REPORT

OF THE ROYAL COMMISSION

ON

Banking and Currency in Canada

1933

OTTAWA
J. O. PATENAUDE
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1933

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CHAPTER VIII

MEMORANDA

APPENDIX

ORDER IN COUNCIL P.C. 1562

CERTIFIED *to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by the Deputy of His Excellency the Governor General on the 31st July, 1933.*

The Committee of the Privy Council have had before them a report, dated 31st July, 1933, from the Acting Prime Minister, representing as follows: —

That it is desirable that the approaching periodic revision of The Bank Act, which will precede the enactment of a measure to continue the charters of the existing banks, to which said Act applies, and which expire on July 1, 1934, shall be based on a complete and detailed examination of the provisions of said Act and of the functions and operations thereunder of the banking system thereby established;

That it is also desirable that such examination should include a study of the facilities now afforded by The Finance Act and a careful consideration of the advisability of establishing in Canada a Central Banking Institution, and, if so established, of the relation of such Central Banking Institution to existing banks and its proper authority and function in the operation of the banking system of Canada;

That such examination should also include a study of the entire monetary system of Canada, including credit, currency and coinage, particularly in their relation to commodity price movements and fluctuations in international exchange;

That it is also advisable to consider whether and in what respects the banking institutions and the monetary system of Canada may be modified, extended or developed for the purpose of facilitating intra-Imperial and international co-operation in public policies designed to promote the revival of domestic and foreign trade and enterprise and the general increase of employment and to ensure a greater measure of stability in respect thereto. The Minister, therefore, recommends that—

1. The Right Honourable Lord MACMILLAN, P.C., K.C., of the City of London, England;

   Sir CHARLES STEWART ADDIS, K.C.M.G., of the City of London, England;

   The Right Honourable Sir WILLIAM THOMAS WHITE, P.C., K.C.M.G., of the City of Toronto, in the Province of Ontario;

   The Honourable JOHN EDWARD BROWNLEE, K.C., M.L.A., of the City of Edmonton, in the Province of Alberta; and

   BEAUDRY LEMAN, Esquire, B.Sc., C.E., of the City of Montreal, in the Province of Quebec;

be appointed Commissioners under Part 1 of The Inquiries Act for the purpose of examining, considering and reporting upon all the matters hereinbefore recited;

2. That, without limiting the general scope of their inquiry into the operation of the banking and monetary systems of Canada, the said Commissioners shall in particular, examine the provisions and working of The Bank Act, The Dominion Notes Act, The Finance Act and The Currency Act, and the advisability of establishing a Central Banking Institution; and

3. That said Commissioners shall report their recommendations for revising or supplementing the above mentioned Acts and for the adoption of such other measures as they may deem desirable to promote the revival of trade and enterprise and to facilitate intra-Imperial and international co-operation for the purpose of raising the level of commodity prices and for the purpose of ensuring increased domestic employment and the stability of the economic, financial and social institutions of this country.

The Minister further recommends that The Right Honourable Lord Macmillan, P.C., K.C., of the City of London, England, be Chairman of the said Commission.

The Committee concur in the foregoing recommendations and submit the same for approval.

(Sgd) G. G. KEZAR,
Asst. Clerk of the Privy Council

THE ROYAL COMMISSION

CANADA

LYMAN P. DUFF,

Deputy Governor General.

GEORGE THE FIFTH, by the Grace of God of Great Britain, Ireland and the British Dominions beyond the Seas KING, Defender of the Faith, Emperor of India. To all to whom these Presents shall come or whom the same may in anywise concern.

GREETING:

WHEREAS pursuant to the provisions of Part I of the Inquiries Act, Revised Statutes of Canada, 1927, Chapter 99, His Excellency the Governor General in Council by Order P.C. 1562, of the thirty-first day of July in the year of Our Lord one thousand nine hundred and thirty-three, copy of which is hereto annexed, has authorized the appointment of Our Commissioners therein and hereinafter named to inquire into and make a complete and detailed examination of the provisions of the Bank Act, Revised Statutes of Canada, 1927, Chapter 12, and of the functions and operations thereunder of the banking system thereby established (with particular consideration of the subject matters set out in the said Order, without, however, limiting the generality of the inquiry).

NOW KNOW YE that by and with the advice of our Privy Council for Canada, We do by these presents nominate, constitute and appoint The Right Honourable Lord Macmillan, P.C., K.C., of the City of London, England; Sir Charles Stewart Addis, K.C.M.G., of the City of London, England; The Right Honourable Sir William Thomas White, P.C., K.C.M.G., of the City of Toronto, in the Province of Ontario; The Honourable John Edward Brownlee, K.C., M.L.A., of the City of Edmonton, in the Province of Alberta; and Beaudry Leman, Esquire, B.Sc., C.E., of the City of Montreal, in the Province of Quebec, to be

Our Commissioners to conduct such inquiry.

TO HAVE, hold, exercise and enjoy the said office, place and trust unto the said Lord Macmillan, Charles Stewart Addis, William Thomas White, John Edward Brownlee and Beaudry Leman together with the rights, powers, privileges and emoluments unto the said office, place and trust, of right and by Law appertaining, during pleasure.

AND WE DO further appoint the said The Right Honourable Lord Macmillan, P.C., K.C., to be Chairman of Our said Commission.

IN testimony whereof We have caused these Our Letters to be made Patent and the Great Seal of Canada to be hereunto affixed. — WITNESS: —

Our Right Trusty and Well-beloved Counsellor the Right Honourable Lyman Poore Duff, Chief Justice of Canada and Deputy of Our Right Trusty and Right Well-beloved Cousin and Counsellor, Vere Brabazon, Earl of Bessborough, a Member of Our Most Honourable Privy Council, Knight Grand Cross of Our

Most Distinguished Order of Saint Michael and Saint George, formerly Captain in Our Territorial Army, Governor General and Commander-in-Chief of Our Dominion of Canada.

At Our Government House in Our City of Ottawa, this thirty-first day of July in the year of Our Lord one thousand nine hundred and thirty-three and in the twenty-fourth year of Our Reign.

By Command.

(Signed) THOMAS MULVEY,
Under-Secretary of State.

Report of the Royal Commission to Inquire into Banking and Currency in Canada

TO HIS EXCELLENCY THE GOVERNOR GENERAL IN COUNCIL:

MAY IT PLEASE YOUR EXCELLENCY:

We, the Commissioners appointed by Order in Council, P.C. 1562, of the 31st July, 1933, have the honour to report that in pursuance of the terms of reference contained in the said Order in Council, we have conducted an inquiry into the functions and operations of the Canadian banking and currency systems and allied matters.

The first public sessions were held at Ottawa for the purpose of receiving preliminary historical and descriptive data from representatives of the Dominion Government and the chartered banks. Immediately following these hearings, we undertook an itinerary which included visits to important centres in each of the provinces. Public sessions were held at Victoria, Vancouver, Calgary, Edmonton, Saskatoon, Regina, Winnipeg, Halifax, Charlottetown, Saint John, Quebec, Montreal and Toronto. Representations were invited from provincial and local governments, public bodies and associations, and individuals and in the course of the hearings much useful information was obtained. In addition to the testimony offered at the public hearings, we received many communications from organizations and individuals who did not find it convenient to appear at the public sessions. A list of the witnesses who appeared, and of the organizations and persons who filed submissions, is included as an appendix to our report.

During our hearings, a number of topics emerged around which criticism of the operation of the banking system centered. The banks were invited to submit their views on these subjects and also on any other matters with which they might desire to deal. The concluding public sessions, which were held at Ottawa, were devoted mainly to hearing representatives of the banks in this connection.

CHAPTER I

INTRODUCTORY

1. The immediate occasion of our appointment, as the preamble of the Order in Council indicates, was the approaching expiry of the charters of the Canadian banks which, under the Bank Act of 1923, were due to terminate on 1st July, 1933, but which, by the Bank Charters Continuation Act, 1933, have been extended to 1st July, 1934. Since the enactment of the first general Bank Act for Canada in 1871, the legislative practice has been to renew the charters of the banks at decennial intervals (apart from two temporary extensions in 1911 and 1912), a method which has the advantage of enabling Parliament to review and revise the national banking code from time to time in the light of growing experience. The social and economic conditions of a progressive community alter and develop and its banking system, which forms an essential part of the economic structure of the country, must continually adjust itself to the changing conditions.

2. The revision now due is the sixth, previous revisions having taken place in 1880, 1890, 1900, 1913 and 1923. These previous revisions were undertaken in ordinary course by the Parliament of Canada and have resulted, as will be seen in the sequel, in progressive adaptation of the banking code to the requirements of the nation. The records of the proceedings in Parliament and before the Select Standing Committees on Banking and Commerce provide a valuable indication of the problems which have from time to time presented themselves and of the proposals put forward for their solution. As the result of the last revision ten years ago, the banking code of Canada is now embodied in an elaborate statute of 168 sections and numerous schedules.

3. In the forthcoming session of Parliament the work of revision will no doubt follow the same procedure as in the past; but we understand that on this occasion it has been thought desirable that, as a preliminary measure a special survey of the financial equipment of the country should be undertaken which might serve as an aid to Parliament in its important task. The financial conditions of the ten years which have elapsed since the last revision have been so entirely abnormal as not only to give rise to a host of new problems of the most far reaching kind, but also to present many old problems in an entirely new guise. The adequacy of the political, social and economic institutions of all countries during this period of exceptional strain has not unnaturally been called in question and subjected to criticism. Distress always fosters mistrust. The banks could not hope to be immune from such questioning. No doubt, by the nature of their business, banks are necessarily conservative institutions inasmuch as the services which they render to the community are dependent on their stability. They deal in credit which predicates confidence, and confidence can only be inspired by stability and trustworthiness. But the important part which they play in the national life and the influence which they exert in the daily concerns of the people require that they should justify by their efficiency the privileges which are conferred on them.

4. Our terms of reference require us not merely to examine the banking system of Canada and its operation but also to investigate the working of the Finance Act and other related statutes, to consider the advisability of establishing a central banking institution, to study the entire monetary system of Canada, particularly in relation to commodity price movements and inter-

national exchange fluctuations, to consider whether the monetary system of Canada may be so modified and developed as to facilitate intra-Imperial and international co-operation in policies designed to promote the revival of trade, the increase and stability of employment and the raising of the level of commodity prices, and generally to make such recommendations as we may deem proper for revising or supplementing existing legislation or for the adoption of other measures calculated to promote the economic and financial welfare of Canada. Within the latitude of so wide a reference it might no doubt be open to us to attempt to investigate every aspect of the political, social and economic life of Canada. We have taken a more moderate view of the duty entrusted to us and have considered it rather to be our task to enter upon the field of these large topics only insofar as they affect and are affected by the more specific subject of our study, namely, the banking and currency systems of Canada. This indeed involves a sufficiently extensive survey. To arrive at an opinion on the adequacy of the existing systems necessitates an appreciation of the medium in which they have to work. Accordingly, we have to take into account the present economic situation as we find it with all the new and perplexing elements which it presents.

5. The most diverse explanations have been offered of the causes which have brought about the existing distress. It is happily not our task to distribute the blame among the various contributing factors. But it is common ground that to some extent at least—though authorities dispute to what extent—monetary and financial causes must bear a share of the responsibility. Yet it must always be remembered that even a perfect system of finance may be thrown into confusion by the catastrophe of war or other profound disturbances and by a disregard of sound economic principles on the part of governments. A fair and efficient financial system can do much to promote a wise policy of national recovery while an inequitable and inefficient one can do much to impede it. The success of any financial system is ultimately dependent upon sound national policy.

6. Subject to these considerations, it is obviously well that at such a time as this the adequacy of the financial mechanism of any country to the new demands made upon it should be examined in order to ascertain whether the existing mechanism is working well or could be made to work better, not only under existing conditions but under those likely to prevail with the return of normality. The world will not return to the *status quo ante*. When prosperity returns, it will return to a world changed in many important respects. We have to see whether in the particular sphere of our inquiry Canada has the best equipment to deal with these new conditions, having regard to all their economic implications.

7. In such a time of difficulty experiment is justifiable. Unfortunately there is no laboratory in which such experiments can first be tried. They can only be tried upon the lives and fortunes of human beings and if they fail they may be productive of untold misery. The mechanism of finance is a delicate one; the confidence upon which it is based is a slow growth, but it may be destroyed over-night, and those to whom is entrusted responsibility for the welfare of the people must proceed with caution in the adoption of changes. Nor is it to be lightly assumed that methods which have succeeded in one country will necessarily succeed in another. The transplantation of institutions has not always been attended with happy results. Each country has a genius of its own, the result of its history, its traditions, its climate, the temperament of its people, its political institutions and its economic conditions. It has, in the language of the day, its own psychology. To this its institutions must necessarily be suited. But the experience of other countries, while it must be studied with this admonition in mind, affords some guidance in the consideration of proposed innovations.

8. The development of Canadian banking exhibits the manner in which it has been sought to adapt its working to the special needs of the country. A few instances will serve. One of the most distinctive features of Canadian banking from earliest times has been its widespread system of branches. The first general regulation in the Act of 1871 (section 4) authorizes the banks to which it applies "to open branches or agencies and offices of discount and deposit and transact business, at any place or places in the Dominion." This policy, following Scottish precedent, has proved of much value to a country of great distances and to industries dispersed over wide areas. Canadian banking has in this respect adapted itself to the widespread enterprises of the fur trade, wheat production, lumbering and fisheries which it grew up to serve. The provision of the Bank Act authorizing an additional issue of notes during the usual season of moving the crops between September and the following February is another illustration of the adaptation of banking practice to the special requirements of Canada. Of interest to the lawyer is the modification of the law of pledge, which is to be found in section 88 of the Act of 1923 and which has been progressively extended since the original Act of 1871, a provision designed to enable the financing of those who have no available security to offer for advances, except assets which must necessarily remain in their own possession. Not less significant has been the insistence of Parliament from the first that the banks should be prohibited from lending on real estate, thus saving them from the disasters which have befallen banks not similarly restrained.

