MANUAL OF CANADIAN BANKING

H. M. P. ECKARDT.

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BY

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"A RATIONAL BANKING SYSTEM."

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PREFACE

One of the strong points of the branch system of banking is that it brings all the offices operating under it, even the most remote and the smallest of them, into subjection to carefully devised codes of rules, ensuring reasonable uniformity of practice. The system also ensures expert and skilful guidance for the banking offices of every district, and the employment everywhere of the most modern and effective safeguards against fraud or dishonesty. This Manual essays to outline the methods and practices obtaining in Canada. Judging by the communications received from time to time, the subject has interest not only for Canadians but also for citizens of the United Kingdom and of the United States. In both of these countries the Canadian banks gained considerable prestige because of the creditable manner in which they surmounted the crisis of 1907. It is hoped that the detailed description of the working of the various parts of the Canadian machinery will permit students of our banking outside Canada to form a better and clearer notion of its strength and suitability.

The Author also hopes that the Manual will be useful to members of Parliament and business men who wish to join in the periodical discussions of banking matters, through providing for them a means of becoming better acquainted with the interior economy of the banking business, and enabling them to handle the subject with more satisfaction to themselves and with more benefit to the Dominion.

A word to that important class—the customers. Doubtless most of them—depositors, borrowers, purchasers of drafts, payees of cheques—have been confronted more or less frequently, in transacting their banking business, with rules and regulations not exactly understood, and perhaps causing irritation or displeasure. The book endeavours to explain just why these rules are put into force, and why they are necessary.

And finally, the Author hopes that what he has written will help his fellow bank-men to climb the ladder, help them to give good service to their respective institutions in all the positions they fill, and to strengthen and extend the public good-will towards the banks; he hopes that it will be of use also to the executives, through spreading among the banking staffs a better knowledge of what the head offices want, and of the conduct and policy calculated to forward the best interests of the employing banks.

H. M. P. ECKARDT.

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INTRODUCTORY

In a country situated as Canada was, having the larger part of its banking business connected with the gathering of produce over wide areas, and the shipping of it over long distances, with a corresponding process in the supplying of manufactured goods, whether from foreign countries or Canadian centres, economy and efficiency alike required a system of banking where the same institution could afford accommodation at fairly uniform rates over wide areas, and in many centres simultaneously. Obviously these objects were best secured by a few large banks with numerous branches.—Professor Shortt's History of Canadian Currency, Banking and Exchange, in the Journal of the Canadian Bankers' Association.

CHAPTER I.

These remarks applied to the Canada of 1870 and previous years. There were then, as now, the two kinds of banks—the large concerns, with branches in different parts of the country, and the small institutions, with operations confined to a particular place or section. Though several of the last named class have since been organized and successfully conducted, the tendency is unmistakably towards the complete absorption of the banking business of the country by banks with numerous branches. Progress towards that point has been at a greatly accelerated pace in the last few years. Of the localized banks, some have stopped, some have been absorbed by large banks, and others have saved themselves by broadening the area of their operations. Those possessing but a single office, like the national banks of the United States, have had a hard struggle to maintain their ground. They were never very numerous in the Dominion; not one now remains. Banks with a few branches, and these contained in a restricted area, were more in evidence. They have been disappearing or changing character.

Large Demand for Men.

At the time of which Professor Shortt wrote the branches of the banks were found nearly altogether in Ontario, Quebec, New Brunswick, and Nova Scotia; and they were but sparsely scattered in those Provinces. In the last decade a phenomenal expansion has occurred in all directions—the offices in the older provinces being multiplied, and hundreds of new establishments being opened west of Lake Superior and on the Pacific slope. Concurrently, the gross business or turnover of the banks and the totals of their balance sheets have increased by leaps and bounds.

To handle the larger business and to man the new offices have called for a great enlargement of the banking staffs. At the annual meetings some bankers have confessed that they were unable to open as many branches as they wished because they could not find the managers and the clerks they needed. In the effort to fill this demand juniors have been rapidly promoted, men imported from outside businesses and professions, and bank clerks brought from England and Scotland. In view of the circumstances, it was thought that a detailed description of the various features and principles of the present-day Canadian banking practice, the reasons for the regulations contained in the codes, the approved methods of training of juniors and of developing expert bankers, the mechanism of head office government and supervision, and other matters connected therewith, would have interest for banking and other readers in Canada and outside.

The author aims at presenting the interior working of the Canadian bank in a manner that will appeal to outsiders as well as to the clerks and officers.

Some Comparisons.

Before proceeding to the matter of the education of the junior officer, prior to and after he joins the profession, some space will be devoted to descriptions of the general character of the business transacted by the banks in Canada, its peculiarities and points of difference from the banking business of other countries, notably of the United States and of England and Scotland, and of the process of forming or organizing a new bank in the Dominion, as prescribed by the Bank Act.

We have seen that, in the old days, the business of the banks consisted mainly in facilitating "the gathering of produce over wide areas, and the shipping of it over long distances, with a corresponding process in the supplying of manufactured goods." This work still constitutes a very large part of the banking operations. Of course, with the growth of the country, and the heavy increase in the output of natural products and of manufactures, the connection of the banks with these forms of activity has largely increased. But the growth of population and of wealth has compelled them to undertake a great deal of business of a different kind. Every year their operations become more complex.

Growth of Financial Banking.

They undertake considerably more of what is called financial banking than they did formerly. Loans to Stock Exchange houses, investments in stocks and bonds have grown to large proportions, and the connection with new flotations of securities has increased. They engage freely in business offered by the principal mining centres; they assist the manufacturing interests, not only to turn out and distribute goods for home consumption, but also to ship stuff abroad, and to collect payment therefor. They have drawn to themselves practically the whole of the new deposit and savings bank business of the country, and they have done valuable service, with their loans made in the new towns of the West, in helping to build up that part of the Dominion.

Various People, Various Methods.

To learn the general methods of banking in any country it is necessary to study the forms in which the energies of its people find expression. In Canada these forms of activity are many and varied. Nearly every province is strong in agricultural products. On the Atlantic seaboard, in Nova Scotia and New Brunswick, the principal special occupations, apart from the professions and the general distribution of goods, are: the fisheries, coal mining, iron and steel manufacturing, lumbering, trade with the West Indies, with Europe, and the United States. In Ontario and Quebec they are general manufacturing, mining of various kinds, the inland lake traffic, fruit culture, dairying, lumbering, and —centred in Montreal and Toronto—is the trade with foreign countries, and the heart of the transportation and financial business. Manitoba's great specialty is wheat. It also has important fisheries, and, just now, railroad construction is active. Winnipeg is the great distributing centre for Western Canada. Alberta and

Saskatchewan also are strong in wheat and agriculture. Ranching and coal mining have considerable importance, and railroad construction is much in evidence, and will be for many years.

All three provinces are quickly filling up with settlers. Their arrival, purchases of land, and farming operations, have an important influence on the banking business of the West. British Columbia has mining, fisheries, fruit, lumbering and Oriental and Antipodean trade. And, far to the north, the Yukon finds its sustenance altogether in gold mining. How the banks deal with these interests, how they give their assistance, the terms they exact, and the conditions they impose will be taken up after a few of the features of Canadian banking that contrast sharply with banking in other countries have been lightly touched upon.

United States Similarity.

Taking the United States first, it will be observed that in the northern half the people are engaged in much the same forms of activity as in the Dominion. The greater density of the population introduces some additional occupations, and varies the form of some others; and there is, of course, a greater concentration of financial, transportation, and other business in New York and Chicago. But, taken on the whole, there is a great similarity in the occupations of the two peoples. Also, they are of the same blood, and their numbers are being recruited from much the same sources. But their banking business is transacted on widely different lines. The main difference is in the form of the banks, the United States banks being single-office concerns, each office having its president, directorate, and complete paraphernalia of independent existence. There were in the United States in 1912, according to the report of the Comptroller of the Currency, 25,195 banks of all kinds, exclusive of non-reporting institutions. At the same time in Canada there were but 27 "going" chartered banks, with 2,759 branches. In the one case, 2,759 banking offices were operated by 27 executives; in the other, some 25,000 executives were necessary to oeprate a like number of offices.

Wide Distribution of Control.

Besides the differences in the form of the banks in the two countries there are some sharp contrasts in the manner of their operation and control. A noticeable feature about present-day United States banking in the large centres, is the tendency towards concentration of stock control. Rich and powerful capitalists obtain control of certain banks, and seek gradually to extend the pale of their influence. It may be that the banks in their control continue in some cases to discharge their proper functions, but there are substantial grounds for the idea common among the people that the controlled banks are sometimes used as engines to further the private schemes of the men in control. Though the panic of 1907 checked the tendency for the time there is danger of its being renewed when the lessons of the panic are forgotten. This tendency is not seen in Canadian banking. Ownership of the stocks of the banks is widely distributed—five and ten share lots, and odd numbers of shares constitute the bulk of the holdings in all the stock lists. Even if some rich capitalists were to succeed in obtaining the control of a majority of the stock in a Canadian bank, fear of a hostile public sentiment would be sufficient to deter them from perverting its operations too largely for their private benefit. If this did not suffice, there would still remain the wholesome influence of the revision of the Bank Act by Parliament every ten years. The House of Commons is quick to notice and resent any departure by the banks from their duty of providing facilities for carrying on the general trade and commerce of the country; and, in their own interests, the banks strive to avoid practices likely to stir up the enmity of that powerful body.

How Large Borrowers are Carried.

Another important difference exists in the manner of carrying the large borrowers. In Canada, as the banks are large, it is the custom to insist that firms and individuals confine their borrowings to one bank, except in the case of very large corporations or companies. Thus, the lines of credit carried by big merchants and manufacturers at the individual banks are often very large, sometimes even when the accounts are at a small country branch. In the United States, on the other hand, the large borrowers are obliged frequently to submit to having their paper peddled among a dozen or more banks. As a consequence, the tie that binds the borrowing customer to his bank is stronger in Canada than it is across the southern boundary, the banker has a more comprehensive oversight of his customer's affairs, and the customer is in less danger of being thrown into bankruptcy, while perfectly solvent, through the happening of a panic or crisis.

Again, in the great cities of the United States there are a number of banks preferring to deal only with customers who will keep large balances, and whose transactions are in large amounts. They do not wish to be bothered with the small fry. In Canada there is nothing of that exclusiveness. The individual of the smallest importance can open a very small account in the savings department of the greatest bank in the country, at its central office, or at any of its branches. The banks quite generally advertise that they will accept deposits of $1 and upwards in their savings departments. These savings departments, run in connection with the ordinary banking business, represent something not generally seen in the big republic, at least not in the eastern part. There the savings banks are separate institutions. As a result of this, and of the lack of branch banks, there are many places in the States devoid of facilities for savings, while in Canada almost every hamlet possesses its branch of a big chartered bank, enjoying the full confidence of the people, and willing to take small deposits at interest.

Comparison with United Kingdom.

The chief contrast between the banking business of Canada and that of England and Scotland lies in the greater diffusion of the Canadian business. The branch system prevails in Great Britain, but the branches are all contained in a small island, while in Canada they are scattered over half a continent. Then, as Great Britain is the centre of the largest overseas trade in the world, so British banking is more largely tinged with foreign transactions than is the banking of any other country, or of any British dominions overseas. The enormous range of the foreign investments of the British people, the extent of their mercantile marine, the world-wide activities of their insurance companies, the maintenance of Imperial forces, stores, military or naval works, in all parts of the globe, also impart a peculiar character to the banking of the British Isles.

As the conditions of general business in the United Kingdom are more settled and stable than is the case in a new country like Canada, the business of granting banking credits in the former is attended with less risk in many respects. In the newer land tradesmen and others gather up their belongings and try their luck in a new place more frequently than in the old. The business of dispensing credit in Canada, therefore, requires a knowledge or experience of the peculiar circumstances of the country.

CHAPTER II.

Organization of a New Bank.

The first general Bank Act was passed in 1870. Before that each bank had its special charter. Charters expired at various dates, and did not confer altogether uniform rights and privileges. For some years efforts had been made to bring the banking interests into agreement on legislation to equalize banking conditions in all the provinces. But the interests of the banks in the different sections were by no means identical; and, until Sir Francis Hincks undertook the task, no statesman had been able to make much progress. When he finally succeeded in getting his Act of 1870 through Parliament the effect was to bring all the banks in the country under the one general Act. As their various charters expired, the rights, privileges, and obligations pertaining thereto were replaced by the rights, privileges and obligations contained in the general Act.

What the Banks May Do.

Under it the chartered existence of all the banks was continued till 1881. Since 1870 there have been four general revisions of the Bank Act—in 1880, 1890, 1900, and 1913. Every tenth year a careful examination is made of the events of the preceding decade, complaints against the banks are noticed, suggested improvements considered. Then, before the laws are drafted, conferences are held with the representative bankers, who are in turn required to give their ideas and suggestions. In 1910 pressure of business compelled Parliament to postpone consideration of the renewal of the Act. It was not until the summer of 1913 that the new Act was passed. By it the charters of the banks were extended for ten years—to July 1st, 1923. The Banking and Commerce Committee of the House of Commons called a number of expert witnesses, representing different classes of the public as well as the bankers; and in the course of the hearings the good points and defects of the banking system were thoroughly discussed. It is not necessary here to go into the matter of the changes and improvements effected at the different revisions. It will suffice if some idea is given of the powers conferred on the banks by the present Act, and of the obligations it lays them under.

The meat of the Act is in Sections 61 and 76. Section 76 says: "The bank may (a) open branches, agencies and

" offices; (b) engage in and carry on business as a dealer " in gold and silver coin and bullion; (c) deal in, discount " and lend money and make advances upon the security " of, and take as collateral security for any loan made " by it, bills of exchange, promissory notes and other " negotiable securities, or the stock, bonds, debentures " and obligations of municipal and other corporations, " whether secured by mortgage or otherwise, or Do- " minion, provincial, British, foreign, and other public " securities; and (d) engage in and carry on such " business generally as appertains to the business of " banking."

Section 61 says: "The bank may issue and re-issue " its notes payable to bearer on demand and intended " for circulation."

The rest of the Act consists chiefly of prohibitions, of regulations prescribing the manner of issuing and transferring the share capital, and of organizing a new bank, of details as to how certain transactions must be carried out, and as to the responsibilities and obligations resting upon stockholders, directors, and the bank itself, of instructions regarding the form and substance of the reports to Government, and to the stockholders, and the dates and occasions on which they are to be made.

First Steps in Organizing.

In the organization of the new bank, the first step is, of course, the promotion of the scheme. One or two persons conceive the idea that there is an opening. They succeed in inducing others with capital to join them. Let us follow the organizer through his proceedings as the builder of a new bank.

The Act says in Section 10: "The capital stock of " any bank hereafter incorporated shall be not less than " five hundred thousand dollars, and shall be divided " into shares of one hundred dollars each." Though the issue of stock at a discount is not forbidden in so many words, the inference is clearly to be seen that Parliament expects the shares to be issued at a price at least equal to par. And in any case a certain discretion is left with the Treasury Board at Ottawa in the matter of issuing a certificate or permit, to begin business as a chartered bank, to parties who have complied with the provisions of the Act. A project to start a bank with a capital of $500,000 in five thousand shares of $100 each, issued to subscribers as fully paid, at $50 per share, would undoubtedly be blocked by the Board, even if the promoters argued that the Bank Act contained nothing to prohibit it.

Qualities of Directors.

The organizer must, therefore, figure upon obtaining at least $500,000 in subscriptions. Before he can venture to place his proposition before the public he must win the support of at least five men of substance to act as directors, and to contribute the nucleus of the share capital. The stipulation as to the number of directors is that it "shall not be less than five," and each one must hold a respectable amount of the stock.

It is necessary to have men of wealth, prominence, and known integrity for directors; because, in the first place, they invest the project with the degree of respectability required to procure the favorable report of the Parliamentary Committee on Banking and Commerce, on the application for the charter of the new bank; and, in the second place, they are expected to take good-sized amounts of the stock, and, after the bank is opened, to do a good deal to influence business to it.

Before men of this class agree to become directors they must be more or less convinced as to the integrity and ability of the promoter and of the proposed general manager (one man may be both), and as to the existence of a promising field for the bank's operations. Their judgment on these points is sometimes obscured, especially if they be newly risen to prominence, by a too great anxiety to become known as bank directors. And with all men the fact that the offered place is, or may become, one of considerable dignity and honor, operates as a strong argument for acceptance.

Act of Incorporation.

