

# RETURN

[153a]

*To His Royal Highness Field Marshal Prince Arthur William Patrick Albert, Duke of Connaught and of Strathearn, Earl of Sussex in the Peerage of the United Kingdom, &c., &c., Governor General and Commander-in-Chief of the Dominion of Canada:*

In pursuance of the Commission of Your Royal Highness, dated the twelfth day of February, one thousand nine hundred and twelve, by which I was appointed a Commissioner to make investigation into all material and relevant facts in relation to:

- (a) The incorporation by Act of Parliament of the Farmers Bank of Canada and the organization thereof;
- (b) the application for and the giving by the Treasury Board of the certificate permitting the bank to issue notes and to commence the business of banking;
- (c) the conduct and operation of the business of the bank, the amount of capital subscribed and paid up, the causes of the suspension and failure, and the extent of the liabilities and the value of the assets thereof.

I have made the investigation which I was appointed to make, and have the honour to report:

Before dealing in detail with the special matters as to which inquiry is directed, it will be convenient to give a brief outline of the history of the bank from its incorporation until its suspension.

The bank was incorporated in the year 1904, by 4 Edward VII., chapter 77.

The applicants for the Act were James Gallagher, of the village of Teeswater, John Watson, of the town of Listowel, John Ferguson and Alexander Fraser, of the city of Toronto, and Alexander Shepherd Lown, of the village of Drayton, and they are named in the Act as the provisional directors of the bank.

The capital stock was fixed at \$1,000,000, and, subject to section 16 of the Bank Act, the Act was to remain in force until 1st July, 1911.

By an Act passed in 1905 (4-5 Edward VII., chapter 92), it was provided that the Treasury Board, notwithstanding anything contained in the Bank Act or in the Chapter 77 of the statutes of 1904 incorporating the Farmers Bank of Canada, might within two years from the 18th July, 1904, give to the bank the certificate required by section 14 of the Bank Act, and it was further provided that if the bank did not obtain the certificate within that time "the rights, powers and privileges conferred" on the bank by the Act of incorporation and by the Act of 1905 should "thereupon cease and determine but otherwise" should "remain in full force and effect notwithstanding section 16 of the Bank Act."

By another Act, passed in 1906 (6 Edward VII., chapter 94), the time for obtaining the certificate of the Treasury Board was extended for six months from the 18th July, 1906, and this Act contained a provision similar to that contained in the Act of 1905 as to the consequence of failure to obtain the certificate within that time and as to the Act remaining in force notwithstanding section 16 of the Bank Act.

Section 16 of the Bank Act provides that:—

"16. If the bank does not obtain a certificate from the Treasury Board within one year from the time of the passing of its Act of incorporation, all the rights, powers and privileges conferred on the bank by its Act of incorporation shall thereupon cease and determine, and be of no force or effect whatever."

And it was in consequence of this provision that it was necessary to obtain the extensions which were granted by the Acts of 1905 and 1906.

The provisional directors met for organization on the 26th August, 1904, and, after having appointed John Ferguson, M.D., as chairman, and Alexander Fraser as secretary, and transacting some other business, passed the following resolution:—

"The first block of \$500,000 of the capital stock shall be offered at par value, viz.: \$100 each share at the price of \$100 per share, and the payments on the same shall be as follows: \$5 per share on subscription, a further \$15 per share on allotment, and eight equal monthly payments of \$10 each per share on the first day of each and every of the eight months immediately succeeding the date of such allotment."

Public notice was subsequently given that stock books, upon which would be recorded the subscriptions of such persons as should desire to become subscribers in the bank, would be opened on September 6, 1904.

On that day another meeting of the provisional directors was held, at which the following resolution was passed:—

"That \$500,000 capital stock of the Farmers Bank of Canada be placed in the hands of Mr. C. H. Smith for sale at par and that he be allowed a commission of five per cent on all stock placed and that the agreement to be entered into under this minute continue in force until the 6th day of January, 1905, subject to such further extension as may then be deemed expedient, and shall contain a clause that the Board may at any time rescind this agreement, provided that satisfactory progress has not been shown."

At the same meeting it was resolved that the provisional directors should be paid their railway fare, and for each meeting to those living out of Toronto, \$20, and to those living in Toronto \$10.

At a meeting held on the 26th November, 1904, a prospectus was approved and directed to be printed.

The first allotment of shares appears to have been made by the provisional directors on the 23rd day of December, 1904, and subsequent allotments were made from time to time by them.