9. Other features embodied in the Canadian system which have been devised in the course of its history will be more fully discussed hereafter. They include the constitution and statutory recognition of the Canadian Bankers' Association, the system of Dominion note issue under the Finance Act, originally a war emergency measure but now, as amended, part of the normal peace-time machinery, and the existence of a system of government inspection by an Inspector General of Banks.

10. The banking organization which we are called upon to examine is thus seen to have been the result of a long process of evolution, subject to control by Parliament and exhibiting, in the elaborate and frequently varied regulations of the Bank Act, a progressive adaptation to the special requirements of Canada.

11. But these adaptations, with the exception of the Finance Act, have for the most part been within the sphere of what may be termed routine banking. They have been devised in a world steadied by the more or less automatic control of the gold standard and have been designed to meet the normal exigencies of Canadian banking practice. The recent upheaval of the world's finances and the general departure from the gold standard have led to an increased recognition of the influence which, consciously or unconsciously, the monetary system of a country has upon its general economy and of the part which a wisely-regulated banking system may play on a wider stage. The commercial banker has very properly in the past regarded his responsibility as mainly confined to safeguarding the interests of his depositors and shareholders and to making judicious loans and investments with the funds entrusted to him. But it is now coming to be realized that other less obvious but also important responsibilities rest upon the banking system of a country. It must bear a share in trying to maintain stability and to regulate the quantity and flow of credit; it must interest itself in price levels, in the fluctuations of exchange, in international monetary co-operation—in short, in all the matters which concern national finance. In judging of the adequacy of a modern banking system its ability to lend assistance in these wider spheres of action must be taken into account.

12. During our hearings much testimony was received alleging an inadequate supply of credit having regard to the needs of various communities with their diverse activities, and many specific complaints were voiced touching rates of

interest and other bank charges as well as the general administration and practice of Canadian banks. These matters are concerned with the routine business of domestic banking and do not involve consideration of any fundamental change in the banking system. They are, of course, of great moment to those concerned and we shall deal with them hereafter as fully as practicable in their proper perspective. But we conceive that our larger concern is with the more difficult subject of the adequacy of the existing Canadian financial system to assume new and increasing responsibilities. That no doubt is why we are required to consider the advisability of establishing some form of central bank in Canada. We shall of course fully discuss this problem but from what we have said above, it will be obvious why the matter of a central bank has attained the importance of being the only specific subject which we are asked to consider.

13. In the course of our hearings throughout the Provinces of Canada the most diverse views have been expressed upon a great variety of economic and financial questions. At some places we heard evidence tendered to us by witnesses who advocated a complete supersession of the present banking code by a socialized or nationalized system. We refrain, however, from any comment on these proposals, as it is obvious that their adoption would involve a complete change in the whole existing system and this is a matter not within the terms of our reference.

14. The plan of our report is simple. We set out briefly in the first place the history and present methods of operation of the Canadian banks and other financial institutions. We then give a description of the salient features of the general economic position of Canada as we find it. Next we discuss the monetary and financial problems to which such a situation gives rise, and the methods available for dealing with such problems. This leads us to consider how far the existing banking and financial mechanism, as we have described it, is adequately equipped to cope with the problems indicated. We next make our observations upon certain matters of banking practice and administration raised in the course of our hearings. Finally we make our recommendations as to the legislative and other measures which we suggest should be adopted.

15. We may conclude this prefatory chapter with two general observations. In the first place we wish to emphasize that our endeavour has been to consider the questions submitted to us objectively and with the single aim of improving and strengthening the Canadian banking and financial structure. Such questions no doubt have their political aspect but they need for their solution light, not heat. In the next place, we must forestall disappointment by disclaiming any ability on our part to offer an infallible prescription for national recovery. We do trust, however, that the results of our study as here set forth may help to inform public opinion upon the difficult and intricate questions with which we have to deal. Some matters we regard as appropriate for elucidation and comment rather than for specific recommendations. And while we may set out the consequences as we see them of particular policies and tendencies, we are not so presumptuous as to venture to prescribe to the Government of the country what course it should adopt in matters of high executive policy which lie outside the scope of our inquiry, but which may nevertheless have a most decisive bearing upon national finance. We shall be content if our recommendations are such as to promote the strengthening of the financial structure of the nation.

CHAPTER II

AN HISTORICAL SKETCH OF THE FINANCIAL INSTITUTIONS OF CANADA

16. The Canadian financial system is the result of a process of gradual growth and development extending over rather more than a century. This evolution has been influenced by a number of factors, geographical, political and economic. Thus, in order that there may be a proper appreciation of the existing system, we propose to give a brief summary of its historical background.

17. Geographically Canada is divided into four parts—the eastern maritime section, the central area, the Prairie Provinces and the Pacific coast. Each part has its own special economic interests, which renders it difficult to treat Canada as a single economic unit. This regional diversification has had a [illegible]d effect on the Canadian banking system and has influenced the develop[illegible]f branch banking so as to meet the varying seasonal demands of industries situated widely apart.

18. An important factor in the development of the system has been the proximity of the United States, whose economic problems have been in many respects similar to those of Canada. The Canadian banks have always been in close contact with financial centres in the United States.

19. So profoundly has the economic development of Canada affected its banking system that it is possible to trace a correspondence between the stages of Canadian banking organization and the stages of the country's economic progress. The first period was that of a local economy where money and not banking facilities was needed. The second was that of trade over a wider area, with a consequent need for at least local banking facilities. The third stage was that of industrial development where wider markets made necessary increased banking facilities. These stages of development have resulted in the growth of the Canadian banks from small local concerns to the present large institutions with branches throughout Canada and in many foreign countries. Such evolution is not in itself unusual but the fact that it has been so rapid and so recent in Canada must be borne in mind if the characteristics of the present-day system are to be properly appreciated.

1. THE CHARTERED BANKS

20. With the secession of the thirteen American colonies in 1776, only the northern portion of the continent was left under British control. Of this area the eastern section was later organized into provinces, each in direct communication with the British Government and having its separate currency and banking systems. These conditions existed until Confederation in 1867. Accordingly, in one sense the Canadian banking system properly so called can be said to date only from this event, though of course its foundations were laid in the past. We are concerned primarily with the consolidated system starting with Confederation and consequently only a brief recital of the earlier history need be given here. Those who desire to pursue the study of the subject will find it exhaustively treated in *The Canadian Banking System, 1817-1890*, by R. M. Breckenridge[1], and in the writings of Adam Shortt and other recognized authorities.

[1] New York: American Economic Association, 1895.

21. It is generally agreed that the Canadian banking system is a direct descendant of the first Bank of the United States, and an examination of the bills incorporating the early banks of Canada exhibits this influence. Most of the bank charters of Upper and Lower Canada followed the charter of the Bank of Montreal, which embodied all the essential clauses and even some of the phraseology of the charter of the first Bank of the United States. The Bank of Montreal's charter (granted in 1822) is thus typical and indicates the lines along which Canadian banking development then proceeded.

22. The first bank charter granted in the Maritime Provinces was that of the Bank of New Brunswick which was influenced by New England banking laws. The other Maritime banks followed mainly along the lines of the Bank of New Brunswick but it may be said that generally the constitution of the Upper and Lower Canada banks exercised a predominant influence on the first Bank Act of the Dominion of Canada.

23. The period before 1867 was formative and important. Many modifications in the early charters had been effected by 1867 but the general principles which they embodied remained substantially unaltered.

24. Although the federal government was given control of banking and currency in 1867, the first comprehensive Dominion Bank Act was not passed until 1871. In the interval all banks worked under their existing provincial charters which had been continued. As the Act of 1871 is the first of the Dominion Bank Acts, and gave its direction to the present system, its provisions are here summarized.

25. An outstanding feature of the Act of 1871 was what is commonly referred to as the double liability clause, which in effect renders a shareholder liable (in addition to the extent to which his shares are not paid up) for an amount equal to the par value of the shares held by him, or so much thereof as may be needed to pay the debts and liabilities of the bank. This double liability provision made its first appearance in Canadian banking legislation with the incorporation of the Bank of Nova Scotia in 1832, being later made part of an Act renewing the charter of the Bank of Montreal in 1841. It may be remarked that shareholders of the National banks and the Federal Reserve Banks in the United States are subject to a similar liability, while the same is true of a large proportion of the State banks. In Great Britain, while the statutory position is not the same, the capital stock of practically all the leading banks is only partially paid up; the uncalled capital, therefore, remains as a liability of the shareholders to the creditors of such banks. The extent to which double liability has been collected from shareholders of Canadian banks that have gone into liquidation during the past thirty years is indicated in the appendix summary of bank liquidations since 1867. The Act of 1871 required a capital of $500,000, of which $100,000 had to be paid in before beginning business and a second $100,000 within two years; the remainder could be called as required. Bank notes could be issued in denominations of $4 or upwards, and the banks were required to receive their own notes in payment at any office, although the notes were only redeemable in specie at expressly designated offices, of which one had to be the principal office. There were no reserve requirements except that the banks should keep at least one-third of their cash reserves in Dominion notes. The banks were prohibited from lending on their own stock, or on real estate, and from paying dividends out of capital. The directors were required to have certain minimum holdings of stock, and their borrowings might be restricted by by-law. Certified lists of shareholders and more detailed monthly returns were to be given to the government; false returns constituted an offence for which penalties were prescribed. If a bank suspended payment of its liabilities for more than ninety consecutive days in a year, its charter was forfeited. The charters expired in ten years. In 1873 and in 1875 the monthly statistical return to the government was

made more comprehensive, while in 1879 a clause was inserted prohibiting the banks from lending on the stock of other banks. These were the only changes of any significance made between 1871 and 1880, when the first general revision of the Act was undertaken.

26. The period from 1867 to 1883 was one of general economic progress in the Dominion and the banks shared in this increase of prosperity. Between 1867 and 1873 remarkable growth took place, while the last two or three years of the period were also times of great activity. Between 1867 and 1881 thirty bank charters were issued by the government resulting in the formation of some twenty new banks, a fact in itself indicative of the financial expansion during this period. The number of branches operated increased from 147 in 1868 to 335 in 1884, and the resources of the banks increased greatly.

27. In the midst of this period, however, there occurred a general depression which was severely felt in Canada. There resulted a number of bank failures and the consequent losses, particularly in respect of the notes of the failed banks, led to certain changes being made at the revision of 1880.

28. Some of the more important of these changes may be mentioned. Bank notes were made a prior lien on the general assets of the bank, while the denominations of bank notes were fixed at $5 or multiples of that sum. Forty per cent of the cash reserves had to be kept in Dominion notes, while the banks were [illegible]quired to pay up to $50 in $1 and $2 Dominion notes, if so requested. The [illegible]ons dealing with loans on warehouse receipts and bills of lading were broadened, and the monthly returns to the government were required in greater detail. The Act of 1880 extended the charters of the banks for ten years and prohibited the use of the title "bank" by other than chartered banks.

29. The decade 1880-1890 witnessed the completion of the const[illegible]ion of the Canadian Pacific Railway main line to the Pacific coast. It was [illegible] period characterized by expanding business and increasing immigration and settlement with gradual economic reaction and decline in its later stages. Thirteen banks were incorporated between 1882 and 1886.

30. In the twenty-three years between Confederation and 1889 ten banks failed and nine others withdrew from business, involving heavy losses to shareholders, depositors and noteholders. As a result of these unhappy experiences the revision of 1890 incorporated several new features in the Bank Act.

31. The establishment of the Bank Circulation Redemption Fund for bank notes was one of the most important innovations effected by the Act of 1890. By this provision, the banks were required to deposit with the Minister of Finance five per cent of their average yearly note circulation and, if necessary, further assessments could be made. If the liquidators of a failed bank did not arrange for the redemption of its notes, they were to be redeemed out of this fund; and from the time of suspension until redemption was announced, the notes were to bear six per cent interest; any unclaimed balances, upon liquidation, were to be taken over by the government without prejudice to future claims. By this provision it was hoped to protect the note holders from loss through the notes being at a discount. The banks were also required to establish various agencies throughout Canada for the redemption of their notes.

32. While the minimum capital required to start a bank was left at $500,000, the amount which had to be paid in before beginning business was raised to $250,000; and it was further stipulated that this amount must be deposited with the Minister of Finance before the Treasury Board's certificate authorizing the commencement of business could issue.

33. The sections of the Act pertaining to loans on warehouse receipts and bills of lading were revised and provisions enacted authorizing the banks to lend to manufacturers upon the general security of goods manufactured or procured for manufacture and to wholesale purchasers and shippers of natural products on the security of such produce. Other changes were made which established the Crown as a prior creditor after bank note holders, and permitted foreign citizens to be directors so long as the majority of the board were British subjects. In accordance with past practice charters were extended for ten years.

34. In 1892 the Canadian Bankers' Association was formed of which the chartered banks were members, and bank officers and clerks, associates. This was a voluntary association which later came to have an important influence on Canadian banking.

35. In 1899 banks were authorized to issue notes in denominations of one pound sterling or multiples of that sum, for circulation in colonies outside Canada, a concession to the growing external business of the Canadian banks. During the 'nineties Canadian expansion went on at a slower rate with the result that only one bank (in 1890) was chartered between 1886 and May, 1901. In 1898 a new era of Canadian expansion began which lasted until 1913, concurrent with railway construction and the growth of immigration and settlement; between 1901 and 1908 no less than twenty new bank charters were granted.

36. In the session of 1900, Parliament incorporated the Canadian Bankers' Association, which was empowered "to promote generally the interests and efficiency of banks and bank officers and the education and training of those contemplating employment in banks." The Association was also empowered to establish and regulate clearing houses, of purely voluntary membership. At the revision of the Bank Act in 1900 the Association was assigned certain functions, including control by a curator over suspended banks pending the appointment of a liquidator. The Association was also given supervision over the issue and destruction of bank notes. The by-laws of the Association were made subject to approval by the Treasury Board. In 1901 the by-laws of the Association came into effect according to law. They required from every chartered bank doing business in the Dominion a monthly return, under penalty of fine, showing all the details of their circulation. Provision was also made for an annual inspection of the circulation account of each bank. A considerable amount of co-operation among the banks resulted from the formation of the Association.