Assuming that enough men of the requisite calibre have been secured, they select a name for their bank, settle the amount of authorized capital they wish to have, and apply to Parliament for a charter or Act of incorporation. Let us suppose they ask for the minimum authorized capital of $500,000. Their application goes before the Committee on Banking and Commerce, which goes thoroughly into such matters as the standing of the proposed directors, the suitability of the name—whether it infringes, or is too similar to that of an existing bank—and, to a limited extent, into the general question of the scope for new banks. Sometimes the

Committee insists upon changes. If the application is approved it is reported to the House, and the Act of incorporation goes through.

The form of the incorporating Act, virtually the charter of the new bank, is as follows:—

" AN ACT TO INCORPORATE THE ——— BANK.

"Whereas the persons hereinafter named have by " their petition prayed that it be enacted as hereinafter " set forth, and it is expedient to grant the prayer of " the said petition; therefore, His Majesty, by and with " the advice and consent of the Senate and House of " Commons of Canada, enacts as follows:—

"1. (Names of parties applying for incorporation), " together with such persons as become shareholders in " the corporation by this Act created, are incorporated " under the name of................, hereinafter called " 'the Bank.'

"2. The persons named in Section 1 of this Act " shall be the provisional directors of the Bank.

" 3. The capital stock of the Bank shall be........ " dollars.

"4. The chief office of the Bank shall be at........

"5. This Act shall, subject to the provisions of " Section 16 of the Bank Act, remain in force until the " the first day of July, in the year one thousand nine " hundred and twenty-three."

Having obtained the charter and a provisional board of directors, subscriptions for stock are invited in various localities. The inducements offered to investors are the probability of a fair return on the investment. Sometimes promises are made that branches will be established in the neighborhood or locality furnishing subscriptions to a certain amount of stock.

Call for Payments on Stock.

If the entire $500,000 capital has been subscribed, it will be found, in all likelihood, that some hundreds of subscribers have taken the stock in lots of from one share up. The provisional officers may, in their discretion, call for the payments on the stock. When $250,000, out of the subscriptions received, have been paid in cash to the Minister of Finance and Receiver-General, as proof of the subscriptions, the organization of the bank may be completed:—

"The provisional directors may, by public notice " published for at least four weeks, call a meeting of " the subscribers to the said stock, to be held in the " place named in the Act of incorporation as the chief " office of the bank, at such time and at such place " as is set forth in the said notice.

"The subscribers shall, at such meeting:—

"(a) Determine the day upon which the annual " general meeting of the bank is to be held;

"(b) Elect such number of directors, duly qualified " under this Act, not less than five, as they think neces-" sary; and

"(c) Provide for the method of filling vacancies in " the board of directors until the annual general meeting.

"Such directors shall hold office until the annual " general meeting next succeeding their election.

"Upon the election of directors as aforesaid the " functions of the provisional directors shall cease."

When Notes May be Issued.

The bank is now fully organized, but not in running order. Under heavy penalties the directors and officers are forbidden to issue notes or to commence business until there has been received from the Treasury Board at Ottawa a certificate permitting it to do so. The application for this certificate cannot be made till the organization is completed in the manner described. The Treasury Board requires to be satisfied that all the requirements of the Bank Act, and of the special Act of incorporation of the bank, are complied with; also, that the stock subscriptions, and cash payments stated to have been made thereupon, are bona fide, and that the bank possesses $250,000 free from obligation. If the Treasury Board holds back the certificate within one year from the time of the passing of the bank's Act of incorporation, "all the rights, powers, and privileges " conferred on the bank by its Act of incorporation shall " thereupon cease and determine, and be of no force or " effect whatever."

On the certificates being duly forthcoming within the specified time the bank may commence its operations and exercise all its functions. Its receipt is accompanied by the return to the bank of the $250,000 deposited with the Minister of Finance and Receiver-General, less the amount required to be deposited by the bank in the Bank Circulation Redemption Fund.

CHAPTER III.

Selection of the Junior.

Twenty years ago to enter the service of the best banks was not so easy as it is to-day. Though there was always a demand for junior clerks, it was by no means keen or insistent. Vacancies were to be filled, caused by wear and tear on the staff; occasionally a series of promotions became necessary when a new branch was opened. Generally, a file of applicants awaited the positions. The young men who seemed to promise best were selected leisurely. To-day the banks are keen and eager for good material. Youths of the right sort are snapped up, whenever they present themselves, in all parts of the country. Even then it is difficult to supply the demand. It is necessary to bring clerks from Scotland or England to take positions in good Canadian banks.

Change in Character of Staffs.

A remarkable transformation latterly has been effected in the character of banking staffs. Before the awakening of the West, the largest banks had systems of branches, numbering from thirty to fifty; banks of the second degree in point of size had from fifteen to thirty. At the end of 1912, there were two banks, each having more than 300 branches, and ten others, each having more than 100 branches. Under the former conditions, promotion and advancement in salary were sluggish compared to what they now are. The branch managers, especially in the important places, were generally men at or past the prime of life. To a modified extent the same applied to the accountants or branch lieutenants. At the present time, youthful managers predominate. Even in the large cities, many young men manage the branches. An altogether different spirit is noticeable in the banking business, largely due, no doubt, to the change in the personnel of the staffs. The older men have been hurried along the road taken by their younger confreres. The banks are striking out aggressively for business, opening their branches in new territory, introducing innovations, changing their ideas as to what is proper or dignified for banks to do.

In short, it is an age of vigorous enterprise. The high confidence that prevails as to the country's future has assisted in bringing this about; it has led, too, to the taking of risks which result in loss when the tide of prosperity runs not quite so strongly. In the meantime, promotion is quick, increase of salary rapid; the circulation, so to speak, of the men from branch to branch is active. A good, bright junior is appointed at a country branch at a salary of $200 or $250. He can look forward, in the ordinary course, to increase of salary at the rate of $100 per year, with prospects of promotion, first to the ledger-keeper's post, and from thence to the teller's and to the accountant's. The exigencies of the service of late have led to phenomenally rapid advancements. For the new branches, managers are in strong demand. Normally, the managers are recruited from the accountants' ranks, but some years ago these failed to produce material enough to supply the demand. Many branches have had to be placed in the charge of tellers, ledger-keepers, and other clerks.

The General Manager's Eye Watchful.

There are numerous instances of boys of seventeen or eighteen starting at $200 a year, and in six or seven years rising to be accountants or managers of small rural branches on salaries of $1,000 or more. To have done that is good, and when this point is reached the man of ordinary capacity can look forward, provided he makes no serious blunder, to a slow and gradual increase of pay, and rise to the management of more important branches. Upon attaining a managership, the bank officer for the first time comes under the special notice of that great man, the general manager, he who makes and unmakes. To play the part of a good clerk and win promotion is well; but the qualities that made it possible do not always suffice to make a successful manager. For the man with real ability to reach the post of country manager is but to begin his real career. He must correspond almost daily with the head office. His chief is on the lookout all the time for good men to place in the best positions. He forms his impressions largely from the daily correspondence and from the manner in which the branch affairs are conducted. He is not apt to be impressed so much by smartness or adroitness as by common sense, clear-headedness, and steady, reliable judgment. When a manager succeeds in impressing his general manager with the belief that he possesses these qualities, generally speaking, he may rise quickly to the high-salaried branches, and, perhaps, eventually to the general managership itself. It used to be said that successful business men put their stupidest sons into banks as clerks. For their more intelligent sons, their own or some other mercantile business offered the best career. That idea no longer holds good. The spectacle of a rich man's son being dismissed from a bank's service because of incapacity is not at all uncommon; on the other hand, there are an increasing number of instances to prove that the banking service has rich rewards for its most capable workers.

Attractiveness of the Banking Profession.

Banking is notoriously one of the genteel professions. Though the clerk needs something besides his position in the bank to enable him to take a place of any consequence in the society of the large towns and cities, he is able quite frequently to play the society lion in smaller places, more so, perhaps, in Canada than in the United States. The author some time ago received a letter from a Canadian bank clerk, who went to live in an American city after tasting of the social pleasures provided by an Ontario town. "Bank clerks," he said, "are not the demi-gods here that they are in Canada." A reason for the difference in standing exists in the dissimilarity of the positions of the banks in the two countries. The banks in the Republic have not much influence or power, nor are they much known, as a rule, outside the immediate locality of the single office maintained. Sometimes they do not command a great deal of respect even in that restricted area. But the big Canadian banks are a power in every part of the Dominion. Their officers are acquainted with the monetary affairs of the leading business men everywhere; the greatest business corporations, city and provincial governments, go to them for financial assistance. The importance and prestige of the banks have a national scope. Their high standing and great power are reflected in some degree upon every officer in their service.

The uncertainty as to the time and manner of his removal to another point adds to the interest the bank clerk inspires. In the cases of the younger, unattached men in the service this uncertainty instills a pleasureable excitement into the daily routine. To belong to the staff of a great Canadian bank is similar in some respects to being an officer in the army. In both services a strict discipline is maintained, and orders may come any day for service at a far-away point.

Qualities Required in Juniors.

In their juniors, the banks want intelligence—solid rather than showy attainments being preferred. A good character, and respectability of family are always looked for. A sound body is another requisite. Soundness of body conduces to soundness of mind. Another reason for requiring good health in the applicant is the fact that, contrary to the general outside belief, the work is exacting in many offices. The occupation, too, belongs to the sedentary, indoor class. Therefore, a reasonably strict medical examination has to be passed.

Furthermore, the embryo banker is expected to have a pleasing exterior and a good address. This does not mean that the ultra fashionable or smart society man is preferred. Quite the contrary in fact; for the bankers know that when any of their men achieve too undisputed a pre-eminence in fashionable attire, or in society's favor, these things are apt to receive an undue share of time and thought, to the prejudice of the work in the bank. Then there is the increased likelihood of such men running into debt, and, perhaps, being tempted to steal. The banks wish to have their offices filled with men who will impress the public favorably. Healthy, good-looking, nice-mannered young fellows, who attend courteously to the wants of customers, create a favorable impression, and do much to increase the public good-will towards the banks to which they belong. But persons possessing strikingly disagreeable peculiarities of speech, feature, or appearance are handicapped in their efforts to win regard, and their usefulness is thus impaired. Deformity of this kind is a bar to entering the banking service, not absolute in the case of its not being too pronounced, but a bar nevertheless.

Manners and Disposition.

A prominent New York banker recently caused considerable discussion by a remark he made as to the desirability of having agreeable, pleasant-spoken men for the banking service. He said that, in his own bank, he rather preferred employees with a stand-offish manner, because they were not so apt to lose time carrying on conversations with customers. He added that, in his opinion, this class of officer was not so likely to be imposed upon by swindlers, confidence men, and the like. These remarks were met by general disapproval from other bankers and from banking journals, who held that agreeable and courteous clerks could be expected to have as much as their crustier fellows of the hardness of temper and vigilance requisite to keep them from wasting the bank's time and from being victimized by sharpers.

Home Training and Education.

A few words as to the kind of home training and preliminary education best calculated to make a boy useful in a banking office, and to facilitate his progress to the higher positions will be here in order. One of the first requisites is obedience. A young boy, upon entering a bank, can have but little knowledge of the consequences likely to follow his acts. He is called upon to do a number of things, the full purport of which can only come to him gradually, after months, and perhaps years, of service. In some cases, should they be done wrongly, gravely disastrous results might follow. Therefore, he has to be instructed carefully at first, and the instructions received he must implicitly obey. A disobedient junior would be too great a fool and too great a source of annoyance and danger to be tolerated. And obedience is best learned at home. With it goes respect for authority. Several of the other qualities already mentioned as desirable are also notably the products of home influences and surroundings. If good health, kindliness, gentlemanly manners, are not acquired before going into the bank, they may never be acquired. Such things as neatness in work and taste in dress may be acquired, or at least improved, afterwards.

In the matter of education, an all-round training such as is given in the public and high schools forms a good groundwork on which to impose the special training imparted by the bank. A college education, particularly if specialized in commercial subjects, is a further help. The advantage to be derived from that would, perhaps, be more apparent after the earlier stages of bank work were passed. The lack of a college education is in no sense a bar to selection, or to the most highly successful career. There are many managers doubtless who would prefer to take as junior a boy of seventeen fresh from a high or good public school rather than a college graduate. In actual practice, very few college graduates apply for banking positions. The knowledge of bookkeeping and of commercial usage acquired at the business colleges has better results in permitting an advantageous start. The courses necessary to secure a diploma from them are short, and the expense in connection therewith not great.

Importance of Arithmetic and Writing.

As for special studies, arithmetic looms large in banking work, and there is writing to do all day. The columns of figures that are to be added are long and wide; problems in subtraction, multiplication, division, and percentages are presenting themselves more or less all the time. There is no time to make rough drafts of the work first, and then to follow it with a laborious copperplate copy. Everything must go at first hand into the books, and remain standing for years as records. It must go quickly, too, for through the teller's wickets the items come fast. If they be not promptly dealt with, congestion follows, and other departments are delayed. It needs clearness of vision to read quickly and accurately the names, figures, and amounts on the cheques, drafts, notes, etc., that pass through; then a close attention to the business in hand, to transcribe them rapidly and without errors to the books or statement forms in writing that is both clean and legible.

Geography an Important Item.

To give proper expression to his thoughts and ideas, in conversations with fellow-officers and with customers, demands an acquaintance with grammatical rules; and to know something of the art of composition is exceedingly helpful. The junior should also know his geography, for if he be ignorant of the location of certain branches of his own bank or of places on which customers wish to purchase drafts, he is apt to become sadly out of date. He should know also the general geography of foreign countries with which Canadians have commercial or financial dealings, and that means almost the whole world. It is well to know the chief products of the various parts of the Dominion, where they are sold or disposed of, the chief items of our import trade, and where they come from, the trade routes connecting the various countries, the monetary systems in vogue in the different parts of the world, the systems of weights and measures. All these matters will arise on occasions, and the man who knows them will draw profit from his knowledge. For calculations of interest, of sterling exchange conversions, of length of unexpired time on notes, etc., and for some other calculations, books of tables are provided and used universally. Many offices now are equipped with adding machines. The object of their use is the saving of time and labor.

To use the various time-saving devices intelligently the clerk should possess the ability to make the calculations independent of them.

Bookkeeping Methods.

With regard to bookkeeping, though the systems of all the banks are necessarily founded upon the same basic principles, each institution has its peculiar methods. In every well-organized bank the men are constantly devising improvements; and thus it has come that the systems now in vogue have been gradually evolved. Presumably, the evolution in the case of each institution has proceeded along lines suggested by its particular usages. Some of these systems have been built up out of a half century's experience, and at considerable cost. The banks that have the best feel that they thereby possess an advantage; and they are properly averse to divulging for the benefit of their competitors their various special labor-saving and time-saving devices. In consideration of this it is the intention to sketch the general principles of bank bookkeeping rather than to define particular methods. If the student gets a clear understanding of the purpose and effect of bank bookkeeping in general he will have little difficulty in mastering any of the particular methods with which he may come into contact.

CHAPTER IV.

The Junior's Post.

When the junior has passed his examinations successfully and has been enrolled on the staff his moral standing remains to be investigated. Something of this can be learned at the time of application and examination, but a really satisfactory knowledge can be had only through daily observation of his conduct and bearing for some months, or even years.

From the time of his acceptance by the bank a certain amount of trust must be imposed in him. The bank officials know, in a general way, that the boy is of respectable origin, and that his character has been good. But good boys sometimes go wrong; scions of the most respectable families occasionally become defaulters. In order to gain a more satisfactory knowledge of the beginner's all-round work and character, a term of probation is provided—usually three months—before the junior is definitely accepted.

The Fidelity Bonds Required.

Immediately he enters upon his duties, sometimes before he does so, the newly-accepted bank clerk is required to furnish a guarantee bond to cover the bank against the hazard of his involving it in loss through dishonesty or criminal negligence—in other words, to guarantee his fidelity. In earlier years these bonds were chiefly furnished by private sureties. A couple of relatives or acquaintances, possessing substantial means, and consenting to act as his bondsmen, undertook to indemnify the bank for any loss it suffered by reason of his unfaithfulness. The bank could satisfy itself as to the substantiality of the bondsmen, if it was not already known to them, by enquiry and investigation.