At a meeting of the provisional directors held on the 5th September, 1906, a resolution was passed authorizing the giving of notice of a meeting of the subscribers for shares for the purpose of organization when the government deposit should have been made.

The deposit was made on the 23rd October following.

Notice of the meeting to be held on the 26th November following was given; it is dated the 18th October, 1906, and was first published in the "Globe" newspaper on the 22nd, and in the "Canada Gazette" on the 27th of that month.

The meeting was held pursuant to the notice, and at it a report of the provisional directors, which bears date the 22nd November, 1906, was read and adopted, and their acts were "confirmed, ratified and approved, and directors were elected and by-laws passed.

On the day following this meeting an application for the issue of the certificate of the Treasury Board was made; the application was accompanied by what purported to be a list of the shareholders, and among other documents a statutory declaration of W. R. Travers, the General Manager of the bank, in which referring to the list of shareholders, he declares that it is "a list of the subscribers to the

## SESSIONAL PAPER No. 153a

capital stock of the said bank correctly setting forth as to each subscription the name of the subscriber, his address, the number of shares subscribed for by him, the amount of such shares, and the amount paid in thereon," and that each of the subscriptions 'is a bona fide subscription to the capital stock' of the bank.

At a meeting of the Treasury Board held on the 30th November, 1906, the issue of the certificate was authorized, and the certificate was issued on that day.

The bank began business on the 2nd day of January, 1907, and suspended payment on the 19th day of December, 1910, and was subsequently ordered to be, and is now in process of being wound up.

I proceed now to deal in detail with the matters as to which I am directed to inquire.

It is not without significance, I think, as bearing upon the subsequent history of the bank, that its incorporators who became its provisional directors had no experience in the business of banking or in any other business in which they would have acquired the knowledge essential to the successful launching of a bank.

The provisional directors found much difficulty in procuring subscriptions for a sufficient number of shares to enable the bank to be organized and to obtain authority to issue notes and commence the business of banking.

The issue of \$500,000 authorized at the meeting of 6th September, 1904, was first placed in the hands of Mr. C. H. Smith for disposal, and he was to receive a commission of 5 per cent 'on all stock placed.'

The progress made by Smith in obtaining subscriptions seems to have been slow, for on the 13th February, 1905, at a meeting of the provisional directors a motion was proposed by Dr. Ferguson and seconded by Mr. Fraser:

"That in view of the fact that the charter of the Farmers Bank will lapse at an early date and it is evident going to be grave difficulties in the way of disposing of the capital stock of the bank, be it resolved that all moneys paid on shares now placed be returned and the expenses up to date be defrayed equally by the provisional directors."

The motion, unfortunately, in the light of subsequent events, did not commend itself to the other directors, Messrs. Lown, Gallagher and Watson, and it was lost.

After the defeat of this motion, it appears to have been decided to continue the efforts to obtain the necessary subscriptions, for immediately following it a motion made by Dr. Ferguson and seconded by Mr. Fraser:

"That an application be forthwith made to the Parliament of Canada for an extension of time for obtaining the certificate of the Treasury Board," was carried.

Efforts continued to be made to obtain the necessary subscriptions, but they do not appear to have been attended with much success, until after the 10th March, 1906, when Mr. W. R. Travers appeared upon the scene, and an agreement was entered into between him and the provisional directors by which he was authorized 'to sell all the capital stock' except portions of it which Smith and a firm of Toronto solicitors had been entrusted to sell. According to the terms of this agreement, Travers was to receive a commission of ten per cent on the stock sold by him, payable one-half on the signing of the subscription and payment of deposit, and the balance on allotment, and, subject to ratification by the permanent board of directors elected by the shareholders, he was to be engaged as General Manager of the bank for five years certain, to date from the issue of the certificate of the Treasury Board, at a salary of \$4,000 for the first year, increasing by \$1,000 in each of the subsequent four years, and if he should not be continued as General Manager after the five years he was to receive a pension of \$1,500 a year during the remainder of his natural life.

The agreement contains other terms which it is not necessary to mention, and a provision that the expenses of the provisional directors, if they did not up to the date of the agreement exceed \$16,000, should be paid out of the funds of the bank and

3 GEORGE V., A. 1913

that "the literature, office rent, and other incidental expenses of a like nature" should be paid by the bank.

