

Banking and Currency Systems

directors fail to destroy them, and instead of destroying them put them into circulation, that would be one way of defeating the check.

Mr. VREELAND. There would be no way of detecting it except the statements of your directors?

A. There would be one way of detecting it; that is, by keeping the record of each note that is outstanding and the date that it was destroyed, etc.

Mr. KNIGHT. The chief executive officer also signs the certificate.

Mr. COULSON. Yes; an officer signs the certificate, and there is a very carefully prepared certificate signed by the directors. Also the destruction of notes is as well safeguarded as can be.

Q. It is entirely in the hands of the bank officers?

Mr. McLEOD. It is entirely in the hands of the bank officers and directors.

Mr. COULSON. The association has supervision over that.

Mr. McLEOD. Any such inspection could have no effect on the burning of the notes. We have to rely on somebody.

Q. If the general manager of the bank and those three clerks, instead of burning the notes were to put them in their pockets for recirculation, what would happen, how would you determine the fact, and what punishment would be inflicted?

A. There is one way of determining that, and that is by keeping a record of the circulation and the date of destruction of each note as they were called home, and I

National Monetary Commission

think it should be kept. And there is another way of determining it—that is, by the amount of notes that are kept in circulation. A bank can't keep in circulation an inexhaustible supply of notes.

Mr. KNIGHT. There is one thing that must always be kept in mind, namely, that the last thing a man would resort to is an over issue of notes, he would have to come back to the clearing house and he would have to redeem them.

Mr. MCLEOD. As a general rule the banker that goes wrong starts in hoping to recover, and his circulation accounts would be the last account he would tamper with, because he could not put it right. A good many years ago we had a cashier of our bank who practically looted the bank way back in the sixties, James Forman, but although he had the notes practically in his own hand so that he could order what notes he wanted—that was before there was any bank act worth speaking of, before confederation—and he had those notes so he could do what he liked with them, still the circulation accounts were correct.

By Mr. HUBBELL:

Q. How can you keep the record of so many agencies so as to get an exact record of the amount of deposits outstanding and amount redeemed?

A. We do that by daily returns.

Q. Telegraphic returns?

A. By mail generally.

Q. Suppose a manager got a little bit close to it, wouldn't he be apt to make a haul?

Banking and Currency Systems

A. If you will allow me I will answer that question as it applies to ourselves. We have every day a report from each branch, an estimate by each manager of the amount in the Bank of Nova Scotia, notes held back, a statement of the amount he has on hand at the close of business on the day on which the return is sent, an estimate of the amount that he will have on hand the following day and for the two following days. We do not allow a manager to go below his estimate. He must estimate what he needs, and upon those estimates we judge what our circulation will be. Formerly we used the telegraph, but we have adopted the other method.

Mr. COULSON. Our system is perfect. If we wish to prevent an overissue our system is such we can check it every day. There is a penalty for overcirculating.

Q. Isn't the amount of circulation outstanding, Mr. McLeod, pretty near the limit all the year round? Is there really elasticity in the fall?

A. At the present time there is little elasticity.

Q. How can you explain the fact that ten years ago you had deposits of 300,000,000 or 400,000,000 and now you have deposits of about 750,000,000 and yet the note increase has been about 75 per cent?

A. The wealth of the country has increased to a greater extent than the active business of the country. Then I may say, also, that we have got to the maximum circulation at the present time in cash. We had to limit our circulation.

Mr. KNIGHT. We have got within 11,000,000 or 12,000,000 of the limit now.

National Monetary Commission

Q. I speak more of elasticity.

Mr. KNIGHT. I mean of the notes available for circulation. The variation of circulation is from 15,000,000 to 20,000,000.

Q. You need about 50,000,000 or 60,000,000 out West for the crops, don't you?

Mr. COULSON. We paid out that amount of money and were there redeeming them all the time.

Q. Then your 15,000,000 of circulation does not enter into that 50,000,000 except for the West?

Mr. COULSON. In January last we had 30,000,000 that we could issue before we reached the limit.

Mr. VREELAND. You mean in all the banks?

Mr. COULSON. I mean in all the banks.

Q. Last January?

Mr. COULSON. Last January. That 15,000,000 is what the average of the circulation increased, but a great deal more than that was paid out. Three or four times the amount of that was paid out. We are redeeming this every day. It is redeemed every day. It does not stay out. It just passes out and comes back. We are redeeming it at all the redemption centers. We have to keep redeeming it every day, and we are keeping it out every day. We always do that. When it gets up to the point, we have to cease, but we may put out a very large amount during that period; more than the 30,000,000. It keeps turning over all the time. We redeem, at a time like the present, \$150,000 or \$200,000 in Montreal and Toronto, but that is day in and day out. Of course, we are paying out as much each day, so it is only the excess

Banking and Currency Systems

between what we are redeeming and what we are paying out that goes to increase the volume of circulation.

Q. Your volume of circulation you consider the average per month?

Mr. COULSON. Yes.

Q. That is the average of each bank outstanding added together?

Mr. COULSON. It gives the daily outstandings. It gives the average, and it gives the highest point during the month. That is the return to the Government.

Mr. BONYNGE. You mean the statement made by the bank to the Government?

Mr. COULSON. By the bank to the Government.

(Recess until 2.30 p. m.)

Q. Mr. McLeod, I see you have in your statement 24,000,000 in deposits bearing interest and about 6,000,000 in current accounts not bearing interest.

A. Yes.

Q. Is it your idea that this is about the proportion generally that the banks would average?

A. Yes; I think about that proportion.

Mr. KNIGHT. Oh, no.

Mr. McLEOD. You mean they would have a larger percentage with interest?

Mr. KNIGHT. Yes.

Q. It is almost exactly two to one?

Mr. KNIGHT. Yes.

Mr. McLEOD. On referring to the statistics I find that only 22.7 per cent of the total deposits in Canadian banks are free from interest, so my estimate is practically correct.

National Monetary Commission

Q. In this statement of July the Bank of Montreal had \$44,000,000 payable on demand and \$88,000,000 payable upon time. That was outside of government deposits?

Mr. KNIGHT. Yes.

Q. Mr. Smith says the mortgage companies pay 3½ per cent interest; isn't there a possibility that they will obtain deposits at the expense of banks if they pay a higher rate of interest?

Mr. LAIRD. Yes; I think it is likely that paying that rate they take some of the money that would naturally come to us. I do not think it is very important.

Mr. BONYNGE. The Canadian Permanent Mortgage Company, that Mr. Smith represents, had a cash balance of something over a million, and most of it on deposit with banks.

Mr. MORRIS. The Canadian Permanent Mortgage Company, I think, is an exceptional concern.

Q. It had practically 25 per cent cash reserve?

Mr. MORRIS. Yes.

Q. It is the largest company of that kind in Canada, is it not?

Mr. MORRIS. Yes.

By Mr. VREELAND:

Q. I notice your current loans secured by bonds, debentures, and stocks, \$1,000,000; that is all secured?

A. Yes.

Q. Loans secured by grain and other staple commodities; those would be warehouse receipts and that form?

A. Elevator receipts for grain, etc.

Q. You mean stored grain?

Banking and Currency Systems

A. Quite a good proportion of the business is in America.

Q. Overdrafts; how many of these overdrafts have been authorized and bear interest in proportion to the amount used?

A. Those are overdrafts—overdrawn accounts.

Q. Without the consent of the bank?

A. Sometimes without the consent.

Q. It is the aggregate of overdrafts and checks which you considered good which you have paid?

A. No; they are the amount outstanding at the time the balance sheet was made up. You state the amount.

Q. One hundred and fifty-nine thousand dollars.

A. Yes.

Q. What I was getting at is, you know, that, especially in Scotland, they have a form of authorizing drafts without any money in the bank?

A. Cash credit.

Q. And interest is paid upon the amount actually used?—I was getting at whether you follow any of that line of business.

A. No; they have to borrow that money.

Q. These are simply temporary advances, payments on checks?

A. Yes.

Q. To be made up by deposits?

A. Yes.

Q. You have another form of overdraft authorized but not specially secured, \$88,000?

A. Yes.

Q. What does that mean, "authorized?"

National Monetary Commission

A. That is generally approved after the event.

Q. After the event?

A. Yes.

Q. These overdrafts that were not secured, the other item, must have been approved before the event?

A. Not necessarily. They might be approved by the manager, or granted by the manager and afterwards approved by us.

Q. Notes and bills discounted and current; that is the item of loan?

A. Yes.

Q. Does that include a great amount of single-name paper?

A. No; a very moderate amount.

Q. What class of single-name paper would that be mostly—actual paper purchased such as your banks would consider good in the cities?

A. This item of single-name paper would be paper we would purchase through brokers.

Q. Note brokers?

A. Yes.

Q. You have the note broker here?

A. No; we buy in Chicago and Boston.

Q. And that would be such single-name paper as is being sold in the cities by large manufacturing concerns?

A. Yes; in addition we make some single advances in this country, particularly to good clients.

Q. What would be the form the greatest portion of that \$13,000,000 of paper would be in? Is it in the form of notes for two or three or four months?

Banking and Currency Systems

A. Yes; portions of it would be bills receivable, trade bills.

Q. It is business paper?

A. Yes.

Q. Do your loans on single paper, using that as a general term, covering all kinds of notes upon time drawing interest, correspond quite closely to our loans across the border?

A. No; your loans on the other side are more generally given on single-name paper. A large merchant will come to the bank and apply for a loan; perhaps he would want a loan of \$100,000; he simply gives his note for it. The bulk of our advances are against trade bills.

Q. A merchant in St. Paul who is in first-class credit makes arrangement with his banker and discounts his bills and pays all of his accounts by check; what would a similar concern do here in the city of Toronto, a firm in first-class credit, what form would they have to be, manufacturer and wholesaler?

A. As your St. Paul merchant will make an arrangement with two or three different banks to grant him a loan of \$50,000 or \$100,000 or \$150,000 each, then the chances are he will sell his paper through a note broker; you have these loans agreed to be made by his bank in reserve to be used when panic or trouble comes. That is very often the case. The Canadian merchant relies upon one bank to take care of him. Sometimes an account is divided. I think, perhaps, I may state with propriety that we have catered more to trade bills than most banks do. That is, as against single-name advances.

National Monetary Commission

Q. What do you call a trade bill?

A. A bill given to a merchant for an invoice of goods, or a draft drawn by a merchant on a customer some distance away.

Q. You call both of them trade bills?

A. Yes.

Q. Then your merchant here—you say you take care of him—would make arrangements with your bank for the money with which he would discount his bills and pay them by check?

A. Yes.

Q. Would a firm here in first-class credit, a mercantile firm, give its notes to a manufacturer or wholesaler upon time for goods?

A. They sometimes do.

Q. Would they accept drafts upon time for goods with interest?

A. No.

Q. Your practice is that they discount their bills and pay by check?

A. Yes.

Q. Making their arrangements for their money with their bankers?

A. Yes; of course, where you go to the middleman, or the wholesaler who supplies small purchasers throughout the country, he draws on these small purchasers and they accept the draft. As a rule, they do not pay cash for their purchases.

By Mr. HUBBELL:

Q. Do you use a signed statement at all for your single-name paper?

Banking and Currency Systems

A. Yes.

Q. You do not use any audited inspection of a merchant?

A. No.

Q. Just your own judgment?

A. Yes; just a signed statement, and sometimes the statement is attested by an auditor, but an auditor selected by the merchant, not by us.

By Mr. VREELAND:

Q. Do your banks buy foreign bills to any extent?

A. Bills drawn on Europe and Great Britain?

Q. Yes.

A. Yes.

Q. You make no distinction, I take it, between what we call financial bills and commercial or trade bills, notes?

A. We prefer the commercial or trade bill as against financial bills.

Q. Do the banks here borrow to any extent from their correspondents in London?

A. I think not. I think that the strongest banks very seldom borrow from the London bankers.

By Mr. BONYNGE:

Q. Have any of the Canadian banks branches in Europe?

A. I think there is one in Paris—one of the French Canadian banks has a branch in Paris—and there are several branches in London.

Q. Are there any in South America?

A. No; not any in South America.

STANDARD BANK OF CANADA.

Statement of January 30, 1909.

Dr.	PROFIT AND LOSS ACCOUNT.	Cr.	
Balance brought forward from January 31, 1908.....	\$61,902.60	Dividend No. 70, paid May 1, 1908.....	\$46,800.43
Profit for year ending January 30, 1909, after deducting expenses, interest accrued on deposits, rebate of interest on unmatured bills, and making provision for bad and doubtful debts.....	283,065.27	Dividend No. 71, paid August 1, 1908.....	46,802.38
Premium on new stock.....	2,800.00	Dividend No. 72, paid November 2, 1908.....	46,802.70
		Dividend No. 73, payable February 1, 1909.....	46,804.67
		Contribution to officers' pension fund.....	7,500.00
		Transferred to reserve fund from profits.....	100,000.00
		Transferred to reserve fund, premium on new stock.....	2,800.00
		Balance of profit and loss account carried forward.....	50,257.69
	347,767.87		347,767.87

GENERAL STATEMENT.

LIABILITIES.	ASSETS.
Notes in circulation.....	Gold and silver coin..... \$521,156.04
Deposits bearing interest (including interest accrued to date)..... \$14,128,286.99	Dominion notes, legal tenders..... 2,314,039.00
Deposits not bearing interest..... 1,885,920.93	Notes of and checks on other banks.....
Former dividends unclaimed..... 16,014,207.92	Due from other banks in—
Dividend No. 73, payable February 1, 1909..... 24.00	Canada..... 285,723.32
Due to other banks in—	United States..... 284,398.20
Canada..... 221,111.76	Great Britain..... 33,757.27
United States..... 196,908.32	Dominion government and other first-class bonds..... 2,030,846.94
	Loans on call on government, municipal, and other bonds and stocks..... 1,264,486.44
	7,415,597.80
Capital..... \$1,562,500.00	Deposit with Dominion government for security of note circulation..... 61,000.00
Reserve fund..... 1,862,500.00	Bills discounted and advances current..... 13,068,243.00
Rebate of interest on bills discounted..... 41,006.12	Loans to other banks in Canada secured..... 259,125.27
Balance of profit and loss account carried forward..... 50,257.69	Notes and bills overdue (estimated loss provided for)..... 42,981.53
	Bank premises..... 279,839.89
	Real estate other than bank premises..... 10,000.00
	Other assets not included under the foregoing..... 25,499.99
	21,162,287.48
21,162,287.48	

TORONTO, *January 30, 1909.*

GEO. P. SCHOLFIELD, *General Manager.*

National Monetary Commission

Banking and Currency Systems

Interview with George P. Scholfield, general manager of the Standard Bank of Canada.

By Mr. VREELAND:

Q. Mr. Scholfield, your head office is in Toronto?

A. In Toronto.

Q. How many branches do you have?

A. Seventy-seven.

Q. What would you say, Mr. Scholfield, about the average amount of cash reserves carried by the commercial banks?

A. As regards the proportion that should be carried?

Q. No; but the amount which is actually carried in cash as reserves?

A. You are speaking now of legal and specie holdings?

Q. I mean cash.

A. I think it will average between 10 and 11 per cent.

Q. Is that about what the Standard runs?

A. Yes; it varies from about 8 to 15 per cent. I think in our last annual statement the amount of cash held was over 16 per cent, but our financial year closes at the end of January, when our current loans are rather less than usual, so that naturally it has the effect of increasing our cash reserves proportionately somewhat.

Q. Do you have any call loans with stock collateral in your bank?

A. Yes, but not outside of Canada.

Q. Some of the banks do, I suppose, have call loans in New York?

A. The Montreal, Commerce, British, Merchants, Royal, and Nova Scotia are the chief Canadian banks, I think,

National Monetary Commission

lending outside of Canada. In years past we have loaned through our foreign agents, but not recently.

Mr. WEEKS. Do they charge a commission for doing it?

A. Yes; if they guarantee the loan.

By Mr. VREELAND:

Q. January 30, 1909; this would be your last general statement that is made according to law and published?

A. Yes; but the information supplied would not be applicable to our to-day's affairs in that we have since absorbed the Western Bank, and with the acquiring of it, together with the natural increase in our business, our assets are nearly double what they were when the statement you have in your hands was published.

Q. Absorbed the Western?

A. Absorbed the Western.

Q. Is the Western on this list of ours?

A. It is among the chartered banks.

Q. Was it the 1st of January that you absorbed that?

A. The assent of the treasury board, which is the final act in absorption, was obtained in February last.

Q. I do not find any Western Bank in the list.

A. The 15th of February was the date of consummation. They would not have to send a government return on that date.

Q. There are 31 chartered banks given us.

A. January, 1909, you are looking at there?

Q. Yes.

A. The end of January?

Mr. HUBBELL. This is in July.

Banking and Currency Systems

A. The Western Bank statement would not appear in the July return.

By Mr. VREELAND:

Q. That is July, 1909. There were 32 last year?

A. Yes.

Q. Thirty-one are given here, not including yours, and the Sovereign is included, and that leaves 30 now.

A. The Northern and Crown have recently been amalgamated, and perhaps they appear in the statement you have in front of you as two rather than one. Both the Northern and Crown are comparatively new institutions.

By Mr. WEEKS:

Q. What do you think about the amount of reserve? Is the reserve carried by the banks sufficient to provide for the conditions which you have to meet?

A. Yes; I think, generally speaking and having a regard to the Canadian situation, that the cash reserves carried, while not generous, are sufficient for our purposes, provided always, of course, that, in addition to the cash, the quantity of government bonds or securities which have an immediate market value and ready sale outside of our own country are relatively substantial in amount.

Q. It seems that the number of banks in Canada is constantly decreasing?

A. The present disposition, and I think a wise one, is to decrease rather than increase the number of banks. I do not think the needs of our country at the present time would be better served by increasing the number, but on the contrary I should be of opinion that if we

National Monetary Commission

had fewer, but not materially fewer, and very strong institutions, it would be moving in the right direction. This is my opinion, of course, and there are many in the country, and thoughtful men, too, who do not agree or share in it. I should think it would be better if, in granting new charters, the government insisted that at least \$500,000 capital must be actually paid up before a bank should be allowed to open its doors for business and issue its circulation.

Mr. VREELAND. To get a new charter?

A. New banks may be safely conducted, and, we will assume, very conservatively; but it is rather a difficult matter to give to their shareholders for some years a better return than say 4 per cent, and, having regard to the double liability always existent, that can not be considered an attractive investment.

Mr. BONYNGE. Is it necessary to go to parliament for such new charter?

A. It is necessary to go to the government for a charter. The charters of existing banks are renewed every ten years, and in the event of a bank being absorbed its charter remains in force for winding-up purposes, but after the approval of the treasury board has been given it is forbidden to reissue its notes for circulation, or carry on any business whatever, except to realize upon the assets not included in the agreement of sale, and discharge its liabilities. The Western Bank charter, assuming that the transfer would have been assented to by the treasury board, has a very substantial value, but by reason perhaps of sentiment on the part of some

Banking and Currency Systems

of the former directors of the Western Bank, who are also members of the Standard Bank board, we should be unwilling, except under very special circumstances, to make a disposition of it.

By Mr. VREELAND:

Q. Was their charter any better than that of your own bank?

A. No.

Q. The Standard?

A. No; it was not better. The officers of the Western Bank, I understand, were of the opinion that by reason of the name "Western," and our northwest now becoming such a factor in our national life, it should have more than the usual value attaching to a name, but I am not prepared to admit or deny the soundness of that contention. When a bank's liabilities have been discharged a surrender of the charter will be permitted.

Mr. WEEKS. Would it die if the bank failed?

A. Yes; the failure would operate as a forfeiture of the charter, except so far as the latter would remain in force for the winding up of the business, and if necessary the enforcement of the double liability.

By Mr. VREELAND:

Q. What is there about the charters expiring in 1911?

A. A decennial revision is made and the charters are continued in force during that period as regards name, capital stock, shares, value, and head office; but, of course, a bank meantime might be permitted by application to increase or reduce its capital stock; and also assuming that meantime it did not become insolvent or fail to perform the conditions required under the act.

National Monetary Commission

Q. As a matter of law your charters do expire in 1911?

A. As I have explained previously.

Q. It would be at the option of the Dominion government parliament to renew them?

A. Quite so.

Q. How long would they renew them?

A. Ten years. They are decennials.

Q. They are renewed every ten years?

A. Yes.

Q. The government has shown a disposition to accede quite generally, haven't they, to the wishes of the banks?

A. Yes; quite so. The attitude of the government would appear to give the banks quite as much responsibility as they are willing to accept.

By Mr. WEEKS:

Q. You think it is a good thing for the business of the country that the banking is being concentrated in so few hands?

A. Yes.

Q. That the number of banks are being decreased instead of increased?

A. Yes; within reason.

Q. What would you call reason?

A. Having regard to our small population of 6,000,000 of people, I think the present number sufficient for our purposes. I do not think we would suffer if we had 20 banks rather than 30; in fact, I should be inclined to think we would be better off, but doubtless if we had too few banks the public might think, and we have frequently heard suggestions of it, that by reason of the control being in so few hands it might be termed a monopoly.

Banking and Currency Systems

By Mr. BONYNGE:

Q. Have you an executive committee of the Canadian Bankers' Association?

A. Yes.

Q. How is that executive committee appointed?

A. The executive committee is elected by the members of the association at their annual meeting.

Q. How many banks are represented on the executive committee?

A. I think 18 or 19.

By Mr. VREELAND:

Q. I understand any bank has the right to join the association?

A. All the banks named in the schedule at the time of incorporation became members of the association, and subsequently any other banks, after having obtained the right to do business, upon application have been admitted. I do not think there is a Canadian bank carrying on business at the present time that is not a member of the association.