Subsequently, this class of fidelity bond was superseded by one furnished by the guarantee companies. The companies' bonds proved so much more satisfactory than the private bonds that some of the banks abolished the latter altogether. When an application for fidelity insurance is made to a guarantee company, the company investigates the habits and character of the applicant before accepting the risk. He is required to furnish the names of reliable persons in his locality who will vouch for him. The reliability of these references being established, a series of pertinent questions is addressed to them, and, on favorable replies being received, the bond is issued. When a defalcation by a bank officer thus insured takes place the company promptly pays to the bank the amount of the loss, on proof of liability being furnished, and provided the loss does not exceed the amount of the bond. Then the company proceeds to apprehend and punish the defaulter. To carry one of these bonds the bank officer pays probably ½ per cent. per annum on the amount guaranteed.

Mutual Guarantees Inaugurated.

Latterly another step forward has been taken by the banks. A number of institutions have announced the formation of officers' mutual guarantee funds. By means of these the employees of some banks have their fidelity insurance carried at the actual cost instead of at a flat rate. The amount of insurance against each officer is the same as under the other system. The liability is carried by all the employees combined, from the general manager down to the newest junior. Generally, the board of directors contribute, out of the bank's profits, the nucleus of the fund. Then a fixed percentage, considerably less than that required to carry a guarantee company's bond, is deducted from the salaries each month and credited to the fund. Upon a defalcation taking place, the bank can reimburse itself from the fund up to the amount of the defaulter's bond.

In some banks an account is kept for each individual contributor to the fund, in which his monthly payments and the interest on his balance are recorded. The balance at the officer's credit represents his property right in the whole fund. If no defalcations were charged up, the payments would constitute merely deposits at interest, withdrawable in full at superannuation, or on leaving the service, if a reasonable number of years had been served. The carrying out of the mutual feature necessitates the distribution, among all the officers, of each loss from defalcation covered by the guarantee. This can be done through dividing the amount charged to the fund among all the officers' accounts pro rata to the respective bonds carried by each. In some of the systems it is contemplated that officers are to contribute only for a fixed number of years, or until the fund balance reaches a certain sum.

Thus, when an officer of a bank that operates a mutual guarantee fund steals, he is striking, not the bank or a guarantee company, but his comrades and fellow-clerks. It is supposed that the greater ignominy thus ensued upon an offender has some effect in preventing defalcations.

Officers' Pension Funds.

Related to the systems of mutual guarantee are the pension systems now coming into vogue. In Canada, the banks for many years have recognized their responsibility in the matter of providing for the declining years of men giving a lifetime to their service. This responsibility was met in most cases by the board of directors taking action on each individual instance that presented itself. The annuity or pension given was frequently something in the nature of a grant or favor. The directors made grants, more or less graciously, of something that the recipients had a moral right to demand. Though the system was not very satisfactory, it worked fairly well in the days of small staffs. Obviously, something more elaborate and scientific is needed now that the bank staffs are getting so large. For instance, each one of ten or a dozen institutions has more than 500 men on its staff. A few of the older banks have had for a long time properly scheduled pension schemes. A considerable number of the others have inaugurated them recently.

The systems are based upon the employees contributing so much per cent. on their monthly salaries, and upon their being entitled thereby to claim a pension or annuity, graduated according to length of service and amount of salary received. Generally, the annuities they can claim are greater than their payments would purchase from an insurance company; the pension funds are able to promise the extra results because of the liberal grants made out of profits by the directors with the object of supplementing the staff payments.

The effects of the system are decidedly beneficial. Each man knows exactly what he has to expect when the time of his being incapacitated arrives. The rules governing the fund, the percentage to be paid in, the minimum number of years' service required to qualify an employee for pension, the amount that may be drawn, the term for which it may be drawn, are specified in the agreement subscribed to by all the officers.

The fact that the pensions are to be theirs as a matter of legal right, instead of as an act of charity performed by the board, has a beneficial influence on the morale of the men. As another result of the two systems—mutual guarantee and pension—the men are bound somewhat more closely to their employers. Also, the banks have, in the possession of these balances belonging to their officers, an additional guarantee of good behavior from each.

Duties of Beginners.

The work assigned to the new junior varies according to the kind of branch he joins. Therefore, it will be well to describe the work first at a country branch and afterwards at a city branch. In some respects, a more advantageous training can be given in the country. In a city office, it is necessary to divide and sub-divide the big departments, and to place a man on each division or sub-division. Each clerk obtains a very restricted view of the work of the whole branch, his own work covering, say, one twenty-fourth part, or perhaps less, of the whole. Whereas in a country office a single officer may have one, or maybe two, departments in his charge. A quarter or perhaps a third of the work of the branch passes through his hands.

Serving in a Country Branch.

As the small country offices do not employ messengers or porters the duties performed in the cities by those functionaries fall to the new junior. He is expected to bring the big ledgers and other books out of the vault in the mornings, and to place them in their stations for the day; the mail delivery and despatching is his to perform; the copying letter books are in his charge; he must copy, address envelopes for, close, stamp, and make a record of all letters sent out. He is telephone and messenger boy, and has the collections to handle. The bulk of the mail received every day consists of drafts, notes, cheques, etc., sent to the branch by other branches, or by other banks, for collection. Some, such as cheques, have only to be charged to customers' accounts or presented at other local banks. Some, again, among them being notes and accepted bills, are to be recorded merely in the proper books and held for maturity. But there are always a number of items requiring to be presented for acceptance to business men in town. These the junior must present, and he is responsible for them. His first experience with them is apt to be confusing and perhaps a little terrifying. The drafts have instructions attached: "No protest," "No protest for non-acceptance," "Hold for arrival of goods," etc., those demanding most respect being the peremptory documents subject to protest from the beginning.

These last are very few, and are singled out for special attention, the accountant or some other superior officer taking note of them and following their course with a watchful eye.

The Collection Department.

The collections form one of the important departments of banking. All the bills and other items held by the bank are divided into two classes—those belonging to the bank, and those belonging to other parties. The bills discounted, including cash items and the cash, constitute the bulk of the one, while the collections and items for safe-keeping form the major part of the other. With regard to the bills held for collection, the bank has no property rights in them; it is merely an agent for the rightful owners. The collections may come to it from regular or occasional customers in its own locality, or from its correspondents in other places. Almost any kind of document calling for the payment of money may be handed to the bank for collection. It is careful in every instance to assume no responsibility except what the law places on agents or collectors. The commissions to be paid for its services depend upon the nature of the transactions necessary to effect the collection. The bank is under no obligation to undertake the collection of any particular bill or bills.

Of the bills lodged for collection by local customers, some may have been placed that way because the bank did not consider them good enough to discount. But most of them are so placed because the owners do not wish to have them discounted. They may be notes made by parties resident in the locality, and payable at the bank itself, or at some other bank in the town, or they may be drafts drawn on parties living at some other place.

At most bank branches the majority of the collections received come through the mails from correspondents or other branches. These are mostly drafts drawn on local business men by wholesalers or manufacturers in the distributing and manufacturing centres. Or they may be notes sent away by local tradesmen to their outside creditors. The parties drawing the drafts, or owning the notes, place them in their own banks, maybe for discount and maybe for collection, but generally the former. These banks forward them, for collection on their own account, to their regular correspondents in the various towns and cities.

Upon acceptance of a collection, the bank receiving it becomes responsible to the owner for its safekeeping, for its due presentment at the place of domicile, for holding recourse against all parties signing or endorsing it; and it must account properly to the owner for all proceeds collected. Immediately upon their receipt, bills for collection are entered in the "collection register." The purpose of this book is to furnish a complete record of every collection held. Where a considerable number of both kinds of bills are received, two books are kept, one being for "local" and the other for "remitted" bills. Each bill is identified by its number in the register. Some distinguishing letters, such as "C.," "B.C.," "B.C.R.," standing for "Collection," "Bill for Collection," "Bill for Collection Remitted," usually are prefixed to the numbers to aid in identification.

How Collection Bills are Handled.

When received, the bills from local customers are endorsed frequently in blank, and in a shape that would permit of their being negotiated by anyone obtaining possession of them by improper means. To lessen the danger from this direction the bank's name is stamped plainly on the face, and a further protection is gained by restricting the negotiability of the bill through stamping just above the last endorser's signature the legend, "Pay .... Bank or order." After being stamped properly, the bill goes into the register under its number, columns being provided for all the details necessary to produce a duplicate bill in case of loss or theft.

The next step is to divide the completed from the uncompleted bills. Some banks make the division before, keeping a separate register for each. When this is done the "remitted" and "local" bills are not separated, as it would be rather much of a nuisance to run four books. The completed bills are ready for diarizing; the uncompleted are to be presented by the junior for acceptance in the case of local bills, and in the case of remitted bills, forwarded to the bank's correspondents for collection. Before these latter are sent forward they, too, must be entered in the diary. That important book, and the manner of its working, will be described after we have accompanied the junior on his round with the bills for acceptance.

Presenting for Acceptance.

This task is not so simple or so easy as might be imagined. The drafts are drawn mostly upon the merchants and traders with well-known places of business in the town. Procuring their acceptances is not merely a matter of going to their places of business and of coming away immediately with the signatures required. Frequently it happens that on the junior's appearance with his bill the merchant is busy with his customers, and he will ask to have the bill left till he gets time to look it up. Sometimes the junior is told that the shipment of goods against which the bill is drawn has not arrived, and that the bill must be held a few days; sometimes that the amount, or the term, is not right. All sorts of reasons and excuses are given for not accepting promptly. The upshot of the first trip probably will be that a few acceptances have been secured on presentation; also a few straight refusals to accept, and quite a number of drafts left for the next day's rounds, or to be sent in to the bank by the drawees.

When he goes out next day, with a fresh supply of drafts, much the same thing happens. He may not succeed in getting in the bills left previously, further delays and excuses probably being experienced. This is what confronts him. Behind him are the instructions of his superiors that all the drafts must be disposed of promptly, one way or the other—either accepted or refused. If they are left too long incomplete, the bank as collecting agent may be involved in trouble with its correspondents; it may be involved in loss. If the loss is owing to a failure of his, the junior must make it good.

Entries in the Collection Diary.

Those bills which the junior brings back "Acceptance refused" are marked off "Returned" in the collection register, and are then sent back to the parties from whom received, the reasons for refusal being given. Those which are accepted are placed with the other completed local bills, and all are prepared for the "diary." Each one must be examined to see if the acceptance and other particulars are perfectly regular and formal. Then they must be due-dated. Each bill must have, in the particular place and manner affected by the branch, the date of its maturity set out clearly and plainly. This done, they are ready for entering. The junior acknowledges the receipt by him of collections coming through the mail by initialling the letters that contain them. Now, he is about to pass them on, with the responsibility connected with them, to another officer. His entering them in the diary marks the end of his connection with them—for the present at least.

In connection with the handling of bills and notes of all kinds, one of the gravest responsibilities lies in making the proper presentment on the date of maturity. Every bill held by the bank, due on a certain day, must be presented at the place of payment during banking hours on that day. If it is not, dire consequences may follow. Recourse against a good endorser for a bad or doubtful promissor may be lost through non-presentment. If the endorser takes advantage of the slip, the bank, as holder of the bill, is responsible for the damage suffered by the owner

The Diary System of Inter-checking.

For convenience, and as a safeguard against costly errors, an inter-checking system for handling bills had to be devised. The diary is one part of this system, the bill-case is the other. As the name implies, the diary is a book in which the working or juridical days of the year are set out consecutively, a half-page or a whole page being given to each day As they are received and completed, all the bills are entered in the diary on the page or half-page assigned to their respective due-dates. It is part of the teller's duties at the beginning of each day to take over and initial for the bills shown by the diary to be due that day. The bill-case furnishes a check as follows: its compartments are numbered consecutively from "one" to "thirty-one." The officer keeping it sorts the bills for three months or more in advance in these numbered compartments. Thus, the bills in the compartment for each date should be the same as those recorded in the diary for the same day.

The diary does not contain such full particulars of each bill as are necessary in the collection register. It is sufficient if enough details are given to identify the bill and to remit or account to its owner, so that he in turn can identify it. After they are entered in the diary, the bills are handed over to one of the high officers of the branch—to the manager if the branch be very small, to the accountant at larger branches. As it is a matter of importance, for the reasons already mentioned, that the bills be properly completed, due-dated, and entered, it is the duty of this high officer to carefully read over each bill, to check the due-dates and the entering. In order that the responsibility for mistakes can be properly placed, it is customary for the officer who does checking of this kind to place his initial or particular sign opposite each item he checks. Then, in the event of loss or trouble resulting from a mistake passing him without detection, the responsibility is divided between the man who made the error and the man who should have discovered it in the checking. On this checking being finished, the bills are filed away in the bill-case, the keeper of which, nearly always the manager, formally "takes them over" by initialling for each bill, usually in the collection register.

Collecting and Accounting.

The matter of the actual collection of the bills and of the method of accounting for them, though not falling within the junior's duties, can be described here. The bills have been followed from the time of their receipt to their instalment in the bill-case. Here they rest, unless recalled or paid in advance, till their respective maturities, the manager being primarily responsible for them. Let us observe the fate and disposition of a batch of matured bills on the day of their maturity. All payments and receipts of cash must go through the teller's hands. Therefore, one of his duties is to collect the bills. In the morning, after getting his cash-box, he takes over the bills for the day, initialling for each one in the diary. Amongst them will be some signed by customers of the bank as promissors or acceptors. A number can be charged at once to the customers' accounts. In these instances, all that is necessary is to make proper accounting to the owners of the bills and then to cancel them, stamp them paid, and put them through the books in exactly the same manner as cheques.

It may be that some of the customers with bills due have not enough funds at their credit to permit charging up the bills; some may have issued standing instructions not to charge bills to their accounts without cheques. With these it is necessary to wait until the customers deposit sufficient to cover the amount of their bills in the one case, and until they hand in their cheques in the other.

Bills Payable at Other Banks.

Amongst the bills, perhaps, will be some accepted or made by customers of other banks in town. These will be accepted payable at the other banks. Presentment of each must be made at the bank at which it is domiciled. Here the junior resumes his acquaintance with the bills, for it falls to him to make the presentment.

At each one of the other banks he hands in the bills payable there to the ledger-keeper, or the man who has charge of the deposit-ledger. The ledger-keeper examines them, satisfies himself as to the due date and as to the genuineness and regularity of the signature of the promissors or acceptors, and proceeds to honor or dishonor them. The junior does not collect cash for the bills now about to be paid; he merely gets them accepted or certified. When the ledger-keeper of the bank, at which he is making presentment, has selected the bills he intends to pay, he enters each one as a cheque or debit in the account of the man whose name is signed on the bill as acceptor or promissor; then he stamps the "acceptance" or "certification" of his bank on each bill so entered, along with his initial.

This constitutes an acceptance by his bank. When the bills are formally handed back by the ledger-keeper so stamped and initialled, the ledger-keeper's bank becomes primarily liable to the holder of the bills. If the accepting bank is in good credit, the bills now are regarded as paid, and when the junior returns them to the teller, the latter proceeds to account for them to the owners.

Some of the bills taken out in this way will be dishonored for the same reason that some, payable at the junior's own bank, were not paid, the parties signing them not having enough funds at their credit, or having left instructions to pay nothing without cheques. These the junior gets back from the ledger-keepers of the banks at which they are made payable, with the answer, "Present again," "Not sufficient funds," or "No instructions to pay."

Payments Received Over the Counter.

The bills, so far described, are the obligations of business men and others who operate current accounts. There are usually a number of notes and drafts each day, the primary debtors on which do not maintain running accounts at any bank. Instead of having their bills charged up as they come due, these people attend at the bank counter and pay in cash. In the case of their bills, the teller has but to hold them through the day and accept payment when it is tendered.

Disposition of Unpaid Bills.

At the end of the day probably there are a number of bills not taken up or paid. As they are merely collections, and not the property of the bank, they are easy to deal with. Bills carrying "no protest" instructions are returned as soon as possible to the owners. If the owner is an out-of-town correspondent bank, its unpaid bills are sent back in a letter the same day; if a regular or occasional local customer, they are surrendered on the first opportunity. When the "no protest" instructions are not attached, the bank is under obligation to have the unpaid bills protested, in which case they usually are returned the next day.

Remitted Collections.

The remitted bills remain to be dealt with. These are bills taken for collection by the bank, payable at other points. They come largely from local customers—manufacturers, wholesale dealers, and others having debts in sundry places to collect. As soon as these have been recorded in the books they are sent forward to the bank's correspondents in the places at which they are payable. At least, that is the procedure in cases where chartered banks are the correspondents. It happens sometimes that bills are received on points where no chartered bank is established.