At the same meeting, a resolution was passed that Lown and Smith should be given positions in the bank on its organization, Lown as secretary, and Smith as manager of a branch, or an equivalent position in the head office, and that in the event of their not being continued in office for a period to be agreed on between them and Travers, an adequate allowance should be made to them by pension or bonus, and a further resolution that an allowance of \$3,000 each should be made to Ferguson and Fraser for their services and outlays as provisional directors in the organization of the bank, and that these sums should be paid when the bank should be ready for business.

On the 4th day of July, 1906, the agreement of the previous 10th March was put an end to, and a new agreement was entered into between Travers and the provisional directors.

By the new agreement it was provided that Travers was to be "allowed to sell" all unsubscribed shares of the first issue of \$50,000 at par, and the remainder of the capital stock (\$500,000) at such premium as might be decided on, up to the time at which the duties of the provisional directors should cease, and that he should be paid a commission of ten per cent for the expenses of selling the stock "payable one-half on the signing of the subscription and payment of deposit, and the balance on allotment"; that the provisional directors should be bound to allot all the stock on the application of Travers, and to make "all legal calls thereon," and at his request to call all meetings and do all acts which should be legally necessary for the organization of the bank, and that Travers should be engaged as General Manager for five years certain to date from the issue of the certificate of the Treasury Board at a salary of \$5,000 for the first year, increasing by \$1,000 in each of the subsequent four years.

This agreement also contained a provision similar to that of the earlier agreement as to a pension to Travers and as to his engagement as General Manager subject to ratification by the directors to be elected by the shareholders.

The agreement also provided that "the literature, office rent, and other expenses" of the organization of the bank should be paid by the bank, and confirmed all acts done by Travers, and "all accounts incurred by him as General Manager" up to the date of the agreement, and it further provided that Travers "accepted the legitimate accounts" as they then stood on the books for the expenses of organization to that time, and that he would allow to the provisional directors and Smith, who was also a party to the agreement, \$20,000 as remuneration for their "services, surrender of charter" etc., to be paid out of the funds of the bank if confirmed at the meeting of the subscribers, and that Travers should thereafter have full control of the office of the bank and all affairs pertaining to its organization.

By a contemporaneous agreement the provisional directors and Smith agreed to assign to Travers "all their claims and interest" under the other agreement, and Travers agreed to accept their claim under it and to take "the responsibility of the claim and to pay the \$20,000 to them immediately upon" their passing the necessary resolution to give the legal notice calling a meeting of the subscribers for the organization of the bank, and on the same day Travers paid them \$10,000 on account of the \$20,000, and an agreement was made between the provisional directors and Smith for the division of the \$20,000 between them as follows: to Lown and Smith each \$5,000; to Ferguson and Fraser each \$3,500; and to Watson and Gallagher each \$1,500, and the \$10,000 was divided between them in those proportions.

The \$10,000 paid by Travers was provided by paying him that sum on account of the commissions out of the money of the bank in the hands of the provisional directors, and the payment was authorized by a resolution passed on the same day.

## SESSIONAL PAPER No. 153a

Another agreement bearing the signatures and seals of all the parties to the agreement of the 4th July, 1906, was adduced in evidence; it bears the same date and is in all respects identical with that agreement except that the rate of commission is stated to be 15 per cent. According to the testimony of Travers this agreement was the final one between the parties and the one that was acted on, but the contrary was stated by the provisional directors who gave evidence.

It is unnecessary for the purpose of the inquiry to determine on which side the truth lies, and I therefore make no finding as to it.

It appears clear from these agreements and resolutions that what was intended was to sell the charter of the bank to Travers and to put him in control of its organization and business, and that the provisional directors should abdicate their functions and act in accordance with his directions, and that is what followed.

Travers at once set about obtaining the requisite subscribers and a vigorous canvass for that purpose was entered on, especially after an agreement was made in the following August between him and W. J. Lindsay for the latter assisting in the work and for an equal division of the commission between them.

A prospectus was issued by the provisional directors some time in March, 1906, and no doubt after the agreement of the 10th, as it appears to have been approved of by them at a meeting held on the 21st of that month. A copy of it appears in the return brought down to the House of Commons pursuant to an order of the House of the 16th January, 1911 (Exhibit 5, pp. 10, 11 and 12).

The prospectus contains the names of a number of persons who it is stated had consented to act as directors if elected, four of whom were called at witnesses on the inquiry and each of whom testified that as to him the statement was incorrect and unauthorized.

How far, if at all, persons were induced to subscribe in consequence of these statements does not appear.