37. General provisions were inserted in the Act regulating mergers and amalgamations of banks, with the result that special approval by Parliament ceased to be requisite. All that was required was a proposal of purchase, the consent of two-thirds of the shareholders of the selling bank, and the approval of the Governor in Council, given on the recommendation of the Treasury Board. The Act also allowed the shareholders to call for information from the directors in addition to the regular reports. Other changes were the reduction of the rate of interest on notes of suspended banks from six per cent to five per cent, and the limitation of holdings of real estate, taken as additional security, to twelve years; after that period real estate so held was rendered subject to seizure by the Crown upon six months' notice, although it could be legally disposed of within the six months. The form of the monthly statement was amplified and the charters extended for ten years.

38. The period from 1900 to 1913 was one of unprecedented economic development in Canada in which the banks played a very important part. Their resources and branches increased greatly and as a result of the altered conditions some changes were made in the Act during this period. In 1904 the power of the banks to issue notes in British colonies was enlarged, and in 1905 the limitation of bank directorates to ten members was removed. For some years it had been

becoming evident that the note circulation of the banks was approaching the limit of paid-up capital. The agricultural development, particularly in the Prairie Provinces, made the situation unusually acute during the crop-moving season. The elasticity of the bank note circulation, which had always been regarded as one of the most desirable features of the Canadian banking system, was reaching its limit. As a result the Bank Act was amended in 1908 to permit a bank to issue notes in excess of its paid-up capital to the amount of fifteen per cent of its combined rest fund and unimpaired paid-up capital; this facility could only be used between October 1 and January 31 of the next year, which were the four months when the crops were moved. These excess issues were subjected, while outstanding, to a tax of not more than five per cent per annum to be fixed by the Governor in Council; in practice, the maximum rate of five per cent has always been charged.

39. For special reasons the next decennial revision of the Bank Act was postponed in 1911, and 1912, and did not take place until 1913. The main changes made at this revision were: (1) the establishment of the central gold reserves, by which four trustees were empowered to receive from the banks deposits of gold or Dominion notes, against which the banks might issue an equal amount of their own notes; (2) the requirement of a shareholders' audit along the lines of the provisions of the English Joint Stock Companies Act; (3) the extension by two months of the period during which the banks could issue the "excess" note circulation; and (4) some changes respecting loans to farmers. In 1915 and 1916 further amendments with respect to lending on cattle and for the purchase of seed grain were made to the Bank Act, otherwise the Act of 1913 remained virtually unc[illegible]d until the revision of 1923.

[illegible] At the revision of 1923 provision was made for the registration of security for loans under Section 88. A great deal of criticism had been directed to the injustice to other creditors resulting from non-disclosure of the banks' prior lien. It was accordingly required that notice of intention to borrow under Section 88 must be registered at the office of the Assistant Receiver General in the province of the borrower. The shareholders'-audit provisions were strengthened and annual and monthly returns elaborated with the added requirement that statements of controlled companies in the names of which any part of a bank's operations were carried on must be furnished. Provision was also made for keeping records of attendance at directors' meetings and bringing them to the notice of shareholders. Regulations regarding loans were amended and advances to any officer or clerk of a bank could not, in any circumstances, be granted in excess of $10,000. It became necessary for guarantee and pension funds to be invested in trustee securities.

41. As a result of the Home Bank failure in 1923 the Bank Act was amended in 1924 and provision made for government inspection. This change was the only one of importance made after 1923 and the Act under which the banks now operate is the statute of 1923 with the amendment of 1924.

42. During the present century an important feature in the development of Canadian banking has been the reduction in the number of banks by amalgamations, a process facilitated by the provisions of the Act of 1900. In 1900 there were thirty-eight chartered banks sending in reports to the Department of Finance. By the end of the War this number had been reduced by amalgamations and one relatively unimportant failure to nineteen, notwithstanding that a number of new charters had meantime been granted. Since the War the process has continued and at the present time there are ten chartered banks in Canada. We append tables setting out the amalgamations which have taken place since 1867, and also the Principal and Total Assets and Liabilities of each of the existing chartered banks at 30th June, 1933. In the Appendix a summary is given of the bank liquidations since 1867.

TABLE 1

AMALGAMATIONS SINCE 1867[1]

Purchasing Bank	Bank Absorbed	Date[2]
Bank of Montreal	Exchange Bank of Yarmouth, N.S.	Aug. 13, 1903
	People's Bank of Halifax, N.S.	June 27, 1905
	Ontario Bank	Oct. 13, 1906
	People's Bank of New Brunswick	April 15, 1907
	Bank of British North America	Oct. 12, 1918
	Merchants' Bank of Canada	March 20, 1922
	Molson's Bank	Jan. 20, 1925
Canadian Bank of Commerce	Gore Bank	May 19, 1870
	Bank of British Columbia	Dec. 31, 1900
	Halifax Banking Co.	May 30, 1903
	Merchants' Bank of P.E.I.	May 31, 1906
	Eastern Townships Bank	Feb. 29, 1912
	Bank of Hamilton	Dec. 31, 1923
	Standard Bank of Canada	Nov. 3, 1928
Bank of Nova Scotia	Union Bank of P.E.I.	Oct. 1, 1883
	Bank of New Brunswick	Feb. 15, 1913
	The Metropolitan Bank	Nov. 14, 1914
	The Bank of Ottawa	April 30, 1919
Royal Bank of Canada	Union Bank of Halifax	Nov. 1, 1910
	Traders' Bank of Canada	Sept. 3, 1912
	Quebec Bank	Jan. 2, 1917
	Northern Crown Bank	July 2, 1918
	Union Bank of Canada	Aug. 31, 1925
Imperial Bank of Canada	Niagara District Bank	June 21, 1875
	The Weyburn Security Bank	May 1, 1931
Banque d'Hochelaga[3]	Banque Nationale	April 30, 1924
Bank of New Brunswick	Summerside Bank	Sept. 12, 1901
Merchants' Bank of Canada	Merchants' Bank	Feb. 22, 1868
	Commercial Bank of Canada	June 1, 1868
Union Bank of Halifax	Commercial Bank of Windsor	Oct. 31, 1902
Northern Crown Bank	The Northern Bank	July 2, 1908
	Crown Bank of Canada	July 2, 1908
Union Bank of Canada	United Empire Bank	March 31, 1911
Home Bank of Canada	La Banque Internationale du Canada	April 15, 1913
Standard Bank of Canada	Western Bank of Canada	Feb. 13, 1909
	Sterling Bank of Canada	Dec. 31, 1924

[1]The purchasing banks named in the latter part of the table are no longer in business.
[2]Dates given since 1900 are those of the Orders in Council authorizing the absorptions.
[3]The Banque d'Hochelaga after absorbing the Banque Nationale adopted the name Banque Canadienne Nationale.

TABLE 2

PRINCIPAL AND TOTAL ASSETS OF EACH OF THE CHARTERED BANKS OF CANADA, JUNE 30, 1933

Bank	Current Gold and Subsidiary Coin	Dominion Notes	Deposit in Central Gold Reserves	United States and other Foreign Currencies	Due from other Banks
	$	$	$	$	$
Bank of Montreal	17,933,050	68,244,814	7,000,000	290,099	51,522,539
Bank of Nova Scotia	10,020,802	12,215,032	1,250,000	1,907,422	19,783,402
Bank of Toronto	303,[illegible]	4,878,262	630,866	19,554	11,450,002
Banque Provinciale du Canada	221,964	374,036	....	23,307	3,680,200
Canadian Bank of Commerce	11,604,710	20,268,701	4,000,000	1,273,853	43,755,202
Royal Bank of Canada	8,703,480	23,070,188	3,000,000	17,972,856	50,837,687
Dominion Bank	636,725	3,251,539	400,000	41,243	10,744,647
Banque Canadienne Nationale	920,349	1,201,607	2,200,000	40,108	5,530,709
Imperial Bank of Canada	420,844	4,394,806	2,700,866	15,207	9,985,008
Barclays Bank (Canada)	12,091	148,885	....	1,128	4,885,552
Totals	50,948,517	138,058,520	21,181,732[2]	21,584,987	212,175,998

Bank	Securities	Loans and Discounts: Call Loans in Canada	Loans and Discounts: Current Loans in Canada[1]	Loans and Discounts: Call and Current Loans outside Canada	Total Assets[3]
	$	$	$	$	$
Bank of Montreal	280,224,036	5,148,801	250,335,840	46,808,880	761,375,702
Bank of Nova Scotia	82,722,828	13,736,847	100,508,307	13,222,037	273,368,244
Bank of Toronto	46,211,947	4,490,001	44,705,243	....	118,430,178
Banque Provinciale du Canada	17,934,024	4,813,576	15,090,117	....	45,863,404
Canadian Bank of Commerce	168,140,845	27,631,280	218,313,506	35,569,053	570,043,398
Royal Bank of Canada	135,532,507	27,368,736	246,121,300	154,187,146	719,471,077
Dominion Bank	39,329,369	6,840,553	51,030,614	2,831,714	124,530,334
Banque Canadienne Nationale	47,186,046	5,644,606	63,000,104	47,489	135,453,649
Imperial Bank of Canada	35,959,046	5,703,674	64,558,028	....	132,132,986
Barclays Bank (Canada)	921,632	138,920	1,240,422	....	7,806,046
Totals	860,164,340	101,518,053	1,056,662,267	252,666,300	2,889,465,918

[1]Includes loans to Provincial Governments and to cities, towns, municipalities and school districts.
[2]$5,181,732 in gold, the remainder being Dominion notes.
[3]Includes other assets.

TABLE 3

PRINCIPAL AND TOTAL LIABILITIES OF EACH OF THE CHARTERED BANKS OF CANADA, JUNE 30, 1933

Bank	Capital (paid up)	Rest or Reserve Fund	Notes in Circulation	Due to Dominion and to Provincial Governments	Letters of Credit Outstanding
	$	$	$	$	$
Bank of Montreal	36,000,000	38,000,000	35,380,208	13,979,340	5,424,822
Bank of Nova Scotia	12,000,000	24,000,000	11,574,088	1,016,033	5,780,193
Bank of Toronto	[illegible]6,000,000	9,000,000	6,296,424	1,430,873	1,004,653
Banque Provinciale du Canada	[illegible]	[illegible]	3,585,885	379,140	15,737
Canadian Bank of Commerce	30,000,000	30,000,000	25,342,019	5,126,123	11,350,393
Royal Bank of Canada	35,000,000	35,000,000	31,498,307	7,410,552	19,095,428
Dominion Bank	7,000,000	9,000,000	6,521,185	1,255,031	1,530,529
Banque Canadienne Nationale	7,000,000	7,000,000	8,807,314	1,868,407	266,758
Imperial Bank of Canada	7,000,000	8,000,000	8,388,380	2,504,601	941,883
Barclays Bank (Canada)	500,000	500,000	287,330	301,049	57,196
Totals	144,500,000	162,000,000	137,742,040	35,271,149	45,537,597

Bank	Deposits: Demand in Canada	Deposits: Notice in Canada	Deposits: Outside of Canada	Due to other Banks	Total Liabilities[1]
	$	$	$	$	$
Bank of Montreal	150,807,684	389,803,020	70,125,477	9,484,325	759,824,543
Bank of Nova Scotia	37,055,894	134,131,273	37,608,299	4,705,814	272,668,632
Bank of Toronto	23,419,379	66,035,598	....	2,754,876	117,737,176
Banque Provinciale du Canada	4,039,075	31,300,901	....	59,539	45,487,446
Canadian Bank of Commerce	110,078,597	286,625,801	46,156,901	40,879,199	568,605,481
Royal Bank of Canada	130,568,120	262,894,258	168,175,107	13,709,556	717,053,478
Dominion Bank	29,254,121	61,599,156	1,762,740	3,393,633	124,195,968
Banque Canadienne Nationale	16,646,298	78,871,543	1,092,379	853,296	134,972,748
Imperial Bank of Canada	25,037,817	74,068,915	....	3,311,890	130,844,789
Barclays Bank (Canada)	1,241,424	1,511,840	....	3,406,085	7,858,926
Totals	535,048,009	1,386,930,428	324,920,903	52,558,213	2,879,879,187

[1]Includes other liabilities.

2. THE DOMINION NOTE ISSUE

43. As all the Provinces entering the federation had their own notes in circulation, the new Canadian government had to meet this problem. In effect it took over the various provincial note issues and substituted for them Dominion notes.

44. The first Dominion Notes Act, passed in 1868, limited the issue to $8,000,000, of which the first $5,000,000 required a 20 per cent reserve, and from $5,000,000 to $8,000,000 a 25 per cent reserve in specie. These reserve requirements do not seem high but were probably quite ample, for the notes to a large extent remained in circulation and the banks were required to keep in Dominion notes one-third of whatever cash reserve was required.

45. Various changes, which need not be narrated here, were made in the reserve requirements from time to time, usually because of the exigencies of public finance. The changes, however, were all small and did not alter the nature of the issue. The last pre-war change was made in 1903.

46. The situation in 1913 was that the Minister of Finance was required to hold a reserve of 25 per cent in gold or guaranteed debentures for the

first $30,000,000 issued; in fact the reserve was wholly specie. Over this limit all notes issued required a 100 per cent gold reserve.

47. In the war session of August, 1914, Parliament raised the partially covered issue to $50,000,000. Subsequently an issue of $16,000,000 was made against a deposit of railway securities guaranteed by the Dominion Government, as well as an uncovered issue of $10,000,000 for governmental purposes. In 1917 an emergency issue of $50,000,000 of Dominion notes was made to finance war purchases in Canada, by the British Government. The notes were secured by Imperial Treasury bills. In due course, this indebtedness was liquidated by payments from the British Treasury and all of this issue had been redeemed by 1927. No changes have since been made in the Dominion Notes Act except that by a Statute passed on 30th March, 1933, the Governor in Council was empowered to suspend the redemption in gold of Dominion notes, and an Order in Council to this effect was made on 10th April, 1933.