There may be private banking offices to act as agents, but they, of course, are not so strong financially as the chartered banks, and not so much confidence is reposed in them. If the bills are drafts requiring to be presented at once, they are forwarded right away to the private banking correspondents. And, if the maturity of the bills is not more than two or three weeks ahead, they are sent "for collection and remittance" just the same as the bills are sent to chartered bank correspondents. But some banks make a difference with bills having a longer currency. They do not wish to have them lie too long in the hands of correspondents, about whose actual position and character they know little. Should the correspondent be dishonest, and at the same time under financial pressure, he might pledge for his own indebtedness the bills sent him by other banks, or negotiate them for his own benefit. Therefore, the more cautious institutions hold the completed bills payable at such points in their own possession, and do not forward them till about ten days or two weeks before they are due; they send unaccepted drafts, with currency of two months or more, forward "for acceptance and return," again forwarding them for collection just before maturity.

Obviously, in the case of these remitted bills, there is nothing to be done at the bank except wait for returns to come in from the correspondents. These returns may be expected on the day after maturity in the case of bills sent to points near at hand; they may not come for a week from correspondents located far away.

Crediting and Remitting Proceeds.

When bills are unpaid at maturity or refused acceptance on presentation, they are, as already explained, returned to the owners as soon as possible. When they are paid, the proceeds must be delivered to the owners immediately. The simplest method of accounting to the local owners of paid collections is to credit the proceeds to their accounts. From the total amount received for each bill, the amount of the commission, agreed upon as remuneration for the bank, is deducted, and the balance credited to the owner's account in the deposit or savings ledger.

In order that the bank can prove, if necessary, that it has accounted for the proceeds, and in order to enable the owner to identify the bill, the entry particularizes the collection number and the name of the promissor or acceptor. If the owner has no account in the ledgers, one is opened for him. It may be the beginning of a profitable connection, and if he withdraws the cash at once, he must do so by means of a cheque, which provides the bank with a complete receipt for the funds.

But a large part, perhaps the largest part, of the bills paid are received from banks in other places or from other branches of the bank. All that is necessary in settling with another branch is to credit it with such of its collections as are paid. As there would be nothing gained by the bank charging itself a commission, these items are credited at par. Settlement to other banks is made by draft, generally on one or other of the three settling centres, Montreal, Toronto, or Winnipeg.

The entries and slips for all the settlements emanate from the teller's box. To be treated as live documents, credit entries and requisition slips for drafts require to have his initial on them. The initial signifies that the bank has received an equivalent in cash, or contra entry for the credit it is about to accord.

Then it is the duty of one of the senior officers—the accountant or the manager at all but the largest branches—to check up the teller in his crediting and remitting for bills. At the close of the same day, or the beginning of the next, the checking officer is supposed to take the diary and follow the fate of every bill there recorded as being due. He must see and handle the bills said to be unpaid and held; he must see the originals or the copies of the letters enclosing unpaid bills returned; and he must check over the credits and remittances for the paid bills, satisfying himself that the latter have been forwarded duly to the rightful owners. The checking has for its objects the detection of dishonesty and the correction of mistakes.

Effect of Competition on Collection Business.

Formerly, the banks received better commissions for making collections than they now obtain. The charge for collecting for another bank generally was ⅛ per cent., with a minimum of 13 or 15 cents on each item. Sometimes a couple of banks would enter into a reciprocal arrangement and collect for each other at special rates or at par.

Rates and commissions were fairly uniform all over the country. The branch bank extension movement in the last ten years has effected a considerable change. When a new branch office is opened in a place that did not previously possess banking facilities there is nothing to be gained by cutting the regular rates, since all the chartered bank collections will come to it as a matter of course. But when there is a bank already in the field, it happens sometimes that both the newcomer and the older established bank make themselves rather ridiculous through their successive moves designed to gain or to keep the collection business of other banks.

It is not merely the commissions on the collections that are at stake. The banking office in a small town that holds and gets for presentation most of the drafts on the local merchants has with them somewhat of an added prestige. Sometimes good business can be diverted from older rivals through an adroit use of collections by a newcomer. Thus it happens occasionally that strenuous competition occurs in some little country towns between two local banks. The other banks in the cities and larger towns receive from the little places successive offers, each one bettering the other, of special rates for collections.

A Notable Circular.

A circular notice, sent out at the beginning of 1906 by a bank whose established collection business in a small Ontario town was threatened by the rate-cutting activity of new-coming rivals, excited some comment at the hands of the financial journals. As the circular affords a good illustration of the state of the collection business in many places and of the feelings stirred up by the active competition it is reprinted:—

"Owing to the absurd abuse of banking privileges " and usages by some of our chartered banks in re- " ducing their collection rates to seven cents per item, " regardless of the amount, and the return without " charge of all unpaid items, we have decided to meet " this ridiculous method of doing business by collecting " at par for all chartered banks sending their collec- " tions to us at this point, and we will also pay, without " charge, all their drafts or certified cheques duly ad- " vised and crossed at this office."

It is to be feared that in too many instances the managers of the small country offices are influenced, when they permit themselves to be drawn into senseless cutting of collection rates, by a panicky terror lest their fellow-townspeople should think they are losing business to newer rivals. The newcomers think, upon opening, that as two or three men are there in the office, with little or nothing to do at first, they can afford to collect for other banks at par, if it is necessary to quote that rate to get the business. This course is wasting the shareholders' money. Such banks resemble the whist players, who play entirely for their own hands, without thinking at all of their partners.

How One Bank made a Good Use of its Branches.

It is possible to give an illustration of one of the benefits falling to a bank possessing numerous well-placed branches when those branches follow the policy of working free only for their own institution.

When the author was in Winnipeg in the early "nineties" there was one chartered bank that had the Canadian West particularly well covered with branches.

These branches charged nearly all the other banks the stiff rate of ¼ per cent. for making collections. The consequence was, when the other banks received from their customers items on points where this bank was all alone, and those points were numerous, they had to face the fact that it would cost them ¼ per cent. to get the items collected. To come out without loss, it was necessary to charge the customers ⅜ per cent. commission, besides discount at the regular rate. Naturally, the customers objected to paying such a high rate of commission, and the banks were forced either to adhere to their charge at the risk of antagonizing or losing good accounts, or else to take this part of their business at a loss.

The advantage derived by the parent office in Winnipeg of the branches making the ¼ per cent. charge was obvious. As an inducement for desirable business men to bring in their accounts it could offer them a flat commission rate of ⅛ per cent., or par if necessary. There is no question but that one result of the policy was to throw into the Winnipeg office of the bank a great many valuable commercial accounts.

A Disgruntled Correspondent.

A manager in the service of one of the larger banks, who had been endeavoring to keep his collection business on a proper basis by charging regular rates to other banks, received the following letter from a disgruntled correspondent:—

"Dear Sir,—I regret to note that you have again
" charged us ⅛ on a collection bill in your settlement
" draft 21791, $261.90. All we are able to get on these
" items is ⅛, so that we make nothing and lose our
" postage.

" If you will allow me to say so, it is only inviting
" competition to overcharge in this way, as one of your
" branches has already discovered. We had been
" sending to one of your branches, and they were

" charging more than the present scale among banks,
" which resulted in another bank going in—then they
" were anxious to give any kind of low rates. With the
" competition among banks such as obtains now, to my
" mind it is much wiser to be moderate, as, should oppo-
" sition come, one would be pretty sure to hold his
" business.

"Of course, this is only my unasked opinion."

Yours very truly,

X. Y. Z., Manager.

Suggested Remedies for Over-competition.

If the country manager were to keep in mind that when he makes too free an offer of his facilities to other banks he may be putting into the hands of those banks weapons that will enable them to compete the better for the metropolitan business of his own bank, he would not, perhaps, be so ready to make his exceptional offers. Every offer of par collections to another bank puts that bank pretty much on the same level as the collecting bank's own branches with regard to the particular point at which it is made.

Several remedies occur to the mind as being likely to have an effect in reducing competition in collecting to reasonable limits. One is for the banks to appoint other banks as correspondents in regular order of preference, and for each bank to insist upon all its branches sending all their collections to the properly appointed correspondents, regardless altogether of offers of cut rates that might be received from particular points. Some of the more dignified institutions already pursue this policy. If all could be prevailed upon to do so, conditions would become better all round. Again, some good would be effected if care was taken to acquaint the general managers with specific particulars of cases of flagrant cutting of commission rates by any of their managers. Too often the cutting is done with the general manager in complete ignorance. It is not to be supposed that he would concur readily in the action of one of his branches in placing all of its facilities freely at the disposal of his competitors.

CHAPTER V.

The Cash Book.

Another duty which falls frequently to the junior in a country branch is the writing of the cash-book, or day-book, as it is sometimes called. This book contains a record of all the vouchers and entries representing the transactions of each day. Theoretically, the particulars of every item, debit and credit, should be entered, but in practice this would be inconvenient. At many offices it would make the book too bulky an affair. Therefore, supplementary books are used. They may cover any class of entry, the items of which are too numerous to be entered in the main or parent book. For example, a supplementary book might be used for the cheques and deposits in either the current accounts or the savings bank ledgers, for the entries between branches or with the head office. It is possible to avoid repetition and to economize labor by using the original records in other main or primary books, such as the discount diary and the discount register, as supplementary to the cash book. Whenever the cash-book is supplemented in this way the totals only of the credits and the debits are incorporated in the main book, along with a record of where the individual items composing the totals are to be found.

Declaration of Cash Balance.

Besides being the book of record for the transactions of the day, the cash book is the medium through which is made every evening the official declaration of the cash balance of the branch, and in consequence the teller, as custodian of the bank's fluctuating cash, is directly concerned in its correctness.

There is no set order of entry for the items. Generally, the headings are arranged so as to permit the entering, as far as possible, of the day's work during the course of the day. The totals cannot be extended until the final entries come from the teller's box after the end of banking hours. All the entries in the book are made from slips or vouchers, except those referred to as being taken by totals from other books. It is endeavored to arrange the headings in the cash-book so that they will come in order down the page, as the accounts to which they belong come in the general ledger. This facilitates the posting of the latter book, which is usually done by a senior officer.

It has been implied that a portion of the items are put through the cash-book during the course of each day. The method of writing up will be easier understood if we imagine that nothing has been done till after the closing hour, when all the entries are gathered and are available for writing in.

How the Vouchers are Entered.

The junior has his book ready, headed up: "Dr., Cash—Monday, 10th June, 1913. Contra—Cr.," the left page being for credit entries, the right for debit entries. He has raised headings for some of the accounts part way down both sides, as far as he can go with an accurate calculation of space requirements for each heading. From the file or box provided for the purpose, he takes the vouchers that are to be entered. Before a commencement can be made they must be sorted properly.

First, the credits are separated from the debits. To emphasize the distinction between the two classes of entries, lessening the probability of mistakes and facilitating sorting, the printing on the credit slips is of a different color from that on the debits. When both kinds of vouchers are sorted so that all items for every account are together, arranged in alphabetical order or in order of the folio numbers written upon them, they can be written in.

Most numerous among the items will be the deposit slips and cheques that have passed through the current account or deposit ledger. Nearly everybody who has done business with a bank is familiar with the form of the deposit slips. The name of the bank at the top, with a line for the date; then the word "Credit," with a blank space for the name of depositor, and underneath the specification of the bills and cheques deposited. Before they come to the junior, these slips must pass through the hands of the teller and the deposit ledger keeper. The teller, on checking and finding the slip to be a true representation of the deposit made by the customer, places his initial immediately alongside the total sum at the foot of the slip.

Deposit Slips and Cheques.

On the deposit slip coming to him from the proper source, duly initialled by the teller, the ledger keeper is authorized to enter the amount as a credit in the account of the customer whose name is at the top. As he enters it, he puts his own initial on the slip along with the folio number, or page of his ledger on which the entry was made. Thus, when the junior gets the deposit slip it has on it the teller's initial at the foot alongside the total amount shown, and the ledger-keeper's initial alongside the folio number.

A cheque is an order on the bank by a customer to pay a certain sum of money to a party named, or to his order. In the possession of the bank, properly endorsed, after payment has been made to the rightful owner, the cheque becomes a voucher representing the payment of as much as it is drawn for. The customer's signature is the authorization to pay, and gives the document its virtue.

The teller need do nothing to it except cancel it, stamp it paid, and enter the amount in his book. The ledger-keeper must, of course, enter it in the customer's account. He must place on it also his initial and the folio, as he did upon the deposit slip. Now the ledger-keeper's entries must be checked every day by a senior officer. The checking is done by calling off from the cash-book to the ledger. To facilitate the operation the deposits and cheques require to be entered in the cash-book in their order as they come by folio numbers.

Three particulars are essential in entering deposits and cheques in the cash book. Indeed, the same three suffice for nearly all the other entries, credit and debit. They are the folio, the name of the account, and the amount. Thus, a specimen entry would be:—

"3. Allan, James T. $148.64."

Probably there would be, next, a considerable number of savings bank vouchers—deposits and cheques. These receive exactly the same treatment, except that they are entered in the savings bank ledger instead of the current account ledger.

In a banking system such as the Canadian, consisting of a relatively small number of banks, each with numerous branches, it is inevitable that the entries between branches should play a part of some importance in every day's transactions. Generally, it is found more practicable to keep these in a book by themselves; only the totals for the day require to be taken into the cash book. Then there are entries for quite a number of the accounts in the general ledger.

Balancing the Cash Book.

Each slip, debit or credit, contains the particulars that are needed for the cash book. When all have been written in, and the summations of the items under each heading extended to the outer column on each side, the book is ready for balancing.

It is necessary first to balance with the teller. As all the vouchers have an influence on his cash balance, that officer does not allow them to leave his box until he has recorded them in his blotter. This blotter is the cash book in a condensed form. It may contain two or three columns on either side, one for each of the principal items. The amounts only are set in. There may be a column on either side for the current account entries, one for savings bank entries, and another for entries between branches. At the end of the day the totals of these special columns may be balanced with the same totals in the cash book, or in the supplementary books if such books are used; and the totals of the credit and debit sides must balance with the sides of the cash book. When the errors, if there are any, of the teller and the cash book writer, have been discovered and rectified, the cash balance is struck.

The cash held by the branch is divided into two sections: that held by the teller for carrying on the day-to-day transactions, and that held jointly by the manager and accountant as a reserve supply. The balance of both appears every day in the cash book. Here is a specimen "balance" of the cash:—

Total credit side.	$10,726 34	Total debit side.		$11,637 21
		Cash—		
Bal. previous day	8,427 91	Teller's.	$3,517 04	
		Treasury	4,000 00	7,517 04
	$19,154 25			$19,154 25

Thus, the teller must account for $3,517.04, the manager and accountant for $4,000.

Checking the Vouchers.

Early next morning, before the bank opens, the vouchers are to be checked with the cash book. There are several reasons why this should be done by the manager. In the first place, he acquires a knowledge of all that has happened in the office, and learns something more of what his customers are doing, from the personal examination of every cheque and voucher passed through. Secondly, the checking of the vouchers with the cash book is one of the important safeguards against embezzlement by the clerks; and it is proper that it be done by the responsible head of the branch. Then, like all other checking, it is a means of detecting and correcting mistakes.

To do the work thoroughly, the manager must look at every voucher in the bundle, examine the entry of every item, and satisfy himself as to the authenticity and correctness of the items entered in the supplementary books and of the totals transferred from them. As he passes each item he places his special tick mark against it, and when all are ticked he checks the additions and extensions, the balancing, and the record of the treasury cash. On the completion of it all he signs or initials the cash book alongside the cash balance, and the record of transactions becomes established and authorized.

It has been mentioned already that the teller, on paying cash or allowing credit for cheques drawn on the bank, or for debit slips, immediately proceeded to cancel them and stamp them paid. The manager again, on checking them, may draw his pen cornerwise across each voucher, or make some other mark as a sign that he has seen and passed it.

Sorting the Vouchers.

As soon as the checking is concluded, he uses the perforating stamp on all the cheques and debit slips. These, being signed by customers, or initialled by himself or the accountant, constitute, until they are cancelled, authorizations for the payment of the bank's money, and they must be accorded a treatment that will block effectively any attempts on the part of the officers or of others to put them through the books fraudulently a second time.

The vouchers now are given to the junior for sorting away. The paid cheques of the bank's customers are to be returned to them when their pass books are balanced at the end of the month; and they must be sorted so that they can then be produced easily and readily. Sometimes they are sorted in boxes with card indices, sometimes in pigeon holes.