The form of application to be signed by an applicant for shares appears on pages 13 and 14 of the return, and that form was used in most if not all cases; it provides for the payment in respect of each share of \$10 on signing the application, \$20 on allotment, and the remainder in seven equal monthly instalments of \$10 each, the first of them to be paid in 30 days after allotment, and the succeeding ones at intervals of 30 days, and gives the applicant the right to pay in full on allotment.

In a number of cases a promissory note was given by the applicant for the full amount of his subscription, payable in most cases in twelve months to the order of "the provisional directors of the Farmers Bank of Canada."

In many cases no payment in cash was made at the time of the application or up to the time of allotment.

Questions having arisen as to the legality of taking promissory notes in settlement of subscriptions for shares, and as to the payment of commissions on such subscriptions, at a meeting of the provisional directors held on the 23rd June, 1906, it was decided to take the option of Messrs. Urquhart, Urquhart & McGregor, a firm of Toronto solicitors, on the questions and to instruct Travers not to accept notes in lieu of cash and that the conditions set forth in the form of application should be adhered to "on a cash basis unless otherwise specially authorized by the Board."

Apparently only the first question was submitted to the solicitors, and their opinion as to it was that the provisional directors had power to accept subscriptions where the applicant gives his promissory note in payment for the shares in place of or in addition to "giving his subscription in the usual manner." and though the note should mature "at a time different from the payments in the subscription." A copy of this opinion was adduced in evidence and is Exhibit 13.

On the 4th July, following, the resolution "calling for the selling of stock on a cash basis" was rescinded.

3 GEORGE V., A. 1913

I have no doubt that one reason, at all events, and probably the main one for accepting promissory notes was that Travers might be enabled by means of them to raise money to make up the cash deposit which had to be made as one of the conditions precedent to the issue of the certificate of the Treasury Board.

On the 5th September, 1906, as I have mentioned, authority was given to give the notice of the meeting of the subscribers for organization as soon as the government deposit should have been made; this authority was given Travers and he was authorized to do all other acts necessary for calling the meeting.

It is not open to question that \$500,000 of the capital stock had not been then subscribed, and that \$250,000 had not been paid by the subscribers.

It was contended that the statement in the statutory declaration of Travers, made on the 27th November, 1906, to which I have referred, and a copy of which appears on pages 7 and 8 of the return (Exhibit 5), that the list of subscribers marked Exhibit D to the declaration correctly set forth as to each subscription the name of the subscriber, his address, the number of shares subscribed by him and the amount of his shares, and that each subscription was a bona fide subscription to the capital stock of the bank, was untrue. The number of shares subscribed for, as shown by the list, was 5,792, though by an error in the addition it was stated to be 5,789, and the amount subscribed was \$579,200, a corresponding error as to this having been made in adding up the figures; of these shares it was, however, stated that 35 were subscribed after the 22nd October, 1906, which as I have mentioned was the date of the first publication in the *Globe* newspaper of the notice calling the meeting of the subscribers, and Travers appears to have thought that subscriptions received down to and including that day, but not those received after it, were to be taken into account in making up the \$500,000 which section 13 of the Bank Act requires to be bona fide subscribed before the meeting of the subscribers is called.

If the 22nd October, 1906, be the determining date, and as I think allotment was necessary to constitute an applicant for shares a subscriber within the meaning of the Act, the statement as to the number of shares that had been bona fide subscribed for was untrue, and on the hypothesis I have just mentioned less than 5,000 shares had been subscribed for.

If, however, all the shares for which bona fide applications had been then made were properly included, or the determining date was the date of the meeting of the subscribers, the statement was true.

I express no opinion as to what date is the determining one, as my function is not to pass upon questions of law, but only to determine questions of fact.

The statement in the declaration that the list of subscribers correctly set forth as each subscription "the amount paid in thereon" and the statement that the \$250,000 deposited to the credit of the Minister of Finance and the Receiver General was paid out of the moneys paid in and which actually had been received in respect of the shares, was literally true, but was calculated to deceive the Minister of Finance as to the real facts and was intended to do so.

The fact was that two sums amounting together to \$100,000 had been borrowed by Travers from the Trustees and Guarantee Company on the security of promissory notes made by applicants for shares which had been endorsed to him by the provisional directors for the express purpose of raising money to be used in making the deposit, as appears from the following resolution passed by the provisional directors on the 8th October, 1906:—

"that the provisional directors execute a power of attorney to W. R. Travers for the purpose of endorsing all notes in their names as provisional directors and of signing their names to a note or notes for the purpose of raising funds to put up the deposit with the Government, and we authorize the Secretary to hand over all notes to W. R. Travers for the said purpose."