48. Another extremely important change in the Canadian monetary structure was effected by the passing of the Finance Act in the 1914 war session of Parliament. This Act formed part of the emergency measures adopted at the outbreak of war. In the early days of August, 1914, many "runs" upon the banks took place throughout the country, withdrawals of gold in Montreal and Toronto were particularly heavy and in general an atmosphere of incipient financial panic prevailed. On August 3rd an Order in Council was passed providing, among other things, for advances to be made to the chartered banks and to the savings banks to which the Quebec Savings Banks Act applies in the form of Dominion notes against deposits made by the banks with the Minister of Finance of such securities as might be approved by the Minister. At the session of Parliament held in the month of August, 1914, the first Finance Act was passed; it confirmed the issue of notes made under the provisions of this Order in Council and provided for authorization by proclamation of similar advances in case of war, invasion, riot or insurrection, ... or apprehended, and in case of any real or apprehended financial crisis. The Act also empowered the Governor in Council, in such circumstances of emergency, by proclamation (1) to authorize the chartered banks to make payments in their own notes instead of in gold or Dominion notes and to use the facility of issuing excess notes throughout the year and not merely during the crop-moving season; (2) to suspend the redemption in gold of Dominion notes; and (3) to establish a general moratorium.

49. A proclamation in pursuance of the Act was issued on September 3, 1914, and thenceforth, throughout the war and the early post-war period, extensive use was made of the Act.

50. An Act passed in 1919 provided for the continuance in force of the proclamation made on September 3, 1914, "until two years after the conclusion of peace on termination of the present war." This explains the continued operation of the Act until 1923.

51. The provision relating to a general moratorium has never been used. The powers relating to payments by the banks in their own notes, the issue of excess circulation and the suspension of the redemption in gold of Dominion notes ceased to be exercised at various dates. But extensive use continued to be made of the power to issue Dominion notes to the banks against approved securities with the result that it was decided in 1923 to make this part of the Finance Act mechanism a feature of the normal Canadian financial system. In introducing the new legislation, Mr. Fielding, the Minister of Finance, made the following brief explanation of its purpose:—

"The Act (Finance Act) was adopted as a war measure, and no doubt was exceedingly useful in the financial operations during the war. It may be said that the war being over we no longer have any need for the Act, but experience has shown that the Act is still required; indeed, I am inclined to think that something of the kind will have to become almost a permanent part of our financial system."

52. The Finance Act of 1923 provided that at any time when there is no proclamation in force under the authority of the Finance Act of 1914, the Minister of Finance may make advances to the chartered banks and to the savings banks to which the Quebec Savings Banks Act applies by the issue of Dominion notes upon the pledge of approved securities deposited with the Minister. The Act lists the classes of approved securities, limits the duration of advances to one year, and authorizes the Treasury Board to fix the rate of interest and make regulations with regard to advances, the terms and conditions affecting the deposit of securities and all other provisions necessary to give effect to the Act.

53. The Acts of 1914 and 1923 are consolidated in Chapter 70 of the Revised Statutes of Canada, 1927.

54. It is of interest to note that during the crisis of 1907 the then Minister of Finance made arrangements to lend the banks some $10,000,000 of Dominion notes under similar conditions to those laid down in the Finance Act.

55. From this brief survey it can be seen that while the Dominion Notes Act has developed mainly along its original lines, the position of the Dominion note issue has been substantially changed by the introduction of the Finance Act.

3. THE ROYAL CANADIAN MINT

56. The Ottawa Mint, established as a branch of the Royal Mint under the (Imperial) Coinage Act of 1870, was opened on January 2, 1908. In 1931 the Finance and Treasury Board Act was amended to provide for taking over the Ottawa Mint under the name of the "Royal Canadian Mint" and since December of that year the Mint has been operated as a branch of the Department of Finance.

57. Prior to 1908 coins used in Canada had been obtained from the Royal Mint in London or from The Mint, Birmingham, Ltd. In its earlier years the operations of the Mint in Canada were confined to the production of gold, silver and bronze coins for domestic circulation, of British sovereigns, and of small coins struck under contract for Newfoundland and Jamaica. The first gold coins struck were sovereigns identical with those of Great Britain except for a small "C" identifying them as having been coined in Canada. In May, 1912, the first Canadian $10 and $5 gold pieces were struck but so far the amount of Canadian gold coins minted has been very limited—only $3,480,360 in $10 pieces and $1,388,060 in $5 pieces. Gold coins have never been in great demand in Canada and none has been struck since 1919. Canadians have generally preferred Dominion notes to gold coin for use within the country, while, for export purposes, bullion or British and United States gold coin are equally suitable.

58. The refining of gold is now the principal activity of the Mint. Before 1914 small quantities of gold bullion were refined but during the war the Mint established a refinery in which nearly twenty million ounces of gold were treated for the account of the Bank of England. The growth of Canada's gold-mining industry in recent years has been particularly rapid and, since the initiation in 1931 of the policy of prohibiting the export of gold, except under licence, practically the entire gold production of the country has been refined by the Mint and later exported through the Department of Finance. During 1932, the gold received at the Mint amounted to no less than $58,401,549.

4. DOMINION GOVERNMENT SAVINGS BANKS

59. Prior to 1929 there were two classes of Dominion Government savings banks in Canada, the Post Office Savings Bank, under the Post Office Department, and the Dominion Government Savings Bank, attached to the Department of Finance. The former was established under the Post Office Act of 1867 (31 Vict., c. 10) in order "to enlarge the facilities now available for the deposit of small savings, to make the Post Office available for that purpose, and to give the direct security of the Dominion to every depositor for repayment of all money deposited by him together with the interest due thereon." Branches of the Government Savings Bank proper, under the authority of the Department of Finance, were established in the leading cities of Canada under the management of the Assistant Receivers General and in other places, in the provinces of Nova Scotia and New Brunswick, under managers appointed by the Governor in Council. The Government Savings Bank was amalgamated with the Post Office Savings Bank in 1929.

60. Post Office Savings Banks are established at the General Office and at over 1,300 other offices. Sums of $1 or any multiple of $1 may be deposited, but the maximum sum which may be received from any one depositor in any year, ending the 31st March, is $1,500, and the total sum which may be received to the credit of any depositor is $5,000, exclusive of interest. Withdrawals, in cash on demand, up to $50 may be made at any Savings Bank Office. The present rate of interest allowed is 2½ per cent per annum, the rate having been reduced from 3 per cent from May 1, 1933, to conform to a similar reduction in the rate of interest allowed by chartered banks on savings deposits and to a reduction of one-half of one per cent in the rates allowed by other financial institutions. It is recorded that the Post Office Savings Bank, which started operations in 1868, first paid 4 per cent, which was reduced to 3½ per cent on October 1, 1889, to 3 per cent on July 1, 1897 and to 2½ per cent (the present rate) on May 1, 1933.

61. The following figures show the total deposits in both the Postal Savings Bank and the Dominion Government Savings Bank at the end of various fiscal ye[illegible] from 1868 to 1933 inclusive:—

TABLE 4

Fiscal Year	Postal Savings Bank	Dominion Government Savings Bank	Fiscal Year	Postal Savings Bank	Dominion Government Savings Bank
	$	$		$	$
1868	204,589	1,483,219	1915	39,995,406	14,006,158
1870	1,588,849	1,822,570	1916	40,008,418	13,510,855
1875	2,926,090	4,245,091	1917	42,582,479	13,633,010
1880	3,945,669	7,107,287	1918	41,283,479	12,177,283
1885	15,090,540	17,888,536	1919	41,654,960	11,402,008
1890	21,990,653	19,021,812	1920	31,605,594	10,720,218
1895	26,805,542	17,044,950	1921	29,010,019	10,150,189
1900	37,507,456	15,042,267	1922	24,837,181	9,820,653
1905	45,368,321	16,649,136	1923	22,357,268	9,433,839
1906	45,736,488	16,174,134	1924	25,156,440	9,055,091
1907	47,453,228	15,088,584	1925	24,662,060	8,949,073
1908	47,564,284	15,016,871	1926	24,035,669	8,794,870
1909	45,190,484	14,748,436	1927	23,402,337	8,519,706
1910	43,886,357	14,677,872	1928	23,403,210	7,040,566
1911	43,330,579	14,673,752	1929	28,375,770	*
1912	43,503,764	14,655,564	1930	26,086,036	*
1913	42,728,942	14,411,541	1931	24,750,227	*
1914	41,591,286	13,976,162	1932	23,910,077	*
			1933	23,920,915	*

* Included in Post Office Savings Bank.

5. PROVINCIAL GOVERNMENT SAVINGS OFFICES

62. Institutions for the deposit of savings are operated by the Provincial Governments of Ontario and Alberta, while a similar institution was in operation in Manitoba from 1924 to 1932 when the depositors' accounts were taken over by the chartered banks.

63. ONTARIO.—In the session of 1921, the Legislature of Ontario authorized the establishment of the Province of Ontario Savings Office, and in March, 1922, the first branches were opened. The funds received from this source are used almost exclusively to finance farm loans under the Agricultural Development Act. Interest formerly at the rate of 3 per cent, but since May 1, 1933, at the rate of 2½ per cent per annum, compounded half yearly, is paid on all accounts. The deposits are all repayable on demand. Total deposits on October 31, 1932, were $23,709,820 and the number of depositors at that date was over 90,000. Seventeen branches are in operation throughout the province.

64. ALBERTA.—In Alberta the Provincial Treasury receives savings deposits and issues demand-savings certificates bearing interest at 4 per cent, or term certificates for one, two or three years, in denominations of $25 and upwards, bearing interest at 5 per cent. The total amount in savings certificates on September 30, 1932, was $8,579,917, made up of $8,029,651 in demand certificates and $550,266 in term certificates.

6. QUEBEC SAVINGS BANKS

65. There are two institutions operating under the Quebec Savings Banks Act (R.S.C. 1927, Chap. 14) viz: The Montreal City and District Savings Bank and La Caisse d'Economie de Notre Dame de Québec. The former was founded in 1846 and its present charter dates from 1871. On June 30, 1933, it had a paid-up capital and reserve fund of $4,200,000, savings deposits of $55,075,793, and total assets of $61,602,309, these assets including over $44,000,000 of Dominion Provincial and Municipal securities. La Caisse d'Economie de Notre Dame de Québec, founded in 1848 under the auspices of the St. Vincent de Paul Society, was incorporated by Act of the Canadian Legislature in 1855 and given a Dominion charter by 34 Vict., Chap. 7. On June 30, 1933, it had a paid-up capital and reserve fund of $2,250,000, savings deposits of $13,049,237 and total assets of $16,601,565.

66. These banks occupy a special position in the Canadian financial structure. To some extent they have been brought under similar restrictions to those applying to the chartered banks. For instance, the "shareholders' audit" was introduced into the Quebec Savings Banks Act in 1913 at the time it was embodied in the Bank Act. Both Acts are subject to decennial revision. On the other hand the shares do not entail double liability and the right of note issue has never been conferred. As in the case of the chartered banks, these banks have not been allowed to invest in real estate, except for their own use; but their ordinary "commercial banking" business is so small that some two-thirds of their funds have been invested in government and municipal securities. They are essentially "savings" banks.

7. CAISSES POPULAIRES (CO-OPERATIVE PEOPLE'S BANKS)

67. The first successful effort to introduce the principle of the small bank for rural purposes in Canada was made in the Province of Quebec. The late Commander Desjardins, a resident of the town of Levis, after a careful study of the systems of small banks in operation in Europe, decided to introduce into Quebec a system of "People's Banks," the "Caisses Populaires," after the model

of the "People's Banks" in Italy. The first one was organized on 6th December, 1900, in the town of Levis. The "Caisses Populaires" are organized and operate under the Co-operative Syndicates' Act of Quebec, R.S.P.Q., 1925, Vol. 3, chap. 254.

68. The "Caisses Populaires" are not strictly rural institutions, that is to say, the membership is not limited to farmers, but they are conducted more largely in the interest of farmers than in that of any other class, because of the high percentage of farmers composing the membership. Their transactions are those of a mutual company, owing to the fact that they generally lend only to their shareholders, who have the right of making deposits over and above the amount of their shares. While they do not specially aim at doing mortgage business, loans are made on first mortgage on immovable property. In addition, they make loans to their members on personal security.

69. Statistics show that the rates of interest paid on deposits by the "Caisses Populaires" vary from a minimum of 3 per cent to a maximum of 5 per cent, although 3 and 4 per cent appear to be the more common rates. We understand that the interest rate charged borrowers varies from 5 per cent—to 8 per cent—ordinarily 6 per cent or 7 per cent—according to the duration and amount of the loan and the borrower's credit standing. The mortgage loans made by these banks are generally for ten years, or less. In commenting upon the shortness of this period compared with the long term mortgages prevailing in Europe, a representative of the "Caisses Populaires" exp[illegible] before the Commission that the reason for this was "parce que nous con[illegible] ons ici au Canada, que nous vivons plus vite qu'en Europe."

70. The following statistical data, as of 30th June, 1933, have been furnished relative to these institutions:

Number of institutions	192
" " members	41,913
" " depositors	41,156
" " borrowers	11,767

	No.	Amount	Percentage of Amount
Loans:			
On promissory notes	9,481	$2,103,998	25·03
On mortgages	2,158	3,373,190	40·14
On bonds	506	2,926,182	34·83
	12,145	$8,403,370	100·00

Total Assets	$9,210,107
Capital Stock	1,649,568
Deposits	6,211,278

8. STOCK EXCHANGES

71. In the year 1874 under a charter of the Province of Quebec "a body politic and corporate by the name of the Montreal Stock Exchange" was established.

The following table gives the date of incorporation and present membership of all the existing Canadian stock exchanges:—

	Date of Incorporation	Present Membership
Montreal Stock Exchange	1874	68
Toronto Stock Exchange	1878	58
Winnipeg Stock Exchange	1903	52 (1)
Vancouver Stock Exchange	1907	37
Standard Stock & Mining Exchange of Toronto	1908	43
Montreal Curb Market	1926	82
Calgary Stock Exchange	1914	85 (2)

(1) Including associate members and registered non-members.
(2) 26 active and 59 inactive.

The annual transactions on the Montreal and Toronto Stock Exchanges are shown in the following table.