The other vouchers remain in the bank's possession, and all that is required is that they be sorted and placed in such a manner that any clerk can find any particular entry without having to make laborious search.

Other Duties of the Junior.

Besides the duties enumerated, sundry other tasks are frequently given the junior to perform in the small branches. He generally has to draw the drafts issued to customers for remitting to their creditors in other places, and those issued to other banks in settlement for collections. The requisition slips contain the necessary particulars. Being credit slips in effect, they must have the teller's initial before they can be acted upon; and he, of course, does not initial them till he has a co-relative amount in cash or debit entries. A record of all drafts issued is kept in the draft register.

Drawing and Recording Drafts.

After drawing it, on the form provided, the junior enters the particulars of the draft in the register, puts the number on the requisition slip, and hands book and draft to one of the signing officers, who examines the document. On being satisfied that it is properly drawn in conformity with the requisition slip, and correctly entered in the book, the signing officer signs it as "accountant," or "pro accountant," and passes book and draft on to the manager, or other officer authorized by the head office to sign as manager. Both signing officers initial the record in the book. When handed or sent to the customer, bearing the signatures of the proper officers, the draft becomes the binding obligation of the bank to the rightful owner.

Specimen Signatures.

As the branches are drawing upon each other, and upon other banks, in this way, and advising transfers, etc., all the time, it is necessary to have specimen signatures distributed. This is done from the head office. The manager and accountant, when formally appointed by the general manager, are, of course, authorized to sign those titles. But one of them may be away when his signature is wanted; it is, therefore, necessary to appoint substitute-signers, who sign their principals' titles with the prefix "pro" or "p."

The head office keeps a record of the officers authorized to sign at every branch. Cards or slips are supplied to each branch, on which are specimens of the signatures of officers authorized to sign on behalf of the bank at every branch, and at the branches of other banks keeping drawing accounts with the bank.

Changes are advised with fidelity and promptness. The large banks, which have European banks as drawing customers, frequently have to keep track of signatures representing the authorized signers at all the branches of the European banks, in addition to the many hundreds belonging to their own numerous branches. But it is a simple matter to find any specimen that is wanted. It is filed first under the name of the bank, and secondly, under the name of the particular branch to which it belongs.

It is hardly necessary to detail any more of the junior's duties. He has checking work to do and calling off, and is largely at the beck and call of the others. We can now suppose that he is ready for promotion, and follow him as he makes the next rung on the ladder. This may probably be his appointment to the deposit or current account ledger, and for the present he will be referred to under his new title of "Ledger-keeper."

CHAPTER VI.

The Ledger-Keeper's Post.

The deposit ledger is one of the bulkiest and heaviest of the office books. It contains the full record of the active drawing accounts of the branch's customers. It is a matter of some skill to block out the space and head up the accounts when opening a new ledger, so that the available pages can be used without an undue amount of transferring of accounts. To guide him in his task, the ledger-keeper has his old ledger before him. That tells the number of pages filled by each account in the two, three, or more years of the ledger's life. He has to allow for possible increases or decreases in activity of the respective accounts, and to leave room for new accounts. This last matter is hardly one that can be calculated. Neither the ledger-keeper, nor anybody else, can tell how much new business the manager will secure, nor what the index letters of the important new accounts will be.

Why the Loose-leaf System is Not Universal.

In most respects the loose-leaf type of account book that has lately come much into vogue, is peculiarly adapted for use as deposit ledger. It does away altogether with the work of blocking out and of transferring accounts that have used up the space allotted to them before the ledger is done, and it avoids waste of space. It is quite an advantage to be able to refer to a continuous record of a customer's account extending back a number of years. This the loose-leaf system permits. With the bound ledgers it is necessary, when it is desired to trace payments by or to a customer through a period of years, to have the desks piled maybe with several huge volumes, and to turn from one to the other and back again times without number.

On occasions, too, these huge books must be produced in court as part of the necessary evidence in actions at law. In view of the advantages they offer it is not surprising that loose-leaf ledgers have made considerable headway in being adopted by the banks. But a number of institutions have not yet been able to satisfy themselves, in respect to the deposit ledger, that the loose-leaf books offer the same protection against fraud as do the bound books.

The trained banker's mind is apt to revolt at the thought of a ledger-keeper using a book from and to which leaves may be subtracted and added respectively. Banks have suffered some exceedingly heavy losses through manipulation of the deposit ledger. One of the most notable recent cases was furnished in Liverpool, England, where the ledger-keeper of an important bank, acting in collusion with an outside swindler, victimized his bank to an amount considerably exceeding half a million dollars. Thus, the deposit ledger is a department about which bankers generally have some feelings of nervousness. Naturally, they are not quick to adopt a new system which may, for all they know, afford an easier opportunity for defalcations by dishonest employés.

Taking Over the Ledger.

It is unlikely that our whilom junior will commence his work on the ledger by opening a new book. It is more probable that he will be called on suddenly to take over a "going" ledger from an officer who has just as unexpectedly been promoted to a higher position in the office, or moved to another branch. The outgoing ledger-keeper must balance his book before he can be released from the post. Presuming that he does so under date of 10th October, then the new man takes charge on the morning of the 11th, and thenceforward until he is relieved, he himself makes, or is responsible for, all the entries in the book.

On taking over the book, duly balanced, the ledger-keeper can presume that it is true and correct. It will be so unless a predecessor has falsified it, or made a double mistake, one part of which counteracts and conceals the other. He has his list of the balances as on the evening of the 10th, the added total of which agrees, or balances with, the amount shown in the general ledger at the credit of "current accounts," or "deposits payable on demand." In his ledger, all he has to do is to continue entering the items, as they come to him, in the accounts to which they belong, beginning his entries where his predecessor ceased.

How Customers' Accounts are Kept.

His first transactions probably will be with the teller, who, after taking over the bills for the day, hands those which are payable at the bank to the ledger-keeper by way of presentation. Glancing at them all, this officer selects those bearing the signatures of parties who have accounts in his ledger, makes himself certain as to the due date and as to the genuineness of the signatures, and then, taking each bill in turn, refers to the makers' accounts. If any customer has given special instructions, stopping payment of a particular cheque or bill, forbidding the charging up of bills or notes, etc., they will be recorded plainly at the head of the page; and, as the balance is there at the order of the customer, his instructions are to be heeded.

There is another important consideration to be borne in mind here. It has reference to the grade of credit possessed by the signers of the bills, and the state of their respective liability accounts. If the name signed is that of a customer who has nothing under discount, or whose credit is of the highest grade, his bills may be charged at once, provided the balance is sufficient to contain them. So may the bills of others who are not so strong, and who have a line of discounts at the bank, provided they have balances of the requisite size to pay all bills due and wish to pay them. But it often happens that in the batch received from the teller will be a number of bills signed by a customer who has enough to pay one or some, but not all.

Charging Up Discounted Bills.

The ledger-keeper has to remember that there are discounted bills as well as bills for collection in the batch. The bank has an interest in getting its discounted bills paid before those held merely for collection. Because of these considerations the new ledger-keeper may be instructed to refer his selected bills to the manager before charging them up.

Before taking them in, he makes sure that he can inform the manager of the balances of the customers whose bills are in question without having to make several trips back and forth between his desk and the manager's room. After receiving instruction daily for a time he will be able to tell pretty well which bills may, and which may not, be charged.

The ledger is easy to understand. There are two or more main columns, each one having five subdivisions—for the date, for particulars, for debits, credits, and the balance. Carefulness and accuracy are especially necessary in posting. A careless or inaccurate man will have his hands full of trouble on balance days.

The entries are simple. First, the date, then the particulars—abbreviated into one word or number—if particulars are entered; next, the amount, placed in whichever of the two columns—debit or credit—it belongs, and finally the balance that remains after deducting or adding the amount from or to the balance standing after the next previous entry. As the entries are posted, the account folio and the ledger-keeper's initial are to be placed on each one of the vouchers or records from which the figures are taken.

The problems are in simple subtraction and addition. On frequent occasions it happens that several items are to be entered at once in an account. The clerk must learn, in order to economize time, to make the proper changes in the customer's balance with the least possible number of operations.

For example, a string of cheques, belonging to one account and received simultaneously, should be deducted from a credit balance or added to an overdraft in one operation, done direct into the ledger, if they do not result in changing the balance from credit to debit; the same with a string of credits similarly received.

Why Balances Should be Extended at Once.

A habit to be avoided is that of making entries in an account without at the same time extending its balance. The manager is liable at any time to present himself at the ledger and to ask what balance a certain customer has. If he finds he has often to wait while the ledger-keeper completes the extension of the balance down to the last entry in the account, he is not apt to be so favorably impressed with the officer's qualities as he would be if he always got the information immediately the account folio was turned up.

Posting the Customers' Pass Books.

As soon as the bank doors are opened, at ten o'clock, the dealings with the public commence. Early depositors hand in their deposits to the teller, their pass books to the ledger-keeper. While the teller is checking off the items of the deposit, the ledger-keeper is entering in the pass book all items that have been posted in the customer's account since his pass book was last presented. When the teller passes the deposit slip through, duly initialled, the amount of the deposit is posted in the customer's account and entered in his pass book.

The pass book is supposed to be a copy, running from month to month, of the customer's account in the ledger. It remains in the customer's possession. By it he may keep himself informed as to the state of his balance.

It should be remembered that there is nearly always a difference, in the case of active accounts, between the balance as shown by the bank pass book and that shown by the customer's own books. The pass book shows the more favorable balance. It does so because of the outstanding cheques.

Whenever the customer draws a cheque on his account he must credit the bank in his own books; the bank, of course, does not debit the cheques until they are presented for payment or certification.

As the deposits entered in the pass-book constitute credits accorded by the bank to the customer, they must be made in a manner to show that the bank authorizes or confirms them. Therefore, it is stipulated that the ledger-keeper initial each deposit on behalf of the bank. The entries of cheques are not initialled, because they are merely records of instruments bearing the customer's signature, which the bank has in possession, and which it can produce, if necessary, to prove the correctness of the account.

Certifying Cheques.

All through the day there is more or less of a procession of people at the ledger-keeper's wicket wishing to get cheques "marked," "accepted," or "certified." If there are other banks in town, their representatives are likely to be the most important of these. They present cheques and bills, the manner of dealing with which has already been described. Others, wishing to cash cheques, present them at the ledger for certification before demanding the cash from the teller.

Watching for Forgeries.

As the payments of money are made by the bank on the strength of the customer's signature on the cheque forms, special care has to be taken to ensure that the signatures, on the cheques to be paid, are genuine. On opening an account each and every customer is required to furnish the bank with a specimen of his signature. If the account is to be operated by more than one person, each one of the authorized signers gives a specimen. If any customer adopts any peculiar mark or sign as a special preventive of forgery, a record is taken of it. These specimens and records are in the ledger-keeper's charge. They are kept in a book or on cards so as to be available for instant reference in case of need.

With regard to most of the cheques presented to him the ledger-keeper has no doubts whatever. It happens either that the holders of the cheques are well known and their bona fide character clearly evident, or that the signatures are so familiar that he is able to pass on them at a glance. But sometimes a stranger presents a cheque of a customer whose account is not very active, or maybe recently acquired. Any one or more of half a dozen other things may suffice to attach suspicion to any particular document. A bright and attentive clerk gets to know by instinct which cheques demand special examination and which can be passed instanter.

The clerk can hardly afford to take chances. He is responsible for any forged signatures he may pass, and, as a rule, his salary is not large enough to permit deductions being made for losses of this kind. When the authenticity of a signature is open to doubt, which cannot be removed by a reference to specimens and records, there are several courses open—consultation with superiors, a telephone or other message to the drawer of the cheque, asking for confirmation of his signature, etc. The ledger-keeper's first thought is to avoid the ignominy and monetary loss that would be his if a forged cheque were passed on the bank. He will also have in mind the fact that it is important, if a forgery is being attempted, to apprehend the forger. It is thus necessary for him sometimes to resort to finesse to detain a suspected individual while investigating the authenticity of the signature.

In marking cheques presented to him from outside, there is another thing which he has to keep constantly in mind. The holder of it may try to raise or increase the amount after it is marked. To illustrate: A swindler might have a balance of $15 at his credit. Having this, he could present his cheque for $5 and get it certified or marked at the ledger; then he might raise it to $500 and try to pass it at the bank or outside for that sum.

To guard against a trick of this kind, the ledger-keeper must observe how each cheque is drawn as he marks it. If a space is left which would facilitate the raising of the amount, he must draw a heavy line to stop it. He should make sure that where the amount is written in the body, and where the figures are placed, there is no empty space, either in front or after the amount, that could be put to an improper use.

Allowing Overdrafts.

From time to time cheques will be presented for which there are not funds at credit. If paid, they create overdrafts, or increase the amount of overdrafts already existing. When a bank accepts or pays cheques of this kind it is making loans or advances to the customers who draw them. To grant loans or advances is a function belonging exclusively to the manager of the branch, and the ledger-keeper has no right to mark such cheques until he has been instructed specifically in each case by the manager. These instructions may be given verbally, but the approved practice is for the manager to initial each cheque that thus forces a loan from the bank.

Calling Off.

After all the entries for the day have been posted, the work on the ledger is done, except if it be a balance day. Every morning, before the bank opens, the ledger is called off. It will be remembered that the cash book, after the manager had checked and initialled it, became established as an authoritative record. It is used to call off the ledger. The manager or accountant takes the ledger and requires an officer other than the ledger-keeper, usually the junior, to attend with the cash book.

The man with the cash book calls off each item in turn, first the folio, then the name of the account, and finally the amount, stating whether it is debit or credit. The senior officer turns to the respective accounts and initials each entry as it is called. As he proceeds he is watchful for peculiarities in the posting, and for anything that strikes him as queer. Whenever there is a discrepancy between the amount as posted and the entry in the cash book, the ledger-keeper is called, and, if the error be his, he is required to make the correction, the voucher for the amount in question being first examined.

The calling should result in all the deposits in each account entered the previous day being initialled by the senior. All the cheques that were entered need not necessarily be initialled, for some which were marked or certified may be outstanding. The object of the calling off is to establish the correctness of the ledger up-to-date, to guard both against mistakes and crooked entries by the ledger-keeper. It aids the latter to meet a risk connected with the position that has not yet been described.

Proving the Balance.

This risk has to do with his accuracy. All sorts of people have accounts in the ledger. By means of their pass books and by direct interrogation they, through the day, become acquainted with their respective balances as shown by the bank's books. Should the ledger-keeper make a mistake and extend the balance of an unprincipled customer, practically devoid of means, so that it showed considerably larger than it should, on learning of the error the latter might take advantage of it to draw more than he was entitled.

An occasional proving of the balances of accounts of this kind furnishes a measure of protection. To prove the balance, the additions of the debit and credit columns are carried down to the last entry, the totals being put in lightly in pencil. The balance proves if it is exactly equal to the difference between the two totals.

Balancing the Ledger.

The regular balance days of the branch may come twice or four times a month. On each one of them a balance of the ledger is to be struck. Before proceeding to it, the ledger-keeper makes certain that all his entries up to the evening of balance day are received and entered. Then, after the ledger is called off, he takes it, and going through every account from A to Z, takes the balances into his balance book. As he goes along he makes a careful record of the outstanding cheques (accepted and entered in the accounts, but not yet paid by the bank). These he readily discerns by reason of their not being initialled. The list of balances is then added.

The total of the outstanding cheques is added to the total of the credit balances. The result represents the amount of deposits in his ledger. The total of the debit balances or overdrafts represents the amount of loans made in that form by the branch. To find out if his balance is correct he must refer to the general ledger. In one of its accounts each day are posted the totals of the deposits and cheques in current accounts as shown in the cash book. On a slip of paper the ledger-keeper takes the grand total of his credit balances and outstanding cheques, and deducts from it the amount of his debit balances. The difference should agree with the balance of "current accounts" shown in the general ledger. If it does not agree, on the general ledger being balanced or proved correct, the deposit ledger balance is said to be "out."

When the Ledger Causes Trouble.

It is a heavy task sometimes to find a refractory deposit ledger balance. A very large number of entries have passed through, any one of which may be the erratic one. It might be in the posting, or in the extension of the balances; it might have been missed in the calling off; it is just possible that the previous balance may have been false, in which case the whole work back of it till a true balance was found will have to be gone over. The long, weary hunts for balances are decidedly wearing. Generally it is a matter of working late at night, and it is not always easy to rid the mind of the worrying problem sufficiently to get a proper rest after abandoning the search and going to bed.