## SESSIONAL PAPER No. 153a

Acting under the authority of this resolution and armed with a power of attorney from the provisional directors to him, dated the 8th October, 1906, Travers, on the ninth day of October, 1906, borrowed from the Trusts and Guarantee Company \$80,000, repayable in a month, on the security of promissory notes of subscribers amounting in the aggregate to \$100,955, agreeing to pay interest on the loan at the rate of 10 per cent per annum and a bonus of \$1,000, and on the twenty-third day of October, 1906, he borrowed from the same company \$20,000, repayable on demand, on the security of promissory notes of subscribers amounting in the aggregate to \$26,500, and certain shares of Loan Companies, valued at \$20,500, which had been transferred to the bank in payment of subscriptions, agreeing to pay the same rate of interest and a bonus of \$500.

For the loan of \$80,000, the Trusts and Guarantee Company issued its cheque on the Bank of Montreal payable to the order of that bank 'For credit of the Farmers' Bank of Canada with the Finance Minister and Receiver General' and for the loan of \$20,000 the company issued its cheque on the Ontario Bank payable to the order of the Bank of Montreal, for 'Credits Farmers' Bank of Canada with Finance Minister and Receiver General.'

The form was then gone through of crediting the proceeds of these loans, to the extent of \$75,995, as payments on the shares of certain of the applicants for shares, as shown on pages 40 and 41 of Exhibit 63, and to the extent of \$20,027 in substitution for securities which had been taken in payment for shares and were held by the provisional directors, and the latter sum was treated as having been paid in cash; the balance of the loans were used to cover in part expenses of organization which were not carried into the books of the bank until some months after it began business. \$17,595 was placed to the credit of subscribers other than those whose promissory notes had been used for the purpose of obtaining the loans, and who had actually paid nothing on account of their shares, and in many cases subscribers' notes for much larger sums than were placed to their credit were pledged for the loans.

Although the form of applying the money borrowed in the way I have indicated was gone through, the real purpose of the transaction was to enable Travers to represent to the Treasury Board that a larger sum had been paid in than had been actually been received on account of the shares, and Travers intended that as soon as the deposit of \$250,000 was returned to the bank the loans should be paid off and the subscribers' notes be discounted in the various offices of the bank, and that was in fact done, about \$60,000 having been repaid in December and the remainder in the March or April following.

That in thus dealing with these notes the provisional directors and Travers were guilty of a breach of trust does not, I think, admit of doubt, and for the manner in which the money borrowed was applied there was neither justification nor excuse.

When the Finance Minister, as I shall refer to more fully later on, raised the question as to whether money had been borrowed to make up the \$250,000 deposit, and in his letter to Travers, of the 30th November, 1906, (Exhibit 5, p. 36), asked for an assurance from him that notes of subscribers who had not actually paid in cash but had given notes to the provisional directors had not been used to raise the money, Travers' letter in reply (Exhibit 5, pp. 36-37), while it was intended to appear to give the assurance for which the Minister had asked, did not do so; his letter was a brief one and was confined to the statement that the provisional directors had not raised the money in the way mentioned by the Minister, and the further statement that the Minister would find the statement that had been put in "absolutely correct as to the amount of stock subscribed and the amount paid up." These statements, though possibly literally true as Travers understood the transaction with the Trusts and Guarantee Company, which was that the loans were personal loans of his own, were, in fact, untrue and the language used in his letter was deliberately chosen by Travers in order to make it appear that he was giving the assurance for which the Minister had asked, while he was in fact not doing so and could not truthfully do so.

3 GEORGE V., A. 1913

My conclusion on this branch of the inquiry is that the Treasury Board was induced to give its certificate by false and fraudulent representations on the part of Travers, and that if the facts I have mentioned as to the way in which the \$250,000 was made up had been disclosed, the certificate of the Treasury Board would not have been given.

It is plain from the letter of the Finance Minister to Travers, of 30th November, 1906, that the Minister understood that section 13 of The Bank Act would not have been complied with if the \$250,000 was made up wholly or in part of money raised on promissary notes given by subscribers for shares to the provisional directors and that he would have felt it his duty to recommend that the certificate should not be granted if he had known that part of the money had been raised in that way.

