

Subsection 2.—Dominion and Bank of Canada Notes.

Dominion Notes.—It is explained in the historical outline referred to at the beginning of this chapter that Dominion notes became established in 1868. The legislation by which the issue was expanded with the growth of the country is given in an explanatory footnote at p. 952 of the 1934-35 Year Book.

Prior to the taking over of the note issue by the Bank of Canada when it opened on Mar. 11, 1935, Dominion notes were issued under any one of three statutory authorities: (1) The Dominion Notes Act (Statutes of 1934, c. 34), which required a gold reserve of 25 p.c. to be held against the first \$120,000,000 of notes issued, and full gold coverage against any issue in excess of \$120,000,000. (2) The Finance Act (R.S.C. 1927, c. 70), Part II of which authorized the Minister of Finance to advance to any chartered bank or to the savings banks of Quebec, Dominion notes to any amount on the pledge of approved securities deposited with the Minister—these advances bore interest and no gold coverage was required to be held on Dominion notes so advanced. (3) C. 4 of the Statutes of 1915, authorizing the Government to issue Dominion notes to the amount of \$26,000,000 without gold coverage, but partly covered by the deposit of \$16,000,000 of railway securities guaranteed by the Dominion Government.

The Dominion note issue was, therefore, partly gold-backed and partly fiduciary. Dominion notes were legal tender and, in normal times when Canada was on the gold standard, they were redeemable in gold.

Dominion notes were of two types, those for the purpose of general circulation, and 'special' notes. The latter were used only by the banks for inter-bank transactions and clearings, or for cash reserves or deposit in the Central Gold Reserves. They were mainly of \$5,000 and \$50,000 denominations. Dominion notes for the purpose of general circulation were of the denominations of 25 cents, \$1, \$2, \$4, \$5, \$50, \$500, and \$1,000, although for a considerable time no \$4 or \$50 notes had been issued. Since the minimum denomination for chartered bank notes was set at \$5, Dominion notes of lower denominations naturally were largely in circulation among the general public, but there was nothing to prevent any of these Dominion notes from being included in the reserves of the banks, and it was provided that at least 40 p.c. of the banks' reserves were to consist of Dominion notes.

Bank of Canada Notes.—The Bank of Canada, when it commenced operations, assumed the liability for Dominion notes outstanding, which were replaced in public circulation, and partly replaced as cash reserves, by its own legal-tender notes in denominations of \$1, \$2, \$5, \$10, \$20, \$50, \$100, and \$1,000. Deposits of chartered banks at the Bank of Canada completed the replacement of Dominion notes as cash reserves.

The chartered banks are required under the Bank Act of 1934 to reduce the issue of their own bank notes gradually during the years 1935-45 to an amount not in excess of 25 p.c. of their paid-up capital on Mar. 11, 1935. Bank of Canada notes are thus replacing chartered bank notes as the issue of the latter is reduced.

There has been little change in the circulation of denominations of notes under \$5. In the denominations from \$5 to \$1,000, where Bank of Canada notes have partially replaced chartered bank notes or Dominion notes, there has been a large increase. On the other hand, the special Dominion notes in denominations from \$1,000 to \$50,000, which were used almost exclusively for inter-bank transactions or bank reserves, are no longer in use.