TABLE 5

RECORD OF STOCK EXCHANGE TRANSACTIONS, 1908-1933

(Number of Shares)

	Toronto Stock Exchange	Montreal Stock Exchange
1908	610,062	1,475,105
1909	1,443,340	3,339,747
1910	940,544	2,137,426
1911	914,553	2,255,158
1912	1,176,509	2,349,630
1913	935,963	2,039,769
1914	709,162 (7 months)	1,261,739 (7 months)
1915	592,024 (11 months)	1,570,258 (11½ months)
1916	1,299,798	3,396,069
1917	512,890	1,130,799 (11½ months)
1918	341,783	1,077,464
1919	779,148	4,060,344
1920	670,064	4,208,975
1921	548,017	2,107,426
1922	1,214,543	2,997,527
1923	1,025,142	2,539,910
1924	907,871	3,072,366
1925	1,999,218	4,601,857
1926	2,472,167	7,061,150
1927	4,663,042	10,706,614
1928	6,021,087	20,490,003
1929	10,729,365	25,739,261
1930	6,638,594	15,563,489
1931	2,973,358	5,309,270
1932	*3,192,951	2,864,784
1933	*9,213,426 (first 8 months)	6,195,483 (first 8 months)

* Includes Curb Sales.

9. INVESTMENT BANKERS

72. The Canadian bond business may be said to have commenced in 1883-84 when several of the firms now engaged in the underwriting and distributing of securities were founded. Their early activities were confined largely to dealings in government and municipal bonds. With the growth of corporate enterprise in Canada their operations were extended to include capital issues of companies engaged in transportation, in public utilities and in manufacturing. The beginning of this century witnessed a substantial increase in the number of bond dealers and in the variety and amount of their offerings to the public.

73. London was the principal market for early Canadian borrowings and the bond dealers established offices and connections there. In the period immediately prior to the War—one of rapid development—more than three-quarters of all Canadian issues were placed in Great Britain. The Great War cut off this source of supply but did not diminish the demand for capital funds. Canada turned to the United States, and in 1916 some sixty-five per cent of Canadian bond issues were floated in that country. When the United States entered the War, Canada was forced to rely almost entirely upon her own resources and absorbed the large issues made by the Dominion Government in 1917, 1918 and 1919. In connection with the flotation of Canada's first War Loans and particularly in the great Victory Loan campaigns warm tribute must be paid to the notable contributions made by investment bankers. A table included as an Appendix shows the history of Canadian financing since 1910.

74. In order to meet these growing demands for home financing many new houses were established, and in 1916 the Bond Dealers' Association of Canada was formed with a membership of thirty-two firms, mostly operating in Montreal and Toronto. By 1919 the number was 72. In 1921 it was 103 with 17 branch office memberships. At present it is 101 with 18 branch memberships and operates under the name of the Investment Bankers' Association of Canada.

10. LOAN, MORTGAGE AND TRUST COMPANIES

75. The lending of money on the security of real estate, such as is now carried on by loan and trust companies, was begun in Canada by the Lambton Loan and Investment Company, established in 1844. In the following year, the Montreal Building Society was incorporated. In order to promote the development of such institutions in Upper Canada, an Act was passed in 1846, followed by similar Acts of the Province of New Brunswick in 1847, and of the Province of Nova Scotia in 1849. These early companies were termed building societies; their activities consisted mainly in the lending of money upon the security of real estate and other forms of loans to their members, the latter assuming no liability should the affairs of the society prove unprofitable. In addition to these operations, such companies were authorized by an Act of 1859 to "borrow money to a limited extent." Later, the Building Societies Act of 1874 authorized these organizations to receive money on deposit and to issue debentures, subject to certain restrictions as to amounts received on deposit.

76. The number of loan and savings societies in operation and making statutory returns at the time of Confederation was 19, with an aggregate paid-up capital of $2,110,403 and deposits of $577,299. The number of companies and total volume of business rapidly increased until, in 1899, 102 companies (including trust companies) making returns showed capital stock paid up of $47,337,544; reserve funds of $9,923,728 and deposits of $19,466,676; total liabilities had increased from $3,233,985 to $148,143,496. By 1913 the number of companies had declined, through amalgamations and absorptions, to 74 (including 16 trust companies) with a combined paid-up capital of $68,091,042, reserves of $35,959,342, deposits of $32,681,806 and total liabilities of $178,658,228. The [illegible]ess of these loan companies is evidenced by the increase in the book value of their assets which rose from $188,637,298 in 1922 to $211,195,794 in 1932.

77. The total assets owned or held for administration by the trust companies increased from $805,689,070 in 1922 to $2,506,260,979 in 1932. The latter figures included $2,281,001,620 of "estates, trust and agency funds."

11. RURAL CREDIT INSTITUTIONS

78. British Columbia was the first Province in Canada to pass legislation facilitating agricultural credit. The Agricultural Credit Act enacted in 1898 was based on the German Raiffeisen system, but no loans were made under its provisions. In 1915 another Agricultural Credit Act was passed in that province to grant all forms of credit, short, intermediate and long term, and the Land Settlement Development Act of 1917 provided for additional long term credit facilities. In Manitoba legislation was passed in 1917 to provide both long and short term credit. In the same year the Treasurer of the Province of Ontario was authorized to lend money to townships which in turn might relend it to farmers. In 1921 Acts similar to those of Manitoba were passed by the Province of Ontario to supply long and short term agricultural credit, the necessary funds to be obtained through the Province of Ontario Savings Office. In Saskatchewan a similar long term credit project was adopted in 1917. In the same year Alberta passed legislation to provide both short and long term loans; operations were, however, confined to short term loans. From 1912 until 1925 the Government of Nova Scotia made first mortgage loans under the supervision of the Government Farm Inspector. In New Brunswick farm loans have been made through the Farm Settlement Board established in 1912 with the object of helping new farmers to settle on the land rather than to assist established farmers.

79. The majority of the provincial long term lending agencies have been superseded by the establishment of the Canadian Farm Loan Board in 1929, following legislation by the Dominion Parliament in 1927. The nature and extent of the operations of the principal rural credit organizations outlined above will be dealt with in another part of this report.

12. INSURANCE COMPANIES

80. Fire insurance in Canada was first carried on by agencies of British fire insurance companies. The first of these was an agency of the Phoenix Fire Office of London, which started business in Montreal in 1804. As a result of the growth of insurance business, branch offices were soon established and local managers appointed, charged with the direction of their Canadian business. Although in the early days Canada did not prove a lucrative field for fire insurance companies, the improvement in the class of building, the gradual elimination of wood structures and the increased use of less inflammable materials coupled with the installation of fire appliances and safety devices reduced the fire risks and brought Canadian companies into this field of business. The amount of fire insurance in force at December 31, 1932, was $9,301,747,991, and the premiums received in 1932 amounted to $46,911,929.

81. Like fire insurance, life insurance was also introduced into Canada by British companies. Among the first to transact such business in Canada was the Scottish Amicable Company in 1846, and the Standard Life Assurance Company in 1847. The first Dominion Insurance Act was passed in 1868 and prohibited the writing of life insurance by any company (with unimportant exceptions) not licensed by the Minister of Finance. Canadian life insurance legislation has been influenced both by British and United States practices. It may be said to stand mid-way between the "freedom and publicity" legislation of England and the restrictive legislation of the United States. The net amount of life insurance in force at December 31, 1932, was $6,471,588,455 and the net premiums received in 1932 amounted to $216,133,010.

82. In addition to life and fire insurance companies of which the former are by far the most important financially, there are certain other branches of insurance in Canada. Compared with the other organizations they do not occupy an outstanding place in the financial system of Canada.

13. PENNY BANKS

83. Provision is made by the Penny Bank Act (R.S.C, 1927, chap. 13) for the institution of banks designed to encourage small savings by school children, but their facilities are not confined to children. The only bank of this kind in operation is the Penny Bank of Ontario whose statement for the year ended June 30, 1932, shows the following position:—

Assets	$1,384,695 11
Liabilities:	
Deposits and Accrued Interest	1,356,354 79
Surplus (Guarantee Fund and Interest earned)	28,340 32

There are also other similar organizations throughout Canada of a less formal character

CHAPTER III

A SHORT ACCOUNT OF THE OPERATION OF THE CANADIAN FINANCIAL SYSTEM

84. In the preceding chapter we have outlined the historical development of the financial institutions of Canada. In the present chapter we propose to describe briefly the methods of operation of some of these institutions.

1. THE CHARTERED BANKS

85. *Branch Banking.*—At the end of 1932 the ten Canadian chartered banks had 3,158 branches in Canada, distributed as shown in the following table:—

TABLE 6

NUMBER OF BRANCHES OF CHARTERED BANKS IN CANADA AT END OF 1932

Name of Bank	Prince Edward Island	Nova Scotia	New Brunswick	Yukon	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	Total
Bank of Montreal	1	14	13	2	120	240	86	51	55	52	600
Bank of Nova Scotia	9	36	37	.....	23	134	7	22	9	6	283
Bank of Toronto	.....	.....	.....	.....	15	101	12	27	13	9	180
Banque Provinciale du Canada	4	.....	13	.....	107	14	.....	.....	.....	.....	138
Canadian Bank of Commerce	7	19	6	2	67	300	43	91	67	65	667
[illegible] Bank of Canada	6	62	22	.....	82	253	72	118	68	55	738
Dominion Bank	.....	.....	1	.....	8	99	12	4	5	4	133
Banque Canadienne Nationale	.....	.....	.....	.....	213	15	8	7	6	.....	249
Imperial Bank of Canada	.....	.....	.....	.....	4	122	8	39	23	12	208
Barclays Bank (Canada)	.....	.....	.....	.....	1	1	.....	.....	.....	.....	2
	27	131	92	4	640	1,258	198	359	246	203	3,158

86. The following account of the operation of the branch banks is based mainly upon the memorandum laid before us by the Canadian Bankers' Association.

87. The Canadian branch bank is organized in much the same manner as the British branch bank. In a large city branch, the staff may consist of one hundred persons or more; in a small country branch the staff may consist of three or four, or even of two persons.

88. Before being appointed to the branch of which he is in charge, the manager has acquired a varied banking experience in other parts of the Dominion or abroad; and this is his safeguard, and a safeguard to the community that he serves, against the risk, which would otherwise be present, that he might take a purely local view of local problems.

89. All loans are made at the branches. Branch managers have authority to make loans up to certain maxima, without the need of reference to higher authority for authorization of these loans. These maxima do not follow set

rules, but are fixed for the branch managers individually. The maximum up to which a particular manager may loan depends upon his experience and judgment, and upon the nature of the collateral offered for the loan.

90. Application for a loan beyond the maximum set for him obliges the branch manager to refer the application to the district supervisor under whom he operates, or to head office. His reference is accompanied by statements as to the customer's position, as to the particulars of collateral offered, and such other information as is necessary to determine the quality of the risk.

91. If the deposits of a branch should be in excess of the loans which it has made, together with the amount of cash required by that branch, the excess of deposits is credited to head office; and the funds are used at other branches where the loan requirements exceed the deposits; or else they are invested by head office in bonds, or otherwise employed to the best advantage; credit for the use of such funds being given to the branch from which they are drawn.

92. If the loans made by a branch, together with the amount of cash required in the till, exceed the deposits locally received by that branch, the necessary funds are drawn from other branches by head office, and made available to the branch requiring them; and that branch is accordingly debited for the use of the funds so borrowed.

93. Periodically the branch manager makes special reports on all doubtful loans and submits with these reports his own estimate as to how much of the loans concerned may be recoverable. These reports are reviewed by head office and the doubtful loans are written off to bad debts, or adequate appropriations set up.

94. Each branch is inspected at least once a year and at irregular intervals by the bank's inspectors; and annual inspection reports are placed in the hands of the directors of the bank. Bank premises and equipment are under the supervision of a special department at head office.

95. Promotion and transfer of members of the staff are in charge of a staff department at the head office, with the object of ensuring that so far as possible the best men become the responsible executives of the Canadian banking system.

96. *Deposits.*—The deposits in the Canadian banks are broadly divided into two categories, namely, current accounts and savings accounts.

97. The current account is also called the demand deposit account, since sums at its credit are withdrawable on demand. The bulk of the public, commercial and financial business of the country is transacted by means of cheques drawn on current accounts.

98. The savings accounts are also called notice deposit accounts, as the sums at credit in these accounts are legally withdrawable only after a certain period, usually fifteen days, on notice given by the depositor. In practice, however, no bank insists upon this legal right of notice. Savings accounts serve three distinct purposes. In the first place they represent the accumulations of small savers who do not enter the investment market; secondly, they are utilized by those who are accumulating funds to invest or are awaiting a favourable moment for investment; and, lastly, they constitute a large proportion of the chequeing accounts of individuals. Owing to the nature of these deposits, their rate of turnover is much slower than that of current accounts. It has been estimated that the rate of turnover of the latter is roughly fifty times as great as that of the former. Interest is paid upon savings accounts at a rate which is a matter of common policy on the part of the banks. The rate was recently (1st May, 1933) reduced to 2½ per cent from 3 per cent at which it had stood for some thirty years. In addition to this, special rates are paid upon certain deposits under agreement with the depositor.

99. *Reserves.*—The Canadian Bank Act, in contrast to legislation in the United States and South America, does not provide for a specific or minimum cash reserve; it does require, however, that 40 per cent of the "cash reserves" of the Canadian banks shall be in Dominion notes. The general practice of the Canadian banks is to classify their reserves in two categories: (1) cash assets, and (2) quickly realizable assets, also called "secondary reserves."

100. (1) The "cash assets" include, (*a*) gold and subsidiary coin, (*b*) Dominion notes, (*c*) United States and other foreign currencies, (*d*) notes of other banks, (*e*) cheques on other banks, (*f*) balances due by banks and banking correspondents elsewhere than in Canada, (*g*) balances due by other banks in Canada.

101. (2) The "quickly realizable assets" include the "cash assets" enumerated above, and also, (*a*) deposits in the Central Gold Reserves, (*b*) Dominion and Provincial Government securities, (*c*) Canadian municipal securities and British, Foreign and Colonial public securities other than Canadian, (*d*) railway and other bonds, debentures and stocks, (*e*) call and short (not exceeding 30 days) loans in Canada on stocks, debentures and bonds and other securities, (*f*) call and short (not exceeding 30 days) loans elsewhere than in Canada on stocks, debentures and bonds and other securities.

102. The above mentioned distinction as between "cash assets" and "quickly realizable assets" is not uniform as among various Canadian banks, but it may be said that the "quickly realizable assets" sometimes called "liquid assets" include the same items in the case of all the banks.