That that information had been given to the Minister before the certificate was issued appears from the testimony of Sir Edmund Osler and Mr. David Henderson and is shown by the letter of the 19th October, 1906, of Mr. Leighton McCarthy to the Minister, which appears in Exhibit 5, pp. 2, 3. In that letter Mr. McCarthy states as follows:

"I have received information that the alleged subscribers for shares paid a large sum of money in cash and have signed notes for other large sums of money and that the persons professing to act in the name of the bank have transferred notes and received the proceeds and that a deposit either has been or will be made of the cash received and the proceeds of these notes or sufficient amount to make up \$250,000."

That the verbal information I have mentioned was conveyed to Mr. Fielding was not denied though he stated that, as I have no doubt was the fact, no formal objection to the granting of the certificate was made either by Sir Edmund Osler or by Mr. Henderson. That, however, in my opinion, is immaterial.

I do not suggest that the Minister would have been justified because of the information conveyed to him in recommending that the certificate should not be granted, or that the Treasury Board because of it would not have been justified in refusing to grant it, but, having received the information, it was in my opinion incumbent on the Treasury Board to have investigated the charges that had been made before coming to a conclusion as to whether or not the certificate should be given.

The officials of the Department of Finance appear to have treated Mr. McCarthy's letter as if it had never existed, and, in my opinion, in that they erred, for, although Mr. McCarthy on the 2nd November, 1906, wrote to the Minister informing him that the claims made by his clients had been "settled by their subscriptions being taken up by some parties interested in the bank and refunding the money paid by the individuals or returning the notes which had been given" and had withdrawn the objections which he had made on behalf of his clients to the issue of the certificates, Mr. McCarthy did not in any way intimate that the information he conveyed to the Minister as to the way in which the \$250,000 had been made up had been found to be incorrect.

Although the information which had been conveyed to the Minister had evidently impressed him with the necessity for further inquiry on his part before advising that the certificate shall be given, the only inquiry made was that contained in his letter to Travers, of the 30th November, 1906, to which reference has been made, and strangely enough in that letter what is said to have led to the inquiry is stated, not, as one would have expected, that information of the character mentioned in the letter had reference to the application of the Farmers Bank but that it had reference to previous applications where it is said the application was in all respects apparently regular.

As I have already pointed out, Travers in his reply did not give the assurance for which the Minister had asked, viz., an assurance that nothing of the kind had taken place in relation to the subscriptions for the Farmers Bank, but that the



SESSIONAL PAPER No. 153a

amounts set forth in the application as having been paid up have in every case been bona fide cash payments.

Unfortunately, Travers' reply appears to have been treated by the Department as containing the assurance for which the Minister had asked.

I very much doubt whether in the circumstances it would have been right to have depended upon the word of Travers, even if he had given the assurance for which the Minister had asked. The information which had been conveyed to the Minister had come from gentlemen of standing, and if it was accurate the declaration of Travers had made was untrue and it would seem to have been almost an idle thing to ask for an assurance that there was no foundation for the statements that had been made to the Minister from the very man whose honesty was in question and unwise to have acted on that assurance.

It is true that, as Mr. Fielding stated in evidence, Travers, so far as he knew, was a reputable banker; but that was not, in my opinion, a sufficient reason for not having instituted an inquiry as to the matters which had been called to his attention. Such an inquiry could easily have been made, and the delay occasioned by it would have been inconsiderable, and such an inquiry would, undoubtedly, have resulted in the discovery of the manner in which the \$100,000 had been raised and in the refusal of the Treasury Board to give the certificate.

An unsuccessful attempt was made to show that money had been used by Travers to procure the issue of the certificate. In support of it Travers testified to the issue of a cheque for \$3,000 which he said was placed in an envelope addressed to Mr. Peter Ryan and sent to Mr. Ryan's room in the Russell House, at Ottawa, and afterwards presented and cashed.

That Ryan received this cheque or had any connection with it, if it was used for the purpose stated by Travers, was disproved.

There is, in my opinion, no ground for supposing that any improper influence was used to induce the Treasury Board to give the certificate or to induce the Minister of Finance to recommend the granting of it, and the most that can properly be charged against the Department of Finance or the Treasury Board is an error of judgment.

It was argued before me that there was a duty resting upon the Department of Finance upon receipt of the letter of the President of the Canadian Bankers Association (Mr. Clouston) (Exhibit 28) which reached the Department after the certificates of the Treasury Board had been given, to have taken steps to recall it, but I am not of that opinion and know of no power in the Department or in the Treasury Board to recall a certificate.

It is to be observed that this letter contained no further information than already had been communicated to the Minister of Finance by Sir Edmund Osler, Mr. Henderson and Mr. McCarthy.

