

Subsection 2.—Chartered Bank Canadian Cash Reserves.

Before the Establishment of the Bank of Canada.—Up to March, 1935, legal tender cash reserves in Canada were made up partly of Dominion notes (see p. 893); and partly of gold coin and bullion, and subsidiary coin, including these forms of cash held by the banks themselves; and as deposits in the Central 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.—Annual Averages of Cash Reserves of the Chartered Banks in Canada, 1926-39.

NOTE.—Figures, to nearest million, supplied by the Bank of Canada.

Year.	Annual Average of Daily Figures.	Annual Average of Month-End Figures.	Year.	Annual Average of Daily Figures.	Annual Average of Month-End Figures.
	\$	\$		\$	\$
1926	192,000,000	197,000,000	1933	189,000,000	195,000,000
1927	187,000,000	194,000,000	1934	201,000,000	203,000,000
1928	193,000,000	205,000,000			
1929	191,000,000	212,000,000	1935 ¹	213,000,000	216,000,000
1930	176,000,000	197,000,000	1936	225,000,000	225,000,000
			1937	240,000,000	240,000,000
1931	169,000,000	182,000,000	1938	254,000,000	252,000,000
1932	172,000,000	186,000,000	1939	269,000,000	268,000,000

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 at 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