Q. It says in the law "Any bank to which the bank act applies, carrying on business in Canada and not named in the schedule to this act, shall, on its own application, at any time be admitted as a member of the association by resolution of the executive council hereinafter named."

A. A bank is admitted by resolution of the executive council.

Q. To what extent is the number of associated banks increasing? There were 34 at the time this act was passed in 1900.

National Monetary Commission

A. The number has decreased somewhat in the last few years by reason of failures and absorptions.

Q. I was about to ask you to what extent the association is able to fix along mutual lines, for instance, rates of interest and rates of discount and rates of exchange, and other matters that would be of general interest?

A. The association has no powers in this respect other than moral suasion, and would be unable to penalize a bank which was unwilling to accept the views of the majority.

Q. Do not the associated banks of the association have any understanding about what rates of interest shall be paid?

A. The fixed rate for deposits is 3 per cent, except in specially provided cases, such as to employees of the bank, municipal corporations, and pension funds. In respect to these there is no maximum or minimum. Two or three of the newer banks have maintained that they should be privileged to offer a higher rate than 3 per cent, and this is not objected to by the larger and older banks. I do not think the banks, other than some of the newer ones, would be desirous of paying a higher rate than 3 per cent, and although some banks have been charged with it, I am not inclined to believe that any bank has broken the 3 per cent rule.

Q. Does the association make any attempt to enforce discipline in such cases?

A. If a bank offends, the association is powerless beyond that the general managers could instruct their representatives in the various clearing houses to move in the direction of having the offending bank dismissed from the privileges of those clearing houses.

Banking and Currency Systems

Q. You do not, as a matter of fact, attempt to inflict punishment?

A. No.

Q. Except by talking with them about it?

A. Yes.

Q. Does the same understanding exist with regard to loans?

A. No; that in my opinion, would be absolutely impossible, as loans, even for similar amounts, are so entirely different in character.

Q. Are rates of discount cut somewhat by competition between banks for the purpose of getting business?

A. They were very frequently prior to 1907. Since that time banks do not seem anxious to cut the rate, nor are the public so willing to make a change, seemingly rather preferring, if necessary, to pay a slightly higher rate than trust themselves in the hands of new friends.

By Mr. WEEKS:

Q. Do you think savings accounts should be segregated and invested under special regulations, or used as they are now?

A. I do not think savings accounts should be segregated and invested under special regulations. Experience has taught us that, no matter how badly banks are managed, or even, I might add, dishonestly, depositors, except in the case of very small institutions, do not run much, if any, risk of loss under the conditions of our present bank act.

Q. You think the government policy regarding postal savings banks is a wise one?

National Monetary Commission

A. It is useful in serving the purposes of particularly timid people, but apart from this I do not think any particular benefit accrues from it.

Q. I refer particularly to collecting this money and using it as receipts?

A. Using it as what?

Q. As receipts, as ordinary revenue, without any reserve against it?

A. Of the specie held by the government a sum equal to 10 per cent of the amount of the savings-bank deposits is held as a special reserve as against those deposits. The balance of the specie would be available for taking care of the government's note circulation.

By Mr. BONYNGE:

Q. What have you as reserve against the postal savings?

A. A little less than 6,000,000.

Q. You know the amount of the postal deposits?

A. About 59,000,000.

Q. Do you think the postal savings banks in Canada are of material benefit to the people?

A. I think they serve the purpose at the present time in providing an assuring depository for nervous people who feel that the government's guaranty is the only proper protection for their savings. As a matter of fact, I think the people would be practically quite as well served, and certainly much more conveniently, by the banks. The government in return, in a new and growing country like Canada, could well afford to obtain its money abroad even at a slightly higher cost and leave the peoples' money available for the banks to be used in the channel's of trade.

Banking and Currency Systems

By Mr. VREELAND:

Q. Are you familiar with the details of depositing in the postal savings bank?

A. Fairly so, I think. You mean the time necessary for withdrawal and the maximum amount of the deposit?

Q. Yes; the limitation upon deposits.

A. You mean up to 3,000?

Q. Yes.

A. Yes.

Q. Is it up to 3,000 they are permitted to deposit?

A. Yes; 1,000 in any one year and 3,000 is the maximum. Of course, trust accounts are sometimes created by which the maximum difficulty is eliminated by the depositor.

Q. Then how much detail is there to withdrawing funds? For example, in an ordinary time, the method of it?

A. The book has to be sent to Ottawa, together with the receipt, and if in order a check is returned to the post-office to which the depositor has applied.

Q. Would it have to be sent from Toronto?

A. Yes.

Q. In all cases down to Ottawa?

A. It is a federal savings bank, not a provincial.

Q. The holder of the book would have to present it at the post-office in Toronto with his application, and then it would have to go to Ottawa?

A. Yes; I think there would be no other way, and a savings-bank check would be sent back to the post-office for delivery to the depositor.

National Monetary Commission

Q. Drawn upon what?

A. Drawn upon the Bank of Montreal, Ottawa.

Q. Payable at any of its branches?

A. Yes; or at the offices or branches of all other banks.

By Mr. BONYNGE:

Q. Have to send the book from the western country to Ottawa, too?

A. I believe so.

By Mr. WEEKS:

Q. The government issues these checks and books?

A. The Dominion government.

Q. Is the bank capital increasing rapidly under the mode of requirement?

A. You mean so far as circulation is concerned?

Q. Yes; so far as circulation is concerned.

A. The government and banks were a little fearful that during the grain-moving periods the sum might not be adequate, and to meet this the issue of temporary circulation, known as "emergency circulation," has been authorized.

Q. It looks as if in three or four or five years you might get to a point where you might need more capital or further means of getting circulation.

A. Yes; quite possibly, but when the situation arises it will be met either, I think, by additional circulation being permitted as against capital, capital and reserve, or gold deposits.

By Mr. BONYNGE:

Q. What amount of notes does your bank ordinarily have outstanding?

Banking and Currency Systems

A. About 80 per cent.

Q. Eighty per cent of the authorized amount?

A. Of the paid-up capital.

Q. Of the paid-up capital?

A. Yes.

Mr. VREELAND. The capital since 1900, Mr. Weeks, has increased from \$67,000,000 to \$96,000,000 in round numbers; the surplus has increased from \$34,000,000 to \$74,000,000.

A. The increased emergency circulation now permitted is the amount of paid-up capital plus 15 per cent in excess of that amount together with 15 per cent of the amount of the reserve.

Mr. BONYNGE. When you can not loan any more money here in Toronto you stop discounting at all of your branches at the same time, I take it?

A. No; not necessarily. In times of stringency banks are inclined to insist upon the curtailment of loans more in the centers, perhaps, than in the rural districts, but, of course, at all times having regard to the character of the account concerned.

Q. And would not necessarily take the same course in regard to loans in the Saskatchewan district that you would in Toronto or Montreal?

A. No; you would have regard to the individual and his occupation. As, for instance, the idea of declining to loan a farmer money to buy cattle for grazing when he already had the pasture would be, I think, approaching waste, but, on the other hand, a banker would not hesitate when money was tight to insist that his large business customers must not ask to extend their operations.

National Monetary Commission

Q. The reason I asked that question is to try to come to a conclusion whether your branch in the country will answer the purpose for the people as well as an independent bank?

A. I think it answers better, because, as I have stated, if any favoritism is to be shown by the bank to its customers, those in the country will doubtless be more generously dealt with than the business community in the larger centers.

By Mr. VREELAND.

Q. I notice in the statement made before your consolidation that you had at the time about \$16,000,000 of deposits, and \$14,000,000 of it was upon interest; the other was current deposits not bearing interest?

A. Yes.

Q. Do you think in the banks generally as large a proportion of deposits are interest-bearing deposits?

A. The proportion of interest-bearing deposits to the whole in the bank of which I am general manager is somewhat above the average, but I do not regard this altogether as an unfavorable feature, in that our branches are largely in the smaller places. Consequently we have fewer numbers relatively, I think, of temporary large free balances, but, on the other hand, the small deposit, upon which you do allow interest, is of a much more stable character and can be depended upon to remain, and perhaps grow, so that the amount of cash reserve that has to be carried as against this class of deposit is not so great.

By Mr. WEEKS:

Q. You mean you pay a higher rate?

A. No; 3 per cent is the maximum rate we pay. Banks have different ways of making up their govern-

Banking and Currency Systems

ment return and sometimes use their current ledger balances containing loan company and other large accounts for the purposes of making up noninterest-bearing deposits, but we are absolutely careful in this respect and select every account in our current ledger that returns anything whatever in the shape of interest, and include the balance in the interest-bearing deposits.

By Mr. VREELAND:

Q. Notes of and checks on other banks, \$681,190.59; you call that a cash item?

A. They are cleared on the day following the return, and actual cash is received for them, but, on the other hand, checks and notes drawn on the bank itself appear as a balance against them in the same clearing to which I refer, but one is not an offset as against the other in that under our clearing-house rules until such time as checks and notes have been actually accounted and paid for they are ear marked on behalf of the depositing bank, so that in the event of a bank which was a member of the clearing house failing, the securities of all other banks lodged that day and drawn on it would be returned to the depositing bank.

Q. Cash assets: due from other banks, \$285,000 in Canada, \$284,000 in United States, \$33,000 in Great Britain; you call that a cash asset?

A. Subject to check without notice.

Q. Loans on call on government, municipal, and other bonds and stocks, \$1,250,000?

A. Those are call loans.

Q. Where are they located?

National Monetary Commission

A. In Toronto.

Q. Do you have a strictly call market here?

A. It can hardly be so designated. However, it is some years, with the exception of 1907, since call loans by solvent houses have not always been promptly met when asked for, and even during the stress of 1907 our best brokers asked no favors.

By Mr. BONYNGE:

Q. Did you include these items Mr. Vreeland has referred to in making up your 13 or 14 per cent reserve?

A. No.

Q. Those are in addition?

A. Yes; our immediately available assets usually amount to 35 or 40 per cent. When I referred to cash reserve I had in mind only government legals and specie. This is the Canadian acceptation of the term "cash."

By Mr. VREELAND:

Q. You have \$2,835,000 as your issue of coins and Dominion notes?

A. Yes.

Q. As against deposits of \$16,000,000 and note issue of \$1,100,000?

A. Our reserves are usually rather larger at the end of January, since at that time of the year the grain has been realized upon, loans are paid off, and deposits somewhat increased.

Q. In the States quite a considerable portion of your items would be counted in the reserve—that is, due from other banks?

Banking and Currency Systems

A. Yes; we have what we call quick assets, and the figures above the line of the statement that you are holding in your hand constitute such in our minds. Those assets are all supposed to be realizable upon immediately; on the other hand, even the deposit with the government for the redemption of the bank notes, although absolutely good, of course, could not be termed a quick asset, and consequently it appears below the line.

Q. You know where it is, so that you could go and get it?

A. That is it.

Q. You have an entry, "First-class bonds, \$2,030,000;" those you own?

A. Those we own.

Q. Would that \$2,000,000 include some first-class railroad bonds?

A. Yes; but chiefly municipal.

Q. Is it the policy of your banks generally to hold considerable portion of government or other first-class securities as secondary reserves?

A. Yes; should a bank require it, it would be likely to have arrangements abroad whereby that it could borrow money upon these securities at any time, and even though the markets of the world were not in a particularly comfortable position. An arrangement such as this, and which has been definitely arrived at, is practically as available in time of need as foreign balances.

By Mr. WEEKS:

Q. Do you own your own banking house?

A. Yes.

Q. Do you own your own branch houses?

National Monetary Commission

A. We own quite a number.

Q. You own them?

A. We paid for them. We do rent at some places.

By Mr. VREELAND:

Q. What forms of commercial paper do you have?

A. General.

Q. You have, for instance, the indorsed notes such as we have across the border?

A. Yes; different classes. We have single-name paper to some extent in the farming communities; we have the indorsed accommodation paper; we have strictly commercial paper and what we term collateral paper under hypothecation.

Q. Your paper would correspond quite closely to our lines across the border?

A. I think so, except that your banks, I understand, specialize to some extent. By that I mean one institution, doubtless through the personnel of its directorate, has a leaning toward lumber accounts; and other leather accounts, merchants' accounts, etc.; at least that is as I understand your practice. We have no particular preference for any class of business other than what may obtain in the particular locality in which our branches are located.

Q. Do you have much paper following the lines of commercial paper in Great Britain and in France and Germany—that is, paper based upon the actual business transaction in the form of bills? For example, a manufacturer in Canada sells a bill of goods to a merchant, what would be the ordinary method by which your merchant

Banking and Currency Systems

would pay his bills? Would he make arrangement with his banker and send a check, or would he accept a draft perhaps on time from the manufacturer?

A. Transactions vary in this respect. Some manufacturers prefer to draw upon their customers, particularly if the people to whom they sell are jobbers, while, on the other hand, some purchasers, if they are quite good, have a prejudice against accepting drafts and pay by check. In the majority of instances in Canada as yet our retail merchants are unable to pay cash, so that it is the practice rather than otherwise for the wholesaler or manufacturer to draw upon his customers.

By Mr. VREELAND:

Q. Suppose there is a general store in first-class credit would they be expected, and would it injure their credit, if they accepted time drafts from manufacturers of whom they buy goods or wholesalers?

A. No; it would not necessarily have any bearing upon his actual credit, unless the drafts were drawn for a time that would show that the buyer was unable to discount his purchases, which would of course show a weakness.

Q. Would the practice be for your merchant to accept drafts from the wholesaler and manufacturer upon time, or does he make arrangements with his banker so as to discount his bills and pay cash?

A. If he is in a strong position he would make arrangements with his banker for assistance to enable him to discount his purchases, but to do this he would require in all probability to be in a position to discount all his purchases and with only a comparatively small amount of assistance on the part of the bank.

National Monetary Commission

Q. I am talking about a firm of first-class credit.

A. Yes; he would send his check.

Q. He would not be expected to accept drafts upon time?

A. No; because he would lose his discount.

Q. I am trying to get at whether you follow the lines of commercial paper we have in the States, or whether you follow the lines of commercial paper abroad?

A. An accommodation to a merchant by a bank to assist him in discounting his purchases would be styled by us accommodation paper, not commercial paper.

Q. Growing out of an actual commercial transaction?

A. Yes; even if growing out of an actual commercial transaction it would still be accommodation so far as the banker and purchasing customer are concerned.

Q. Bills discounted and advances current \$13,000,000; that is the same item of loans here?

A. Yes.

Q. Those would be mostly made up of notes given for time, probably not to exceed four months? What is the usual time?

A. Four months would be about a maximum for ordinary commercial paper, although sometimes six months' terms are given. In a manufacturer's account the collateral he lodges and made by farmers is frequently drawn for one and two years.

Q. Do you follow the system of permitting overdrafts and charging interest upon the cash actually used?

A. As far as possible we avoid making loans by way of overdraft. We think, and so advise our branches, that it

Banking and Currency Systems

is wholesome that if a man requires accommodation he should come to the bank and make arrangements for it, telling what he needs it for and fixing a specific date for repayment, and we think also that when a customer is compelled to explain to his banker why he needs the money the transaction, from his standpoint at least, usually has merit. We discourage the idea of overdrafts as far as it is practicable.

Q. You do not follow that system?

A. No.

Q. Of advancing and charging actual interest upon the amount used?

A. Occasionally, but not usually.

Q. What extent do you take single-name paper without security?

A. We are inclined to think our single-name paper is, as a rule, the strongest paper we hold, as it is loaned to farmers and through the small country branches, and the losses in the rural offices are in reality very small. Manufacturers, of course, are expected to supply collateral paper, and frequently pledge their goods under a section in the act known as No. 88.

Q. You have some excellent provisions in your law from the banker's standpoint here?

A. You are quite right. The act gives the bank a decided preference over other creditors if it avails itself of the protection possible, but in the long run I find difficulty in persuading myself that in many instances the privilege is not abused, and it would be better, even for itself, if the bank had not possessed it. The customer,

National Monetary Commission

it is generally understood, is quite at liberty to use the goods thus pledged without reference to the bank, and it is almost unknown where criminal proceedings are instituted in this connection; but, on the other hand, where goods are warehoused and a shortage obtains prosecutions are relatively not infrequent.

Q. Of that twelve millions what proportion would you say was secured in any way?

A. Oh, possibly 90 per cent; but, as I told you before, I would regard perhaps the remaining 10 per cent as the safer.

Q. Is it the practice for banks to loan upon one name that is considered good?

A. It was not a few years ago, but banks have no longer any particular feeling in that respect, save that, of course, we always like two names rather than one if we can get them.

Q. To what extent do you require indorsements on notes?

A. There is no particular percentage; each transaction is dealt with on its merits, whether it be single or double name paper.

Q. Do you use it to a large extent?

A. Single name?

Q. Indorsed notes requiring the men to have somebody else indorse their notes.

A. Yes; in cities particularly the great bulk of the paper is either indorsed or otherwise secured.

Q. You have indorsed notes in general use, do you?

A. Yes.

Q. Especially in the cities?

Banking and Currency Systems

A. Especially in the cities.

Q. Your lines of paper follow quite closely ours across the line?

A. Yes; I think so.

Q. You have the single-name paper that we use, a note given by a man for three or four or six months, whatever it may be?

A. Yes.

Q. Then you have the line of paper with two or three names on, perhaps with two indorsers besides the maker?

A. Not the paper such as is sold upon the bond market in your country; that is unknown in Canada, although some of your paper of this class is purchased when funds are plentiful by Canadian banks.

Q. Then you have the note with collateral security?

A. We do not lay the same stress I think upon names in Canada that you do under your system. We are rather more concerned about the nature of the transaction which is involved. Our wealthy people are limited in number, and their names are not frequently found on paper offered for discount, so that a Canadian banker has usually first to conclude that the nature of the proposed transaction with which the paper is associated is sound.

Q. Supposing some one in town doing business wants to enlarge his business and purchase an extra amount of goods.

A. Yes.

Q. He hasn't collateral to put up; he hasn't stocks or bonds.

A. Yes.

National Monetary Commission

Q. Could you under your bank laws take security on his stock of goods?

A. If he were a manufacturer, wholesale shipper or dealer, you could; but you could not take security from an ordinary retail merchant except for past indebtedness, and then it would have to be done under the Ontario Mercantile act, or what we term a chattel mortgage, of which the world would have notice, and his credit would be practically ruined.

Q. You say to him: "We do not feel quite at liberty to advance this money on your own account; can you get someone that is responsible to indorse your note?"

A. No; we should not say that.

Q. How would he get his money?

A. He would not get his money from the bank, unless it was a temporary expedient and for a specific purpose, and the bank knew quite well that its advance would be repaid at a very early date, as otherwise, even though he supplied an indorser, we should be putting capital into his business rather than lending him money—something that Canadian bankers, I think, should decline to do.

Q. Assuming he merely wishes to discount a check and save the discount, and you think his credit is such you would want to loan it on his single name?

A. And he will be able to repay it at maturity?

Q. Yes.

A. The indorser will satisfy you then.

Q. You would say to him then: "Get some respectable indorser to back you up?"

A. Yes.

Banking and Currency Systems

Q. You do that sort of business?

A. It is not frequent, though.

Q. It must be that a tradesman, as a rule, doesn't borrow money of you?

A. Only when he is able to discount his purchases with but relative'y small assistance from the bank. We do not encourage the lending of money by our officers to a merchant who will be unable to meet the obligations at an early date, even though he did supply a good indorser.

Q. Because a small percentage of them can not half secure you?

A. Money should be put into the business not in the shape of a loan, but in the form of capital.

Q. How will he introduce capital; he is trying to get some capital to put in his business?

A. No; we do not think we should go into partnership with him.

Mr. WEEKS. You do not propose to furnish capital to go into a business?

A. No.

By Mr. HUBBELL:

Q. How do you judge his ability to pay; there is a signed statement?

A. That is not sufficient, even though it were an audited statement rather than a signed one, as the auditor's certificate usually certifies that the statement is correct as shown in the books, but having no regard to values.

Q. Isn't he liable if he makes a false statement?

National Monetary Commission

A. Yes; he would be for obtaining money under false pretenses, but prosecutions rarely follow, and the misdemeanor is frequently difficult of proof.

Q. That is your ordinary judgment of him and not from any ordinary figures he gives you?

A. Yes; you have your judgment of the man and the statement he supplies.

Q. You require both?

A. I neglected, perhaps, to cover that ground fully. We should require, first, to know what the money was needed for; secondly, the character and capability of the borrower, and lastly, the security, either of himself or otherwise, that he had to offer.

Q. That is the ordinary method?

A. That is the ordinary method.

By Mr. VREELAND:

Q. Are bills to any considerable extent paid by means of time drafts? A manufacturer sells to a dry goods store a bill of goods, and makes a draft on them for two or three months?

A. Yes.

Q. Draft accepted?

A. Yes.

Q. Then the manufacturer takes the bill to the bank?

A. Yes.

Q. Is that thing done to any great extent?

A. Yes.

Mr. WEEKS. Don't you think it would be a good thing to develop that idea? When the manufacturer or the builder sells he draws on the purchaser, and you get the two names—you know it is a bona fide transaction.

Banking and Currency Systems

A. Yes; that is what we endeavor to develop. We should like to discount for a manufacturer only paper drawn on the purchaser and for which value had been given and received; but we frequently discount all such paper for him and supply him with some capital in addition, although on the security of a pledge of his goods and perhaps an assignment of his book debts.

Mr. HUBBELL. Some of your firms refuse to give you their business paper and prefer to borrow on other firm paper?

A. Yes.

By Mr. VREELAND:

Q. Are there any defects in your system that you think should be corrected by additional legislation?

A. The government will probably see sufficient defects without our suggesting any, and, so far as our side of the question is concerned, we would be, I think, content to leave matters as they now stand.