Interest on Overdrafts.

It falls to the ledger-keeper to calculate the interest on overdrafts. As already explained, overdrafts represent loans or advances made to the customers, and they have to pay interest for them. The bank does not like so much to make loans in this way as it does by means of regularly discounted bills and notes. One reason for the dislike of overdrafts is because they are created sometimes without previous arrangement, perhaps without security being lodged. A cheque is presented for which there are not sufficient funds. To refuse it injures the drawer's credit and probably results in losing his account. To pay it creates an overdraft. Another reason why overdrafts are not favored is because they are not so profitable. If a note is discounted part of the proceeds will likely lie at the borrower's credit in current account, for a time at any rate; and he thus pays interest on a larger sum than he actually receives. If he borrows on overdraft he pays interest for the exact amount of the bank's money which he uses.

So the bank may follow a policy of discouraging overdrafts through charging an interest rate one per cent. higher than the rate at which it will discount bills.

On ascertaining the rate to be charged each of his overdrawn accounts, at the end of the month, the ledger-keeper goes through each one, picks out all the days at the close of which an overdraft is shown, and reduces the whole to the basis of an advance for one day in the manner shown in the following illustration:—

Suppose an account shows, during the course of the month, overdraft—

For one day of...........	$540 =	$540	for one day.
For three days of.........	620 =	1,860	for one day.
For two days of..........	418 =	836	for one day.
For three days of.........	310 =	930	for one day.
For one day of...........	140 =	140	for one day.
		$4,306	for one day.

The overdraft interest is arrived at through taking $4,306 for one day at the rate agreed upon. A debit is put through the customer's account and the amount is credited to interest or discount account.

Balancing Pass Books and Returning Vouchers.

The recital of the ledger-keeper's duties will be concluded with a description of the manner in which the customers' pass books are balanced and the cancelled vouchers returned to them. On the last days of the month, as the customers bring in their books with deposits, they are asked to leave the books to be balanced. As many books as possible are gotten in.

Though the pass book generally has, on the outside or inside of the front page, a printed request for the customer to leave it at the bank for balancing at the end of each month, a great many customers never leave their books unless they are asked. The first thing is to write in all the entries. Formerly, the books had to be balanced; that is, all the credits and all the debits added up and the balance proved with them.

Now, since pass books showing progressive balances have come more generally into use, the balancing is not so rigidly insisted upon. The next operation is to tick off the vouchers. This is quite a big task, and it may be that the whole staff is called on to assist, so that the books may be ready to hand out on the morning of the first day of the next month. For every debit entry shown in each customer's pass book a voucher must be produced and the entry ticked. The vouchers are sorted away with this circumstance in view, and each customer's vouchers are thus gathered together in an accessible place.

When the vouchers are all found, and all debit entries in the pass books ticked off, the books are ready for handing out. But these vouchers provide the chief means by which the bank can prove the correctness of its customers' accounts, in the event of their disputing the point. Hence, they cannot safely be given up until the customers have acknowledged their receipt and confirmed the correctness of their accounts. As each customer comes in, after the beginning of the month, the ledger-keeper hands him his book and cancelled cheques after taking his receipt and confirmation of account.

Thus, he is debarred from disputing his account up to the end of the previous month. For the items in his account for the current or running month, the bank has, of course, the vouchers he has himself issued, and it can at any time prove any account on its books by producing vouchers back to the date on which the customer last confirmed it.

CHAPTER VII.

The Savings Bank Ledger.

The savings bank ledger is a book having an affinity with the current account ledger. The savings bank department, as at present constituted and run, is a comparatively recent development in Canadian banking. Twenty-five years ago the great bulk of the bank deposits was contained in the current accounts and deposit receipts; the savings department was almost unknown.

Savings Departments and Deposit Receipts Compared.

Under the deposit receipt system, when a bank takes a sum of money at interest from a depositor it gives him a certificate or receipt in which the receipt of the money is acknowledged, and a contract entered into by which it agrees to account to him for the principal sum, with interest at a specified rate, if the money remain not less than three months, the depositor to give the bank ten or fifteen days' notice of withdrawal, on which notice interest to cease. The receipts are stamped, "Not negotiable," or "Not transferable." Several features in connection with the deposit receipts were highly advantageous for the banks.

In the first place, the bank contracted, not to pay the principal in cash to the depositor, but **to account to him for it.** This circumstance, taken with the non-negotiability of the document, gave it a better opportunity to enforce claims of one kind or another against a deposit receipt-holder than it has against the owner of a savings account balance. Then, the fact that the depositor must come in person to withdraw his money, made the deposit less liable to capture by another bank. The stipulation that the deposit should remain three months to entitle it to interest was more advantageous for the bank than the present savings bank stipulation that the money must remain one month in order to draw interest.

The interest on money left on deposit receipt runs at simple interest. The banks compound interest on their savings bank balances twice a year. While some few deposit receipts were brought in, under the old system, every three months for the addition of the interest to the principal, the most of them ran for six months, and a considerable number for over a year.

Some few were allowed by the holders to run for several years at simple interest. The average term of a deposit receipt would probably be somewhere between nine months and a year.

The Minimum Balance.

With regard to the notice clause, though notice was not exacted, it was customary to deduct the ten or fifteen days' interest at withdrawal. But this last is fairly offset by the minimum balance feature of the savings bank department. This rule, when strictly enforced, means practically that the interest on a new deposit made by a depositor commences to run from the beginning of the following month; and, similarly, on money withdrawn through the month, he loses his interest from the first of that month.

In some other respects the banks have been greatly benefited by the more universal adoption of the savings departments. They are unquestionably far more convenient for depositors than were the deposit receipts; and it is reasonably certain that because of the change bank deposits have grown more rapidly than they otherwise would. Had there been no change in this respect it is pretty sure that the loan companies, trust companies, and the Dominion Government savings banks would have received a part of the gains in deposits made by the chartered banks, and the power of the latter to facilitate the commercial and industrial development of the country would have been less than it now is.

The deposit receipts have not been abolished altogether. The theory of the savings accounts is that they provide wage-earners and people of moderate means with facilities for saving. They were not meant for capitalists and rich people. There is, therefore, the semblance of an effort made to have the savings department limited to moderate balances.

Use of Deposit Receipts.

So, latterly, the deposit receipts have come to be used more exclusively for special deposits and for sums in excess of a certain fixed amount, $5,000 or, perhaps, $10,000.

The blank deposit receipts are in pads or books. On receiving the deposit from the customer, if a requisition slip did not accompany it, the teller asks the customer for one, or makes it out himself. On his being satisfied that the amount is correct he passes the slip through for the junior to draw the receipt. The blank receipts are attached to stubs, each stub being numbered the same as the receipt belonging to it. On the stub is entered the date, name and address of depositor, amount of deposit, rate of interest, and term of notice. Also, it has a place for the specimen signature of the depositor, which is taken unless he is a regular customer, having already given a specimen of his signature in a manner or place easy of reference. Any special particulars that might be required for identification are put down on the stub. The stubs are preserved and filed away so as to be easily referred to, and when a deposit receipt holder presents his receipt for renewal, or for withdrawal of the money, if he is not known, the stub is turned up and his signature examined.

List of Outstanding Receipts.

After the receipt is drawn, in accordance with the particulars given on the slip, the date and number of the receipt, the depositor's name and address, the rate of interest, and the amount, are entered in the deposit receipt register; when that is done the signatures of the accountant and manager are put on the document, they at the same time initialling the record in the register. The register is simply a record of the receipts, line after line, in the order in which they are issued. Afterwards, as the receipts are presented for redemption, they are marked off as paid, with the date of payment.

To balance them, it is necessary to go through the book, and from it to make a complete list of the outstanding receipts. The total should agree with the balance shown in the general ledger at credit of deposit receipts.

The regulations regarding the handling of paid deposit receipts are rather strict. In the institutions where the greatest care is exercised, the branches have to report full particulars once or twice a month of all receipts issued and paid, and are required to send all receipts reported paid and cancelled along with the reports that contain them to head office. The head office thus has a full and continuing record of the transactions at each branch; it also has possession of the documents or vouchers on which the cash payments or credits were made, or renewals issued. The object of this is to make fraud on the part of the officers more difficult.

Floating and Fixed Deposits.

It will be understood from the foregoing that the current account balances represent floating deposits and the savings balances fixed deposits. The former are payable on demand; the latter after notice; for, though the practice is to allow savings bank depositors to draw their money when they will, without notice, the bank has the right to exact the notice whenever it chooses to do so.

When a depositor, opening an account, accepts the pass book from the bank and leaves his signature on a card, or in the signature book, in the eyes of the law he is regarded as having assented to the rules and conditions printed in his pass book. Among these rules is one which says: "The bank reserves the right of "requiring ten (or fifteen) days' notice of all intended 'withdrawals."

Thin Line Between Current and Savings Account.

It is well known that competition has resulted in somewhat obscuring the line that should exist between current and savings accounts. The practice has sprung up of allowing interest on some current accounts that are considered specially valuable. Some of them would more properly be included in the savings department or in deposit receipts; and, vice versa, some savings accounts are to all intents current accounts, not properly entitled to interest.

Competition is gradually forcing the banks to permit their small savings bank customers to draw cheques on their balances, and to operate them exactly as if they were current accounts. In all probability this development has come to stay. The public, having once tasted the pleasure of having its money at interest and at the same time subject to operation by cheque, will not readily submit to losing it.

The actual working of the savings bank ledger is exactly the same as the current account ledger. The page of the savings bank ledger is ruled so as to contain several accounts, the accounts in it being much less active than those in the current account ledger. In addition to the subdivisions mentioned as contained in each column of the current account ledger, the savings ledger has another for interest.

Guarding Against False Signatures.

As there are a large number of accounts, many of them operated only at long intervals, the signatures of the customers are not nearly so familiar to the ledger-keeper as are those of the current account ledger. Greater care and watchfulness have, therefore, to be exercised in guarding against forgery. Some banks make it a rule not to depend altogether on the signature card or book in identifying savings bank depositors desiring to withdraw money. Some distinguishing characteristic of the person or features, or some special information, such as the date of birth, is recorded along with the specimen signature, and when this is done a few questions usually establish a doubtful identity quite satisfactorily.

The savings bank ledger is balanced in the same manner as the deposit ledger. It is hardly necessary to balance it so frequently as the latter book.

How Interest is Computed.

The calculation of the interest on accounts which receive interest on the minimum monthly balance plan is simple. All that has to be done is to pick out the smallest balance shown at the close of any one day in the month, and to calculate the interest for one month on that. Sometimes a system is followed similar to that which prevails in the calculation of bond interest—to regard each month as one-twelfth of a year, regardless of the number of days it contains. Under this system, if the minimum shown by an account is $246.77, the interest at 3 per cent. for one month would be 1-12th of 3-100ths of $246.77, or ¼ per cent. of $246.77, or 61 cents.

On some few of the accounts it may be that interest on the daily balance is to be allowed. The usual way in that case is to take each one of the changing balances and after reducing the whole to the basis of one day, as explained in regard to overdraft interest, to calculate interest on it for the one day. When the proper amount of interest due to each account has been reckoned, and checked by another officer, the entries are made.

The total amount of interest to be allowed on all the accounts is debited to interest paid account, and each account is credited with the respective amount due to it. The customers' names, with the interest credited to each one, are entered on the credit side of the cash book; the debit for interest paid appears in one amount on the debit side.

When Accounts are Closed.

At every branch transacting a large savings bank business there are always a number of depositors who withdraw their balances and close their accounts from time to time. One or more of these withdrawals might take place any day. Whenever interest has accrued on such an account, since the last date fixed for crediting interest on all accounts, it is necessary to calculate what is due upon it and to make a special entry for the interest payment.

The calculation of interest should be checked by another officer before the cheque or receipt is drawn up. When it has been, the most convenient method of getting the customer's receipt for his money is to take his signature on a cheque or receipt form, on which the principal sum, or balance shown at his credit, and the amount of interest about to be allowed him are both set down in figures and added together, the sum of the two being written in the body of the form.

When the item arrives at the cash book there would be two entries to go on the debit side—the amount shown as principal would be a debit for the customer's account under the head, "Savings Bank Accounts," and the amount shown as interest would be a debit for "Interest Paid," the two together representing the amount paid out by the teller.

CHAPTER VIII.

The Discounts.

The next post to be considered is that of the discounts and collaterals. It is in the discounting of bills and notes that the banks find their main source of revenue; the department is, because of this and other facts, one of the most interesting of the lot.

How the Banks Facilitate Commerce.

A very large proportion of the business of the country is done on credit. Wholesale merchants sell to retailers on two, three, or four months' time. Generally, a purchaser of goods may take the cash discount if he settles his bill in one month from the date of the shipment of the goods. Thus it happens that for a large part, even of his so-called cash sales, the merchant has to wait for his settlement. If he sat down and waited till his debtors remitted cash on the maturity of their respective accounts, he would find that an extensive part of his capital was all the time in the unproductive shape of book debts.

At this point the bank becomes useful. By means of it he can bridge over the time between shipment of goods and maturity of account. He may take notes from his debtors or draw bills of exchange on them, and, getting them discounted at the bank, he may have the use of the money represented in his sales very soon after the shipment of goods. In other words, the bank buys the debts due to him when they are put in a certain form.

It waits for the maturity of each debt and then collects it. And so with other bills and notes: when they are properly drawn, domiciled at accessible points or places, when the parties signing them possess the requisite degree of credit, and when their unexpired term does not exceed three or four months, the bank stands ready to buy all that may be offered, providing they come under the designation, "Legitimate banking transactions," and providing the bank's own position is such as to permit it to undertake the purchasing of them.

Handling of the Discounts.

The discounts call for two different kinds of work, one of which has a much greater degree of responsibility than the other. The higher, more responsible department decides what bills shall be taken, and on what terms and conditions; it must also watch the movements of the parties to the discounted bills and keep itself posted as to changes in their circumstances. The other department concerns itself with the clerical work necessary in connection with the discounting, recording, safekeeping, and reporting of the bills, on their being accepted or taken by the bank. It is this clerical work, or a large part of it, that falls to the officer performing the duties of discount clerk.

The clerk's first acquaintance with the discounted bill comes about immediately after the customer has succeeded in inducing the manager to discount it. He will have been instructed beforehand in the system of signs by which the manager indicates what rate of discount and of commission is to be charged on the different bills. These signs should tell him, too, in what class or denomination each bill is to be entered in the discount register.

Of course the manager's initial must be on every bill. The initial, when put on by the manager himself, signifies that the bank accepts the bill for discount, and authorizes the clerk to calculate the proceeds, and to credit them to the account of the party for whom the bill is discounted.

A Question of Practice.

An interesting question as to practice arises here. The customer, be it remembered, is shown or admitted into the manager's office. He has with him the bill or bills he wishes to get discounted. When the manager decides to accept the paper, what is the best method of getting it into the discount clerk's hands? The easiest way is for the manager to initial the paper, mark it with the proper signs, and then hand it back to the customer, allowing him to take and present it at the discount desk. Though this method is practised at some of the smaller branches, it is not the approved method, as it offers too much opportunity for loss by fraud. Three of its dangerous features are: first, the customer might make some substantial alterations in the paper after receiving it back from the manager and before presenting it to the discount clerk; second, the customer might forge the manager's initial and duplicate his signs on paper that was never presented to him at all; third, he might draw cash on a bill that the manager had agreed to discount for the purpose of taking up another bill or for some other specific purpose.

The Safe Way—Personal Delivery by Manager.

The only safe way of doing this business, and the way that the best bankers do it, is for the manager himself to deliver the bills accepted for discount to the discount clerk. There are, of course, plenty of customers who could be trusted with the bills after they were initialled, but the important point is to have a definite practice and then to adhere to it. If the bills are handed back to some customers and not to others, the discount clerk would not be able so surely to stop a forged initial; he most certainly would if the invariable custom was for the manager himself to deliver the bills into his hands.

In the larger branches the manager's office is fitted with electric call bells connecting with the desks of the particular officers he most frequently desires to attend him. The discount clerk being one of them, it is a simple matter to press his button, and, on his appearance, to deliver into his hands the paper to be discounted, to instruct him what is to be done with the proceeds, and to assure him of the identity of the party who is to get the credit or the cash. Thus the element of risk in this connection is practically eliminated. In the smaller offices, where no electric system exists, the manager may nevertheless call the discount clerk into his room, by word of mouth, or by some device, or, if his staff be small, he may accompany the customer to the discount desk, and there make the desired personal delivery of the paper and of the instructions.