103. The "cash reserves" of the banks bring in no income, and their "cash assets" are productive of very small revenue. The "quickly realizable assets" being represented mostly by short term high grade bonds, yield low rates of interest in comparison with other types of investments in Canada. The "cash" and "quick" assets of the Canadian banks apply to their liabilities both in Canada and abroad, and no segregation can be made between the assets held against Canadian or against foreign deposit liabilities.

[illegible] The classification of assets adopted in Canada is thus seen to differ from th[illegible]owed in other countries and depends upon a variety of considerations. In countries where central banks are in operation, the determining factor of liquidity would probably be the readiness of the central institution to purchase, advance against, or rediscount certain securities or bills of exchange. The present practice has developed in Canada as the result of experience as to the marketability of certain securities both in Canada and abroad coupled with the rules established by the Treasury Board in regard to advances under the Finance Act.

105. It will be seen that these observations apply to the reserves of individual banks and not to the reserves of the banking system considered as a whole.

106. *Current Loans.*—These loans are generally made under "lines of credit" authorized by the banks. Under this system the borrower estimates his probable credit requirements for the ensuing year and then applies to his bank for a "line" of that amount. From time to time during the year, as need arises, advances within the authorized credit are made. The "line of credit" arrangement does not bind the banker to lend the full amount of the credit. If conditions change during the currency of the credit the branch manager may refuse to lend to the full extent of the "line." On the other hand the customer is not bound to borrow to the extent of his authorized credit.

107. The rate of interest charged on good commercial loans has generally been 6 per cent. On small loans and in branches where the volume of business is small the rate of interest was 8, 9, or even 10 per cent. The nominal rate of interest has frequently been increased through the process of discounting notes or of compounding the interest at intervals of three or four months.

108. The general rate now charged in western farming areas is 7 per cent, reductions having been made as from 1st May, 1933, when the rate upon deposits was reduced. In the older settled sections of the east, agricultural rates have been generally from $\frac{1}{2}$ to 1 per cent lower than in the west.

109. *Investments and Securities.*—Unlike current loans, which are made entirely at branches, investments are administered by the head office. The policy of the banks has been to invest in the highest grade of securities, and preferably in short term securities. The investment operations of the banks are carried on in a highly competitive field in which other institutions, such as insurance companies, the trust, loan and mortgage companies, as well as the investing public, operate.

110. The Canadian chartered banks have entered the field of "Investment Banking," buying and selling securities on their own account. They "execute orders for clients to buy or sell securities, for which a moderate commission is charged." They underwrite or participate in syndicates formed to sell securities to the public. "For the most part these issues are government and municipal bonds, and a few corporate issues of the very highest grade." These quotations are from the Canadian Bankers' Association memorandum submitted to us.

111. *Money Market.*—There is no money market in Canada such as exists in London and New York where highly specialized financial houses undertake the accepting and discounting of foreign bills of exchange. In London the joint stock banks lend money on call to bill brokers and acceptance houses and if these loans are called by the banks the borrowers have recourse to the Bank of England. In Canada the chartered banks make "call loans" upon the security of bonds or stocks to investment bankers, stock brokers and individuals. In times of general stringency affecting all the Canadian banks recourse must be had to outside sources, and if such are not found it may become difficult to obtain prompt repayment of such loans.

112. *Financing External Trade.*—In Canada there is no market outside the banks for bills of exchange. Again to quote the memorandum of the Canadian Bankers' Association, "the general practice in the case of export trade is for the exporter, whether of cereal products or of any other commodity, either to draw upon the consignee and sell his bill outright to the bank (in which case it will be forwarded to London or New York, or as the case may be, for collection at maturity, or for negotiation), or to borrow against the security of the bill of exchange which, in either case, comes into the possession of the bank. Or again, the arrangement may be that the consignee abroad opens a credit with the Canadian bank in favour of the Canadian exporter, and in this last-named instance also, the exporter secures payment from the bank after consigning his goods, upon surrender of the bill and documents.

113. "Conversely, in the case of payment for imports into Canada, the importer may purchase from the Canadian bank a draft in favour of the consignor abroad; or he may borrow on the security of the goods imported, or upon his general credit and remit; or, by arrangement between the Canadian consignee and the consignor abroad, a credit may be established in the Canadian bank in favour of the consignor, who will in that case draw upon the Canadian bank (either at sight, or with a specified time limit) and either sell the draft with documents to a branch of the bank abroad, or sell it to his own bank, and leave the final settlement as between his own bank and the bank in Canada.

114. "It should be added that, by means of its branches [or connections] abroad, the Canadian bank is endeavouring at all times to foster Canadian trade; and that, through these branches and otherwise, it has assembled and keeps up to date a large body of credit information, which is at the disposal of Canadian exporters."

115. We insert here a table of the foreign branches of the Canadian banks.

TABLE 7

NUMBER OF BRANCHES OF CHARTERED BANKS OUTSIDE OF CANADA AT END OF 1932

Name of Bank	United Kingdom	United States	Newfoundland[1]	West Indies[2]	European Countries	South and Central America	Total
Bank of Montreal	2	3	5	....	1	2	13
Bank of Nova Scotia	1	3	12	23	....	....	39
Canadian Bank of Commerce	1	5	3	4	....	2	15
Royal Bank of Canada	2	1	5	52	2	29	91
Dominion Bank	1	1	....	....	....	....	2
Banque Canadienne Nationale	....	....	....	....	1	....	1
Total	7	13	25	79	4	33	161

[1] Including St. Pierre and Miquelon.
[2] Including Cuba and Puerto Rico.

116. *The Foreign Exchange Market.*—The foreign exchange market in Canada is chiefly concentrated in Montreal and Toronto. Almost the only dealers are the chartered banks, but in the former city there are six brokers, while in the latter there are two, who act chiefly as intermediaries between banks for a commission. Each bank has a foreign exchange department, in which are concentrated the supply of, and demand for, foreign currencies. As far as possible each bank sets buying orders against selling orders, and then enters the local market in order to sell or to buy according as they are over or short. If the local market cannot absorb all the orders, and it seldom can, then recourse is usually had to the wider markets of New York and London, but chiefly New York.

117. The total turnover, including all usances and forward exchange, varies widely from day to day and from year to year, but, from the estimates supplied to us, it has in recent years amounted to a rough daily average of £350,000 sterling and 4,000,000 United States dollars. Owing to the "marrying" operations carried out in the respective foreign exchange departments of the banks, the turnover dealt with in open market (local or foreign) is reduced in normal times to about 50 per cent of the total sterling turnover, and to about 30 per cent of the United States dollar turnover. In the present conditions of rate instability, the banks are naturally averse from taking a position and the proportion dealt with in open market is larger, namely about 75 per cent for sterling, and 50 per cent for United States dollars. The Canadian market is narrower and less active in sterling than in United States dollars, partly because in general the supply of sterling is greater than the demand and often the banks are all sellers of sterling whereas they are usually dealing both ways in United States dollars. The common practice, therefore, is to sell sterling for United States dollars and sell the resultant New York dollars for Canadian funds over the New York-Montreal exchange.

118. The London and Montreal markets are only open together for some three or four hours daily, while New York and Montreal are in connection throughout the whole day. Partly in consequence of this difference in time, but chiefly because of the narrow local market for sterling, it is hardly ever possible for arbitrage transactions to be carried out on the same day which involve a three cornered transaction including London, Montreal, and New York. On the other hand, it is to be observed that the very close touch (telephonic as well as telegraphic) existing between Canada and New York, and, to a less degree, London, does enable the Canadian banks to operate at finer rates than would be possible if the local market only were available.

119. Because of Canada's large area, the remoter parts do not necessarily obtain their rates at the same time as they are quoted in the financial centres. Branches in the large centres are in continuous touch with Montreal and Toronto, and rates are advised as occasion demands. Medium sized branches receive rates by telegraph or telephone from the foreign exchange department daily, and more frequently if market variations and local conditions require it. Small branches receive daily, or otherwise as mail facilities permit, a rate bulletin, which is mailed from distributing centres strategically situated throughout the Dominion. The distributing centres receive the rates by telegraph. The spread between the buying and selling rates in all these cases depends to a large extent upon the state of the market at the time when the rates are sent. The spread in the case of those branches to which a mail bulletin is sent, is usually wider than that in other classes because of the greater risk involved of the rate becoming adverse before transactions can be completed.

120. There is keen competition between the banks for short term documentary produce and grain bills, which are purchased on the basis of the London and New York market rates of discount, a concession being made in some cases in anticipation of the bills being paid under rebate.

121. In the present period of exchange instability the banks encourage the use of the forward exchange market which they are enabled to do because of the close touch maintained with London and New York.

122. *Competition.*—We have now completed our survey of "such trade generally as appertains to the business of banking." (Bank Act, Section 75, (1) (*d*)). The banks state that there is a high degree of competition among them in the services rendered by branches to depositors and borrowers and in investment and foreign exchange transactions. If a would-be borrower fails to receive accommodation from one bank he may go to another. Even between branches of the same bank a degree of competition exists. Each branch manager endeavours to run his branch as successfully and profitably as possible. Only in the field of interest rates have we found some evidence of common policy.

123. *The Canadian Bankers' Association* is the recognized medium for correlated measures on the part of the banks. The origin of this organization, which has no exact counterpart in other banking systems has already been described in the preceding chapter. Its declared objects were to "watch legislation and court decisions relating to banking, to protect the interest of the contributories to the bank circulation redemption fund, and generally to guard the interests of the chartered banks; also to promote the education and efficiency of bank officers by various means." (*Canadian Banking* by Sir Edmund Walker, page 31). In the third year of the Association its Journal, now well known, issued its first number.

124. The Association is chiefly concerned with the note circulation of the banks, the organization and operation of clearing houses. There is no attempt to formulate what in Great Britain or the United States would be called "monetary" or "banking policy." Each bank is autonomous and determines its own policy, but policies and other matters are discussed informally by the chief executive officers of the banks at meetings of the Association.

125. *Note Issue.*—Every chartered bank is permitted under the Bank Act (Sections 61 to 74) to issue its own notes in denominations of $5 and multiples, to the limit of its paid-up capital, plus the amount of its deposits of gold and Dominion notes in the central gold reserves. These reserves are held in Montreal, and each bank, as occasion requires, may keep on deposit an amount in excess of its circulation requirements, so that bank notes may be issued on demand within the provisions of the law. The Dominion imposes a tax of 1 per cent on the amount of notes in circulation up to the amount of the paid-up capital of each bank.

126. The central gold reserves are administered by a board of trustees, four in number. Three are appointed by the Canadian Bankers' Association, with the approval of the Minister of Finance, and one by the Minister himself. During the crop-moving season, i.e., from the beginning of September to the end of February, the banks may issue additional notes up to 15 per cent of their unimpaired paid-up capital and reserves. Interest at 5 per cent per annum is charged by the Government upon the amount of notes so issued. As the banks have recently been able to secure Dominion notes under the Finance Act at a lower rate than 5 per cent, and to deposit them in the central gold reserves, the excess circulation provision has been availed of only to a small extent. The limit of the amount of notes that may be circulated by any bank is therefore dependent upon the paid-up capital of the bank, the amount of gold and Dominion notes available for deposit in the central gold reserves, and, in addition, the excess seasonal issue referred to.

127. Bank notes are not legal tender; they constitute, however, the greater part of paper currency in denominations of five dollars and over in use in Canada. Dominion one and two dollar bills and a few twenty-five cent notes provide the paper currency of smaller denominations. The following Table shows the paid-up capital of the banks and the amount of notes in circulation at the dates indicated—

TABLE 8

STATEMENT OF BANK NOTES IN CIRCULATION

—	Bank Notes in circulation	Paid-up Capital	Deposits in Central Gold Reserves	Excess issue, if any, under Sec. 61, ss. 16 (15% of combined paid-up capital and reserve)
	$	$	$	$
June, 1923	174,658,110	125,361,251	57,052,533	2,308,027
Dec.	180,246,825	123,409,130	65,602,533	
June, 1924	171,306,223	121,909,560	62,252,533	490,958
Dec.	165,672,143	127,909,560	60,702,533	
June, 1925	163,146,836	120,164,660	55,002,533	334,148
Dec.	173,891,566	116,164,660	71,060,332	
June, 1926	160,371,587	116,164,660	63,310,332	463,222
Dec.	175,083,324	117,164,660	68,810,332	
June, 1927	177,011,562	122,392,510	67,420,332	417,028
Dec.	182,717,049	122,764,660	74,045,332	
June, 1928	183,370,487	122,764,660	71,030,866	870,622
Dec.	186,080,685	123,667,285	78,730,866	
June, 1929	186,870,718	130,127,855	60,530,866	460,853
Dec.	175,496,699	142,901,350	56,080,866	
June, 1930	165,953,624	144,717,301	46,330,866	
Dec.	148,017,056	145,024,560	32,580,866	
June, 1931	142,558,937	144,500,000	27,730,866	319,080
Dec.	141,013,382	144,500,000	25,731,732	
June, 1932	136,295,915	144,500,000	22,881,732	
Dec.	127,074,824	144,500,000	19,881,732	
June, 1933	137,742,010	144,500,000	21,181,732	

128. The bank note issue is closely controlled by the Canadian Bankers' Association. The printing, delivery and destruction of bank notes, as well as the destruction of plates, is under its supervision.

129. Bank notes constitute a first lien on the assets of the bank. The banks contribute 5 per cent of their average annual circulation to the bank circulation redemption fund. This fund forms part of the Consolidated Revenue Fund of the Dominion Government, and the banks receive 3 per cent per annum on the amounts contributed. The fund is available to make good any losses which holders of the notes of a failed bank might otherwise sustain.

130. *Bank Clearings.*—The Canadian banks have developed a highly efficient clearing system through the establishment of clearing houses and the organization of the central clearing fund.

