Banking Legislation.—As has already been stated, note issue was formerly considered as the chief function of the banks and banking legislation dealt mainly with note issue. In 1830 the Banking Act was amended so that the total amount of notes of less than $5 in circulation might not at any one time exceed one-fifth of the paid up capital; that no notes under $1 should be issued and that all issues of less than $5 might be limited or suppressed by the legislature. In 1841, in the first session of the Canadian Legislature after the Union, the Banking Act imposed a tax of one p.c. upon the bank note circulation together with the double liability. In 1850 a new Act prohibited any bank other than those incorporated by Act of Parliament or Royal Charter from issuing notes. The tax on circulation was abolished, and instead a deposit with the Government of $100,000 in provincial debentures was required; for the first time monthly bank statements were required to be furnished to the Government.

In 1871 the first Dominion Bank Act provided for a minimum capital of $500,000, the restriction of bank note issue to notes of $4 and upwards, the redemption by banks of their own notes at any of their offices, the limitation of dividends until a reasonably large reserve fund had been accumulated, the holding of Dominion notes to the extent of at least one-third of the cash reserve, the prohibition of a bank lending money on its own stock; the forfeiture of the charter of any bank which left any of its liabilities unpaid for 90 days; also, in order that the double liability might be effectively enforced, banks were required to transmit certified lists of shareholders to the Minister of Finance. The charters were granted for ten years only, so as to facilitate the contemplated decennial revisions of the Act.

The first revision of the Bank Act took place in 1881. The noteholder was now recognized as prior creditor, the banks were prohibited from issuing notes under $5, while notes of higher denomination were to be multiples of this sum, Dominion notes were to constitute not less than 40 p.c. of the banks' cash reserve and banks were upon request to pay in Dominion notes sums not exceeding $50.

At the second revision of the Bank Act (1891) the chief change was the establishment of the Bank Note Circulation Redemption Fund, founded as a consequence of the losses to which the noteholders of insolvent banks were still subjected through being unable to turn their notes into cash. It was provided that bank notes should bear interest from the day of suspension of the bank until the date when their redemption is undertaken either by the liquidator, or if he does not do so within two months, the Minister of Finance may redeem them out of the Bank Note Circulation Redemption Fund, which,