Q. Do you think there should be any government laws as to examination, for example? You have no examinations?

A. You mean outside examinations?

Q. Yes.

A. External inspection?

Q. Yes.

A. I should certainly be in favor of inspection, either governmental or by the Canadian Bankers' Association, if it could be sufficiently thorough to do what it purports to do; but, on the other hand, if that can not be accomplished, and I am somewhat doubtful of its practicability,

National Monetary Commission

then I should prefer no inspection whatever, as it is only inducing deception by the banks seemingly making a profession to the public that an examination of their affairs has been made and found sound, which might be entirely misleading. The system of routine has been very much improved in late years in banks, so that adjustments as between branches in a large bank can now be made in a few hours, whereas a few years ago it was a matter of weeks, so that the inspection of banks, if seriously undertaken, might, I think, be accomplished, although I am strongly of the opinion that it should be done through the Canadian Bankers' Association rather than the government.

Q. Do I understand you are in favor of an examination?

A. Yes, decidedly so, provided it can be competently and thoroughly done.

Q. If such an examination is made by accountants of character and reputation?

A. I should not value the certificate of a chartered accountant. He undoubtedly could add up the columns and balance the books correctly, but when it came to a discussion of the merits of the paper, which really is the final analysis as to the solvency or otherwise of a bank, I would not give twopence for the opinion of the ordinary accountant, unskilled and inexperienced in valuing paper, and to which he would be an absolute stranger.

Mr. WEEKS. In an examination, you do not expect that they will pass upon the character of the paper.

A. No.

CANADA PERMANENT MORTGAGE CORPORATION.

General statement for December 31, 1908.

LIABILITIES.		ASSETS.	
Liabilities to the public:		Mortgages on real estate-----	\$23,209,639.79
Deposits and accrued interest..	\$3,998,838.10	Advances on bonds and stocks-----	952,486.36
Debentures (sterling) and accrued interest (1,976,514 9s. 4d.)-----	9,619,037.07	Municipal debentures, bonds, and other securities--	620,359.20
Debentures (currency) and accrued interest-----	3,107,777.77	Office premises (Toronto, Winnipeg, Regina, and St. John, New Brunswick)-----	398,371.19
Debenture stock and accrued interest (87,850 6s. 11d.)---	427,538.35	Cash on hand and in banks-----	1,284,446.87
Sundry accounts-----	11,469.50		
	<u>\$17,164,660.85</u>		
Liabilities to shareholders:			
Capital stock-----	6,000,000.00		
Reserve fund-----	3,000,000.00		
Dividends unclaimed-----	63.90		
Dividend payable January 2, 1909-----	210,000.00		
Balance carried forward at credit of profit and loss-----	90,578.66		
	<u>9,300,642.56</u>		
	26,465,303.41		<u>26,465,303.41</u>

R. S. HUDSON,
JOHN MASSEY,
Joint General Managers.

We beg to report that we have made an audit of the accounts, and examined the vouchers and securities of the Canada Permanent Mortgage Corporation for the year 1908. We certify the accompanying statement is a true exhibit of the corporation's affairs as shown by the books as at December 31, 1908.

A. E. OSLER, A. C. A.,
HENRY BARBER, F. S. A. A. (Eng.),
Auditors.

TORONTO, January 16, 1909.

Banking and Currency Systems

109

National Monetary Commission

Interview with George H. Smith, Secretary of the Canada Permanent Mortgage Corporation.

By Mr. VREELAND:

Q. Mr. Smith, what is your bank?

A. Our corporation is not a bank.

Q. It is a form of bank?

A. We do not call it a bank.

Q. I take it you receive deposits?

A. We receive deposits.

Q. And loan them?

A. And loan them, primarily on real-estate securities.

The name of the company is the Canada Permanent Mortgage Corporation, of which I am secretary.

Q. Do you have debentures of your own to sell against these loans on which you guarantee the payment of the loan and interest?

A. We issue debentures, but not against any particular loan or any particular number of loans.

Q. They are general?

A. General debentures.

Q. With your responsibility added to them?

A. With our promise to pay.

Mr. WEEKS. What rate of interest do you pay on deposits?

A. Three and one-half per cent.

Mr. VREELAND. Have you a statement with you of your bank?

A. Yes.

By Mr. WEEKS:

Q. Are these deposits subject to call?

A. Subject to thirty days' notice.

Banking and Currency Systems

Q. They are not subject to check at all?

A. They are subject to check with that reservation.

By Mr. BONYNGE:

Q. Have you ever enforced the thirty-day notice?

A. We never have.

Q. Are there many such companies as your company in existence?

A. Throughout Canada they vary slightly; there are some which do not take deposits, but only issue debentures. Of all classes, I should say there are seventy or eighty.

Q. You are a member of the Bankers' Association?

A. No.

Mr. WEEKS. Do you loan on all kinds of real estate or do you confine it to some particular class?

A. No; we make no restrictions. The application is considered on its merits. There are many classes, of course, upon which we should be a good deal more careful in loaning than we should upon others.

Mr. BONYNGE. You loan upon urban and farm property?

A. Both.

Mr. WEEKS. Do you know how much money is deposited in Canada in such companies as you represent?

A. The statement that the government issues from the returns made to it includes not only such companies as ours, but the trust companies as well, so that I can not answer that definitely.

Mr. VREELAND. The government issues a separate report of that branch of banking?

National Monetary Commission

A. We have a report including the building associations, loan companies, land companies, and trust companies. The total deposits by the last statement of all these companies, including the trust companies, are \$22,953,000—about \$23,000,000.

Mr. BONYNGE. Is there a general statute governing the organization of such companies as yours, or do you get special charters?

A. There is a general statute, and a few companies have special charters, but the special charters are very much along the line of the general statute.

By Mr. VREELAND:

Q. Don't you have to get a special charter from Parliament in all cases before you can commence business?

A. No; generally speaking that is so. But in Ontario, for instance, there was, some years ago, an act under which some of the companies were incorporated merely by order in council. Some of these companies are very old. A company coming up for incorporation now would have to get a special act.

Q. They are separate institutions altogether that were incorporated under a general act?

A. Yes; under a general act. You were speaking of the deposits and debentures. I might perhaps say that both under the general act and under any special act that a company might have it would be limited as to the amount it might receive in either of these ways. The total amount that any such company as ours can receive on deposit is limited to the amount of its paid-up capital. It is not permitted to receive them to an indefinite extent.

Banking and Currency Systems

Q. Your deposits can only be equal to your capital?

A. Yes; to the capital actually paid in.

Q. Not even including your reserve?

A. Not even including our reserve.

Q. Your deposits are limited to \$6,000,000?

A. Our deposits are limited to \$6,000,000, but the total liabilities, including both the deposits and debentures, are limited to four times the paid-up capital. You can see from our statement the larger proportion of our liabilities is debenture money.

Q. When you receive deposits what rate of interest do you pay?

A. Three and one-half per cent.

Q. What do you give your customer; do you have a book or a certificate of deposit?

A. Generally speaking, a book. He may have a certificate of deposit if he prefers it.

Q. What time do you give yourself for notice for redemption?

A. We reserve the right of thirty days' notice. As I stated in reply to some gentleman's inquiry a few moments ago, we have never required that.

Q. Always pay cash?

A. Yes.

Q. As a cash asset you have on hand money to the amount of a million and a quarter in this statement?

A. Yes.

Mr. BONYNGE. Is your cash actually in your vault, or on deposit at other banks?

A. Most of it deposited with the banks.

National Monetary Commission

By Mr. VREELAND:

Q. You have liabilities here of \$17,000,000?

A. Yes; we are well within our statutory limitation.

Q. All of it payable at thirty days' notice?

A. No; the debentures are for various terms.

Q. It is only your deposits that are payable that way?

A. Yes.

Q. Then you carry cash of about 25 per cent against your deposits?

A. The actual cash exceeds 25 per cent, but we also have other quick assets.

By Mr. BONYNGE:

Q. You have an actual cash reserve of more than 25 per cent?

A. Yes; and other quick assets in the shape of bonds and loans on call.

Q. Do you loan upon unimproved property?

A. No; it is not our practice to do so.

Q. What per cent of value do you expect to loan, or don't you have any fixed proportion? Does the law make any limitations upon your loans?

A. No.

Q. It is just your own regulations?

A. Yes.

Q. Upon improved city property, say, in Toronto, what per cent of the value would you loan?

A. Very rarely over 50 per cent.

Q. And upon property in smaller towns you perhaps wouldn't go so high?

A. No; from 30 to 40 per cent, as a rule.

Banking and Currency Systems

Q. And for what time are these mortgages made—made payable at a year?

A. Various terms. No; generally the terms are from five to ten years, with a condition for a small portion to be repaid each year, or each half year.

Q. You do not follow the life-insurance custom of making them all payable in a year, with the understanding they can run upon the payment of interest?

A. No.

Q. How many of these companies are there in Canada?

A. In the neighborhood of 70, I think.

Q. How old is your company?

A. We are a consolidation, about ten years ago, of four companies, the oldest of which was established in 1855.

Q. Are you operating under a special charter, or under a general statute?

A. Special charter.

Mr. HUBBELL. Do you have a large force of clerks?

A. Yes; we have in addition to our office here five other offices throughout the Dominion. I suppose we have a staff in the neighborhood of a hundred altogether, perhaps more.

By Mr. VREELAND:

Q. You pay a 7 per cent dividend?

A. We paid 7 per cent last year; this year we increased it to 8 per cent.

Q. With deposits of about \$4,000,000 you held cash to the amount of a million and a quarter?

A. Yes.

Q. And your capital and reserve amount to \$9,000,000?

A. Yes.

CANADIAN BANK OF COMMERCE.

General statement 30th November, 1908.

LIABILITIES.		
Notes of the bank in circulation		\$9,640,845.68
Deposits not bearing interest	\$22,231,129.05	
Deposits bearing interest, including interest accrued to date	72,806,666.97	
Balances due to other banks in Canada		95,037,796.02
Balances due to other banks in foreign countries		105,408.36
Dividends unpaid		1,131,386.64
Dividend No. 87, payable December 1		1,532.69
Capital paid up	10,000,000.00	
Rest	6,000,000.00	
Balance of profit and loss account carried forward	161,244.88	
		16,161,244.88
		122,338,214.27
ASSETS.		
Coin and bullion	\$4,584,049.06	
Dominion notes	8,503,293.25	
		\$13,087,342.31
Balances due by other banks in Canada	11,850.55	
Balances due by agents of the bank in the United Kingdom	6,750,669.18	
Balances due by other banks in foreign countries	3,191,278.88	
Notes of and cheques on other banks	4,344,762.50	
		14,298,561.11
Call and short loans in Canada		7,314,181.53
Call and short loans in the United States		10,622,703.14
Government bonds, municipal and other securities		4,673,390.71
Deposit with Dominion government for security of note circulation		450,000.00
		50,446,178.80
Loans to other banks in Canada, secured		1,061,252.09
Other current loans and discounts		68,694,649.07
Overdue debts (loss fully provided for)		143,648.74
Real estate (other than bank premises)		36,325.44
Mortgages		27,102.91
Bank premises		1,727,444.33
Other assets		201,612.89
		122,338,214.27

ALEXANDER LAIRD,
General Manager.

Banking and Currency Systems

Interview with Massey Morris, Local Manager of the Canadian Bank of Commerce at Toronto.

By Mr. VREELAND:

Q. I assume, Mr. Morris, the management of your part of the bank here in the city would be like the management of any bank; you meet the customers and receive all deposits and make the loans, and then your report goes to the general office here as it would if you were manager somewhere else?

A. Exactly, yes; practically we are treated as if we were hundreds or thousands of miles away. Everything of the kind has to be put in the form of correspondence.

Q. You conduct your business with the head office by correspondence?

A. Yes; of course, here we have the advantage of being able to discuss things verbally more frequently than when we are at a distance. After any verbal discussion of that kind the decision arrived at has to be placed on record in the correspondence.

Q. Then it is of not much matter here what your limitation, for instance, in making loans is, because the matter can be so quickly laid before the general manager?

A. Of course, we can get a decision quickly.

By Mr. BONYNGE:

Q. How many branches are there in the city of Toronto?

A. Of ours?

Q. Yes.

A. Up to a short time ago we had ten. I think there are ten or twelve. They are organizing two new ones.

National Monetary Commission

By Mr. VREELAND:

Q. They report to the head office, or to you?

A. To the head office, just the same as others. They are separate branches.

Q. I wish you would tell us, Mr. Morris, how money is sent from various parts of the country to other parts, and about the expense of it and the details of its management.

A. We have to send from here, or from other circulation points west where circulation is accumulated, notes of the bank as required by the other branches; for instance, if our branch at Barrie, which is 60 miles north of this, runs short of our own currency, we supply it from here, send the bills up usually by registered mail, and insure them. That is our method in the case of our own notes. The notes we receive from Barrie of banks which haven't any branches there, and which they can not get redeemed there, they send down to us and we send them in to the different banks here for redemption.

Q. That is the method with your branches?

A. Yes.

Q. I was speaking of exchange generally. Suppose I want to send \$1,000 to some point in the Far West and applied here to the Bank of Commerce to send it?

A. We just issue a draft on the branch concerned and that branch has to look after the payment of it, but we keep the branches in funds for the payment of these demands upon them in the way I have described.

Q. If I want to send \$1,000 out into the West you would give me a draft upon your nearest branch?

A. Yes; suppose you were going to Vancouver and wanted to take or send \$1,000, we should give you a draft on Vancouver and the branch there would cash it.

Banking and Currency Systems

By Mr. BONYNGE:

Q. Suppose I was a depositor in the Bank of Commerce and was out at Vancouver and wanted to get \$1,000, couldn't I go to the branch and present a check on the Bank of Commerce and have it cashed there?

A. No; they would not know about you.

Q. If I was identified as being the party?

A. If you were identified and they were satisfied of the goodness of the check; certainly.

By Mr. VREELAND:

Q. You have authority as manager of the Toronto branch to accept deposits to any amount, do you not?

A. Yes; no limit upon the deposit side.

Q. How large a loan would you make without speaking or writing Mr. Laird?

A. Five thousand dollars is supposed to be the limit.

Q. I suppose that in the other branches in the city the limit would be even smaller than that?

A. Yes.

Q. Perhaps not over \$1,000?

A. I think in some of the smaller branches the limit is even smaller than that. Practically no loaning business is done at the city branches. It is mostly all deposit business.

Q. What would you charge me for a draft upon your branch at Vancouver?

A. In some cases we might not charge anything where a customer had a nice account with us. We charge from an eighth to a quarter of 1 per cent.

National Monetary Commission

By Mr. BONYNGE:

Q. Suppose I was a customer of a bank and sent my check from Toronto out to Vancouver in payment of a bill I owed in Vancouver, and that check was deposited in the branch bank, do you charge for the collection of the check?

A. Yes; certainly.

Q. How much would you charge for the collection of the check?

A. Probably the same, an eighth to a quarter.

Mr. WEEKS. Would you charge any customer who kept a deposit here for any draft?

A. Yes; we practically charge for everything. If we do not charge we expect to get an equivalent. We have to charge in some form or another. The customers will often make arrangements to keep a certain balance to their credit as an equivalent for the privilege of getting their checks cashed free of charge, or they will pay a fixed lump sum per month or per annum, or the account may be of so valuable of a character as to warrant our giving the privilege to them. In the absence of some arrangement of that kind a charge is made upon everything.

Mr. VREELAND. In the case of customers who keep a very small balance with you and not a remunerative balance, do you make a yearly charge for it?

A. In some cases; yes. A monthly charge of 50 cents.

By Mr. WEEKS:

Q. Suppose I have an account here of \$10,000 in the bank and I want to pay a bill in Winnipeg, and I come in here with my check drawn on you for \$1,000 and ask you for your check in place of it?

Banking and Currency Systems

A. We do not do that. We do not issue to depositors a cashier's check.

Q. What would you issue?

A. We would probably give you a draft on Winnipeg.

Q. If you gave a draft on Winnipeg, would you charge me for that?

A. Yes.

Q. Wouldn't you charge that direct to my account at once?

A. Yes.

Q. I would be drawing out my own money?

A. Yes.

Q. You would be charging me for drawing my own money?

A. Drawing it out in Winnipeg.

Q. I am drawing out my money here?

A. If you draw it out here there is no charge on it.

Q. But I draw it out in that way when you give me a check on Winnipeg?

A. No; if you come in and get your check certified against your account we debit it to you. That is all we have to do with it. We have no further concern as to what happens to it until it comes back again and we have to pay it. But if you come in and ask us to certify your check and pay it up at Winnipeg, then we charge you for it.

By Mr. HUBBELL:

Q. Suppose you are shipping money to the West, you wouldn't pay any premium?

A. No.

National Monetary Commission

Q. You do not buy and sell exchange on the West?

A. No; we do not on Winnipeg.

Mr. WEEKS. Do your receipts from that sort of service amount to very much?

A. In the aggregate it will amount to quite a little sum.

By Mr. HUBBELL:

Q. When you receive a deposit from a customer here in Toronto containing checks all over the United States, do you immediately give him credit for those items, or is it dependent upon who the customer is?

A. Dependent upon who the customer is, of course. If it is a customer in good standing, we have no hesitation in giving him credit at once.

Q. You follow the collection of these checks by number?

A. Yes—I do not exactly catch the drift of your inquiry.

Q. If I should send \$5,000 worth of checks to Cleveland and I had 30 checks in that lot all over Ohio, you would want to have a report on each one of those checks?

A. We would want to get returns on them.

Q. You would want an individual report upon each one of the checks?

A. No; we follow in a general way and see they are all paid. We have to check them off when the returns come in.

Q. Most of the checks we receive from Canada are numbered, and some of the banks require a report by us on these checks.

A. Yes; they are numbered for the purpose of reference. When the remittance comes in the payment is marked against the amount of the check.

Banking and Currency Systems

Interview with Alexander Laird; General Manager of the Canadian
Bank of Commerce.

By Mr. VREELAND:

Q. Mr. Laird, tell us about your branch banks here in the city. I understand Mr. Morris is at the head of your Toronto branch?

A. Yes.

Q. I suppose the general officers of the company attend to them themselves at the home office?

A. Yes.

Q. You treat the branch here as if it were a Montreal branch—that is, the reports from your branches here come in to the general officers the same as if from Montreal?

A. Yes.

Q. How many branches are there of the Canadian Bank of Commerce?

A. I think 204.

Q. That is, this morning?

A. That is, this morning.

Q. What cash reserve would you say banks carry on an average?

A. I think an average of about 10 per cent, or perhaps a little higher.

Q. You yourself carry a little more than that?

A. We do not; we try to keep it about 10 per cent. We are not in favor, of course, of an arbitrary and fixed reserve. We think for the proper conduct of the business that we should keep it in reasonably liquid shape, and in our experience we find that about 10 per cent makes

National Monetary Commission

us quite comfortable, and we do not need to bother from day to day about the cash reserve. That is, the actual cash reserve.

Q. I see you put down here "coin and bullion"; what do you mean by "bullion"?

A. That is anything that has got an assay stamp on it. We should have bullion in Seattle from the Klondike.

Q. Are these bars stamped?

A. Yes.

Q. What do you do with them?

A. Just keep them, as they do in New York banks, in that shape rather than have the eagles and double eagles.

Q. For export business?

A. No; primarily for our reserves, though they might be used for export business; but we do not do very much of that business.

Q. What would you do with stamped bars in place of cash if you were getting them?

A. All we have to do is to turn them in to the treasury in Seattle and we get treasury notes for these bars; and the same way in San Francisco. In San Francisco we may have some bars, and when you come to meet adverse clearing-house balances you simply hand in these bars and get your gold certificate.

Q. You recognize gold bars as being pretty close to cash?

A. Yes; I should think so.

Q. You seem to have very much more than 10 per cent in this statement. This is the 13th of November, 1908.

Banking and Currency Systems

A. Yes; of course there is a natural disposition on the part of any bank at the end of the year to show a good statement, not that we look for any better showing in that direction, certainly we did not seek to make it last year, but it did seem at the end that we had a great deal more cash than we had figured on. I should not at any time consider a statement showing 10 per cent in cash unfavorable to us at all. I should think a great many banks would not consider it advisable to show more.

Q. Of your 10 per cent cash reserve, for instance, how much money have you on deposit in New York?

A. We do not count that.

Q. Or in Montreal?

A. We do not count that.

Q. You do not count that?

A. No; it must be actual cash, gold or Dominion notes. It is the law.

Q. Who has the say under the law?

A. The Dominion government.

Q. I did not know that they had any laws about reserves.

A. Yes; they insist upon our having 40 per cent of Dominion notes. We have more than 40 per cent as a rule.

Q. What reserve does your law require you to keep—what cash reserve?

A. They do not restrict us. That is a matter that is regulated by ourselves. The Canadian Bankers' Association has said that, in their opinion, there should be a uniformity of practice in the keeping of reserves.

National Monetary Commission

Q. That is what your association says?

A. Yes.

Q. I do not understand there is any Dominion law requiring any record of reserves?

A. No.

Q. But of whatever reserve you do carry, 40 per cent must be in Dominion notes?

A. Yes.

Q. In your cash reserve you only include actual cash on hand at your branches?

A. Yes.

Q. You say here, "November, 1908, balances due by agents of the bank in the United Kingdom, \$6,750,000;" what sort of agents were those?