Casual and Regular Discounts.

During the course of the day there will be two classes of transactions presented at the discount desk: the bills taken from the regular customers of the branch, and those taken from casual or occasional customers. The former usually desire to have the proceeds of their discounts credited in their current accounts. Only occasionally do they wish to know, on the instant, the amount that will be credited. Most of their bills can, therefore, be placed in a clip or file and calculations made at the end of the day or in a quiet spell during the day. A regular customer is usually quite satisfied if the amount of his proceeds is entered in his pass book when he comes to the bank next day. But there are nearly always some discounting customers, who, not having accounts with the bank, or wanting cash for special purposes, desire to have the proceeds of their bills paid them in money. With the bills they offer it is necessary to deal at once. The first thing to do is to carefully read each bill. It is to become the property of the bank, and in the event of its not being paid at maturity it may have to form the basis of an action at law, brought by the bank against the delinquent parties to it. Therefore, care has to be exercised to see that each bill is perfectly formal and legal on its being taken. The bill must be dated, the place of its execution, the day of the month and the year must also be clearly expressed. Then the term, On demand, At sight, so many days or months after date, or after sight, must be given. Next, the payee must be named (it must be payable to some individual, firm, or corporation), and it must have an accessible place of domicile—be drawn payable at some place where presentment can be made. The amount must be written in. If it is a draft, the drawee's name and place of residence are required, and the drawer's signature; if a note, the maker's signature. Finally, it must bear the payee's endorsement in a form identical with his name as written in the body of the bill. Each bill must be free from alteration or erasure, either of which might prevent the bank from enforcing collection.

Calculating Proceeds of Casual Bill.

Satisfied as to these points, the clerk may proceed with the calculations. The due date is the first essential. When found, it is plainly marked on the bill. If it is a local bill, this establishes the date on which the bank may expect to get its money back. Then the number of days between the date of discount and the due date is arrived at. A glance at a book with printed tables establishes this.

Now, the discount can be calculated. Interest tables are used for this. Interest is taken, at the rate specified by the manager's marks or signs, for the number of days unexpired, on the face amount of the bill. This may be set down in pencil lightly upon the bill, or on a slip of paper pinned to it. If commission is to be charged—a reference to the signs informs the clerk as to this—the amount of the commission is set down under the interest. If any other charge is made, for notification or for something else, it also is set down, and all the charges—interest, commission, and special—added together. When the total is deducted from the face amount of the note the proceeds are left. For his own and for the bank's protection it is desirable that the clerk should have his calculations checked by another officer before permitting a casual customer to draw his proceeds in cash. An over-payment might be difficult to regain. The calculations being made and checked, the customer may be permitted to draw what is coming to him. The bank desires to be able to prove that it paid him cash for the bill or bills it has just discounted. The amount of the proceeds is written into a cheque form, and on his signing it and on its being certified at the ledger the cheque is good for cash at the teller's wicket.

How to Make the Book Entries.

With regard to the book entries, theoretically necessary whenever a bill is discounted, they can be shown by an illustration. Suppose a bill for $100 is put through. on which the discount is $1.80, the exchange 25 cents. First of all the whole bill must be debited to "Bills Discounted," "Loan Bill," or whatever is the heading of the account to which it belongs. The credits to counterbalance this would be:—

Credit discount or interest...........	$ 1 80
Credit commission or exchange.......	25
Credit the customer's account; proceeds	97 95
	$100 00

A special place in the deposit ledger is reserved for transactions such as this, in which two entries, one extinguishing the other, are made. The proceeds, $97.95, go into the credit side of the column; the cheque cashed by the teller, drawn for the same amount, goes into the debit side, and no balance is shown.

Discounts for Regular Customers.

The bills lodged by regular customers are treated in the same way except that the proceeds are carried into their current accounts, covering or reducing their overdrafts, if the accounts are overdrawn, and if they are not, providing funds that can be operated upon by cheque or in any other method which the owner may select. Each bill is subjected to the same treatment as that already described.

When a customer deposits a batch of bills, it is possible to economize the entries and the work of calculating interest, etc. The particulars of all bills discounted must be recorded in the discount book or register. The book must contain the names of all the parties to each bill, and every particular that would be required to produce a duplicate in case of its being lost or stolen. In addition, it should have the particulars of the charges (interest, commission and other) that are made against it, and the proceeds credited to the customer.

In the case of bills left by regular customers which are put through at the clerk's leisure, or at the end of the day, the calculations can, of course, be done direct into the discount register. The approved method is to enter all the bills in the class to which they belong in the register. After arranging them in convenient order for entering, first, each customer's bills all together, next probably, according to due date, the earliest maturities on top, everything is entered but the number of days to run, the charges and the proceeds. Then to take the time-table of days, and, running down the column, to enter on each line the number of days between the date of discount and the due date shown thereon.

After that is done, the interest tables can be taken and the interest calculated, beginning at the smallest number of days and working up to the largest. If a customer has more than one bill, on each of which the same number of days are to be charged at the same rate of interest, the bills can be added together and the interest on the total amount calculated and set down. The commission and other charges to be made against each bill can now be put down in the columns provided for the purpose. This done, the proceeds may be calculated. Unless there are special instructions to the contrary, the proceeds of all the bills belonging to the same class of bills deposited by any customer may be entered in one amount.

The total of the face amount of his bills is first arrived at, and from it is deducted the summation of the totals of the interest, commission, and of the other charges on his bills, the difference being the proceeds, or the amount which the bank pays him for them. When the calculations of all proceeds are completed they can be proved by carrying the additions of the several columns in pencil down through the last bill on the day's list. The grand total of all interest, commissions, other charges, and proceeds should equal the total of bills. The proceeds can now be entered in the book kept for that purpose. In this it is only necessary to put the customer's name and the amount of his proceeds. From this book the deposit ledger-keeper posts them into his ledger.

Loan and Trade Bills.

Reference has been made to the entering of the bills in different classes. The discounts, like the collections, are divided into classes, but for a different reason. The bank wishes to know at all times how much of the various kinds of paper it has under discount. Different banks will have their bills differently classified. The two main classes of bills are "Accommodation" or "Loan Bills," and "Trade Bills."

The first named class contains the bills representing direct loans by the bank to its customers. A business man wishes to borrow a thousand dollars for some purpose or other. He goes to the bank and offers his note, secured by an endorser, or in some other wise, and the bank lends him the money. His note is said to be an accommodation or loan bill. This is an entirely different transaction from that which ensues when the customer brings to the bank for discount notes given to him by his debtors in settlement for goods purchased by them from him.

These latter are said to be trade bills, because they represent actual trade transactions. Generally speaking, they are considered superior to the accommodation bills as a banking security.

These two classes may be subdivided again into special kinds of loan bills and special kinds of trade bills. For example, there may be a section of the book devoted merely to loan bills, one to loans on warehouse receipts, or, if they be specialized, to grain loans, dairy loans, etc. The trade bills may be divided into local bills and remitted bills, and into any other class that may seem desirable. All the bills of the same class are numbered consecutively, usually with a distinguishing letter or letters prefixed. An account may be kept in the general ledger for each class of bills.

When Discount Entries are Made.

If it was thought well to do so, the entries pertaining to the discounting of bills could be taken into the work of each day as it closed. They are made from the discount register. In the case of loan bills, there would be on the one side the debit for loan bills amounting to the total of the loans put through; and on the other, a credit for each one of the profit or revenue accounts that are run. Interest account or discount account would be credited with the total of the interest; exchange or commission account would be credited with the total of the exchange or commission; if there were other charges they would be credited to whatever account was kept for them, and the total of the proceeds would be credited to current accounts. The grand total of all these credits—profit accounts and proceeds—would exactly balance the amount of the debit—to loan bills. Trade bills would receive the same treatment, and so would any other class of bills for which a subdivision of the register was made.

Though this should, theoretically, be done at the close of each day, it is handier in practice to make these entries on what are called closing days. The bills are allowed to run on each day, no entry being made in the bank's books except the posting of the proceeds in the customers' deposit accounts, until a balance day comes round. Then the entries are made by taking the totals of the transactions that have occurred since the last previous balance day, and entering them exactly as described above, the only difference being that they comprise the work of a number of days instead of one day.

Under this system, though no debit is put through for loan bills or trade bills, and no credits for the profit accounts, the entries are in abeyance. In the interim between balance days it is necessary to take these figures into account before a balance can be taken of the bank's books, or before the proper amount standing in any of the accounts concerned can be arrived at. The bank has actually made the loans, discounted the bills, and it has received its profits thereon; the entries for the same have been merely deferred as a matter of convenience.

Checking the Discounts.

An officer is appointed to check the discount clerk in his recording of the bills in the register, and in his calculations of profits and of proceeds. After they are checked the bills are to be entered in the discount diary —a book similar to and serving the same purpose as the collection diary, which has already been described. In entering here the same policy is pursued as with the collections, only the most essential particulars are recorded—the number of the bill, the names on it, the place where payable, and the amount. On completing the diarizing of the bills the discount clerk may hand them over to a senior officer, usually the accountant, for the checking that remains to be done. The bills are again read over, to make sure that they are formally and properly drawn, the due date is checked, as is also the entering in the diary.

The checker initials or ticks in the diary for each bill as he checks it. Finally, like the collections, the discounts are handed to the manager for filing away. Before sorting them in his bill-case he initials for each one in the discount register. On their being sorted they are done with—for the time.

Notification of Discounts.

Among the bills accepted by the bank for discount are a considerable number bearing signatures that are not familiar. These may come from the regular customers or from occasional visitors. They are accepted because the manager has faith in the honesty or responsibility of the man who presents them. Though this faith leads him to accept bills with unfamiliar signatures from his more reliable customers, it need not compel him to hold the bills indefinitely without satisfying himself as to the genuineness of the various signatures on them.

It has happened more than once that a customer of the highest respectability has deliberately deceived his bankers by systematically discounting forged paper. When this is being done, the guilty party almost invariably takes care to retire the forgeries promptly at maturity. His account goes on, the fraudulent paper probably getting greater and greater in amount, till one day the banker is startled to learn that his customer has absconded, committed suicide, or taken some other desperate step. The next development is likely to be the forged notes going steadily into default as they come due, and, on the parties being notified, a procession of nominal promissors or endorsers calling to inform the bank that they signed no such notes as those to which their attention was asked.

Value of Notices in Stopping Forgeries.

Such schemes as these are effectively stopped by sending notices to the promissors and endorsers of discounted paper on the day of discount or the day after. All that is necessary to be said in the notices is that the bank has discounted for So-and-So note made by, or endorsed by, the addressee, for so much, due on such a date. All the discounts need not be notified. The bank may be in position to assure itself positively as to the authenticity of all the signatures on quite a large number of the bills it discounts. With regard to some others it will, perhaps, be deemed inadvisable to send notices. But experience teaches that it is not always safe to take too much for granted, or to depend too much on the rectitude of the most respectable customers. The sending of these notices is an ancient practice; it is one, however, that is not likely to fall into disuse where sound banking principles are adhered to.

Notices of Maturity.

Another old-established custom is that of sending notices to the makers of bills a short time before maturity. This serves a double purpose. Firstly, it reminds the promissor of the approaching due date of his bill, and probably causes him to prepare to meet it. Secondly, it is, like the first-mentioned notice, a guard against systematic forgery by a discounting customer.

It would likely bring an earlier enlightenment in the case of a forgery palmed off on the bank by a transient discounter; that is, if the other kind of notice had been omitted. Thus it is that the banks, for their own protection, are obliged to send out notices constantly.

Sometimes customers ask that the promissors on notes discounted by them be not notified. They may have a proper reason for making the request. But if the point be too strongly insisted upon, without the proper reason being apparent, the manager would be right in regarding it as a suspicious circumstance.

The notices to promissors and endorsers are made out by the discount clerk. The manager indicates the names that are to be notified. It is necessary to keep a record of the notices, as the bank should be in position to say that notice was sent to any particular person, and to give the date on which it went.

The other notices, of the maturity of bills, are commonly made out by the junior. He takes the particulars from the discount diary. Printed forms are used, the amount of the bill and the due-date having to be written in.

Handling Discounts at Maturity.

The description of the methods followed in the case of collection bills on the day of their maturity applies to discounted bills also, the only difference being that when the teller takes over and initials the discounted bills maturing on a certain day, each bill becomes to him the equivalent of cash, because at the end of the day he has to put through a credit entry for the gross amount of all the discounted bills shown as due that day.

As they are due, they must come out of loan bills, trade bills, or whatever account they may have gone into. These accounts represent current discounts. So, through the day the teller parts with some bills in exchange for cash handed in as payment therefor; some he charges up as cheques on customers' accounts; some go in as cash items in the exchanges with other banks; those remaining unprovided for at the end of the day are debited to overdue debts or past due bills.

How Endorsers are Held.

It has been mentioned that the bank becomes the owner of the bills which it discounts. Strictly speaking, what it becomes possessed of is a right of recourse or action against the parties to the bills. To illustrate, suppose the bank discounts on 1st June a bill for $100 due 10th August made by John Jones, payable to and endorsed by William Smith. As additional security the bill is also endorsed by Henry Brown.

Until the 10th August the bank merely holds the bill in its possession. It holds all three parties liable for the due payment of the bill at maturity. When the 10th of August comes, if the bill is duly paid by Jones the transaction is closed, the rights of action are extinguished. But if payment is not made by three o'clock on the due date, then the bank can take immediate action. The first thing it has to consider is that something must be done to hold its recourse against the endorsers.

When they endorsed the note they made themselves liable till the close of the 10th August. They are not the primary debtors; Jones is the primary debtor. If they do not get formal notice from the bank, or from whoever holds the bill they have endorsed, they may presume that it was duly paid. If nothing is done by the holder, Smith and Brown are free from all liability in connection with the bill on the morning of the 11th August.

The Protest.

To hold them liable the bank must either have them formally notified on the 10th after the close of business that the bill is unpaid, and that it looks to them for payment, or it must get them to formally waive or forego their right to this notification. As there might be disputes between the bank and endorsers with regard to whether notice was duly sent by the one or received by the other, the law has prescribed a certain form of proceeding, which, on its being taken by the bank at the proper time, effectually binds all endorsers.

When this form of proceeding is applied to a bill it is called protesting the bill. After the close of business on the day of maturity the dishonored or unpaid bill is handed to a notary public. He makes formal presentation of it at the place where it is payable, and if it is not then paid he fills up forms of notification and mails one to every signer and endorser in the manner prescribed by the law. This done, the endorsers are held liable after the maturity of the bill, no matter whether they receive the notices or not.

Waiving Protest.

Another course may sometimes be followed. The bank may get the endorser or endorsers to waive protest. In that case each endorser signs a declaration, usually written on the back of the note, announcing that he waives his right to notification and protest. On his signing this, his liability continues after maturity. After maturity, whether a bill has been protested or whether protest has been waived, all the parties become primary debtors. The bank may take action against any or all of them.

How Overdue Paper is Handled.

For a customer to allow paper bearing his name to go into past due bills is to have his credit injured. Also the branch manager's reputation with his head office is affected. The head office understands quite well that customers in good credit sometimes figure in the past due bill account through their overlooking or forgetting about certain of their bills. But it is regarded as a bad sign when it happens repeatedly.

Bills going into past due bills sometimes constitute a reflection on the manager that discounted them inasmuch as the occurrences may indicate that his judgment was at fault when he accepted them for discount. Therefore, every effort is made to get overdue bills cleared out. The parties are frequently reminded of them and are constantly watched. Sometimes suit has to be undertaken.

A special record must be made of all past due bills in a book kept for the purpose. All particulars as to what has been done and prospects of payment must be carefully preserved. The head office requires full statements of particulars; and, as the manager does not allow the debtors to forget the debt, so the head office does not allow the manager to forget. Altogether, the past due bill department can be characterized as the most disagreeable of all banking departments. Happy is the branch manager who so conducts his affairs as to have a minimum of these debts.

CHAPTER IX.

Collateral Notes.

At some branches large advances are made on collateral notes. Customers whose business consists of the manufacture, or sale, of farm implements, pianos, organs, sewing machines, quite frequently borrow in this way. They bring to the bank the notes given them by their debtors, and instead of having them discounted they lodge them as collateral for direct loans made to them by the bank. Generally, the loan is less than the amount of the notes pledged as collateral. In technical language the bank has a margin in the collateral security for the loans. The margin may be ten, fifteen, twenty-five per cent., or more, according to the extent of the customer's requirements and to the nature and class of the security he gives. Thus, if a borrower has a loan of $20,000 secured by collateral notes with a margin of 20 per cent., it means that the collateral notes he has deposited to secure his loan amount to $24,000.