131. Under the regulations of the Canadian Bankers' Association, as approved by the Treasury Board, clearing houses have been set up at thirty-two points, as follows:—

In Nova Scotia—Halifax.
In New Brunswick—Moncton and Saint John.
In Quebec—Montreal, Quebec and Sherbrooke.
In Ontario—Brantford, Chatham, Fort William, Hamilton, Kingston, Kitchener, London, Ottawa, Peterborough, Sarnia, Sudbury, Toronto and Windsor.
In Manitoba—Brandon and Winnipeg.
In Saskatchewan—Prince Albert, Regina, Saskatoon and Moose Jaw.
In Alberta—Calgary, Edmonton, Lethbridge and Medicine Hat.
In British Columbia—New Westminster, Vancouver and Victoria.

132. The results of the daily clearings are reported by telegraph from the regional centres to Montreal; and the net debits or credits of the day, for each of the Canadian chartered banks, are settled before one o'clock on the same day in Dominion notes. For this purpose the banks maintain in Montreal a central clearing fund; each bank keeping in the fund an amount of Dominion notes to meet debit balances.

2. THE CANADIAN MONETARY SYSTEM

133. Canadian legal tender money consists of the following:—

Legal Tender to any Amount.

1. Gold: The British sovereign and any other current British gold coins. The Eagle ($10) of the United States of America, the Half-eagle ($5) and Double-eagle ($20). Canadian gold coins, which have been minted in denominations of $5 and $10.
2. Dominion Notes, which may be issued in amounts of 25 cents, $1, $2, $5, $500 and $1,000, and also $5,000 and $50,000 for use between banks only.

(Under the Finance Act the Governor General in Council may in emergencies, real or apprehended, authorize the chartered banks to pay out their own notes as "sufficient and valid tender." Otherwise the notes of the banks are not legal tender.)

Limited Legal Tender.

1. Silver coins, which are issued in pieces of 50, 25 and 10 cents and formerly in pieces of 5 cents, are legal tender to an amount not exceeding ten dollars.
2. Nickel coins, issued since 1922 in pieces of 5 cents, to an amount not exceeding five dollars.
3. Bronze coins, issued in pieces of 1 cent, to an amount not exceeding twenty-five cents.

The following Table 9 and graph show over various periods the Dominion notes outstanding and gold held; Table 10 shows the circulating media in the hands of the general public.

TABLE 9

DOMINION NOTES OUTSTANDING AND GOLD RESERVES AS AT JUNE 30, 1891-1933

Year	Small notes, $1, $2, $4, and $5, and fractionals[1]	Large notes, $50, $100, $500, $1,000 and $5,000[3]	Total notes outstanding	Amount borrowed under Finance Act	Amount issued under Dom. Notes Act and special war legislation	Gold reserves	Percentage of gold reserves to notes outstanding
	$	$	$	$	$	$	p.c.
1891	6,708,666	9,407,650	16,176,316	....	16,176,316	3,887,027	24
1896	7,377,096	12,995,100	20,372,196	....	20,372,196	8,758,252	43
1901	10,158,659	17,739,850	27,898,509	....	27,898,509	14,557,074	52
1906	14,630,427	35,311,000	49,941,427	....	49,941,427	29,013,931	58
1911	19,837,545	79,471,000	99,308,945	....	99,308,945	78,005,231	79
1916	27,283,425	148,213,750	175,497,175	450,000	175,047,175	114,071,032	65
1921	34,403,934	234,365,250	268,769,184	74,879,375	193,889,809	83,854,487	31
1926	32,512,264	143,200,650	175,712,914	19,800,000	155,912,914	94,999,480	54
1927	33,845,764	143,160,150	177,005,914	15,950,000	161,055,914	105,790,181	60
1928	35,051,707	165,703,650	200,755,357	57,250,000	143,505,357	80,756,302	40
1929	37,159,176	172,803,650	209,962,826	88,700,000	121,262,826	58,931,581	28
1930	37,029,483	137,189,150	174,218,633	49,700,000	124,518,633	65,719,601	38
1931	35,288,353	110,028,650	145,317,003	13,500,000	131,817,003	70,534,481	49
1932	38,586,870	129,686,650	168,273,520	40,500,000	127,773,520	64,849,441	39
1933	38,194,408	146,232,650	184,427,058	51,944,000	132,483,058	69,271,565	38

[1] Includes Dominion notes in the Central Gold Reserves as security for bank note circulation.
[2] Includes provincial notes amounting to $32,857 in 1890 and reduced to $27,588 on June 30, 1933.
[3] Includes issue of $50,000 notes, 1918-1933.

TABLE 10

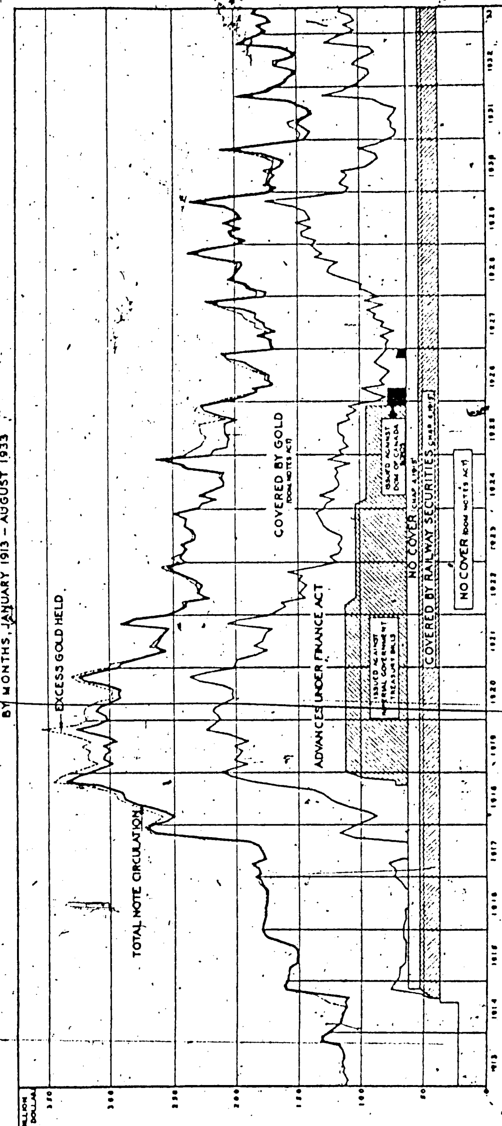
CIRCULATING MEDIA IN THE HANDS OF THE GENERAL PUBLIC, CALENDAR YEARS 1901-32[5]

(NOTE.—Includes till money in the hands of the banks)

Year	Silver[1]	Nickel[1]	Bronze[1]	Bank Notes[2]	Dominion Notes, $1, 2, 4, 5 and fractionals[3]	Totals: Amount	Totals: Per capita	Totals: Index No. per capita[4]
	$	$	$	$	$	$	$	
1901	8,279,924	....	676,429	50,601,205	10,595,169	70,152,727	13·06	100
1906	11,295,235	....	832,429	70,638,870	14,797,483	97,564,017	15·74	128
1911	15,670,663	....	1,021,628	89,982,223	21,497,429	128,171,943	17·78	145
1916	19,768,089	....	1,323,234	126,691,913	27,857,543	175,640,779	21·94	179
1921	28,344,569	....	1,956,326	194,621,710	33,825,582	258,748,277	29·44	240
1926	27,433,463	564,865	2,043,893	168,885,905	32,675,174	231,603,330	24·51	200
1927	27,104,534	813,784	2,080,196	172,100,763	33,689,474	235,788,751	24·47	199
1928	27,737,963	1,063,627	2,171,657	176,716,979	35,093,625	242,703,302	24·69	201
1929	28,638,195	1,330,408	2,290,789	178,291,030	36,811,966	247,362,478	24·66	201
1930	[illegible]	[illegible]	2,297,405	159,344,085	36,431,368	228,126,713	22·35	182
1931	28,706,248	1,775,13[illegible]	2,346,054	141,909,350	36,485,462	211,262,[illegible]63	20·36	166
1932	28,853,740	1,939,923	2,558,962	132,165,942	38,788,027	204,306,594	19·45	158

[1] Figures supplied by the Mint as at Dec. 31 of each year, are the net issues of coinage since 1858.
[2] Yearly averages.
[3] Dominion notes of larger denominations in hands of banks are not included, but provincial notes, amounting to $27,594 in 1932, are included.
[4] Per capita circulation in 1900 is taken as 100.
[5] Taken from Canada Year Book 1933 p. 889.

DOMINION NOTES OUTSTANDING AND SECURITY THEREFOR
BY MONTHS, JANUARY 1913 – AUGUST 1933



134. Under existing legislation relating to the issue of Dominion notes,

$50 millions may be issued against a reserve of 25 per cent ($12.5 millions) held in gold (Dominion Notes Act, R.S.C. Chap. 41.)

$26 millions were issued during the war for special purposes, against $16 millions, of which specified railway securities guaranteed by the Dominion are held. (Statutes of Canada: 5 George V, Chap. 4.)

Dominion Notes may be issued under the Finance Act (R.S.C. Chap. 70) to the chartered banks and to the banks to which the Quebec Savings Banks Act applies against such securities as are specified in that Act, no gold being required.

All other notes issued must be backed dollar for dollar by gold. (Dominion Notes Act, R.S.C. Chap. 41.)

The Finance Act

135. The relevant provisions of the Finance Act require further explanation. We have in a previous chapter explained the operation of the statute as an emergency measure. In normal times the Minister of Finance may make advances of Dominion notes to the chartered banks and to those to which the Quebec Savings Banks Act applies upon the pledge of:

(a) Treasury bills, bonds, debentures or stocks of the Dominion of Canada, Great Britain, any province of Canada, and of any British possession;
(b) Public securities of the Government of the United States;
(c) Canadian municipal securities;
(d) Promissory notes and bills of exchange secured by documentary title to wheat, oats, rye, barley, corn, buckwheat, flax or other commodity;
(e) Promissory notes and bills of exchange issued or drawn for agricultural, industrial or commercial purposes and which have been used or are to be used for such purposes.

136. Such securities must be deposited by the borrowing bank with the Minister of Finance or with an Assistant Receiver General. The Treasury Board determines the rate of interest upon the advances and is empowered to make regulations regarding the terms and conditions of the deposit of the securities. The Treasury Board consists of the Minister of Finance and five other ministers nominated by the Governor in Council (at present the Ministers of Justice, Trade and Commerce, Railways and Canals, National Revenue, and Marine), with the Deputy Minister of Finance as Secretary.

137. All advances under the Finance Act fall due on 1st May of each year, and shortly before that date each bank may apply for the renewal of any amount outstanding and for a "line of credit" to cover anticipated or possible requirements during the ensuing year. By Treasury Board minute, authorization is given for advances to the several banks of such amounts as the Board may consider advisable.

138. By the present regulations no margin is required upon advances against Dominion securities, a margin of 10 per cent of market value is required on Canadian Guaranteed, British Government and United States Government securities, 15 per cent on Provincial securities, 20 per cent on municipal securities and 25 per cent to 35 per cent on promissory notes and bills of exchange. The securities deposited on 15th September, 1933, were:—

Dominion of Canada Securities	$161,045,000 00
Securities guaranteed by the Dominion of Canada	4,077,000 00
Provincial Securities	30,895,223 43
Municipal Securities	8,630,000 00
	$214,247,223 43

139. The rates of interest which have been charged are shown in the subjoined table:

TABLE 11

RATES OF INTEREST CHARGED TO BANKS UNDER THE FINANCE ACT

Period	Rate
1914 to Nov. 1, 1924	5%, except that under terms of Order in Council of October 20, 1917, 3½% was charged on Imperial Treasury Bills.
Nov. 1, 1924, to Nov. 1, 1927	4½%.
Nov. 1, 1927, to Dec. 1, 1927	4%.
Dec. 1, 1927, to June 8, 1928	3½%.
June 8, 1928, to Sept. 1, 1928	5% except on advances against 4% Treasury notes on which the authorized rate was 3½%.
Sept. 1, 1928, to Oct. 26, 1931	4½% except on advances against 4% Treasury notes on which the authorized rate was 3½%.
Oct. 26, 1931, to May 2, 1932	3%.
May 2, 1932, to May 1, 1933	3½% except from Oct. 15, 1932, to Nov. 3, 1932, when on advances secured by 4% Treasury Bills dated Oct. 15, 1932, the rate was 2½%, and from Nov. 1, 1932, when on advances secured by 4% 2-year notes dated Nov. 1, 1932, the rate was 3%.
May 1, 1933, to date	2½% except on advances secured by 4% 2-year notes dated Nov. 1, 1932, for which the rate is 3%.

140. The amounts of Dominion notes borrowed by the banks under the Finance Act are shown in the two following tables:

TABLE 12

ADVANCES UNDER FINANCE ACT—HIGH AND LOW BY MONTHS FOR YEARS 1927-1933 INCLUSIVE

	High	Low		High	Low
1927			1928		
January	11,500,000	Nil	January	32,500,000	10,000,000
February	10,500,000	Nil	February	28,000,000	7,500,000
March	12,500,000	2,500,000	March	36,000,000	14,000,000
April	20,800,000	6,500,000	April	36,000,000	19,500,000
May	20,800,000	7,300,000	May	47,000,000	15,250,000
June	15,950,000	8,700,000	June	57,250,000	29,750,000
July	17,050,000	12,950,000	July	64,130,000	45,750,000
August	29,950,000	13,150,000	August	64,130,000	47,130,000
September	22,750,000	10,950,000	September	54,630,000	38,630,000
October	30,750,000	10,750,000	October	73,550,000	41,130,000
November	30,750,000	10,500,000	November	66,550,000	42,050,000
December	32,500,000	7,500,000	December	72,550,000	30,050,000

TABLE 12

ADVANCES UNDER FINANCE ACT—HIGH AND LOW BY MONTHS FOR YEARS 1927–1933 INCLUSIVE—*Conc.*

	High	Low
1929		
January	76,500,000	50,000,000
February	71,500,000	43,500,000
March	83,500,000	51,000,000
April	84,000,000	51,500,000
May	75,550,000	41,500,000
June	88,700,000	53,550,000
July	88,700,000	50,950,000
August	77,400,000	55,200,000
September	70,400,000	48,400,000
October	90,150,000	54,150,000
November	112,900,000	56,150,000
December	112,000,000	42,700,000
1930		
January	82,700,000	31,700,000
February	44,700,000	11,700,000
March	50,200,000	15,450,000
April	49,700,000	17,200,000
May	45,200,000	14,700,000
June	49,700,000	13,700,000
July	49,700,000	13,950,000
August	24,200,000	700,000
September	24,200,000	700,000
October	22,700,000	700,000
November	38,700,000	700,000
December	21,000,000	614,000
1931		
January	21,000,000	1,500,000
February	12,500,000	1,000,000
March	8,500,000	Nil
April	11,000,000	Nil
May	10,500,000	Nil
June	13,500,000	500,000
July	13,500,000	500,000
August	6,500,000	500,000
September	10,500,000	1,000,000
October	24,500,000	9,500,000
November	66,500,000	17,500,000
December	49,000,000	8,750,000
1932		
January	40,000,000	27,500,000
February	36,500,000	15,000,000
March	32,000,000	15,500,000
April	27,500,000	15,000,000
May	29,600,000	10,500,000
June	40,500,000	17,500,000
July	40,500,000	24,500,000
August	29,000,000	13,500,000
September	23,000,000	10,000,000
October	27,500,000	12,000,000
November	65,144,000	27,344,000
December	57,488,000	35,944,000
1933		
January	57,488,000	37,444,000
February	41,944,000	35,244,000
March	48,444,000	35,044,000
April	39,344,000	36,944,000
May	42,344,000	37,444,000
June	51,944,000	40,844,000
July	51,644,000	46,244,000
August	....	....
September	....	....
October	....	....
November	....	....