A. Our own branch and our agents, such as the Bank of Scotland.

Q. These are all your agents?

A. The Bank of England, too, would be included.

Q. Any money that you have on deposit with the Bank of England?

A. Yes.

Q. Or with the Bank of Scotland?

A. Yes.

Q. Or any other English bank that acted as your agent?

A. Yes.

Q. Then "balances due by other banks, \$3,191,000"?

A. Other foreign banks.

Q. Yes; and I notice you say, "Notes and checks on other banks, \$4,300,000"; you do not call that cash?

A. Actual cash; no.

Banking and Currency Systems

Q. Yet you can get cash by presenting them?

A. Yes; in the clearings the next day. But against that there must be a considerable amount in the hands of the other banks.

Q. I notice you have \$7,000,000 of call and short loans. What do you mean by short loans?

A. Ten-day, fifteen-day, or thirty-day loans would be short loans.

Q. Thirty-day loans?

A. Yes; or less.

Q. Where are your call loans?

A. Some in Canada; mostly in New York. I mean strictly call loans. The money we have at New York or London would be strictly on call. There is not very much money with stock brokers in Toronto or Montreal that we would regard as strictly call. I mean that it is not as available as in New York.

Q. I see you carry about \$4,500,000 of government bonds other than municipal securities; do you and the banks generally make a practice of carrying more or less government bonds and other similar securities?

A. Yes; I think they do.

Q. For what purpose?

A. We probably would have more than some of the other banks, except the Bank of Montreal, because of our connection with the Canadian Northern Railway Company, which has a good many bonds to sell with government guaranties. As to municipal bonds, with so many branches we are often asked to help the municipalities in the negotiation of their bonds; sometimes we buy them

National Monetary Commission

out and out, or if the amount is large we purchase them in combination with others. They would be held by us until such time as we could dispose of them, or if we thought the bonds extra good we might send them over to London and might watch our opportunity to sell them there, or if we did not sell them we might hold them as first-class collateral against any acceptance credit which we might get.

Q. Then it is not for the purpose of carrying out any banking theory that you carry any securities of that kind?

A. No.

Q. You do not intend them as a secondary reserve?

A. Yes; something of that kind. One important feature in connection with our own business is that we try to put our securities in such shape that we can have the use of them should an emergency arise, either by selling them or by drawing against them by bills of exchange. In the meantime we are getting interest, and they form a substantial reserve against any liabilities that we may have.

By Mr. BONYNGE:

Q. Do you ever buy for your own use the bonds of an industrial concern?

A. No.

Q. And sell the bonds afterwards?

A. No; we have not gone into underwritings of that kind.

By Mr. WEEKS:

Q. Do you consider the reserves kept by banks in Canada sufficient for the conditions that prevail here?

A. Yes; I should consider the reserves kept by our first-class banks, every one of them, quite sufficient for any

Banking and Currency Systems

demand that is likely to be made upon them. The fact is that the banker here is a banker who knows his business, he has got that business to serve, and it would be very foolish for him not to protect himself in every way. I do not believe in an arbitrary fixed reserve. I think the banker is the best judge as to how much he should have and where he should have it.

Q. Do you consider the methods of issuing circulation sufficient to protect the public against any overissue or possible case of fraud that may arise?

A. Yes; I do not see how it is possible to issue circulation beyond a certain amount. There is daily redemption, and I can not conceive how you could suddenly put into circulation a considerable amount of the bills of any bank.

Q. Do you believe that better results would be obtained if outside inspection of banks were made in Canada?

A. As a banker of thirty-five years' standing, and one who had gone through every department of the bank, including the inspection department, and who knows what is involved in the inspection of a bank, I can not understand for a moment how any one can suppose that an outside auditor could possibly give a correct report on the standing of a bank, or keep so in touch with all the business as to make it possible for him to certify that a bank is solvent. What we want more than anything else is some one that will tell us when we get hold of a piece of paper that is not very good, or a customer who is not very prosperous. An auditor can not go through a bank and form a reliable judgment about the securities, or tell whether

National Monetary Commission

our customers are making a success of their business. As far as the matter of inspecting the securities is concerned, I can not imagine how any auditor, or body of auditors, could examine a bank such as we have, with 204 branches, when you find that with the division and subdivision of the work it keeps us going all the year and every day of the year to properly supervise this important work.

Q. The theory is that the auditor or the manager would certify to the correctness of the returns that are made to the government, not that he would pass on the value of paper, though he might possibly want to inspect the loans of someone whom he knew was borrowing largely elsewhere.

A. Yes; if he were able to get that information and put it in shape I think that it would do some good, but how is it possible to judge the business we do? I am perfectly satisfied that a man such as our finance minister in Canada would not know from the banker's standpoint what was good or bad business. Our system is a little different from what you have on the other side. We undertake to do all the business of a merchant. We will not divide an account. There are very few divided accounts in Canada, and if we did divide an account with another bank we should do it in a different way, and should ask and receive information from the other bank from time to time which would be a check on the customer. I would not take a divided account at all unless our relations with the bank with which I was dividing the account were such that we could talk over from time to time how the account was running.

Banking and Currency Systems

Mr. VREELAND. Do you also know if a customer borrows in more than one place?

A. At the beginning of the year we sit down and consider what our customers are entitled to as a full credit for their business, and we decide what we should give them. If a customer is to get \$50,000 during the year we promise to supply him with that amount in the ordinary course of his business and during his season. We are always ready to respond to that call.

By Mr. WEEKS:

Q. Are you satisfied with the postal savings banks as the policy is now carried out by the Canadian government?

A. I do not know just now that there is anything to say on that subject. I think it is wise to have postal savings banks, although the banks cover the country pretty thoroughly. There is not a village or a hamlet of any great importance which has not got a bank, and we do not hear very much call for the postal savings banks. I do not know that I would say they should be withdrawn altogether, but I do think that the government should not take that money and pay more than the borrowing rules in London for it. It seems hardly economical for the government to pay to-day practically $3\frac{1}{2}$ per cent to a farmer when they could probably get it for about 3 per cent in London. When you have to sell your securities on the basis of a yield of 2.95 per cent it is absurd to pay over $3\frac{1}{2}$ per cent for money. That is the rate, including the cost of administration.

Q. Which would cost about one-half of 1 per cent?

National Monetary Commission

A. The administration would cost about one-half of 1 per cent.

Q. They estimate in this encyclopedia three-quarters?

A. I have always considered it as being about one-half of 1 per cent. They come into competition with us and are paying more for the money than they should, and taking it out of the ordinary commercial banks of the country. We could take that money and employ it in the business of the country. They simply add it to the unfunded debt of the government.

Q. Unfunded debt?

A. Yes.

Q. Payable on demand?

A. Yes.

By Mr. VREELAND:

Q. I notice that you have to report all kinds of moneys unclaimed for more than five years?

A. Yes.

Q. Does the government take a benevolent interest in that fund with a view of acquiring it in time?

A. There are indications from time to time that they would like to lay hands on it.

Q. *Do they, as a matter of fact?

A. They have not done so yet, except in case of an insolvent bank.

Q. Does the government admit a liability for accounts taken of that kind?

A. They have got to admit liability, and if they take the funds they are responsible for the debt, deposit, unpaid draft, or deposit receipt.

Banking and Currency Systems

Q. Who gets the benefit of note issues which are lost and burned or mislaid?

A. The bank would get the profit in that case.

Q. That must be quite an item of profit?

A. I do not think there is as much profit as one would suppose.

Mr. KNIGHT. It amounts to a fraction of one-half of 1 per cent; it is less than a half of 1 per cent.

By Mr. BONYNGE:

Q. Do any of the chartered banks engage in underwritings?

A. No; not to any extent. Underwriting what?

Q. Railroads or industrial concerns?

A. Railroads?

Q. Yes?

A. Yes; certainly. I thought you had reference to industrial concerns.

Q. No.

A. Yes; and they are quite glad to do it.

THE IMPERIAL BANK OF CANADA.

Thirty-fourth annual balance sheet.

ASSETS.		LIABILITIES.	
Gold and silver coin.....	\$1,143,947.82	Notes of the bank in circulation.....	\$3,115,100.00
Dominion government notes.....	7,337,972.00	Deposits not bearing interest.....	6,517,731.82
Deposit with Dominion government for note circulation.....	195,293.52	Deposits bearing interest (including interest accrued to date).....	29,545,784.19
Notes of and checks on other banks.....	1,941,611.48	Deposits by other banks in Canada.....	252,037.82
Loans to other banks in Canada secured, including bills rediscounted.....	450,278.46	Total liabilities to the public.....	39,430,653.83
Balance due from other banks in Canada.....	610,945.60	Capital stock (paid up).....	5,000,000.00
Balance due from agents in United Kingdom.....	115,758.53	Reserve fund.....	5,000,000.00
Balance due from agents in foreign countries.....	2,491,315.97	Dividend No. 75 (payable May 1 1909) for three months at the rate of 11 per cent per annum.....	137,500.00
Dominion and provincial government securities.....	819,241.97	Rebates on bills discounted.....	85,934.11
Loans to provincial governments.....	819,199.09	Balance of profit and loss account carried forward..	599,978.26
Canadian municipal securities and British or foreign or colonial public securities other than Canadian.....	2,036,977.50		
Railway and other bonds, debentures, and stocks.....	1,020,506.60		
Call and short loans on stocks and bonds in Canada.....	3,338,253.71		
Other current loans, discounts, and advances.....	26,571,958.46		
Overdue debts (loss provided for).....	21,540.95		
Real estate (other than bank premises).....	26,455.38		
Mortgages on real estate sold by the bank.....	92,457.91		
Bank premises, including safes, vaults, and office furniture at head office and branches.....	1,200,000.00		
Other assets not included under foregoing heads.....	20,351.25		
	50,254,066.20		50,254,066.20

Banking and Currency Systems

Interview with Daniel R. Wilkie, General Manager of the Imperial Bank of Canada.

By Mr. VREELAND:

Q. I have asked several of these gentlemen who have been here these questions somewhat as an expression of a personal opinion, particularly about reserves and the postal savings banks, and one or two other questions. I would like to know what you believe about reserves. Do you think your reserves are sufficient to properly safeguard the conditions of the banks?

A. If your inquiry refers to Imperial Bank of Canada, I certainly think they are. Generally speaking, the cash reserves of the majority of Canadian banks might be larger.

Q. Do you think that a fixed reserve under the law is a desirable thing, or should that be left to the bank?

A. I think it should be left to the bank. A fixed reserve would probably be more harmful than otherwise.

Q. You use your reserve, of course—a portion of it—in case of distress?

A. There is a so-called "fixed reserve" as regards the amount of legal tenders (government notes) which we are obliged to carry, but it is not fixed as regards any percentage of liabilities. A certain proportion of our cash reserves must be in government legal-tender notes, and our object during distress would be to increase them and realize on other liquid assets. During a period of stringency or expansion in trade we are obliged to draw upon our reserves other than cash reserves; these latter we endeavor to maintain through storm or sunshine.

National Monetary Commission

Q. Your idea is that the reserve in normal times should be about 20 per cent, is it not?

A. If you include in reserves balances due by other banks in Canada, in New York, and in London, I would not be satisfied with 20 per cent.

Q. How much cash reserve do you average carrying in the bank?

A. We carry as a rule about \$7,000,000 of actual cash (gold and government notes), besides balances in New York, London, and elsewhere, amounting all the way from \$2,000,000 to \$4,000,000. I see that on the 31st of August, 1909, we had \$7,500,000 in actual cash (gold and government notes), and that we had \$5,600,000 in balances due by New York, London, and elsewhere. That made 33 per cent of our liabilities. I do not say that this amount is necessary, as much depends on financial and political conditions from time to time. We might, for example, reduce this proportion during high rates for money in New York, and take advantage of the demand to lend a portion of the amount in that market.

Q. You loan that through your New York banks?

A. We loan that through our New York banks.

Q. Do you think that your system of inspection is sufficient to care for your banks, or would you prefer a public inspection—governmental inspection?

A. I look with horror upon a public inspection. I do not see how, physically, it would be possible to carry out a thorough inspection of the head offices and branches of banks extending from the Atlantic to the Pacific, and with further branches in San Francisco, New Orleans, London

Banking and Currency Systems

(England), France, Cuba, Jamaica, Porto Rico, and elsewhere. It would be impossible for any public officer to inspect that number effectively; it would take a magician to carry out the inspection; it would be a farce. It would be misleading, and do more harm than good.

Q. Do you think the postal savings bank system in Canada is a good thing for the people of Canada?

A. I do, if it were not abused by the payment of an excessive rate of interest by the government, which should be able to attract deposits and serve every useful purpose intended by the offer of a rate of interest not exceeding $2\frac{1}{2}$ per cent per annum. It is to be borne in mind that the moneys on deposit with the government are withdrawn from the trading capital of the country. The government pays 3 per cent on post-office savings accounts.

Q. Plus the cost?

A. Plus the cost of management.

Q. Do you hear expressions of opinion from people who use these savings banks as to their desire to have that restricted method of depositing their money?

A. One does not hear much from the people. One great inducement to make use of the post-office is the absolute secrecy observed, encouraging evasions and improper secretions as well as legitimate savings, which latter of course form the bulk of the deposits. A man who is a depositor in the government savings bank is the last man to say anything about it.

By Mr. BONYNGE:

Q. There is no way of reaching it?

A. There is no way of reaching it.

National Monetary Commission

Q. Other than by legal process?

A. Other than by legal process. The government will not give the information. It can not be had. The amount of money that can be deposited in any one name is limited.

By Mr. WEEKS:

Q. To what amount?

A. I think it is \$1,000. The government policy is to encourage the lending of money by the people to the government for permanent works, canals, railway subsidies, public buildings—everything. It all goes into a pool, and until two years ago there was actually no cash reserve held against the liability. The government held no reserve. They now hold a reserve in gold or Canadian securities, guaranteed by the Imperial Government, equal to 10 per cent of the deposits.

Q. Of what amount?

A. Ten per cent, but in order to acquire that reserve they cut down the reserve against government notes in circulation, reducing that reserve from 25 per cent in cash or imperial securities upon a limit of \$20,000,000 to 25 per cent upon a limit of \$30,000,000.

Q. So the result was there was no current reserve against their double liabilities?

A. A reserve of 25 per cent in cash or debentures guaranteed by the Imperial Government as against government notes in circulation, etc., and of 10 per cent in cash or imperial debentures against deposits in post-office savings banks.

Banking and Currency Systems

Q. You think your circulation is properly protected against fraud and misrepresentation?

A. No, it is not. There ought to be better control over the power that individual banks have of creating their own currency. Under the present conditions a bank authorized to issue, we will say, \$1,000,000 of notes, in order to keep its branches supplied with a sufficient supply of notes, will have on hand ready for circulation from \$2,000,000 to \$3,000,000, but there is nothing to prevent their having \$4,000,000 or \$5,000,000. I do not think any advantage has been taken of the privilege, but the danger is apparent. I should like to see some control by the Bankers' Association of the total creation. Any excessive issue would probably occur during the last days of an institution, when demands of depositors would have to be satisfied.

Mr. BONYNGE. The last resort?

A. Yes; and unintentionally, too. The managers of local branches can not tell what the total amount of notes in circulation might be at any one time over the whole system.

By Mr. HUBBELL:

Q. Could it be made use of with these branches during a time of stress and panic and then be rectified within a few days?

A. Yes.

By Mr. VREELAND:

Q. What was the purpose urged in passing the act of 1908 providing for additional circulation?

National Monetary Commission

A. The reason was this: That during a few months of the year the amount of currency required to move the crops proved to be in excess of the authorized limit of circulation.

Q. What year was that?

A. It was 1906, and was the result of the crop movement of that year. At the same time the currency of the United States was limited, so that we could not obtain United States currency, and were constantly running the risk of being heavily fined for overcirculation, although unable to supply our requirements from any other source. The government at our suggestion came to the relief of the country and of the banks, and on terms permitted us to exceed our authorized circulation during four months of the year.

Q. In 1907 your Canada capital was?

A. Was \$95,995,000, and the note issue was \$77,000,000.

Q. What month is that; December 31?

A. October and November. The end of October is the crucial point.

Q. You got up, then, \$11,000,000?

A. Eleven millions spread over 2,000 branches, or about \$5,000 for each branch.

Q. It is only in the crop-moving part of the country that you would use it—would need your cash?

A. It wouldn't make any difference. That is all that would be left for any one branch, an average of an additional \$5,000. It is worse than that, because every branch has to be furnished with an ample supply at all times for till money.

Banking and Currency Systems

Q. You did not have a central bank to distribute it among all your branches?

A. The head office of every bank directs the distribution of its notes among its branches.

Q. You send it wherever you wish?

A. We send it to all our branches as they require it.

Q. You don't have to?

A. Yes; we have to respond to their requirements.

Q. Suppose there were \$11,000,000 of additional currency needed to move crops, you would send it to the crop-moving part of the country, you would not send it where it was not needed?

A. No; but we should have to keep these other points supplied with circulation. We could not earmark \$11,000,000 off the extra circulation. We should send the circulation wherever it was wanted. It may be to Alberta, it may be to British Columbia, or to Nova Scotia, or Quebec, or Manitoba.

Q. You think that is a desirable law to have?

A. I do.

Q. To have all the reserve?

A. I do not see any objections.

Q. In case it was needed?

A. I think it was a very wise act.

Mr. BONYNGE. Have banks admitted exceeding circulation limit?

A. Yes; unwittingly several banks have exceeded their authorized circulation.

National Monetary Commission

By Mr. VREELAND:

Q. If it is not used it does not do any harm?

A. If we use the emergency circulation we pay the government interest upon the amount made use of at 5 per cent. We do not want to use it unless we have to. One bank helps another. If I found I was running up to my limit, I would make an arrangement with some bank that was not near its limit and get my requirements from them, paying them for it in gold or its equivalent.

Q. I do not see any objection to the law, except that as it is intended as a crop-moving measure, the rate of interest would seem to be a little high?

A. Yes, the rate is high; but the privileges enjoyed of being able to circulate up to the last dollar of the limit without penalty are worth it.

Q. So the emergency act to which you referred is for a totally different purpose?

A. Yes.

Q. It is not intended to move crops?

A. It is intended to assist the movement of the crops.

Q. It is purely an emergency measure?

A. Yes.

Q. About what is the average rate of dividends that the chartered banks pay?

A. The average rate is about $8\frac{1}{4}$ per cent, but the public is very much astray on that point. The payment of $8\frac{1}{4}$ or $8\frac{1}{2}$ on the capital stock of a bank that has a reserve fund of 100 per cent is only an investment of about 4 per cent. If such a bank is paying 12 or 16 per cent, you have got to divide it up as a return upon

Banking and Currency Systems

the capital plus the reserve fund, because the bulk of the capital of the banks has been subscribed for at a premium equal to the proportion that the reserve fund bears to the capital at the time of the issue of the new capital, or has been bought in the open market at the current premiums.

Q. What would you say the net earnings of banks are, as a whole?

A. The net earnings on capital?

Q. Yes; the net earnings based upon capital.

A. Not capital, but on capital and reserve?

Q. No.

A. I think about 15 per cent.

Mr. WEEKS. Has not this reserve generally been earned?

A. Not always. I have not made up the figures, but a large part of the reserve funds has been paid in by shareholders, a very large proportion.

By Mr. VREELAND:

Q. Has been paid in?

A. Has been paid in by shareholders. New stock issued from time to time. We started our bank on a paid-up capital of \$500,000 and we have now \$5,000,000. A million dollars, I think, was the original authorized capital, so that all the \$4,000,000 has been new stock allotted to existing shareholders from time to time at a rate of premium equal to the proportion that the reserve fund then bore to the capital.

Q. Do they ever declare stock dividends?

A. No; never. It is the other way. Shareholders have to pay up the capital as well as the premium at which it is issued.

National Monetary Commission

Q. And the reserve you mean?

A. So as not to impair the reserve—not to impair the proportion the reserve bears to the capital.

Mr. BONYNGE. They have to pay for the new stock issued what the stock is actually worth?

A. Less than that, as a rule, because the stock is generally worth more than what the reserve would represent. Our reserve is 100 per cent of our capital, but our stock is worth in the market 229 per cent to 230 per cent.

By Mr. WEEKS:

Q. You pay what dividend?

A. Eleven.

Q. About 5 per cent upon capital and reserve?

A. Yes; something over 5 per cent.

By Mr. VREELAND:

Q. It would be your opinion that a considerable portion of the seventy-odd millions of reserve of the chartered banks had been paid in instead of earned?

A. A considerable proportion has been paid in.

Q. Would you say a quarter of it had been paid in?

A. More than a quarter.

Q. A half?

A. I should think a half; yes.

Mr. KNIGHT. I thought about a third.

Mr. WILKIE. You can get the exact figures. I should not be surprised if it was 50 per cent.

Q. Any agitation in Canada for a guaranty of deposits under government supervision?

A. No; we couldn't stand that.

Banking and Currency Systems

Q. You have not noticed perhaps that Texas is adopting that?

A. Yes; I saw that. Oklahoma has adopted it.

By Mr. WEEKS:

Q. If I remember correctly, you have about 20 banks less than you had twenty-five years ago in Canada.

A. I do not think 20.

Q. You had 48 banks at one time?

A. No; I do not think so. We may have had 36 or 37.

Q. What I wanted to ask was whether the capital was distributed enough; if there were not enough agencies for the business, whether there would not be an outcry some day that banking in Canada was a monopoly which would be injurious to the existing banks to some extent?

A. They can not charge that at present. I have just come back from a village in the northwest and I discovered three banks in a place where there was not business enough for one. At the present moment the branch idea is being carried on to excess.

By Mr. VREELAND:

Q. That would not affect the question, because you do not require additional capital where you put in additional branches?

