Subsection 1.—The Canadian Banking System in General.

The Bank of Canada.—Chapter 43 of the Statutes of 1934, "An Act to incorporate the Bank of Canada", provided for the establishment of a central bank in Canada. The capital of the Bank is $5,000,000, divided into shares of $50 par value. These shares were offered for public subscription by the Minister of Finance on Sept. 17, 1934, and were largely oversubscribed. The maximum allotment to any one individual or corporation was 15 shares.

Shares of the Bank may be held only by British subjects ordinarily resident in Canada, or by corporations controlled by British subjects ordinarily resident in Canada. The maximum holding permitted one person is 50 shares. Directors, officers or employees of the chartered banks may not hold shares of the Bank.

The Bank is authorized to pay cumulative dividends of 4½ p.c. per annum from its profits after making such provision as the board thinks proper for bad and doubtful debts, depreciation in assets, pension funds and all such matters as are properly provided for by banks. The remaining surplus will be paid into the Consolidated Revenue Fund of Canada, and to the rest fund of the Bank, in specified proportions.

The Bank may buy and sell securities of the Dominion, the provinces, the United Kingdom and the United States of America, without restriction if of a maturity not exceeding two years, and in limited amounts if of longer maturity. It may also buy and sell securities of British Dominions and France without restriction, if maturing within six months. Short-term securities of the Dominion or provinces may be rediscounted. The Bank may buy and sell certain classes of commercial paper of limited currency, and if endorsed by a chartered bank may rediscount such commercial paper. Advances for six-month periods may be made to chartered banks, Quebec savings banks, the Dominion or any province against certain classes of collateral, and advances of specified duration may be made to the Dominion or any province in amounts not exceeding a fixed proportion of such government's revenue. The Bank may buy and sell gold, silver, nickel and bronze coin and gold and silver bullion, and may deal in foreign exchange.

The Bank has assumed the liability for Dominion notes outstanding and is replacing them with its own notes in denominations of $1, $2, $5, $10, $20, $25, $50, $100, $500, and $1,000. The chartered banks are required (under the Bank Act of 1934) to reduce the issue of their own bank notes in Canada to 25 p.c. of their paid-up capital as at Mar. 11, 1935, during the next 10 years.

The Bank of Canada must maintain a reserve of gold equal to not less than 25 p.c. of its total note and deposit liabilities in Canada. The reserve,* in addition to gold, may include silver bullion, balances with the Bank of England, the Bank for International Settlements, the Federal Reserve Bank of New York and central banks in gold standard countries, treasury bills of the United States of America or the United Kingdom having a maturity not exceeding 3 months, and bills of exchange having a maturity not exceeding 90 days, payable in London, New York, or in a gold standard country, less any liabilities of the Bank payable in the currency of the United Kingdom, the United States of America, or a gold standard country.

*In the statement on p. 903, the net reserve is described as Item 1 of Assets less Item 5 of Liabilities (*i.e.*, sundry liabilities payable in sterling, U.S.A. or other foreign gold currencies).