It was unfortunate, I think, that the information conveyed to the Minister of Finance by Sir Edmund Osler and Mr. David Henderson as to the way in which the money deposited by the bank had been raised, if it was intended to prevent the issue of the certificate, was not conveyed to the Minister in writing, and it may be observed as probably indicative of their view as to the gravity of the irregularities of which they had been informed, that neither of them, though both were Members of the House of Commons, when the fact that the certificate had been given came to his knowledge, called in question in the House the action of the Treasury Board or made the granting by it of the certificate the subject of inquiry.

The action of the Canadian Bankers Association in receiving as it was said it had done the Farmers Bank into the Association was questioned by Mr. Fielding in his testimony before me, but his criticism was based upon an erroneous assumption as to the power of the Association to exclude from membership. On reference to the Act of incorporation of the Association, 63-64, cap. 93 D, it will be found that it had

no such power, and that on the Farmers Bank becoming entitled to carry on the business of banking in Canada it became *ipso facto* a member of the Association.

I was asked by the representative of the shareholders and depositors to find that there was "neglect of duty on the part of the Finance Department after the" receipt of the letter of the 17th April, 1907, from Mr. G. Vankoughnet, the manager of the bank at Milton, addressed to the Deputy Minister of Finance (Exhibit 5, p. 29), and informing him that promissory notes given in payment for shares were being discounted at the bank's branches and the proceeds credited to the head office, which included them in its returns as paid up capital and issued circulation accordingly.

In consequence of this letter, the Department, on the 2nd May, 1907, called for a special return showing (1) what part of the \$375,473 paid up capital as shown by the return of 30th March, 1907, was represented by promissory notes or other obligations of shareholders or the proceeds of the same of which the bank was the holder or liable on, and (2) the names and holdings of stock of such shareholders with particulars of such notes or obligations as were then current.

The return asked for was made a few days afterwards. It appears on pages 35 and 36 of Exhibit 5, and shows that promissory notes amounting in the aggregate to \$59,110 given by shareholders having shares of the aggregate par value of \$92,700 were included in the \$375,473, and were held by the bank, and no further action was taken by the department.

I am unable to find that in this there was any neglect of duty on the part of the Department, or to see that anything more than was done could have been done, even if Mr. Vankoughnet's letter had stated, which it did not, that the promissory notes he referred to were notes that had been given in respect of shares included in the list furnished to the department when the application for the issue of the certificate of the Treasury Board was made.

Notwithstanding the irregularities on the part of Travers and his misconduct in connection with the application for the certificate, which I have mentioned, the evidence satisfies me that if the bank had been prudently and honestly managed there is no reason why it should not have succeeded. The promissory notes that had been given by subscribers were for the most part good and were subsequently paid, and while it is true that if the certificate of the Treasury Board had not been granted the money of the shareholders and depositors would not have been lost, the efficient cause of that loss was the recklessness and fraud of those entrusted with the management of the bank, and not the granting of the certificate.

One of the first acts of Travers after the certificate had been obtained, was to cause a fraudulent entry to be made in the books of the bank as to the expenses incurred by the provisional directors, by writing down the amount of them, which was at least \$46,543.71, to \$32,127.71, the difference being concealed by treating as cash on hand three sums of \$3,000 each, represented by cheques and obligations of persons who had subscribed for shares which had not been, if they were to be so treated, credited to capital account, and taking the remaining \$3,978 and the \$1,500 bonus paid to the Trusts and Guarantee Company, less \$62 received from other sources, out of the money borrowed from the Trusts and Guarantee Company.

The subsequent management of the affairs of the bank was characterized by gross extravagance, recklessness, incompetency, dishonesty and fraud, and has resulted in the entire loss of the paid-up capital and the whole of the deposits, and that after allowing for all that can be extracted from the shareholders on their double liability a loss amounting to no less than \$1,806,437, making a record unparalleled in the history of any bank in Canada, or, as far as I am aware, in any other country.

It is unnecessary to do more than state in general terms in what way these losses were incurred, as full particulars of them will be found in the carefully prepared and exhaustive statements of the liquidator, Mr. Clarkson, which accompany my report,

SESSIONAL PAPER No. 153a

and in which will also be found a history of the Keeley mine transaction in which a loss approximating \$500,000, as afterwards mentioned, was sustained by the bank.