A. No.

Q. A thousand different branches would not require any additional capital?

A. No; I think the banks are only too willing and ready to open branches wherever there is an opportunity

National Monetary Commission

of doing business; but bear in mind that without our system of currency, without the inducement of being able to supply the currency required from the banks' own issues we could not keep the bulk of our branches open. If our currency laws were changed and we are not permitted to issue our own notes, nine-tenths of these branches would be closed. It would not pay us. It is only because we have unlimited till money always available. It is only because we have power to issue our own bills that we are opening branches. That is the crux of the whole matter. It is not only the starting point of our banks, but without our banking system we could never have developed the country to the condition it is in to-day. It could not be done.

Q. What per cent of profit do you figure you can make on your notes? The profit on notes in the States was modified very much by having to have government bonds and the loss of the premium on them, and also they have a tax on circulation, although it is not large, but still they make little profit.

A. It is very hard to say, because one element is interwoven with the other. Our bank has a circulation of \$3,422,000 (August 31), but under our system we are holding \$6,000,000 of government bills from which we get no interest whatever.

Q. Why are you obliged to hold that amount of Dominion notes?

A. Because we allow ourselves to hold a larger proportion of them than necessary. We might hold gold for about half of that amount.

Banking and Currency Systems

Q. The law says whatever reserve you do hold you must have 40 per cent actual cash reserve in government notes.

A. Yes.

Q. How much do you hold?

A. Six millions.

Q. Is that only 40 per cent of your actual cash reserve?

A. No; it is about 80 per cent. What I mean to say is this, that the profits that we make upon circulation can not be calculated directly, because the advantage of till money, which costs us nothing to carry, is of considerable importance.

Q. It takes the place of cash?

A. Yes; it takes the place of cash.

Q. It is a fictitious capital?

A. It is a fictitious capital if you put it that way; yes.

Q. Here is your report, which shows a cash reserve of \$8,481,000; you have to have 40 per cent of that in Dominion notes?

A. Yes.

Q. That would be a little over \$3,000,000?

A. Yes.

Q. I understood you to say you had \$6,000,000?

A. That depends upon the particular month to which you refer.

Q. You actually did have \$7,300,000?

A. Yes; on the particular date to which you refer.

Q. But you did not have to have that amount?

A. No; we did not have to.

National Monetary Commission

Q. Your actual circulation was \$3,115,000; I do not see that it has anything to do with your holding of Dominion notes as a part of your reserves. Suppose you had to have gold?

A. Suppose we had a large part of that in New York bearing interest on deposit with banks, or had it in London bearing interest; supposing we had the gold on deposit in New York, that would be counted as gold on hand.

Q. As I understand, you fully agree that a large cash reserve should be kept?

A. Yes.

Q. I think you put it at 20 per cent or better?

A. Better.

Q. Or more?

A. More.

Q. Didn't I understand you thought you had 20 per cent?

A. I said more than 20 per cent.

Mr. BONYNGE. In your own vaults?

A. In our own vaults.

By Mr. VREELAND.

Q. Suppose the law was that you should be obliged to keep 20 per cent?

A. Yes.

Q. Of the deposits on hand.

A. Yes.

Q. In gold coin.

A. Yes; in gold coin.

Q. You have to have that amount on hand?

Banking and Currency Systems

A. We might keep the gold on deposit in New York, and we could use the excess beyond the 20 per cent from time to time.

Q. You could not keep it in New York and count it as a cash reserve?

A. Yes; certainly; actual gold on hand with our agents. We do not do it, but it can be done.

Q. I should not think it would be a proper cash reserve if it is in New York.

A. You have the same thing in the United States—you have your reserve cities.

Q. But central reserve banks have to keep 25 per cent actual cash on hand?

A. It would be just as much a million of gold in New York as a million of gold here.

Q. There would be no object in keeping it there?

A. No; except that we could use the surplus amount on hand from time to time.

Q. Your reports say that the average amount of circulation is \$75,000,000.

A. Yes.

Q. The moment that is in the bank it is out of circulation?

A. Yes.

Q. That is the amount which is in circulation?

A. That is the amount which is in circulation.

Q. Presumably loaned out?

A. Presumably loaned out or paid out to depositors in the ordinary course of business.

National Monetary Commission

Q. On that \$75,000,000 what would you say the profit is to all of the banks that own it?

A. I would not like to say.

Q. Suppose the cost of issuing and redemption amounts to 1 per cent, what other expense would you charge against it?

A. The tellers' salaries.

Q. Who?

A. The tellers, the men who look after the notes and separate them from notes of other banks.

Q. That would be small in the small banks?

A. Yes; but the proportion of expense to circulation would be the same.

Q. You would not have to employ extra help in order to separate the notes?

A. Yes.

Q. The ordinary teller would have ample time to keep them separated?

A. It would take up time that would otherwise be devoted to some other duty, necessitating a larger staff.

Q. We will assume there is some additional help needed on account of the notes; what other expense?

A. I do not know that there is anything else beyond the custody of the notes, and their sorting up every day, and the sending in of the other bank notes for redemption.

Q. That is included in the 1 per cent I have allowed for issuing and redemption. I think that would cover the issuing and redemption.

A. Yes; the issues have to be renewed, of course. I would not be prepared to say, Mr. Vreeland, what the

Banking and Currency Systems

profit would be, because I do not think it can be worked out that way. You can not work out the direct profit on circulation.

Q. You say that the value would be 4 per cent upon the amount actually in circulation to the issuing banks?

A. Less the actual outlay connected with the management of the circulation and a proportion of the cost of the management of the branch banks.

Q. What do you figure the profit is to a bank on money that you pay 3 per cent for and loan at 6 per cent?

A. We give our branches 4 per cent on the auxiliary capital furnished head office; that would be 1 per cent beyond what they pay to their depositors.

Q. Would you figure 2 per cent?

A. Two per cent would be an excessive rate when allowance has to be made for the expense of head office management and the proportion of the amount which has to be held as a reserve. From 1 per cent to 1 ½ per cent net over the cost of the deposit to the branch is a fair allowance.

BANK OF MONTREAL.

Statement for the half year ended April 30, 1909.

Balance of profit and loss account, October 31, 1908.....	\$217,628.56
Profits for the half year ended April 30, 1909, after deducting charges of management and making full provision for all bad and doubtful debts.....	860,682.49
	1,078,311.05
Quarterly dividend, 2½ per cent paid March 1, 1909... \$360,000.00	
Quarterly dividend, 2½ per cent payable June 1, 1909... 360,000.00	
	720,000.00
Balance of profit and loss carried forward.....	358,311.05

NOTE.—Market price of Bank of Montreal stock, April 30, 1909, 250 per cent.

GENERAL STATEMENT.

LIABILITIES.

Capital stock.....		\$14,400,000.00
Rest.....	\$12,000,000.00	
Balance of profits carried forward.....	358,311.05	
	12,358,311.05	
Unclaimed dividends.....	2,443.01	
Quarterly dividend, payable June 1, 1909.....	360,000.00	
	12,720,754.06	
Notes of the bank in circulation.....	10,455,537.00	27,120,754.06
Deposits not bearing interest.....	51,620,373.35	
Deposits bearing interest.....	118,617,801.53	
Balances due to other banks in Canada.....	124,529.80	
	180,818,241.68	
	207,938,995.74	

ASSETS.

Gold and silver coin current.....	6,287,370.53	
Government demand notes.....	12,925,806.25	
Deposit with Dominion government required by act of parliament for security of general bank note circulation.....	600,000.00	
Due by agencies of this bank and other banks in Great Britain.....	\$4,839,298.23	
Due by agencies of this bank and other banks in foreign countries... ..	7,109,409.64	
Call and short loans in Great Britain and United States.....	80,658,497.00	
	92,607,204.87	
Dominion and provincial government securities.....	530,152.88	
Railway and other bonds, debentures and stocks.....	8,567,011.26	
Notes and checks of other banks.....	3,682,086.41	
	125,199,632.20	
Bank premises at Montreal and branches.....		600,000.00
Current loans and discounts in Canada and elsewhere (rebate interest reserved) and other assets.....	81,914,981.49	
Debts secured by mortgage or otherwise.....	118,421.11	
Overdue debts not specially secured (loss provided for).....	105,960.94	
	82,139,363.54	
	207,938,995.74	

E. S. CLOUSTON,
General Manager.

BANK OF MONTREAL,
Montreal, April 30, 1909.

Banking and Currency Systems

Interview with Sir Edward Clouston, General Manager of the Bank of Montreal.

By Mr. VREELAND:

Q. This statement, Sir Edward, which you have produced, is an older statement than your annual, the one that you publish?

A. Yes; we publish ours every six months. We are the only bank that does.

Q. The law requires you to publish it once a year?

A. That is all.

Q. You publish it voluntarily again?

A. Yes.

Q. At the end of six months?

A. Yes.

Q. Your capital is now \$14,400,000, and surplus and undivided profits \$12,358,000, making a total of \$27,120,000. The Bank of Montreal, if I remember right, for a good many years was the largest bank on this continent?

A. Yes; it must have been. The only bank I know of larger now is the National City. Is there any other?

Q. I think perhaps the National Bank of Commerce of New York is just about your figures.

A. Has it as much as that?

Q. Yes; you can issue your notes to the amount of your capital; I see on this statement that you have about \$4,000,000 of notes unissued?

A. Yes; that is the period at which our issue is lowest.

Q. Your deposits not bearing interest seem to bear a considerably larger proportion to the whole deposits than the other banks that we have noticed so far?

National Monetary Commission

A. Yes; we have so many government and railway accounts.

Q. That is accounted for by government accounts and other accounts of large corporations?

A. Yes.

Q. And other large accounts?

A. Yes.

Mr. WEEKS. Do you have all the government business?

A. We have the most of it, but a number of the other banks have small deposits. The principal account is kept with us. In fact, we are the government bankers.

Mr. BONYNGE. You act as the official agent of the government?

A. Yes; here and in London. We issue all their loans.

Mr. WEEKS. That is because you are the largest bank; it has nothing to do with your charter conditions?

A. No; simply because we have the government business.

By Mr. VREELAND:

Q. When was the bank of Montreal originally chartered?

A. In 1817. I do not think we got our charter properly until 1818.

Q. That would also account for your having the government business; you were really the first large bank?

A. No; the government business was held by the bank of Upper Canada for a number of years.

Q. That was before confederation of the Provinces?

A. Yes.

Q. Government demand notes are simply government loans without interest?

Banking and Currency Systems

A. No; they are Dominion notes.

Q. You carry a much larger proportion of Dominion notes than the law requires you to?

A. Yes.

Q. Forty per cent the law says it shall be?

A. Yes.

Mr. BONYNGE. You are carrying one-fifth of all the Dominion notes that are issued, are you not?

A. The total amount of Dominion notes is about \$70,000,000—\$69,000,000. I am speaking from memory.

Mr. VREELAND. You carry a cash reserve; these two items gold and silver and government demand notes, that is the cash reserve carried in your own banks or branches?

A. Yes; in our own safes. It does not really represent our position, because we carry gold in other places. We carry gold in Newfoundland and Chicago and Mexico. That is, outside of the Dominion. This only refers to the Dominion. In fact, at times we could not insert our total gold holdings or we would get beyond the 40 per cent.

Mr. BONYNGE. When you speak of carrying gold outside of the Dominion you mean with your own branches outside of the Dominion?

A. Yes; our own branches.

By Mr. VREELAND:

Q. At the date of this statement you give 10 per cent of actual cash in your safes besides the amounts due you from your own outside branches and from other banks?

A. Yes.

Q. This deposit with the Dominion government would be under the 5 per cent deposit for note issue?

A. Yes.

National Monetary Commission

Q. And you have due you in agencies of this bank and other banks in Great Britain—those are cash balances due you?

A. Yes.

Q. Either from your own agencies or other banks in Great Britain?

A. Yes.

Q. Due by your agencies and other banks in other foreign countries?

A. That would be in the United States and Mexico.

Mr. BONYNGE. How many branches have you, sir?

A. They change. About 150 I should think. One was opened the other day, and one will be opened in a few days.

By Mr. VREELAND:

Q. The cash in your own safes and cash due you from other banks, including your own branches abroad, would amount to something like \$30,000,000?

A. Yes, about that.

Q. Your deposits, liabilities, and notes would amount to about \$186,000,000?

A. Yes.

Q. Then you have practically a cash reserve of something like 16 per cent?

A. About that.

Q. At the date of this statement?

A. Yes.

Q. Then your quick assets in call and short loans, what time would you call a short loan? Say ten or fifteen days?

A. A short loan represents only the small amount we loan in London, what we call "stock-exchange" loans.

Banking and Currency Systems

These loans are not callable every day, as in New York. From settlement to settlement, taking place every fortnight. The rest of it is all call money.

Mr. BONYNGE. You loan in New York principally?

A. Principally in New York.

By Mr. WEEKS:

Q. I suppose you carry such a large sum in that way to protect your gold in case of emergency and to keep the money employed?

A. To protect any heavy demand.

Q. You have a much larger proportion of your assets loaned in that way than any other bank I have noticed?

A. Very much larger.

By Mr. VREELAND:

Q. The purpose of your carrying so large an amount of foreign loans would be for the purpose of putting you in a position to realize quickly upon assets for any demands which might be made upon you and not, I judge, for the same purpose, for instance, that the banks of Belgium and France and Germany keep a considerable amount of foreign bills, to protect them from withdrawals of gold?

A. Yes.

Q. Or shut it off?

A. Yes.

Q. Gold, as far as I have noticed, does not play any great part in your banking system?

A. No; it does not enter into it to any great extent.

By Mr. WEEKS:

Q. Do you think that the gold carried in your reserves is sufficient to form a basis for the future development

National Monetary Commission

of Canada? It seems low to me. I would like to have your judgment on that.

A. We do not carry much gold. If we were dependent upon this gold entirely it would not be anything like sufficient to form a basis, but we practically look upon all these gold loans out of the country as gold that we can put our hands on within twenty-four hours. There is nothing to prevent us calling all the loans we have in United States and England to-day, and we could have the whole of them called in in New York within twenty-four hours, and the gold thus realized in Canada as soon as the express companies could bring it here.

Q. You ship very little gold to the United States; you are in a position of loaning your money in New York and drawing gold against those loans if you wish to?

A. Yes; we ship gold occasionally, but not very largely.

Q. You wouldn't consider your reserves of gold sufficient unless you had these demand loans and short loans in London and New York for the general banking purposes of the country?

A. We should increase our gold very much if we did not have them. We have to carry a rather larger reserve than the other banks because in case of trouble we are apt to be the ultimate source of supply.

By Mr. VREELAND:

Q. You really act as the central bank here, do you not?

A. We do not wish to claim the position, but we are forced into it very often.

Q. I was inquiring if, in your opinion, inasmuch as the government does not need them especially, it would not

Banking and Currency Systems

make the banking system stronger if you could substitute gold in place of the 40 per cent of Dominion notes?

A. Yes; it would, except that the Dominion notes are always supposed to be backed up by gold, or means of acquiring gold. They are practically receipts for gold.

Q. If they actually called for gold on demand, that would mean that your Dominion government must keep a large reserve of gold useless for the purpose of protecting it?

A. They have to keep that gold against it. They do not actually keep the gold, because they have a certain amount of debentures which they hold. They only keep 15 per cent in gold up to \$29,000,000.

Q. Your Dominion act provides: "The minister of finance shall always hold as security for the redemption of Dominion notes up to and including \$30,000,000, issued and outstanding at any one time, an amount equal to not less than 25 per cent of the amount of such notes in gold, or in gold and securities of Canada?"

A. Yes.

Mr. BONYNGE. Above the \$30,000,000 you have dollar for dollar?

A. Dollar for dollar.

By Mr. VREELAND.

Q. The amount so held in gold shall not be less than 15 per cent of the amount of such notes so issued and outstanding?

A. Yes.

Q. I assume the other 10 per cent would be Dominion securities?

National Monetary Commission

A. Yes; securities of Canada, the principal and interest of which are guaranteed by the Imperial Government.

Q. You say the amount of Dominion notes now issued is about \$69,000,000?

A. \$69,000,000, I think.

Q. What is the present law as to the redemption of them? They are supposed to be redeemable on demand?

A. On demand.

Q. Is the law unchanged that I have just read saying 25 per cent, 10 per cent of which may be in securities?

A. Yes; that is up to \$30,000,000, I think you said?

Q. Yes.

A. Beyond that they have to hold dollar for dollar in gold.

Q. And it is now carried out?

A. Yes.

Q. Above the \$30,000,000 they would have an equal amount of gold on hand?

A. \$35,000,000 in addition to the 10 per cent.

Q. Makes it something like our gold certificates in the States?

A. Yes.

Mr. BONYNGE. That gold is held by the Dominion treasurer?

A. Dominion treasurer. The receiver-general we call him.

By Mr. VREELAND:

Q. Where, besides the Dominion treasury, are they redeemable?

A. Only at the Dominion treasury.

Banking and Currency Systems

Q. No other part of Canada?

A. There are several assistant receivers-general in Canada—Montreal, Toronto, Winnipeg, etc.

Q. Redeemable at any of those places where there is a receiver-general?

A. Yes.

Q. The money received through your postal banks, I understand, is treated as current funds, turned into the general treasury?

A. Of the Dominion government.

Q. No reserve is kept against them?

A. Yes; they have to keep a reserve, 10 per cent, I think; they established it recently.

Mr. BONYNGE. In gold?

A. Yes; or in gold and Canada securities guaranteed by the Imperial Government.

Mr. VREELAND. One gentleman said yesterday that they had to keep a small reserve against the postal receipts, but reduced it on Dominion notes?

A. No; I do not think they reduced it on Dominion notes. It is a small reserve.

By Mr. WEEKS:

Q. I would like to ask you, Sir Edward, if you think that the organization of the postal savings bank system is an advantage to the people of Canada, or would be of advantage to the people of the United States?

A. It enables the government to say that they have a safe place for the savings of the people. If they are doubtful of any bank they can go to the government and deposit it there and it is supposed to be safe, but they do not

National Monetary Commission

interfere with our deposits much. We do not believe they are competitors, because anything connected with the government necessarily carries a certain amount of red tape. I do not think the deposits of the government have increased materially for quite a number of years.

Q. Is not the government paying too high a rate of interest on these receipts?

A. We think so. They are paying the same rate of interest the banks are paying, 3 per cent; but we say if they insure security, as they say they do, they should reduce the rate.

Q. If they had to reduce the rate of interest the probabilities are the receipts would not be as great even as they now are?

A. No; they possibly feel they would have to meet withdrawals.

Q. Do you think they might reach a condition, sir, practically where enough money will be drawn out of the banks and deposited in the postal savings banks to be embarrassing in a critical situation?

A. No; practically not. The practical working would be, if they withdrew it from the banks and deposited it with the government, the government would redeposit it with us, and that would assist the banks from which it would have been withdrawn. It would really make no difference to the country.

Q. Having a small number of banks you could do that?

A. Yes.

Q. Very easily?

A. Yes; the government redeposits with us immediately. All the departments deposit it, and it passes into

Banking and Currency Systems

the bank where it can be immediately used for the good of the community. During the period in 1907 and 1908, when money loaned for 100 per cent in the United States, the rate for money from here to the Pacific did not advance more than 1 per cent, and that was more in the way of bringing pressure on the people to reduce their borrowings.

By Mr. BONYNGE:

Q. As I understand, the postal receipts are deposited by the government where they are needed for government purposes?

A. We know nothing about it. It passes into the general balances of the government. They do not segregate it, so far as their accounts with us are concerned.

Q. Nor do they keep separate the money that is actually received from the postal receipts?

A. No.

Q. The Dominion treasurer does not retain that money?

A. No; if there were any danger at all it would be owing to withdrawals from the government postal savings bank. Then they would have to get the money to meet them, and it would mean they would draw on us very heavily, and we should probably have to issue loans for them. It is not a very serious contingency.

Mr. VREELAND. The burden then really rests upon the banks?

A. It comes back to them, chiefly to the Bank of Montreal.

Mr. BONYNGE. The bill proposed for us provides for loaning that money from the treasury to the banks

National Monetary Commission

n the locality from which it is collected and banks paying a small rate of interest for the money redeposited with them by the Government.

A. That would improve it to a certain extent.

Mr. VREELAND. I see that you have notes and checks of other banks amounting to \$3,682,000. I think that you treat that as part of a reserve. You would be entitled to call that a cash reserve, because you could take it to the clearing house and get the money for it?

A. Yes.

Mr. BONYNGE. As against that, aren't your checks also outstanding?

A. Yes; we do not treat that as an important part of our reserve, because there would be about the same amount coming in against us from other banks.

By Mr. VREELAND:

Q. I notice that you carry bonds and pledges for stock, \$8,500,000. What sort of stock do you carry?

A. We haven't very much in stock just now. We have some Canadian Pacific stocks, a small amount.

Q. I suppose the bulk of that is in bonds?

A. Bonds, yes; largely in government bonds.

Q. Railway bonds?

A. And railway bonds. We have also Great Northern stock, and Northern Pacific to a limited extent.

Q. Do you carry bonds, government or otherwise, first-class bonds, with any idea of using them as a secondary reserve?

A. No.

Q. To sell?

Banking and Currency Systems

A. No; we do not. Any bonds that come to us are generally in connection with special operations. For a reserve they are not a very good banking proposition, but then, as an immediately available reserve the best securities are not the best reserve. We had an experience once in old days in the United States when there was a crisis there; we held very high-class bonds and these bonds returned a low rate of interest, but we found that we were not able to sell them, because the class of people who invested in such bonds had practically withdrawn from the market. That is why I say for purposes of a reserve gilt-edge bonds are not the best reserve.

Q. The great trouble with some of the best securities in times of widespread crises is that you can not sell them except at a sacrifice?