TABLE 13

ADVANCES UNDER THE FINANCE ACT

MONTHLY AVERAGES OF DAILY ADVANCES

—	1927	1928	1929	1930	1931	1932	1933
	$	$	$	$	$	$	$
January	1,420,000	14,120,000	57,642,300	41,680,800	6,153,800	31,020,000	40,373,200
February	2,187,500	12,400,000	49,604,200	18,595,800	2,187,500	22,556,000	35,056,500
March	6,425,900	19,407,400	57,740,000	21,488,500	903,800	17,700,000	37,110,700
April	10,185,400	23,276,100	57,520,000	22,470,800	3,083,300	18,465,500	37,500,500
May	11,578,000	31,386,500	54,878,800	24,950,000	3,100,000	13,844,000	39,370,900
June	12,120,000	35,830,000	60,747,900	22,158,300	1,660,000	25,040,000	43,520,000
July	14,654,200	51,380,700	50,411,500	24,430,800	2,346,200	28,748,000	48,552,000
August	15,483,300	52,194,800	60,029,600	8,881,500	1,430,800	18,633,300	
September	14,070,000	42,838,300	55,941,700	2,580,000	3,440,000	13,040,000	
October	14,711,500	47,335,200	61,601,900	9,477,800	18,269,200	13,764,000	
November	14,666,000	49,770,000	68,120,000	3,741,700	22,000,000	36,575,900	
December	12,826,900	39,591,700	52,316,000	2,858,600	20,355,800	39,699,500	

141. *Bank Deposits.*—Bank deposits subject to cheque furnish much the most important medium of exchange in Canada. An accompanying table shows the proportion for five year periods since 1871 which deposits in chartered banks of the Dominion have borne to the notes issued by those banks.

TABLE 14

PROPORTION OF DEPOSITS IN CHARTERED BANKS TO NOTES ISSUED

Year	Bank Notes in Circulation[1]	Total on Deposit[1]	Proportion which Total Deposits bear to Bank Notes
	$	$	
1871	20,914,037	56,287,391	2·7 to 1
1876	21,245,935	72,852,686	3·4 " 1
1881	28,516,692	94,346,481	3·4 " 1
1886	31,030,499	111,449,365	3·6 " 1
1891	33,061,042	148,396,968	4·5 " 1
1896	31,456,297	193,616,049	6·2 " 1
1901	50,601,205	349,573,327	6·9 " 1
1906	70,638,870	605,968,513	8·6 " 1
1911	89,982,223	980,433,788	10·9 " 1
1916	126,691,913	1,418,035,429	11·2 " 1
1921	194,621,710	2,264,586,736	11·6 " 1
1926	168,885,995	2,277,192,043	13·5 " 1
1931	141,969,350	2,422,834,828	17·1 " 1

[1] Yearly averages.

142. This proportion rose from 2·7 to 1 at the beginning of the period to 17·1 to 1 in 1931.

143. The amount of bank deposits is dependent upon a variety of complex economic factors which although of a non-monetary character, are of considerable importance. From an exclusively monetary standpoint the main consideration affecting the lending and investing policies of the banks is the amount of cash reserves which they consider necessary to carry against their deposit liabilities under any given circumstances, provided there exists a proper field in which to lend money or purchase securities.

144. If a bank receives from some new or outside source an increase in its "cash reserves," it will in the ordinary course of events proceed to make loans or to buy securities. The public receiving the proceeds of the loans or sales will deposit in the banks all that they do not require for hand-to-hand cash. Insofar as these deposits are made in other banks, cheques will be drawn on the original bank, with the effect of diminishing its reserves and increasing those of its competitors. The latter, provided their cash position be already satisfactory, will then be in a position to make additional loans and investments, if conditions warrant, and this in turn will enable the public to make further deposits. Insofar as the loans and investments made by the original bank return to it as deposits, it will be in a position to make further loans or investments. Through this process of lending, investing and depositing, the increased cash reserve is distributed among the banks and the volume of loans and investments and deposits is increased by an amount several times greater than the amount of the original increase in cash reserves. A similar result may ensue if one or more banks should decide that their cash reserve ratio may be reduced. Conversely, the volume of deposits would be contracted if the bank's cash reserves were reduced or if a bank decided that its existing cash reserves were too low.

145. The cash reserves of the banks mainly consist of gold and Dominion notes. The amount of gold held in a country is dependent, when the country is on a fully effective gold standard, upon the balance of international payments and the resulting import and export of gold. When gold cannot move freely in and out of a country and its price rises to a premium over the legal price, the gold reserves in the country will depend upon the purchase of gold at the premium, and upon the freedom of export if this is profitable.

146. The banks' reserves of Dominion notes are determined on the one hand by the amount of such notes issued under the various laws mentioned above and on the other hand upon the volume of Dominion notes required by the public for hand-to-hand circulation. The demands of the public for Dominion notes normally depend upon the current volume of wage payments and the level of retail prices. Over longer periods the extent of the demand also depends upon the changing habits of the public regarding the use of coins, notes, cheques, etc.

147. The public demand for Dominion notes is not under the control of the banks notwithstanding the fact that banking policy may have an influence on the volume of retail trade. On the other hand it is possible, by the use of the facilities available under the Finance Act for the banks to vary the amount of their Dominion note reserves, subject to such restrictions as the Treasury Board may impose and within the limits and along the lines of generally accepted banking practice.

148. The volume of deposits in Canada, from the monetary standpoint, depends upon the factors mentioned in the three preceding paragraphs, the two most important being the international gold movements and the borrowing under the Finance Act.

149. Sir Thomas White, while concurring generally as to the effect which banking reserve policy may exert upon deposits, regards the treatment of the subject of such deposits in this paragraph as incomplete and refers to his personal addendum to our report.

3. OTHER FINANCIAL INSTITUTIONS

150. *Stock Exchanges.*—The operations of stock exchanges in Canada are conducted under rules which are, in general, similar to those of leading stock exchanges in the United States. Settlements are on a cash basis and are made daily, as contrasted with British and continental settlement practice. Members of the stock exchanges act as brokers, buying and selling stocks on commission. They carry stocks for clients on margin and periodically this class of business assumes large proportions. At times, also, brokers are holders of substantial credit balances of customers. A few of the large brokerage houses have investment banking departments which buy from and sell to the public on their own account, but these departments are separately incorporated with limited liability.

151. In general, new issues of stocks are not made through the stock exchanges. The prevailing practice is for the issuing company or a syndicate to offer them direct to the public. The principal stock exchanges will not list a company's shares until a fairly wide public distribution has been made. We are informed that, in the case of the Montreal Stock Exchange, it is the practice, when additional issues of stocks already listed are to be made, to insist that immediate application be made for listing privileges and that the new stock be offered to shareholders on a *pro rata* basis before being offered for sale in any other way.

152. *Investment Bankers.*—A small number of the investment bankers act solely as brokers, but the great majority of them buy and sell bonds on their own account, that is to say they are dealers. They borrow on the security of their holdings from the chartered banks or trust companies and other corporations. The investor purchases securities which are generally owned by the dealer, whether they be old or new issues. During the past few years, however, the risks involved in the outright purchase of securities were too great and syndicates of investment bankers were formed to sell as agents new issues on a commission basis. "Underwriting" as practised in Great Britain is not common in Canada. Those who take a participation in an issue of securities generally distribute it directly to the public. There are no bond exchanges in Canada and the published quotations are obtained from individual bond dealers.

153. *Loan, Mortgage and Trust Companies.*—The Dominion Parliament has not exclusive jurisdiction over these institutions. Some operate under Dominion and others under provincial laws. The affairs of all such companies operating under Dominion statutes are subject to examination and supervision by the Superintendent of Insurance.

154. The principal function of loan companies is the lending of money on the security of real estate. In addition to their capital they obtain their funds by the sale of debentures and by receiving deposits. Outstanding debentures and deposits form the main items included in the total liabilities to the public of $140,232,090, as quoted in the report of the Superintendent of Insurance for December 31, 1932. Of this total $107,757,261 represented the liabilities of the ten loan companies operating under Dominion charters and of two provincial companies all under the supervision of the Superintendent of Insurance. The amount of deposits included in the latter figure was $29,418,924.

155. Trust companies engage in business similar to that of the loan companies and act as executors, trustees and administrators under wills or by appointment, as trustees under marriage or other settlements, as agents or attorneys in the management of estates of the living; as guardians of minors or incapable persons, as financial agents for municipalities and companies and, when so appointed, as trustees in bankruptcy. A very important function they perform is to act as trustees for the bondholders in connection with bond issues where assets are pledged. Some of these companies receive deposits, while all of them invest for the account of their clients, in short or long term loans which may or may not be guaranteed by them.

156. *Rural Credit Institutions.*—There are no complete statistics available regarding the amount of farm mortgage loans in Canada. Data collected in the census of 1931 indicated that out of a total of 654,241 owned and partly owned farms in the Dominion, 214,580 were mortgaged to the extent of

$671,776,500. (The figures disregard mortgages on rented farms numbering 74,382.) Only a small proportion of the total farm mortgage indebtedness is owing to rural credit organizations. In recent years credit from provincial government sources has been restricted owing to the difficulty of obtaining funds at a sufficiently low rate of interest and also because of the danger of embarrassment to the provinces by increasing unduly their indebtedness.

157. A long term credit plan has been in operation in the provinces of Ontario (20-year plan) and Saskatchewan (30-year plan) for some years, and the outstanding loans in these provinces, according to the latest published figures, are approximately $45,000,000 and $15,000,000 respectively. The general rate of interest in Ontario has been 5½ per cent and in Saskatchewan 6½ per cent. In Manitoba a system of long term credit on a 30-year amortization plan was initiated in 1917, but was discontinued after the Canadian Farm Loan Board commenced operations in the Province.

158. The Canadian Farm Loan Board, which came into being in 1929, makes loans to farmers at 6½ per cent interest per annum and 7 per cent interest on arrears. These loans are made on a basis of repayment in a period of 23 years or 32 years. At the end of the last fiscal year, 31st March, 1933, outstanding loans amounted to $9,482,000. So far the Board operates only in six provinces, namely, Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia and Quebec.

159. In addition to the short term rural credit granted by the chartered banks, legislative provision exists for the furnishing of short term credit by the Ontario Agricultural Development Board and by the Provincial Treasurer in Alberta. In Ontario the maximum short term credit granted has never exceeded some $350,000, and the Farm Loan Associations, through the medium of which these facilities are granted, have never played an important part in the field of term credit. The rate of interest charged is 6½ per cent, of which 1 per cent to the Associations to defray administration costs. In Alberta this type of legislation first came into existence in 1921. Under the original legislation societies were organized at local points each operating as a separate and distinct unit. Funds were obtained by the societies from the chartered banks which were in part protected against loss by guarantee of the provincial government. As a result of losses in a number of the societies a reorganization of the entire scheme was effected in 1931. A provincial corporation was established by a statute of the legislature of that year consolidating the various existing societies as members, the capital stock being contributed by the societies. While each society still retains as a unit its relationship with its members, it is required to contribute annually to a common sinking fund to cover any losses in any society. The rate of interest in Alberta is 7½ per cent (of which ½ of 1 per cent accrues to the local Society) plus ¼ to ½ of 1 per cent to provide the sinking fund.

160. In Manitoba provision for short term credit was made by the legislation of 1917 with a stipulation that interest should not exceed 7 per cent, of which 1 per cent should accrue to the local Rural Credit Society. An investigation into the management of these Societies was made in 1923, and subsequently large losses, both of principal and interest, were written off. The Societies are no longer managed by local directors, but by the central government authority in Winnipeg, and it is understood that no new business of consequence is being undertaken. The total loans outstanding, according to the public accounts at 30th April, 1932, were $1,085,675.

161. In Quebec, while there is no provincial plan of short term or intermediate credit, requirements of this nature are met in some degree by the facilities provided by the "Caisses Populaires" (Co-operative People's Banks), whose operations have been previously described.

162. Only one attempt in recent years has been made to supply intermediate credit. The Dominion Agricultural Credit Company, Limited, was organized early in 1931, largely through the efforts of Mr. E. W. Beatty, with capital supplied by the railway companies, the banks, loan companies and insurance companies. Its purpose is to assist farmers in acquiring live stock. The authorized capital stock is $5,000,000, of which over $3,000,000 was subscribed, with 10 per cent paid up. Mr. H. O. Powell, the Vice-President and General Manager, in his evidence before us at Regina stated that the amount of capital paid up had been more than sufficient to meet the demands to date. He further stated that the Company asked for repayment of loans over a period of three years with interest at 6 per cent plus certain inspection fees. Loan applications are handled largely through local committees. Recently the Company has engaged in sheep raising on a profit sharing basis with farmers; the Company purchases and retains ownership of the stock while the farmer provides pastures and care.