

Gold Reserves. In so far as these reserves were in actual gold or were in Dominion notes backed by gold, they were subject to the expanding or contracting influences of monetary gold imports or exports arising from Canada's balance of international payments, so long as Canada was on the gold standard.

Since the Establishment of the Bank of Canada.—When the Bank of Canada was established, the chartered banks turned over their reserves of gold in Canada and Dominion notes to the new bank in exchange for deposits with and notes of the Bank of Canada. It was provided that henceforth the chartered banks were to carry reserves in these forms amounting to at least 5 p.c. of their deposit liabilities in Canada. Since that time, therefore, the gold reserves against currency and bank credit have been in the custody of the central bank.

The cash reserves shown in Table 7, include, prior to Mar. 11, 1935, the gold and coin and Dominion notes held by the banks in Canada and the deposits in the Central Gold Reserves not ear-marked against the issue of bank notes, and, since the above date, notes of and deposits with the Bank of Canada.

7.—Cash Reserves of the Chartered Banks in Canada, 1926-35.

NOTE.—Figures supplied by the Bank of Canada. For detailed figures after 1935, see Table 10, item 1.

Year.	Annual Average of Daily Figures.	Annual Average of Month-End Figures.	Year.	Annual Average of Daily Figures.	Annual Average of Month-End Figures.
	\$'000,000	\$'000,000		\$'000,000	\$'000,000
1926.....	192	197	1933.....	189	195
1927.....	187	194	1934.....	201	203
1928.....	193	206			
1929.....	191	212	1935 ¹	213	216
1930.....	176	197	1936.....	225	225
1931.....	169	182	1937.....	240	240
1932.....	172	186	1938.....	254	252

¹ See text immediately preceding this table.

Section 5.—Commercial Banking.

Subsection 1.—Historical.

Since one of the chief functions of the early banks in Canada was to issue notes to provide a convenient currency or circulating medium, it has been expedient to cover both currency and banking in the one historical sketch which is given on pp. 901-905 of the 1938 Year Book. However, the function of note issue is no longer as important as it was. Latterly, the services of the chartered banks in gathering deposits from innumerable sources have emphasized the importance of deposit banking by which the savings of the people are put to immediate productive and commercial use; with the development of commercial banking, other necessary commercial banking facilities have been given more importance. Included among these is the mechanism of bills of exchange by which foreign trade is financed. The principal features of this development of commercial banking facilities in the evolution of the Canadian banking system may be summarized as follows: (1) its origin, closely related to the Montreal produce and export trade, and to the commerce of Halifax and Saint John; (2) the development of the branch bank system in order to meet the demands of a rapidly moving frontier of settlement; (3) the adaptation to the requirements of the grain and cattle trade of the west; and (4) the consolidation during later years of the features which tended towards its early success. The development of a stable system has been accompanied by fail-