A. Exactly. Some of the heaviest losses have been made by English banks holding English consols.

Q. The English Government through her postal department suffered severely?

A. Yes.

Q. I think over \$500,000?

A. Some of the banks also suffered very heavily.

Q. To return to your Bank of Montreal statement, you show loans and discounts about \$82,000,000?

A. Yes.

Q. What you call commercial paper in its widest sense, including all sorts of time paper upon which you receive interest or discount, does that follow or run along about the same lines as ours does in the States?

A. I think so.

National Monetary Commission

Q. Rather than the English and French lines of paper; that is, trade bills, drafts upon time?

A. Commercial paper, that is, paper given by a merchant to a customer who banks with us. Commercial paper with us is negotiable paper given by a merchant in settlement of his purchases from one of our customers. That, I take it, is what is understood by commercial paper all the world over. Outside of that we have no other security.

Q. What is the practice with your Montreal merchants, for example, merchants here of first-class credit, how do they pay their bills? Do they make their banking arrangements with their home banks and pay their bills by check, availing themselves of cash discounts, and would such commercial firms but rarely give notes or accept drafts?

A. They sometimes accept drafts or give notes for their foreign purchases, but they usually settle their domestic accounts by check, taking advantage of cash discounts.

Q. They would go to their local banks and make satisfactory arrangement to procure the money to pay their bills?

A. Yes.

By Mr. BONYNGE:

Q. Do you own your buildings for your branches throughout the Dominion?

A. Very largely. We have in Montreal this building and seven other buildings.

Q. You own seven other buildings in this city?

A. Yes.

Q. How many branches have you in Montreal?

Banking and Currency Systems

A. Seven. We have subagencies in other centers, such as Toronto and Winnipeg.

By Mr. WEEKS:

Q. Are all these buildings carried at \$600,000?

A. Yes; and we are just about to erect a building in Winnipeg; I do not know what it will cost, but it is to be a fine building. We have also recently bought a building in Wall street, but your laws will not allow us to hold it in the name of the Bank of Montreal.

Q. Because you are a foreign corporation?

A. Yes.

Mr. VREELAND. That is the law in the State of New York.

Mr. WEEKS. That is the law of the United States.

By Mr. BONYNGE:

Q. It is a law of the State of New York.

A. Probably each State makes its own laws in that respect.

Q. You maintain a branch in New York?

A. Yes.

Q. How many branches have you in the United States?

A. Three, Spokane, Chicago, and New York.

Mr. WEEKS. Do you think it would be wise to permit a bank like the Bank of Montreal, or our national banks, to do a trust-company business as part of their charter rights?

A. That is a question which has only arisen quite lately in my mind. The manager of an English bank was here the other day and he told me that they have got permission to act as trustee, or executor, trustee for estates,

National Monetary Commission

trustee for bonds, and in fact to transact the business we do through a trust company because we can not do it under our bank act. I should not think there would be any very great objection to it.

By Mr. VREELAND:

Q. If it can be done indirectly as you are doing it?

A. The bank has nothing to do with it. It is done by another corporation very closely allied to the Bank of Montreal, with different shareholders and a separate board of directors.

Q. I can not see any reason why if they can conduct it successfully indirectly they could not do it just as well directly under their own executive officers; the bank is large enough to employ men skilled in that line to attend to it?

A. Yes.

By Mr. BONYNGE:

Q. How much of your deposits bearing interest represents savings accounts and how much time deposits, approximately, can you tell us?

A. I could not without looking into it. In the directors' statement we do not separate them in that way. They are separated into deposits bearing interest and deposits not bearing interest.

Q. For the savings accounts you issue a savings-bank book?

A. Yes.

Q. To the depositor?

A. Yes.

Banking and Currency Systems

Q. Do you follow the same rule as the other banks, in not segregating the savings deposits from the other deposits but treating them all alike?

A. Yes.

Q. You have not any certain assets that you set aside for the savings accounts?

A. No; none whatever. I think our bank statement is already too voluminous, because it gives so many different items of information. If we gave a short statement as they do in England, so many deposits, so many discounts and our reserves, it would serve all practical purposes. They were carried away, at our last revision of the bank act, in drawing up the form of statement, and I do not know whether we can get it reduced now. It gives a great deal of information that is practically of no service, and it is very difficult sometimes for a general manager, with the best intentions in the world, to make a correct statement in each column, because he is uncertain what column to use. What one wants to know is the liability of the bank and the available assets.

By Mr. WEEKS:

Q. Do you think it wise for your banks to invest the savings deposits as other deposits are invested?

A. Suppose a bank fails, we can not keep the savings deposits separate from the others.

Q. You do not, but you might?

A. We could not. Each is a liability of the bank.

Q. Under your laws?

A. Yes; unless we alter our laws. There is a bank that says all its savings-bank assets or deposits are invested

National Monetary Commission

in first-class securities, or Dominion loans, but that is nonsense, because if the bank stopped payment it could not apply those to the savings bank. They would have to go to the general assets of the bank. It is a catch with the public.

By Mr. VREELAND:

Q. Under your law, there are no government examinations of banks?

A. No.

Q. What examinations do you have of your banks; for instance, the Bank of Montreal, what is your system of examinations?

A. We have a regular staff of inspectors.

Q. Who are on the road constantly?

A. Yes; the rule is generally two weeks out and two weeks in, and every one of the branches has to be inspected once every year.

Q. What system do you have in your head office here; is it treated the same as any other branch? And what about your city branches here?

A. The branches in Montreal are inspected by the inspectors, but the loans are not specially reported on because they are directly under my own eye. The head office is inspected by the directors.

Q. In what form do they inspect it?

A. The board of directors takes our balance sheet at the end of the year and compares it with our head-office books.

Q. What means have you for the prevention of defalcation in your clerical force?

Banking and Currency Systems

A. In the head office there is no chance of defalcation. They deal entirely with figures. They do not handle any securities or cash.

By Mr. WEEKS:

Q. Do the directors ever go through the securities or notes physically and examine them and count them?

A. No.

Q. Or anything of that sort?

A. No.

Q. Is a report made to the directors?

A. The report of the inspectors?

Q. Yes.

A. They make a report to me as general manager, and I report it to the directors. The inspector reports on the state of the various accounts, and he generally reports on the country in the vicinity of the branch and what the business and agricultural prospects are.

Q. Do you think it would be of advantage from your standpoint if you had a public inspection conducted by the government?

A. I do not see how the government could conduct such an inspection. It would be almost impossible to get a staff to do what we do. To get a proper inspection you would have to have all the branches inspected simultaneously, so that they could not make any changes among themselves.

Q. Do you think such an inspection could be confined to the main offices with any advantage?

A. I do not think so.

National Monetary Commission

By Mr. VREELAND:

Q. Have you increased the capital stock of your bank, say, since 1900?

A. Yes.

Q. The surplus has been increased?

A. The surplus is being increased steadily. We have increased the capital from time to time as necessity required. In the year 1819 the capital was increased to \$650,000, and in the following year to \$750,000. In 1829 the capital was \$850,000; in 1841, \$2,000,000; in 1845, \$3,000,000; in 1855, \$4,000,000; in 1860, \$6,000,000; in 1873, \$12,000,000; in 1903, \$14,000,000; in 1905, \$14,400,000.

Q. Have you established a considerable number of new branches during the last ten years?

A. Yes.

Q. In the West?

A. We are adding all the time to our branches in all parts of the Dominion.

Q. Your cash deposits are mainly kept, I suppose, at the head office and sent wherever needed?

A. The cash?

Q. The cash beyond the amount of till money that they need.

A. We distribute it as much as possible. We have certain centers, so if there is any trouble at any branch we can supply that branch within twenty-four hours. Some of our branches are seven or eight days' travel away from the head office.

Banking and Currency Systems

By Mr. VREELAND:

Q. These reports that come in are all boiled down, collected together, and then they go to the general manager?

A. This report will probably be examined by two men before it comes to me.

Q. Will this individual report come to you as it is?

A. Yes; it will be examined by them and then I go over it and approve. If there are any accounts weak we write about them, or inquire into them, and the report then is submitted to the directors. In that way we have our finger on the whole country. That is what makes banking somewhat more interesting in Canada than in the States.

Q. What authority do you give to the managers of your various branches about loans? I suppose you give them a limited authority without consulting your head office?

A. Yes; their conduct of business is regulated on certain lines, and a certain latitude is allowed to managers. If they do not produce good results we can change them and put someone else in.

Mr. WEEKS. Do you have any cases of dishonesty?

A. Very few. The claims on the guaranty company are very, very few, extending over quite a large number of years.

Mr. BONYNGE. Your officials are all bonded?

A. All bonded. We bond every official to the extent of \$2,000. We bond them ourselves in addition, according to the position each is in. One man handling a large

National Monetary Commission

amount of cash would be bonded for \$10,000 or \$15,000, and the premium on that would be set aside to a fund, and that fund is growing steadily. It is quite a large fund.

By Mr. WEEKS:

Q. How many employes has the bank?

A. About 1,300.

Q. Are they all bonded?

A. All bonded; every one. Our staff is growing steadily, because every branch opened means three more clerks, even for a small branch.

By Mr. VREELAND:

Q. Rates of discount in the various parts of Canada in your branches, I suppose, differ somewhat according to the sort of business presented?

A. Yes.

Q. More risk in one part than another?

A. There is not only more risk in certain parts of the country, but the cost of doing business there is very much in excess of what it is in other places. We have to allow all our men when they leave for the West extra allowances, and that helps to make business there more expensive.

A. Are the rates of discount made larger in these sections, or are they uniform?

A. Made larger.

Q. In the West.

A. Yes; they are a trifle larger in parts of the West than they are in the East.

Banking and Currency Systems

By Mr. BONYNGE:

Q. Who fixes the rate of discount, does the head office or the branch office?

A. The head office.

Q. Is any change made in the rate without consulting the head office?

A. No; they can put it up as much as they wish but they can not put it down.

Q. They can raise it?

A. They can raise it.

Mr. WEEKS. Suppose money conditions were strained and you did not wish to make any new commitments outside of those which the bank has to make to its own customers in Montreal, would you instruct your managers all over the country to refrain from any new commitments because the local conditions demanded it?

A. Yes; we would in large places. We do not disturb small places. In a big center like Winnipeg, or Toronto, or Vancouver, or Halifax, we would instruct them to keep their business well in hand and not make any further commitments without consulting us, but it is no use interfering in a small place. If you called in the loans in the smaller towns you couldn't get them.

By Mr. VREELAND:

Q. They would not understand it?

A. No.

Q. Rates of interest are pretty uniform throughout the country?

A. Yes; fairly uniform.

National Monetary Commission

Q. About 3 per cent seems to be the average amount paid?

A. For deposits?

Q. Yes.

A. Yes.

Q. Rates of interest on deposits?

A. Yes; 3 per cent is the maximum.

Q. Banks adhere to that pretty closely?

A. Pretty closely.

Q. Do not your trust companies pay more than the banks?

A. The Royal Trust Company does not take deposits in the banking sense. It takes deposits of a certain class but they are not subject to check.

Q. Along what lines do your banks compete in an endeavor to get business, from the reputation of the managers and the reputation of the bank? Do they offer more favorable terms upon exchange, or upon loans, or pursue those plans of obtaining new business?

A. Sometimes a concession is made for the purpose of obtaining an account, probably a lower rate of discount is granted.

Q. You have then sharp competition?

A. Yes.

Mr. WEEKS. One of our methods is in paying so much interest on a certain part of a deposit, a free balance, or something of that sort; with your uniform rate of interest that is impossible.

A. We have the same arrangement. Very often a company or individual wishes to have his checks made

Banking and Currency Systems

payable at par in different provinces, wherever we have an agency, and in order to get some profit out of that concession we make him keep so much at his credit free of interest.

Mr. BONYNGE. In the case of an ordinary depositor with an account with the bank at Montreal and desiring to make a payment at Vancouver, would you charge him for the draft?

A. Yes; charge him a commission for it. That is a proper and legitimate part of the business of the bank.

By Mr. VREELAND:

Q. What amount of deposits would you consider as justifying the opening of a branch, Sir Edward?

A. That depends. In a country like the West, which is growing all the time, we have to take a chance of not doing any business for a year.

Q. Prospects would also enter into it largely?

A. Yes; we have just issued instructions to open at a place where there will not be any deposits at all, but the place is a good point; it is on the bank of a river and a divisional point on a railway.

Q. What amount of deposits in a branch would you consider, from the standpoint of the profit, justified establishing it?

A. That is a very difficult question to answer, because a minor branch or subagency might be useful in other ways than securing deposits. Where we open a subagency out in a manufacturing district, that is done very often to protect our business at the head office, because otherwise the different manufacturing concerns might be making banking arrangements elsewhere, and we give them

National Monetary Commission

the convenience of paying their checks close at hand. In a country place, for a country branch, anything from \$350,000 upward.

Q. There is no implied understanding as to interest, discounts, rates, and loans among the banks?

A. None at all; no.

Q. How about the interest on deposits?

A. It is an agreement among ourselves that we shall not pay more than 3 per cent.

Q. It is not considered good banking to pay more than that?

A. No; 3 per cent half-yearly.

Q. The statements indicate that banks generally, taking them all together, pay interest on about two-thirds of their deposits; your bank runs less?

A. Yes; I dare say they do.

Q. About two-thirds seems to be the average according to the condensed report?

A. Yes.

Q. The checking system has come to be very generally used in Canada, the system of checking upon accounts?

A. Yes.

Q. How about your large manufacturing corporations here and the railroads; how are their pay rolls paid, by cash or by check?

A. Check, chiefly. That is, at any rate, the practice of railroads.

Q. All the large manufacturing concerns in the city here, do they pay usually by check or cash?

Banking and Currency Systems

A. They generally get the money. We consider that one of the profits in connection with the account is the circulation that it gives us.

Mr. WEEKS. Does the government pay checks or cash?

A. They pay checks.

By Mr. VREELAND:

Q. There is nothing in the Dominion law, as I understand, relating to reserves?

A. Nothing.

Q. That is entirely—

A. Subject to the judgment of each general manager.

Q. Under the laws, also, does the Banking Association endeavor, as a matter of good banking, to keep a minimum amount of cash reserves among the banks?

A. Yes; there is an arrangement among ourselves that a bank will keep a minimum of 8 per cent in actual cash and 7 per cent in readily available securities, making 15 per cent in all, but there is no law about it.

By Mr. WEEKS:

Q. Do you consider that sufficient, taking everything into consideration?

A. Yes.

Q. There is always a great difference of opinion among bankers about the necessity for keeping a reserve and the method of handling a reserve?

A. Yes; there is always a difference of opinion.

By Mr. VREELAND:

Q. To what extent have there been runs on banks in years gone by in Canada? Were there runs upon the Ontario Bank?

National Monetary Commission

A. Yes; and the Sovereign Bank.

Q. At their head offices and branches also?

A. Yes.

By Mr. BONYNGE:

Q. At that time did it cause runs on the other banks?

A. No.

Q. No runs on any of the other banks?

A. No; the run on the Ontario Bank hardly commenced when we stopped it by taking the bank over and putting up a sign "Bank of Montreal" over the "Ontario Bank," and that stopped the run.

Mr. VREELAND. Any amount they wanted you paid?

A. Yes.

Mr. WEEKS. Was that a quiet run?

A. Yes.

By Mr. VREELAND:

Q. I notice in the case of the Sovereign and Ontario they were taken over and liquidated by the chartered banks or a combination of them?

A. In the case of the Ontario we took the bank over ourselves and liquidated it ourselves. In the case of the Sovereign Bank there was a partition of all the offices in the districts, and each bank looked after its own district.

Q. Would you say that has become the policy of the chartered banks in case of a weak bank, or one that is about to suspend?

A. No.

Q. It is left with each individual case to deal with it as you see fit.

Banking and Currency Systems

A. Yes; in the case of the Ontario Bank and Sovereign Bank it was a very ticklish time, and if that run had been allowed to continue it might have spread, and it was done partially in self-defense.

Q. That was when we were having our panic across the border in 1907?

A. Yes.

Q. But it is the practice of your chartered banks, is it not, Sir Edward, to support each other where you consider them solvent?

A. There is no regulation to that effect, but if a bank should come to us in trouble and show us reasons for doing it, we should help it over.

By Mr. BONYNGE:

Q. Much the same as our clearing houses?

A. Yes; probably the same as the clearing house in New York. In the panic of 1907-8, during the crisis in the United States, two or three banks came to us for help, but it was not generally known. They were perfectly solvent and perfectly good and only needed temporary assistance at the time.

Q. You know our clearing houses do that quite frequently?

A. Yes; we are members of the clearing house in Chicago.

By Mr. VREELAND:

Q. You say that your cash reserves in proportion to your deposits are increasing, say, in the last ten years?

A. Yes.

Q. That is the general policy of the banks?

National Monetary Commission

A. Yes. Just at present I imagine they are about as strong as they ever have been.

By Mr. BONYNGE:

Q. During the panic of 1907 in the United States, did you call your loans in in the United States, or did you loan money then?

A. We kept our balance pretty even all the time.

Q. Your money was largely on call in the United States at that time?

A. Yes.

Q. And you got higher rates of interest for the money that was out?

A. Yes.

By Mr. VREELAND:

Q. The note issues of banks, I think, we have been well over. In the end all of the banks are behind them?

A. Practically.

Q. The notes are issued and the expenses paid by the individual banks?

A. Yes.

Q. Of note issues?

A. Yes.

Mr. BONYNGE. There is double liability of stockholders also?

A. Yes.

By Mr. VREELAND:

Q. And also stockholders would be liable——

A. Not liable beyond the double liability.

Q. They would be liable to the amount of the subscribed capital that had not been paid in?

A. Yes; anything unpaid.

Banking and Currency Systems

By Mr. BONYNGE:

Q. If you had an authorized capital of \$20,000,000 and had issued stock for \$14,000,000 there would be no liability on the excess?

A. No; suppose the shareholders had not paid in full their calls on account of stock they would be liable for the balance, but not for the authorized issue.

Q. Not for the difference between the authorized issue and what was actually outstanding?

A. No.

Mr. WEEKS. Do you think the possibility of fraud in issuing circulation is as carefully guarded as it can be?

A. Very nearly. We have never found in any bank that came to grief or got into trouble the slightest error in circulation. The only improvement that could be made would be if the banks made their own notes. At present it is done by the American Bank Note Company, and by the British-American Bank Note Company, and some are made in England, so we can not follow them there.

Mr. BONYNGE. You think it would be better if the notes were made by the Dominion government?

A. Or made by the banks. We have several times talked about having a note bureau of our own in the Bankers' Association which would manufacture the notes and distribute them to the banks.

By Mr. VREELAND:

Q. Superintended by the officers of the association?

A. Yes; so that the note would be under our control from the birth until the death.

National Monetary Commission

Q. To what extent can you get reports from these different bank-note companies as to their shipments to banks?

A. They are obliged when they deliver notes to a bank to notify the association. If a bank-note company failed to do that the association would not let the banks get their notes there.

By Mr. WEEKS:

Q. Do you keep a record of your individual notes?

A. We do. It is not generally done in banks.

Q. I should imagine that about the only chance of an overissue of notes would be by some bank which was in pretty hard straits?

A. Yes; there is the chance in a case of a run that they would keep paying out their notes, and an overissue might occur in that way.

Mr. BONVNGE. Might it also occur at the branches before they had notice?

A. It might, possibly.

By Mr. VREELAND:

Q. It would occur when the bank is pretty well up to its limit of note issue?

A. Yes; but there is not the same danger now, because we have a new regulation.

Q. The law of 1908?

A. Yes.

Q. Has that been used by any of the banks?

A. Yes.

Q. It was used last year?

A. We had notice within two days of two banks that wanted to use it.

Banking and Currency Systems

By Mr. BONYNGE:

Q. This year?

A. This year.

Q. Was this regulation passed at the suggestion of the bankers?

A. It was under discussion at one time.

Q. Did the Canadian Bankers' Association take any action before the passage of the bill, either in its favor or against it?

A. No; but they had no objection to it. On the other hand, I do not think they made any application for it.

Q. Did it originate with the Canadian Bankers' Association?

A. It was the result of a discussion between some of the bankers and the minister.

Mr. WEEKS. Do you see any objection to it now if it is used strictly for emergency purposes?

A. I do not see any great objection to it. It is only used for four months during the grain season, and the grain movements are over by the 31st of January. By that time most of the grain is sold.

By Mr. VREELAND:

Q. I should think that it might be of advantage to the banks of smaller capital?

A. Yes.

Q. To those having a very small issue and which run pretty close to the limit?

A. Yes.

Q. And which have quite a good many branches?

A. Yes.

National Monetary Commission

Q. And not as the Bank of Montreal, with a large or much larger capital and consequently a larger note issue?

A. Yes; the pressure for circulation has been largely relieved by the establishment of smaller branches throughout the country, causing notes to come back from circulation more promptly in consequence.

Q. What is the pocket money of the people generally, Dominion and bank notes?

A. Yes.

Q. And silver?

A. And silver.

Q. Very little gold is circulated?

A. No gold is ever carried.

By Mr. BONYNGE:

Q. I suppose your method of circulation is a source of profit to the banks?

A. To some banks it is. It is not of much profit to a bank like this, because we have to carry such large reserves, and we expend a great deal of money in keeping our circulation as clean as possible.

Q. What do you estimate the expense of keeping up the circulation with the very frequent redemption which you have; would 1 per cent cover it?

A. It is not far from it.

Q. Your redemption is very frequent?

A. Yes; the life of one of our notes averages three or four years.

Q. Notes that are paid off and which are in good condition are put out again?

A. Yes.

Banking and Currency Systems

Q. As soon as they are in bad condition they are destroyed?

A. Yes; and we try to keep our circulation clean.

Q. Would all of your circulation be payable at any one of your branches if presented?

A. Yes; we are not obliged to pay it at any branch, but we do.

Q. I mean legally?

A. No; but a bank must receive in payment its own notes at par at any of its offices whether or not they are payable there.