Subject to deductions in respect of some of the times of sums amounting in the aggregate to \$42,377, during the short career of the bank, the lad debts amounted to \$598,565; the operating losses, including the cost of printing bank notes and stationery, to \$281,119; the organization expenses to \$87,279; the sums stolen by officers of the bank, after deducting what has been and is expected to be recovered from sureties, to \$134,118; the dividends paid, to \$50,772; the losses on expenditures on bank premises, fixtures and furniture, to \$108,801; the loss on the purchase of the Keeley mine, to \$509,886, from which, however, is to be deducted what may ultimately be realized from the sale of it; loss on the purchase of stock in the Keeley Mine Company, \$15,000; besides other losses amounting in the aggregate to approximately \$63,274.

The amount of capital subscribed and paid up and the extent of the liabilities and the value of the assets of the bank appear in a statement prepared by Mr. Clarkson which is annexed to my report and is marked Exhibit 96.

Before concluding my report, it seems to me proper to mention some matters as to which evidence was adduced, and which have formed the subject of public discussion, and to state my conclusions as to them.

It was shown that the *World Newspaper Printing Company* had a credit with the bank for a considerable sum, and that money was kept on deposit at the bank bearing interest by the Treasurer of Ontario, and it was alleged that the credit was given by Travers on the understanding or agreement that in consideration of it being given the company should use its influence with the Provincial Government and its Treasurer to induce them to make deposits with the bank, that the company did use its influence to that end, and that its efforts resulted in the deposits that were made by the Treasurer or some of them being made.

Most of the transactions between the company and the bank were carried on on behalf of the company by Mr. Greenwood, who was its Managing Director.

Mr. Greenwood was a witness upon the inquiry and correspondence between him and Travers and between him and the Provincial Treasurer was put in evidence.

My conclusions as to these matters are:—

1. That while it is probable that Travers thought that the giving of the credit which he gave to the company would result in such influence as the company could bring to bear upon the Provincial Treasurer to induce him to make deposits with the bank being used, and that Greenwood knew that Travers so thought and promised to use that influence, there was nothing in the nature of an agreement that as a consideration for giving the credit it would be used, and there is no reason of thinking that had the promise not been made the credit would not have been granted.

2. That if any such promise was made it was not communicated to the Provincial Treasurer, and that he was not made aware that it had been made, and that in making deposits with the bank he acted with nothing in view but the public interest and the making of a fair distribution of Government deposits between the banks carrying on business in Toronto.

I may add that since the inquiry was entered on, the whole of the indebtedness of the company to the bank has been paid.

It is proper also to say, in conclusion, that Travers appears to have thought the Keeley Mine a property of immense value and that by the sale of it all the losses which had been incurred would be met, and that he appears to be still of that opinion.

All of which is respectfully submitted.

W. R. MEREDITH,  
*Commissioner.*

Toronto 21st February, 1913.

3 GEORGE V., A. 1913

TORONTO, November 28th, 1912

In the Matter of

THE FARMERS BANK OF CANADA—STATEMENT OF AFFAIRS AS OF  
NOVEMBER 28TH, 1912.

## LIABILITIES.

Shareholders—	
Capital paid in . . . . .	\$ 532,599
Premiums paid on Capital Stock . . . . .	13,555
	\$ 546,154
Prior Lien Claims—	
Reserve to cover deposits made after suspension . . . . .	1,500
Rents and Taxes payable . . . . .	4,778
Circulation outstanding with accrued interest . . . . .	340,375
Deposits by Provincial Governments . . . . .	26,533
Deposits and Obligations—	
Savings Deposits . . . . .	\$ 989,300
Current Account deposits . . . . .	145,714
Drafts and Bills of Exchange outstanding . . . . .	36,044
	1,171,058
Other Liabilities—	
Sundry claims and accounts . . . . .	21,414
	\$ 2,111,812

## ASSETS.

Deposit with Receiver General to secure cir- culation . . . . .	\$ 21,687
Cash in Banks, and on hand . . . . .	462
Overdue loans—valuation . . . . .	132,400
Bank premiums—valuation . . . . .	3,500
Real Estate, other than Bank Premiums . . . . .	9,000
Mortgages upon Real Estate sold . . . . .	19,500
Sundry other assets . . . . .	37,200
	213,749
Total . . . . .	213,749
Deficiency . . . . .	\$ 1,898,073

Increase of deficiency over that shown at time of suspension, \$1,806,437, arises from interest upon circulation paid and accrued to amount of \$31,724, disbursements in protection of Keeley mine and other assets, and costs and expenditures paid in respect of liquidation. The costs of liquidation have been heavy owing to the fact that in respect to most of the assets of the bank litigation is unavoidable if collection is to be enforced.

Liquidator.