

CHAPTER XXII.—CURRENCY AND BANKING; MISCELLANEOUS COMMERCIAL FINANCE.

In this chapter are assembled the statistics regarding financial institutions and transactions, other than those pertaining to insurance which are dealt with separately in Chapter XXIII. The important subject of currency and banking is treated in Part I of the chapter, while trust and loan companies, sales of Canadian bonds, corporation dividends, and foreign exchange, constitute sections of the miscellaneous commercial finance covered in Part II.

PART I.—CURRENCY AND BANKING.

Section 1.—Historical Sketch.

At pp. 900-905, inclusive, of the 1938 Year Book there appears a historical sketch of currency and banking in Canada which is not repeated in this edition. Certain features of a central banking system were there traced which finally led up to the establishment of the Bank of Canada. In chronological order these were:—

1.—*Central Note Issue*, permanently established with the issue of Dominion notes under legislation of 1868.

2.—*The Canadian Bankers' Association*, established in 1900, and designed to effect greater co-operation among the banks in the issue of notes, in credit control, and in various aspects of bank activities.

3.—*The Central Gold Reserves*, established by the Bank Act of 1913.

4.—*Re-discount Facilities*, although originated as a War measure by the Finance Act of 1914, were made a permanent feature of the system by the Finance Act of 1923, which empowered the Minister of Finance to issue Dominion notes to the banks on the deposit by them of approved securities. This legislation provided the banks with a means of increasing their legal tender cash reserves at will.

Section 2.—The Bank of Canada.

Subsection 1.—The Bank of Canada Act and its Amendments.

C. 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 was originally \$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 could 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 was 50 shares. The Bank commenced business on Mar. 11, 1935.

By an amendment to the Act, passed at the 1936 session of Parliament, the capitalization of the Bank was increased to \$10,100,000 by the sale of \$5,100,000 Class "B" shares to the Minister of Finance; the original shareholders were designated Class "A"

The Bank of Canada Act was further amended in 1938 (c. 42 of the Statutes of 1938). By this legislation the capital of the Bank was reduced from \$10,100,000 to \$5,000,000 divided into 100,000 shares of the par value of \$50 each to be exchanged for the Class "B" shares held by the Minister of Finance which were to be cancelled by the Bank of Canada. All "A" shares, held by the public, were purchased for the sum of \$59.20 each, plus accrued dividends, and these certificates were also cancelled. This legislation, therefore, brought the Bank of Canada under complete government ownership. Due to changes in constitution and ownership, adjustments in the method of appointing directors as well as in other directions were made.

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 doubt-