Q. Under the law are you obliged to pay or redeem notes at the branches?

A. Each bank has to establish agencies for the redemption and payment of its notes at certain points designated by the bank act.

By Mr. BONYNGE:

Q. All of the notes of a bank that might be presented at any one of its redemption points would have to be redeemed there?

A. Yes.

Q. Even if all the outstanding notes of the bank were presented at that redemption point they would have to be redeemed?

A. Yes.

By Mr. VREELAND:

Q. What are the functions of your clearing house; are they anything beyond what would be indicated by the name, the balancing of accounts as to checks and notes?

A. Practically that is all.

National Monetary Commission

Q. Is there any agitation in Canada for any changes in your banking laws by any class of your people, or by bankers?

A. Not by any particular class. There are always a certain number of persons who think they know more about your business than you do yourself, and who have all sorts of suggestions to make. I have not heard of any such agitation.

Q. Banks have no taxes so far as the general government is concerned?

A. No.

Q. You have your provincial, city, municipal, and school taxes?

A. Yes.

Q. All the provincial and municipal taxes, but nothing from the general government?

A. No; not from the Dominion government.

Q. In what form does the provincial government tax you?

A. Chiefly on capital. It is a very unfair tax, because we have always urged that they should tax us on the amount of capital used in their province, but they say it is a much simpler matter to tax as they do. We have, therefore, to pay much more proportionately than any other bank.

Q. What rate does the Province of Quebec charge upon bank capital?

A. I do not remember. It is a graded tax.

Banking and Currency Systems

Q. You mean graded by starting in with \$1,000,000 capital?

A. Yes.

Q. And so on?

A. Yes.

By Mr. WEEKS:

Q. Does the general manager determine where circulation shall be distributed, how much shall be at each branch at any specified time?

A. No; that is regulated by the branches themselves.

Q. In accordance with their needs?

A. Yes; they apply for circulation as they require it.

Q. How frequently do your branches report to the main office the circulation which they issue?

A. We receive regular reports of the amount they have on hand; daily reports from the leading branches and twice a week from the smaller branches. That is our own personal arrangement.

Q. I was led to ask that question, thinking, perhaps, unless reports were made very frequently a bank that was near its limit might, without any intent, have out an excess of circulation.

A. When we get near our limit we are kept informed by telegraph.

National Monetary Commission

Interview with H. V. Meredith, assistant general manager of the Bank of Montreal, and director of the Royal Trust Company.

By Mr. VREELAND:

Q. The trust company publishes a statement?

A. We prepare statements and furnish them to the governments of the various provinces, but we do not give them to the general public. We act under a provincial charter in the different provinces where we are located, and we have to give a statement to the government of each province, and in some of the provinces they are much more particular than in others. In some of them they ask us for a deposit as security for acting as trustees.

Q. Ask for a deposit with the provincial government?

A. Ask for a deposit with the provincial government.

Q. In cash?

A. In cash, yes; or securities.

Q. Do they invest it in any way so you get interest on it, or is that dead money?

A. In the province of New Brunswick they insisted on our buying provincial bonds and depositing them.

Q. So that you get interest on the bonds?

A. Yes.

Q. In the other provinces don't you get anything out of the deposits?

A. They take securities, on which we collect the interest.

Q. Does the Dominion government authorize and give charters for trust companies?

A. Yes; but we get local charters too, as Dominion charters are subject to provincial trust companies' acts.

Q. Do all the provinces give charters for the trust companies?

Banking and Currency Systems

A. There is no reason why they should not. They have all got the power.

Q. That does not give you authority to act outside of the provinces?

A. No, that would be local. For this company we had originally a charter for the Province of Quebec, and when we entered the other provinces we had to get a charter from each of them or register under each of their provincial trust-companies acts. We do business in all the provinces.

Q. You have to get authority from each province to enable you to do business?

A. Yes.

Q. And you are required to make a deposit or give security you say?

A. We give a deposit, if asked for, as security for our acting as trustees, executors, committee, guardian to persons and to property. Some of the provinces do not exact security.

Q. You have an authorized capital in your charter?

A. Yes.

Q. You have the right to increase if from time to time if you wish?

A. Yes.

Q. How large a capital do you have?

A. Our capital now is \$5,000,000 authorized, and \$1,000,000 fully paid up.

Q. You do not receive deposits in the ordinary way?

A. We have authority but we do not receive them.

Q. You have authority to receive deposits?

A. Yes, most of the trust companies have that authority.

National Monetary Commission

Q. Do you have authority to buy commercial paper?

A. No, that is forbidden; or bills of exchange.

Q. What is the line of investment that you are authorized to make?

A. We are not restricted as to investments. Anything that we like except commercial paper and bills of exchange generally.

Q. As a matter of fact, how do you invest your money?

A. We buy securities, largely bonds.

Q. Do you invest it ever in real-estate mortgages?

A. Yes; we have invested a considerable amount through our agencies in Winnipeg and the Northwest.

Q. Do you act as trustees and executors?

A. Yes.

Q. Administrators?

A. Yes.

Q. All of those trust functions?

A. Yes; that is how we make our money. We are unlike trust companies of the United States; as I understand it, they make their money out of deposits and the investment of them. In a majority of United States trust companies there is very little distinction between trust companies and banks, except trust companies have larger powers. The feeling is here to disassociate trust companies from banks altogether. We do not take any deposits from the public except for investment or something of that kind.

Q. The deposits that you take from the public for investment are payable how? That is, are they payable on demand or at some specified time?

Banking and Currency Systems

A. We do not take demand deposits. The way this money comes to our hands is principally from estates, and the investments are the property of the estates, and the moneys are only repayable when the investments can be realized.

Mr. BONYNGE. Do you exercise your discretion in what securities you are to invest these trust funds, or are you directed by the party?

A. We follow the instructions contained in the will or other deeds governing the investment.

Mr. VREELAND. You receive a commission for such investments?

A. Yes.

By Mr. BONYNGE:

Q. Do you have an officer, a member of the trust company, who is a member of the exchange?

A. No; the trust company, as we understand it, and as we wish it to be, can not be a member of our stock exchange. Under our banking laws there are many transactions which a bank can not take up. If a business comes in that the Bank of Montreal could not take, we would turn it over to the trust company, and thereby we keep the connection that we might otherwise lose.

Q. Do you pay a larger rate of interest than the banks?

A. On deposits?

Q. Yes.

A. No; we allow bank rates on moneys in our hands awaiting investment. Our great idea is not to allow the trust companies in Canada to be banking concerns in any shape or form.

National Monetary Commission

Q. Upon what other deposits do you pay interest excepting those that are left with you for investment?

A. That is all. It occasionally happens that companies which are accumulating funds for dividends would place them with us to invest, and in that case we make an arrangement by which we manage the investment for a certain percentage, and in that way they get more than 3 per cent, if it can be invested to yield more.

Q. Is the practice becoming to any extent general here by which men make wills appointing trust companies as executors?

A. Yes.

Q. And are they appointed as administrators by the courts to any extent?

A. Most people now appoint trust companies. They had a prejudice here under the French law, and for a good many years we could not get them to look at anything but private trustees; now they are appointing trust companies very largely. If they go to the court, the court will appoint a trust company. They will only appoint companies that they are satisfied are absolutely safe.

Q. The tendency is rather the same as in the States toward trust companies acting in fiduciary capacities?

A. Largely; yes.

Q. Trust companies being appointed?

A. Yes.

Q. Do you issue debentures?

A. No.

Mr. VREELAND. Do you engage in the bonding business at all, giving officers' fidelity guaranty bonds?

Banking and Currency Systems

A. No; there are separate companies here for doing that business.

By Mr. HUBBELL:

Q. Do you guarantee any loans at all?

A. We are not very anxious to give guaranties. We rather restrict those. We have guaranteed mortgages up in the West for people that wanted the Royal Trust Company's guaranty. We do not guarantee more than 4 per cent as a rule. We might go $4\frac{1}{2}$ per cent.

Q. You make the difference between the rate guaranteed and the rate at which the loan is made?

A. Yes.

Mr. VREELAND. How many regular trust companies are there in the city?

A. I think there are five now.

Mr. HUBBELL. Are you limited as to the amount of debentures that you may issue, or the amount of guaranties that you may perform?

A. We do not issue debentures, and there is no legal limit as to our guaranties.

By Mr. BONYNGE:

Q. Are you limited as to the amount of money that you may receive on deposit?

A. No; but we do not receive ordinary deposits.

Q. You differ in that respect from the mortgage companies?

A. Yes.

Q. Are you organized under a general law of the province, or is a special charter in each case furnished to a trust company?

National Monetary Commission

A. There is a general law for trust companies. We have a special charter besides.

Q. There is a general law?

A. There is an act in all the provinces. They are proposing to enact a new one for the Province of Quebec. Trust companies get special charters from the legislatures in most cases.

By Mr. HUBBELL:

Q. You have a safe-deposit department in connection with the trust company?

A. We have in all our large offices; yes.

Q. You have branches?

A. Just the same as a bank. It is all managed from the central office here.

By Mr BONYNGE:

Q. How do you operate your safety-deposit boxes?—as we do in the United States, or do the depositors have to notify you what they put in their boxes?

A. No; the same as you have.

Q. Each depositor has full control over the situation?

A. We have a master key and the depositor has a key. Our master key does not open the box, but without it the depositor can not get in.

Q. And the depositor can put in such securities as he pleases without notifying you?

A. Yes.

Q. Without any notification?

A. Yes; we work just the same as you do in that respect.

Q. You do not assume any responsibility for the securities except the safe-keeping of whatever is in there?

Banking and Currency Systems

A. No.

Q. If any of your own people were to extract anything from the box, you would certainly be legally liable for it?

A. I think we probably would, yes; although we generally disclaim that liability, but we do not have a key to enable us to get in.

Mr. HUBBELL. You have restrictions as to your stock-holdings, don't you? They are not connected with the Bank of Montreal?

A. The connection with the Bank of Montreal is under a by-law of the company which provides that a majority of the directors of the trust company shall also be directors of the Bank of Montreal, if there are such persons qualified and willing to act.

Mr. VREELAND. Nearly the same people are in both?

A. Yes; but we have people outside on the board, as well as the bank directors.

Mr. HUBBELL. The stock transfers are controlled inherently by the trust company?

A. The stock transfers are controlled by us.

Mr. VREELAND. Do you know how many charters there are issued in the Province of Quebec for trust companies?

A. I think there are quite a number in the Province of Quebec.

By Mr. BONYNGE:

Q. Do you deposit in the Bank of Montreal, pending investment, money sent to you for investment?

A. Yes.

Q. You do not keep the cash that is deposited with you?

National Monetary Commission

A. No; we keep all the bonds and the securities.

Q. I mean the funds.

A. They are deposited in the Bank of Montreal to our credit.

Mr. HUBBELL. Isn't each trust fund that is intrusted to you invested separately and accounted for?

A. Yes.

Mr. BONYNGE. And pending the investment of the funds you deposit them with the Bank of Montreal?

A. Yes.

By Mr. HUBBELL:

Q. Does the deposit of these funds go into a general account?

A. So far as the trust company is concerned they have a general account with the Bank of Montreal and a trust-fund account in which trust moneys are deposited.

Q. Supposing a man dies and \$10,000 is deposited with the trust company. This is invested in specific securities?

A. Yes.

Q. And these securities are only used in the payment of that deposit?

A. Yes.

By Mr. BONYNGE:

Q. Are you limited at all by charter or by any law of the Province as to the character of securities in which you can invest trust funds?

A. There is a provincial law that covers that, and it is a very strict one. Principally government and municipal securities and mortgages in the Province of Quebec up to 60 per cent of the assessed valuation.

Banking and Currency Systems

Q. And does the provincial law designate the particular railroad bonds, for instance, in which you can invest trust funds?

A. We could not invest trust funds in railroad bonds unless specifically authorized by the will or deed.

Mr. HUBBELL. You are subject to the same law that an individual trustee would be subjected to, so far as investing funds?

A. Yes; there are what we call trustees' investments here, the same as there are in England.

Mr. BONYNGE. And they are limited to government and municipal securities, real estate, and mortgages on real estate?

A. Yes.

By Mr. HUBBELL:

Q. Does the court have to approve that investment in any case?

A. If we are appointed by the court, do you mean?

Q. Yes.

A. As long as we stick to the act, that is sufficient. Moneys deposited in court have to be invested with the court's approval.

Mr. VREELAND. Do you know how many mortgage banks that loan on real estate and issue debentures you have here in the city?

A. We have very few. That is something that they have very largely in the Province of Ontario and some of the other provinces.

Mr. BONYNGE. You do not have any savings accounts in the trust company, do you?

National Monetary Commission

A. No; loan companies do a large business in the Province of Ontario in that way. They take deposits largely there, and they also issue debentures and sell them, in Scotland chiefly, and invest the money in mortgages here.

By Mr. VREELAND:

Q. Their deposits are limited to the amount of their capital?

A. Their deposits to the amount of their capital?

Q. Yes. The president of quite a large concern there told us that the deposits they could receive were limited to the amount of their capital.

By Mr. HUBBELL:

Q. Do you have your board of directors or a special committee approve of the investment, or is that simply a matter that the manager has in charge?

A. We have an executive committee and they report.

Q. After the act?

A. Yes; after the act; we get the action of the executive committee confirmed at meetings of the board, at which all the business that is being done is reported.

Mr. BONYNGE. You do not do any underwriting for corporations, do you?

A. No; that is not our business. It would be the exception to do anything of that kind.

Mr. VREELAND. What would you think of the propriety of permitting banks like the Bank of Montreal to do trust-company business?

A. Well, I think it would be a very dangerous thing for any of the chartered banks to go into trust-company

Banking and Currency Systems

business, and not to have their assets in liquid shape all the time.

By Mr. BONYNGE:

Q. If you segregated the trust funds and the savings funds from the commercial deposits and had a provincial law by which the trust funds were to be invested only in certain securities and the savings funds in certain other securities, and kept them absolutely distinct from your commercial deposits, wouldn't that overcome your objection, so that the depositors of the trust funds would look to the particular security in which their funds were invested and the commercial depositors would have no claim upon those securities?

A. Then how would you realize, in time of panic, on some of those securities?

Q. You wouldn't have to realize on the trust funds.

A. You mean the securities would be held specially for that business?

Q. Yes; the trust funds and the commercial department would be separate and distinct.

A. Yes; that could be done, but it would be a business distinct and separate from ordinary banking business, and it would be unusual in this country.

Q. It would be something new?

A. Yes; in Canada.

Q. But it would be feasible, would it not?

A. I think it would be feasible, but not desirable.

By Mr. VREELAND:

Q. Of course, that would carry with it a right to notice, the same as our savings banks. In our State they are obliged to invest along trustee lines.

National Monetary Commission

A. Yes.

Q. They can invest in certain railroad bonds specified in the statutes. The savings banks of the State of New York have very little cash on hand.

A. Yes; we understand so.

Q. It is invested along the lines which the law requires, but of course that carries with it the right to demand notice if they wish it?

A. Yes; for savings deposits, we understand.

Q. So, in times of excitement they can demand thirty or sixty days' notice?

A. But would they demand notice?

Q. Ordinarily, they would not demand it.

A. No; that would be a reflection on their credit at once, if they demanded notice, wouldn't it?

Q. Except as they would be forced to do so as they were in 1907.

A. Canadian banks did not need to do this in 1907.

Q. In the State of New York the trustees of savings banks, as they can under the law, required notice of thirty or sixty days.

A. Yes.

Q. And tens of thousands of notices were given them by depositors saying at the expiration of that time they would withdraw their funds. At the expiration of that time more money was put in than was taken out.

A. Yes.

Q. Showing simply the excitement had passed.

A. Yes

THE BANQUE D'HOCHELAGA.

Statement of, November 30, 1908.

PROFIT AND LOSS ACCOUNT.

CREDIT.

Balance at credit profit and loss account, November 30, 1907-----	\$20,477.00	
Net profits for the year ending November 30, 1908, after deducting costs of management, interest accrued on deposits, and provisions for bad and doubtful debts-----	381,387.02	
		\$401,864.02

DEBIT.

Dividend paid March 1, 1908-----	50,000.00	
Dividend paid June 1, 1908-----	50,000.00	
Dividend paid September 1, 1908-----	50,000.00	
Dividend payable December 1, 1908-----	50,000.00	
Written off bank premises and fixtures-----	15,140.86	
Carried to officers' pension fund-----	5,000.00	
Carried to reserve fund-----	150,000.00	
Balance at credit profit and loss, November 30, 1908--	31,723.16	
		401,864.02

RESERVE FUND.

Balance at credit November 30, 1907-----	\$2,000,000.00	
Carried forward, November 30, 1908-----	150,000.00	
Balance at credit of reserve fund November 30, 1908-----		2,150,000.00

GENERAL STATEMENT.

LIABILITIES.

Capital stock paid up-----	\$2,500,000.00	
Reserve fund-----	2,150,000.00	
Profit and loss-----	31,723.16	
Unclaimed dividends-----	1,203.65	
Dividend payable December 1, 1908-----	50,000.00	
Due to other banks in England and in foreign countries-----	71,055.44	
Notes in circulation-----	2,058,702.00	
Deposits not bearing interest-----	3,898,349.98	
Deposits bearing interest-----	9,048,989.64	
Outstanding drafts drawn by agencies on head office-----	139,019.01	
		15,216,176.07
		19,949,102.88

ASSETS.

Specie-----	289,924.94	
Dominion notes-----	1,495,239.00	
Notes and checks on other banks-----	1,525,507.44	
Due by other banks in Canada-----	193,024.39	
Due by other banks in England-----	52,635.82	
Due by other banks in foreign countries-----	1,117,301.46	
Consols, federal, and provincial governments, cities of New York and Montreal debentures-----	1,507,512.95	
Other Canadian debentures-----	18,475.00	
Call loans on bonds and stocks-----	595,701.62	
Deposit with Dominion government for security of circulation-----	102,996.00	
Notes discounted and current-----	\$12,702,338.87	
Overdue debts (loss provided for)-----	14,002.25	
Mortgages on properties sold by the bank-----	20,592.54	
Real estate-----	29,178.67	
Bank premises, office fixtures and other assets-----	283,891.93	
		6,899,098.62
		\$13,050,004.26
		19,949,102.88

M. J. A. PRENDERGAST, *General Manager.*

National Monetary Commission

Interview with M. J. A. Prendergast, general manager of Banque d'Hochelaga.

By Mr. VREELAND:

Q. What is the capital of your bank?

A. \$2,500,000.

Q. And your surplus?

A. \$2,150,000.

Q. What year were you chartered? How long has your bank been in existence?

A. 1874.

Q. You came in under the Dominion law?

A. Yes.

Q. The act of 1871?

A. Yes.

Q. How many branches do you have?

A. We have 33 branches.

Q. How many branches do you have in the city?

A. You call the city, I suppose, the suburbs?

Q. Yes.

A. In Montreal we have 12.

Q. You are establishing branches now farther west—out in the grain fields?

A. The farthest we have is Edmundson.

Q. About the time of your last annual statement, as near as you can remember, what amount of cash reserve did you carry, or what per cent?

A. Are you speaking of actual cash?

Q. Yes; I mean actual cash.

A. That varies a great deal. So far as I remember, it would be a little over \$1,100,000. We hold federal and

Banking and Currency Systems

provincial debentures, and hold a block of the city of New York with our European correspondent, and against all these bonds we can check, either by cable or sight draft, or thirty or sixty days, by a special agreement with the bank. We consider these as part of the cash reserves. I do not include the million and some odd thousand dollars of actual cash.

Q. What is the policy of the bank as to the amount, the percentage of actual cash, which you find it necessary to carry, or think it prudent to carry—as much as 10 or 8 per cent?

A. A good deal more than that.

Q. To your deposits?

A. A good deal more than that.

Q. Of actual cash on hand?

A. Yes, sir; you wouldn't take the amount against which we could check as part of the cash reserves, would you?

Q. We should consider that a very near cash reserve, but not the actual cash in the safe?

A. No.

Q. And yet of almost one value, but we were dividing the account.

A. We always keep at least 20 per cent in actual cash.

Q. What amount in addition to that do you intend to carry?

A. As immediately available?

Q. With balances in New York and London?

A. Oh, couple of millions more, sir.

Q. What are your total deposits?

National Monetary Commission

A. To-day they are, bearing and not bearing interest, about \$13,000,000—between \$13,000,000 and \$14,000,000.

Q. That would bring your reserves of actual cash and cash immediately available up to something like 30 per cent?

A. A little over that.

Q. Do you try to keep as a secondary reserve any investments in government or other bonds and securities?

A. We keep about \$1,500,000 in federals and provincials, British consols, and we hold a block of the city of New York bonds.

Q. And that is under an arrangement against which you can check?

A. And that is under an arrangement against which we can check.

Q. So cash is more available?

A. So cash is more available.

Q. Do you have your money on call?

A. No, sir; we hold on call little over \$1,000,000 at the present time.

Q. What amount have you invested in real estate for your own premises—yourself and branches?

A. We have between \$275,000 and \$300,000 invested in our own premises.

Q. That is what you charge in your statement?

A. Yes, sir.

Q. Really you must have considerably more than that, I suppose, actual value, selling value?

A. We put it down at what it cost us.

Banking and Currency Systems

Q. You follow the usual banking expression and charge off a portion of your real estate?

A. Invariably.

Q. As much as you can?

A. And not only that, but deposits through exchange we reduce at least 10 per cent per annum.

Q. Upon what proportion of your \$13,000,000 of deposits do you pay interest?

A. About \$11,000,000—between \$10,000,000 and \$11,000,000.

Q. Do you pay interest on current accounts subject to check?

A. Very seldom.

Q. Monthly balances?

A. They are the exception. That is so invariably for minimum monthly balances.

Q. What proportion of your \$13,000,000 is upon time; that is, time notice required for withdrawal?

A. As I said just now, interest-bearing accounts amount to a very small sum.

Q. Then about all of your \$11,000,000 would be subject to notice?

A. Yes, sir.

Q. To draw?

A. Yes, sir; but it is against our practice to enforce the notice.

Q. You can pay interest upon current accounts?

A. We invariably pay whenever they present, although we have a right to pay according to the contract with the depositors.

National Monetary Commission

Q. It is a very valuable right in case of great excitement?

A. Or in case of need; yes, sir.

Q. About what time do you have a right to require upon these interest accounts, thirty days?

A. Yes, sir.

Q. Or longer?

A. Thirty days.

Q. You publish only one statement a year?

A. Only once a year; yes, sir.

By Mr. WEEKS:

Q. Do you cater for any particular class of business, except for business generally in Canada?

A. We do not cater for any special line of business. Our accounts are usually commercial. We are not big enough to go into large amounts for railways and things of that kind, railway constructions; we do not consider ourselves strong enough for that. We stick as much as possible to our commercial accounts.

Q. Is there any method in Canada of distributing loans? Does one bank take a very large loan and give a piece of it to some other bank?

A. We are not in the habit of doing so, and we were never asked by any other bank to do so.

Mr. KNIGHT. The banks are not allowed to divide accounts.

Q. What we call a participation loan. You know in the United States we are limited in the amount we can loan to any one concern?

A. Yes.

Banking and Currency Systems

Q. For instance, a bank might be able to loan \$400,000?

A. Yes.

Q. But it might be offered a loan of \$1,000 000?

A. I see.

Q. It would take that and give other banks some portion of it.

A. That is a practice that is not adopted in this country, not to my knowledge anyhow. We have no limit. Prudence must dictate the limit to the bankers themselves.

By Mr. VREELAND:

Q. If you could have the banking laws made just to suit you, what changes would you make?

A. There is one change I would suggest. As you are aware, the federal government does not tax our capital. I had the pleasure of meeting the association of the State of New York some three and one-half years ago at Behoff, near Cleveland, and the statement that the federal government, from which we get our powers, does not tax our capital, was received with the greatest astonishment. But it is a fact. Yet the provincial government, which has nothing to do with our banking, taxes us briskly. It taxes us upon our capital, and we are taxed in Quebec and Ontario and other provinces on the same basis. I do not consider that just. I should like to have that matter handled by the federal government, which, I think, would proceed in a more rational way. The provincial tax might be dispensed with, except, perhaps, a specific tax. The question is—I have very often heard it argued—whether the provincial government has really a right to tax our capital; I doubt it very much.

National Monetary Commission

We hold our powers from the federal government, and I think that government would be the best judge of the way the taxes are to be levied on our capital. The provinces might levy a special tax on us, and some do. That is, an additional tax to the specific tax.

Q. Are there any changes that you think could possibly be made that would improve matters?

A. The system seems to work very well, particularly as compared with other systems.

Q. Works pretty well, indeed, it would seem.

A. I should not like to suggest any change. Some other people, I suppose, are willing to do that, but this has not been thoroughly discussed by those who propose changes in the system. There have always been attempts to curtail our circulation privilege. We think it is absolutely necessary in a country of this kind to make it quite elastic.

Q. What would those who propose to curtail it substitute in the place of it?

A. Oh, well, their main object is to secure the public against the danger of holding valueless circulation, but that is a thing which, under our present system, is impossible. Not in one single instance has the 5 per cent fund been touched. I believe those who want to curtail our circulation have not a very clear view of the needs of the country. Our branch system, which may not be at all necessary across the border, is shown, I think, to be indispensable here for the opening up of the country, and it would be an impossibility for us to open all of these branches and keep them prosperous

Banking and Currency Systems

to a certain extent if we had not that privilege of circulation.

Q. For you to open up the country?

A. Yes; the protection of the banks.

Q. All the banks seem to be hastening to organize branches in the country that is being opened up in the West.

A. Take the case of the Eastern Townships Bank. According to public opinion the Eastern Townships has opened up more country than any other bank.

Q. What portion of Canada?

A. The Townships?

Q. Yes.

A. From Sherbrooke east, right along your border.

Q. How has the bank opened it up; by putting in branches in the villages as they developed?

A. There have been dairy and railroad and mining points, the dairy industry and the grain industry. Thus parts of the country that were comparatively poor have been opened to the modern conditions that existed in other sections.

Q. You think the local branches assisted in promoting the wealth of these communities?

A. Certainly. It is the same thing out in the newer parts of the country.

Q. Unless you can tell us some other lines of improvement, I do not know that there is anything more we wish to ask you.

A. Of course, you know we take a certain pride in our banking system, and we think it works well for the country, and we generally desire to leave well enough alone. We do not assume it to be perfect.

QUESTIONS RELATING TO THE CURRENCY OF THE DOMINION OF CANADA.

Answers by office of Canadian Minister of Finance.

1. What is the total issue of Dominion notes at the present time?

September 30, 1909, \$80,456,391:

Fractional notes.....	\$546,037.25
Provincial notes.....	27,969.75
Dominion ones and twos.....	16,591,139.00
Dominion fours.....	145,145.00
Dominion large notes.....	5,108,600.00
Legal tender notes for banks.....	58,037,500.00
	<hr/>
	80,456,391.00

2. Are Dominion notes redeemable in gold upon demand of holders?

Redeemable in specie on presentation at branch offices established or at banks with which arrangements are made for the redemption thereof. "Specie" practically means gold, as silver is legal tender to the amount of \$10 only.

At the present time offices for the redemption of Dominion notes, known as the offices of the assistant receivers-general, are established at Montreal, Quebec; Toronto, Ontario; Winnipeg, Manitoba; Victoria, British Columbia; Halifax, Nova Scotia; St. John, New Brunswick; and Charlottetown, Prince Edwards Island.

3. Does Dominion law direct redemption of Dominion notes in gold or coin?

The act provides for redemption in "specie," which practically means gold. (See "An act respecting Dominion notes," section 2 (a) and section 4 (2); also "An act respecting the currency," section 10 (3).)

Banking and Currency Systems

4. Could minister of finance redeem Dominion notes in silver at his discretion?

No; the act provides for redemption in "specie."

5. Is reserve carried against Dominion notes by Government?

Yes; to the extent hereinafter stated.

6. Is percentage of reserve fixed by law?

The minister of finance shall always hold as security for the redemption of Dominion notes up to and including \$30,000,000, issued and outstanding at any one time, an amount equal to not less than 25 per cent of the amount of such notes in gold, or in gold and securities of Canada, the principal and interest of which are guaranteed by the Government of the United Kingdom. The amount so held in gold shall not be less than 15 per cent of the amount of such notes so issued and outstanding.

As security for the redemption of Dominion notes issued in excess of \$30,000,000, the minister shall hold an amount in gold equal to such excess. (See "An act respecting Dominion notes," section 5.)

7. What reserve is carried?

The full reserve required by law. At present the amount held exceeds the requirements, as shown by the following:

Specie held by the receiver-general and the several assistant receivers-general	\$62,759,800.95
Guaranteed sterling debentures (£400,000)	1,946,666.67
	<hr/>
	64,706,467.62

Amount required:

25 per cent on \$30,000,000	\$7,500,000.00
100 per cent on issue in excess of \$30,000,000	50,456,391.00
	<hr/>

Amount required for Dominion notes	57,956,391.00
------------------------------------	---------------

National Monetary Commission

Amount required—Continued.

For reserve on deposits in savings banks, being 10 per cent on balance (\$57,859,530.89) on September 30, 1909 (see "An act respecting savings banks," S. 47)-----	\$5,785,953.08
Total amount required for reserve for Dominion notes and savings banks-----	\$63,742,344.08
Excess reserve held September 30, 1909-----	964,123.54

8. Where is reserve kept? That is, in possession of the government or is it deposited to the credit of the government with the banks?

In possession of the government.

9. In what denominations are Dominion notes printed or issued?

Twenty-five cents, \$1, \$2, \$4, ^a\$50, ^a\$100, \$500, \$1,000, and special notes for use between banks only—\$500, \$1,000, and \$5,000.

These special notes are negotiable between banks only.

10. What is the total amount of Dominion bonded indebtedness?

March 31, 1909, \$282,580,028.65. (See Public accounts, Part I, page 5.)

11. Total amount of guaranty by Dominion of railroad and other bonds. (Please send any printed statistics showing government liabilities.)

Eight million seven hundred and forty-five thousand eight hundred and seventy-three pounds nineteen shillings nine pence.

^a\$97,750 in circulation; not issued now.

Banking and Currency Systems

POST-OFFICE SAVINGS BANKS.

1. Authorized by law in what year?

In 1867. (31 Victoria, chapter 10, sections 62 to 75, both inclusive. "Post-office act.") Commenced operations April, 1868.

2. How many such banks or offices now established?

October 28, 1909, 1,128.

3. Rules for establishing the same?

Established under the authority of an act of Parliament (31 Victoria, chapter 10, sections 62-75) and under regulations approved by the governor in council.

4. Total deposits?

September 30, 1909, \$43,616,850.

5. Rates of interest paid?

	Per cent.
1868	4
1889	3½
1897	3

6. Is money invested or treated as a current account by the Dominion?

As a current account. Forms part of consolidated revenue fund.

There is also a system of savings banks under the control of the minister of finance, known as "Dominion government savings banks." (See "An act respecting savings banks," part 2.)

Prior to Confederation (1867), a system of savings banks was in existence in the maritime provinces under the control of the provincial governments. These banks

National Monetary Commission

were taken over by the Dominion in 1867 and since that time have been under the administration of the minister of finance.

At one time there were 50 agencies, but, as the agents die or resign, the system is gradually being transferred to the "post-office savings bank" system, and at the present time only 18 offices remain, situated as follows:

Nova Scotia	13
New Brunswick	2
Manitoba	1
British Columbia	1
Prince Edward Island	1

The balance on deposit on September 30, 1909, was \$14,424,032.82 and the number of accounts 38,881.

Banking and Currency Systems

CIRCULATION—LENGTH OF TIME OUTSTANDING.

A few years ago some experiments were made with marked notes with a view to ascertaining the relative value of the circulation afforded by different classes of accounts.

The average time for which the notes were outstanding in the cases to which the test was applied was as follows:

	Days.
Cheese buyers' accounts.....	63
Grain and milling accounts.....	36
Cheese factory accounts.....	34
Railway pay cheques.....	27
Loan company accounts.....	7

In the most favorable case the notes were outstanding for an average of sixty-six days. This was the circulation afforded by a cheese account. In grain and milling accounts the average varied from twenty-two to fifty days. The tests made at Winnipeg showed more favorable results than at any other point.

The experiment can not be regarded as by any means conclusive, for the tests made were entirely too brief, and they would have to be repeated several times before any reliable deductions could be made. Probably, however, they may be regarded as a fair indication of the comparative value of the circulation afforded by the different classes of accounts.

Number of branches of chartered banks in Canada as at December 31.

	1889.	1899.	1900.	1901.	1902.	1903.	1904.	1905.	1906.	1907.	1908.	August 31, 1909.
Ontario.....	231	321	336	349	420	491	549	701	845	929	918	943
Quebec.....	60	113	123	137	147	183	196	246	270	297	311	329
New Brunswick.....	32	34	34	35	41	47	49	50	54	55	58	66
Nova Scotia.....	47	74	85	89	101	99	101	100	106	104	104	105
Prince Edward Island.....	6	9	10	9	7	11	10	11	14	14	16	16
British Columbia.....	9	41	48	46	52	50	55	66	78	90	103	118
Manitoba.....	13	50	50	52	79	87	95	127	166	163	162	168
North West Territories.....	4	19	19	30	54	78	87	150	-----	-----	-----	-----
Alberta.....	-----	-----	-----	-----	-----	-----	-----	-----	92	100	108	138
Saskatchewan.....	-----	-----	-----	-----	-----	-----	-----	-----	117	131	144	183
Yukon.....	-----	2	3	3	3	3	3	3	3	3	3	3
All Canada.....	402	663	708	750	904	1,049	1,145	1,454	1,745	1,886	1,927	2,069

Total note circulation of Canadian chartered banks.

	January.	February.	March.	April.	May.	June.	July.	August.	September.	October.	November.	December.
1899.....	36,916,579	37,525,337	38,409,227	37,369,887	37,012,914	39,097,708	40,270,100	41,446,399	46,682,028	49,588,236	47,839,506	45,999,753
1900.....	41,320,083	41,699,231	43,814,918	43,908,432	42,856,762	45,577,387	46,007,906	47,421,277	50,387,070	53,198,777	51,947,269	50,758,246
1901.....	45,025,306	45,905,942	47,611,967	47,006,701	46,148,234	49,119,479	48,947,978	51,352,309	56,027,407	57,954,779	57,741,566	54,372,788
1902.....	48,586,529	49,450,994	52,442,982	50,691,588	50,754,716	53,953,043	52,070,065	55,035,701	60,965,801	65,928,973	64,497,641	60,574,144
1903.....	55,040,987	55,746,498	58,283,484	55,877,647	56,949,119	58,865,845	57,563,665	60,414,740	63,741,270	70,480,611	67,425,586	62,539,407
1904.....	56,973,273	57,736,243	59,760,119	58,649,870	57,857,174	60,098,480	59,979,830	60,227,074	63,795,962	72,226,306	69,426,931	64,507,394
1905.....	58,021,075	58,828,919	58,721,173	59,941,648	58,136,070	61,587,560	61,277,593	62,497,433	69,831,259	76,890,863	72,592,543	69,981,574
1906.....	60,986,610	62,434,893	65,991,818	66,530,677	64,217,332	69,366,205	68,182,979	70,108,511	77,209,346	83,718,630	80,502,357	78,416,780
1907.....	68,219,717	70,547,759	76,346,013	72,840,909	70,741,113	75,510,402	72,942,781	76,562,811	76,455,000	84,289,983	84,452,899	77,504,398
1908.....	66,871,378	68,548,075	69,047,892	66,712,899	67,770,018	68,153,994	66,697,255	70,389,897	76,246,237	83,036,762	80,287,724	73,058,234
1909.....	65,819,067	67,348,359	68,708,458	67,266,664	68,593,229	70,170,491	71,006,005	71,847,552	-----	-----	-----	-----

Total loans of Canadian chartered banks.

	January.	February.	March.	April.	May.	June.	July.	August.	September.	October.	November.	December.
1899.....	260,042,237	267,490,839	273,960,660	279,882,116	283,392,782	286,864,652	282,671,221	283,656,636	291,761,105	299,250,919	301,710,965	303,371,857
1900.....	303,048,526	305,051,066	311,721,983	314,779,971	315,505,302	318,734,435	344,799,142	348,186,673	355,171,588	361,176,281	364,576,149	362,004,795
1901.....	360,589,364	365,858,196	373,398,689	377,748,864	387,082,567	385,834,295	389,382,355	391,668,118	400,425,930	406,382,035	411,093,778	410,134,456
1902.....	403,993,959	404,527,331	416,969,358	419,949,116	415,862,157	425,112,365	426,783,333	435,990,892	447,112,092	454,436,082	459,126,156	458,089,202
1903.....	454,477,550	461,492,419	468,814,574	475,349,318	472,294,787	469,279,164	467,562,081	474,889,503	479,453,606	480,182,622	478,356,099	481,995,152
1904.....	481,682,958	491,279,275	505,540,173	506,244,850	508,977,457	510,838,254	509,781,999	508,738,077	521,547,621	521,514,687	518,107,433	523,941,131
1905.....	519,703,775	522,470,224	531,931,738	541,675,742	544,875,052	549,812,206	560,858,307	569,950,668	578,780,818	593,494,111	600,943,997	603,682,367
1906.....	614,943,121	618,059,362	628,575,906	632,903,392	639,095,211	647,385,172	650,423,738	667,719,356	676,969,906	687,321,320	701,005,084	706,037,087
1907.....	698,846,480	711,528,041	721,656,011	719,005,985	717,246,615	720,513,762	719,043,473	718,591,142	718,272,321	708,705,715	690,035,933	676,257,826
1908.....	668,447,045	661,938,028	673,394,226	668,432,604	664,007,499	665,534,420	658,319,725	658,809,941	658,809,756	673,614,541	686,539,091	694,432,123
1909.....	694,012,746	705,917,252	730,632,306	734,186,810	747,309,428	746,099,209	750,940,018	760,870,516	-----	-----	-----	-----

Total deposits of Canadian chartered banks.

	January.	February.	March.	April.	May.	June.	July.	August.	September.	October.	November.	December.
1899.....	252,305,431	255,668,013	253,770,458	256,887,469	262,435,664	265,810,336	266,959,275	270,097,430	273,584,407	279,114,709	281,100,110	280,321,927
1900.....	278,941,668	275,786,180	273,294,901	276,751,831	284,777,347	287,508,529	303,795,985	305,779,132	311,704,192	315,448,338	320,788,382	323,825,923
1901.....	325,156,264	326,827,830	328,807,872	336,896,836	343,557,589	343,930,806	358,222,032	357,595,832	362,267,804	365,817,407	371,011,393	374,782,259
1902.....	371,334,135	370,426,646	369,173,330	378,013,473	379,446,246	389,579,979	394,863,330	396,848,577	404,731,765	403,375,691	409,724,128	416,928,209
1903.....	409,133,296	410,073,893	414,399,704	418,310,719	421,291,544	423,178,199	425,283,834	426,338,192	434,060,488	430,107,461	435,655,036	442,173,398
1904.....	439,860,460	444,354,145	454,143,667	448,358,215	463,133,013	468,702,447	427,207,336	475,341,008	485,308,474	487,774,815	499,121,673	504,883,683
1905.....	501,741,986	500,164,000	506,112,434	509,049,116	518,162,843	523,982,525	532,193,782	543,517,528	549,307,981	556,622,352	566,204,724	567,846,794
1906.....	578,750,561	579,507,518	579,995,002	583,510,187	591,400,334	598,567,880	609,752,739	621,054,856	622,561,200	640,178,528	660,987,000	669,517,537
1907.....	653,521,984	653,100,854	648,297,135	657,611,046	663,016,176	664,377,981	665,645,914	658,106,853	666,047,153	655,774,111	640,616,295	632,061,124
1908.....	625,785,953	616,718,070	629,732,826	630,056,636	629,510,760	645,566,796	658,116,686	672,839,936	678,845,095	682,464,058	707,998,204	722,769,156
1909.....	712,928,483	719,013,009	738,969,321	748,221,019	765,397,587	773,590,935	775,532,185	794,275,495	-----	-----	-----	-----

Banking and Currency Systems

Chartered banks in Canada which have gone into liquidation since 1867.

Bank.	Head office.	Date of commencement of liquidation.	Paid depositors.	Loss to note-holders.
			<i>Per cent.</i>	
Commercial of New Brunswick.	St. John, New Brunswick.	July, 1868-----	100	Nil.
Bank of Acadia-----	Liverpool, Nova Scotia.	April, 1873-----	(a)	(a)
Metropolitan ^b -----	Montreal, Quebec----	October, 1876-----	100	Nil.
Mechanics-----	do-----	May, 1879-----	57½	Nil.
Consolidated ^b -----	do-----	August, 1879-----	100	Nil.
Liverpool-----	Liverpool, Nova Scotia.	October, 1879-----	(a)	(a)
Stadacona ^b -----	Quebec, Quebec----	July, 1879-----	100	Nil.
Exchange-----	Montreal, Quebec----	September, 1883----	66½	Nil.
Maritime-----	St. John, New Brunswick.	March, 1887-----	10½	Nil.
Pictou ^b -----	Pictou, Nova Scotia.	September, 1887----	100	Nil.
London in Canada ^b ----	London, Ontario----	August, 1887-----	100	Nil.
Central of Canada-----	Toronto, Ontario----	November, 1887----	99½	Nil.
Federal ^b -----	do-----	January, 1888-----	100	Nil.
Commercial of Manitoba.	Winnipeg, Manitoba.	July, 1893-----	100	Nil.
Banque du Peuple-----	Montreal, Quebec----	October, 1897-----	75¼	Nil.
Banque Ville Marie-----	do-----	July, 1899-----	17½	Nil.
Bank of Yarmouth-----	Yarmouth, Nova Scotia.	March, 1905-----	100	Nil.
Ontario Bank ^b -----	Toronto, Ontario----	October, 1906-----	100	Nil.
Sovereign Bank of Canada. ^b	do-----	January, 1908-----	100	Nil.
Banque de St. Jean----	St. Johns, Quebec----	April, 1908-----	(c)	Nil.
Banque de St. Hyacinthe.	St. Hyacinthe, Quebec.	June, 1908-----	(c)	Nil.
Bank of Prince Edwards Island.	Charlottetown, Prince Edwards Island.	(c)	(c)	(c)

^a No information.

^b Voluntary liquidation.

^c Local; no returns; final dividend, April 28, 1887.

Prior to 1891 the loss to note-holders is on the assumption that all notes were presented before the final winding up. Any outstanding would then become worthless.

The Ontario Bank, Sovereign Bank of Canada, Banque de St. Jean, and Banque de St. Hyacinthe are at present in liquidation.

The deposits of the Ontario Bank were guaranteed by the Bank of Montreal.

The deposits of the Sovereign Bank of Canada were guaranteed by several banks—Montreal, Canadian Bank of Commerce, Royal Bank of Canada, Bank of Ottawa, Bank of Nova Scotia, Bank of British North America, and others.