Why Notes are taken as Collateral.

Notes are taken as collateral security instead of being discounted, sometimes because the bank does not rate them high enough to advance on them in full, and sometimes because the customer does not wish to borrow the full amount on them.

When the manufacturer of, or dealer in, the goods just mentioned, effects sales to his customers he quite commonly splits the consideration into several instalments, sometimes with six months or a year between instalments. A note is taken for each instalment. The notes will probably be drawn in a form to give the seller of the goods a lien on them while the notes remain unpaid. Because of the protection he gets through the lien the seller will sometimes give credit to people not possessed of much means. Among the notes taken, therefore, are quite a number not falling due for a year or more; a certain proportion of the whole will be signed by parties whose standing is indifferent or doubtful. And, perhaps, they are all lien notes. When he takes them to the bank these points all will come up as obstacles in the way of the bank's discounting them outright.

But if his credit is good, and his financial position satisfactory, the owner can easily make arrangements with the bank whereby it takes the notes from him as collateral and lends him a certain percentage of their total.

Though a considerable proportion of the collateral notes taken by the banks are inferior in quality to the regular discounted bills, it does not follow that any particular collateral note or notes is inferior as such to discounted paper. It may happen that a customer holds a note bearing the most excellent names, and that he wishes to borrow only a part of the amount for which it is drawn. The simplest way is for him to lodge the note as collateral to his own note for such a sum as he wishes to use.

Definition of Collateral Notes.

The younger bank officers are sometimes puzzled as to the exact status of the collateral notes. It is easy to understand that the collections are the property of the people for whose account they are held, and that the discounts belong to the bank. But the collaterals have some of the properties of both the others.

Perhaps the best way to explain their status is to liken them to a farm or other property on which a mortgage has been placed. A property that has been mortgaged is in the hands of the party who advances money on it. He has title to the whole property, and can retain it till his advance is repaid. The mortgagor, or one who mortgages, has the equity in the property; which means that he owns all of it over and above the portion required to satisfy the mortgage. The same with collateral notes pledged as security for a bank loan. The bank has title to all the notes pledged. The pledger owns the equity in them.

Needless to say, the banks whose practice is the best give to the collateral notes they hold the same degree of attention as that given to discounted bills. The head offices do their best to combat the disposition sometimes shown at a few of the branches, where the officers regard the collaterals as being of lesser importance. The point insisted upon is that the bank has advanced money on these notes, as much as could be advanced upon them, that it is the duty of the officers to handle them just as attentively and carefully as the discounts, and to do their best to collect them and to keep them in good shape. Where laxity is most likely to occur is in the treatment of past due collaterals. These are sometimes allowed to accumulate till a considerable part of the security held against a current loan is past due. One of the dangers is that a promissor, whose note is past due, may have settled it direct with the bank's customer, and he have neglected to turn in the payment to the bank. Though the bank holds the maker of the note liable so long as it holds the note, it might experience considerable difficulty in forcing him to pay the amount a second time.

Recording and Handling.

At branches where there are a great many collaterals it takes a good deal of watchfulness and care to keep the records and accounts clearly and properly, and there is room for the exercise of ingenuity in the book-keeping. At the small branches the collateral notes are usually assigned to the discount clerk. Before he can take them they must, of course, be passed or accepted by the manager. They may come to him accompanied by the note for discount which represents the loan made against them; or they may come as a deposit of additional security against a loan or loans already made.

Hypothecation.

When the bank takes collaterals it must exercise care, as it does in taking bills for discount, to see that they are properly drawn, filled, signed and endorsed. There is the same necessity for establishing the authenticity of the signatures. And there are one or two things required that are not required in the case of the others. When a bill is discounted the bank buys the bill; the cheque it takes for the proceeds provides it with all the receipt it needs, as that enables it to prove that it holds the bill for value given by it. With collaterals the case is different.

They are lodged as security for bills discounted or to be discounted. In order that it be invested with a secure title to them it requires that they be hypothecated, or assigned, to it. Each bank has its solicitors draw up a form of hypothecation or assignment that will, when signed by the rightful party, transfer to the bank the title to the notes and the property in any liens they may carry. This form of hypothecation is printed at the head of a sheet whereon are blank lines and spaces for entering the particulars of the bills lodged.

Collateral Lists.

Every bill lodged must be described in a manner to permit its being identified—the name of the promissor or promissors, the due date, and the amount being essential in each case. The lists of notes are called collateral lists.

All that has to be done at the moment the notes are lodged is to have them properly hypothecated to the bank. It may be necessary also to calculate at once the proceeds of a bill discounted against them, but when the collaterals are duly hypothecated they can, if necessary, be placed in a clip and put through at leisure later in the day.

Quite often collateral notes are drawn with interest; that may have to be calculated and added to the face of the notes. They must be carefully read over and due dated. When certain that the notes are correctly entered on the collateral lists, the clerk may proceed to enter them in the collateral ledger or register.

The Collateral Ledger.

The purpose of this book is to show the record and balance of the collateral notes held on account of each customer having advances on that kind of security. It may include also the record and balance of other kinds of security held against discounted paper. The customers' accounts are arranged in their alphabetical order as far as possible, and indexed. The notes are entered in the same order as they appear on the lists. They may be numbered in the same manner as the collections and discounts; i.e., the numbers in each account running consecutively forward as one list follows another; or, the lists may be numbered as they come in, irrespective of the accounts to which they belong, and the notes on each list numbered consecutively, beginning at "one." If the latter system is followed the numbering, for example, on the seventy-fourth list received would run: 74/1, 74/2, etc. It is desired usually to have the collaterals so numbered as to proclaim their nature as collaterals at the first glance.

The particulars required in the ledger are: Date received, number, name of promissor and of endorser, if any (the customer himself endorses all the notes in his account, but he is not considered an endorser), date of note, term, due date, amount. On each page, after the columns reserved for these particulars, are at least three more—one each for debit, credit, and balance.

When a list is deposited the total is extended into the credit column and added to the balance previously existing. The balance shown represents the amount of collateral notes held on the customer's account. After they are entered in the ledger the notes are diarized and handed over for checking and filing away, the same procedure being followed as in the case of the discounts and collections. The list forms, which contain the hypothecation of the notes, are filed away so as to be easily accessible.

The remarks made in connection with the notification of discounted bills apply with equal force to collateral notes.

Collaterals at Maturity.

When the collaterals become due, the teller takes them over with the other bills, and follows the same process in collecting or effecting payment. The payment of a collateral, when received, is really a payment on account of the indebtedness to the bank of the customer who lodged it. It might, therefore, be applied with propriety on any of that customer's notes, against which the collateral was pledged, that happened to be due, and if none were due, then on the next one to become due. This could be done with collaterals pledged generally against a line of discounts. The proceeds of any that were pledged specifically against a particular discounted bill would have to be applied to that bill, and none other.

Cash Collateral Account.

But to apply the proceeds direct to the loans or bills secured by the collateral is not convenient for several reasons. The clearer record is kept and entries are economized by crediting each payment on collateral notes to what is called the "cash collateral account" of the customer who lodged it. So, on receiving payment, the teller makes out a slip crediting the amount, less the commission charged by the bank, to that account. Enough particulars are put on the slip to identify the bill.

The cash collateral accounts are kept in the general ledger, an account being opened for each customer having collateral notes paid. It will not be out of place here to emphasize the distinction between the two kinds of accounts.

An Illustration.

The collateral ledger, let us say, shows a balance of $8,426.73 at credit of the "collateral account Jno. Jones." That means the bank holds collateral notes on account of Jno. Jones' indebtedness to it amounting to $8,426.73.

The ledger will state whether these notes are held generally against the indebtedness or specifically against particular loans. Then the general ledger shows that there is at the credit of "Cash collateral account Jno. Jones" $340.11. This latter sum represents actual cash held by the bank (received as payment for collateral notes) for applying on such of Jno. Jones' notes as the collaterals were pledged against. The security held, in Jno. Jones' case, would be, therefore: In notes, $8,426.73; in cash, $340.11.

From the cash collateral accounts the funds are transferred to the particular notes to which they pertain, or to the collateral customers' loans as they fall due, or as the manager may direct.

Why Protest is not Necessary.

At the end of the day, if collateral notes remain unpaid, there is no object in protesting them, except in those cases where there is an endorser other than the customer on whose account they are held. The bank holds the customer liable on the discounted note or notes against which the collaterals are lodged, so there is nothing gained by protesting his name on his collaterals.

Withdrawals.

It has been described how the various accounts in the collateral ledger are credited with deposits of notes. Sometimes it happens that the customer, for one reason or another, desires to withdraw certain notes lodged by him. On his securing the manager's consent the bills are given up to him. Receipt forms are provided for this purpose. The notes to be withdrawn are entered on the forms and totalled. The customer signs, as acknowledgment that he has received them, and the notes are surrendered to him. Each bill on the form is then marked off as returned, with the date, in the collateral ledger and in the diary. The total amount of the withdrawals is put in the debit column in the customer's account in the collateral ledger, and is deducted from his balance. The numbers of the surrendered bills are set down opposite the debit entry, particularizing the notes making up the total. It is necessary also to debit the customer's collateral account when any of his notes are paid and credited to his cash collateral account. In this case the notes are marked off paid in the ledger and diary.

There are two general accounts pertaining to the collateral notes in the general ledger. One is "Collateral notes on hand," showing a debit balance, and representing the total of the collateral notes held by the bank. The other is "Collateral accounts," showing a credit balance, and representing the total of the collateral accounts of the customers. "Collateral notes on hand" balance exactly with "Collateral accounts."

Balancing the Ledger.

To balance the collateral ledger the balances shown in all the accounts are taken down and added. The total should agree with the balance shown at credit of collateral accounts in the general ledger.

At the end of every day, or on balance days, cash book entries are made for the collaterals received, and for those surrendered or paid. The account, "Collateral notes on hand," is debited with the total of the notes lodged, and "Collateral accounts" is credited with the same amount. The total of all notes surrendered and paid is, in the same way, debited to collateral accounts and credited to collateral notes on hand. The account, "Collateral notes on hand," is run the same as is the cash account; it is debited with the receipts or income, and credited with the outgo.

CHAPTER X.

The Liability Ledger.

Most business men borrowing regularly from banks do so on what are called lines of credit, or credits; that is, they arrange with their respective banks to take paper up to a certain maximum amount. For example, if a manufacturer arranges for a credit of $20,000, that means that the bank will discount for him all the acceptable paper he can lodge, providing the amount held at any one time does not exceed $20,000.

The credits granted to the respective customers are authorized by the head office. In considering whether they will grant them or not, the executive officers are influenced more or less by the representations and recommendations of the managers of the branches at which the requests or applications originate.

It is important that the bank officers be able to tell at any time what amount of bills the bank has under discount for each one of its customers; in other words, to tell what his "liability" is. That is done by means of the "liability" or "credit ledger."

The Posting.

This book is kept by a senior officer, sometimes by the manager himself, but it can fittingly be described here in connection with the discounting department. Accounts are opened for all the regular discounting customers; occasional or "petty" discounts are put in a place by themselves. Each customer's account is debited every day he discounts with the bills he puts in, and credited with the bills matured and paid. The posting is done from the bills themselves, or from the discount register, in the case of debits, and from the discount diary in the case of credits.

What the Ledger Shows.

His account should also show whether he has any paper in past due bills. The bills discounted by the customer are entered in his account separately in their alphabetical order. Two balances are shown, one for his loans and the other for his trade bills. In entering each loan bill the name of the endorser, or particulars of the security, must be set down, and the amount of the bill; in entering trade bills the promissors' names and the amount of each bill are the essentials.

In both cases it is advisable to have the book designed so that the respective due dates also can be given. When the book is posted up to date, the total of the two balances—loan bills and trade bills—represents the customer's direct liability to the bank. In his account there will also be a memo. of the amount of his indirect liability, if he has any. Indirect liability in this sense means the amount of his paper held by the bank, discounted for the account of some other customer.

This indirect liability does not show in his balance, and it does not, generally, form a part of his line of credit. The total of the balances shown in the liability ledger, regular and petty accounts, should agree with the total of the loans and discounts as shown by the general ledger.

A properly arranged liability ledger will show the manager at a glance, when he refers tò a particular customer's account, how much of each kind of paper that customer has under discount in the bank, the names or security against which the discounts were made; also, it should show him how near maturity are all of the bills.

As already implied, the liability ledger is balanced with the general ledger. The purpose of the book being merely to show the liability of the several customers to the bank, it is not necessary to balance to a cent. As a matter of fact, it is found convenient to ignore the cents and to enter dollars only in the accounts.

The curator appointed by the Canadian Bankers' Association to superintend the liquidation of the Bank of Yarmouth, which failed in the spring of 1905, mentioned, as an illustration of the bad management that wrecked the concern, that no liability ledger was kept. In consequence the officials had no regular record of the indebtedness of the bank's customers. To try to run a bank without a liability ledger would be something like trying to navigate a ship without taking the regular reckonings as to its position or whereabouts.

Head Office Supervision over Liabilities.

The liability ledger informs the manager and the other officials at the branch how the liability of each customer stands, and how it is tending. Over this department of the branch's business, i.e., the discounts and customers' liability, the head office exercises the closest supervision. In conducting the most of the other business—deposits, transfers, exchange, etc.—the manager may exert his own authority, provided he keeps within the general instructions issued by the bank covering those departments. But the branch manager's will is not absolute in regard to lending the bank's money. He may make small loans without reference to head office for permission—on his own authority, in fact. When the customer asks for an advance exceeding a certain sum, which varies with different banks, and again with different branches of the same bank, the application must be forwarded to the general manager for consideration.

When it is granted, if it is granted, the general manager requires to know all the time how the account progresses, how the conditions are lived up to, and all particulars necessary to enable him to follow the course of the account, and to oversee the branch manager's conduct of it.

Liability Statements.

Therefore, a considerable number of statements or reports dealing with the discounts are to be sent to the head office. So far as the whole subject of statements and reports is concerned, it will, perhaps, be best to deal with it separately, considering all of them in one chapter rather than to deal with them piecemeal while describing the duties in connection with the respective posts. But it will be well to except some of the discount and liability statements, and to treat of them under the above heading.

The Day-to-Day Report.

First of all, the general manager requires to be kept informed of the bills discounted from day to day. The statement in which these are reported may go to head office daily, tri-weekly, or semi-weekly, according to the size and importance of the branch. In it are supposed to be particulars of all bills discounted exceeding a certain sum, which may be fixed anywhere from $200 to $500. They are classified thus: New Loan Bills, New Trade Bills, Renewal Loans, Renewal Trade Bills, and possibly some other special class or classes, if the general manager so desires.

The statement is simply the manager's report of the paper he has discounted in the period covered. The first column gives the name of the customer for whom discounted; the next gives the additional name or names, or the security pledged, and if the last, its value; then the time for which the bill runs, and lastly, the amount and the rate of discount. In the margin opposite, the manager must say for what purpose the proceeds are to be used, or, if a trade bill, what transaction the bill is founded upon.

In the case of renewals, more particulars are required. The bank's chief officer wants to know, in the first place, why the bill was not paid; then he generally wants to know the number of times it has been renewed prior to this, and the original amount.

Small bills are bulked and put in as so many bills under $200, or whatever the amount is. Each class of bills is added up and the totals summed. When the grand total is added to the balance shown by the last statement, and the amount of the bills matured and paid during the period covered by the statement is deducted from the result, the remainder should agree with the total of discounted bills shown in the general ledger.

Shortly, the purpose of this statement is to give the general manager a day-to-day or running account of the paper that is taken for discount, and also to explain or justify the manager's action in discounting it.

General Liability Statements.

So far as the liabilities statements are concerned, the number of them dispatched, and the length of the intervals between, are matters which each bank arranges to suit its own particular circumstances or policy. But the best kind of management calls for reasonably frequent accountings by the branch managers of all discounted paper held by them.

There may be two liability statements required, one being weekly or bi-weekly, and the other monthly or bi-monthly. It is sometimes desired that the particulars of the large liability accounts be set out for head office information at frequent intervals, so that the changes can be seen and followed. Thus a statement of liability accounts exceeding a certain sum—$1,500, $2,000, or $3,000—may be called for twice a month, or more frequently.

On the statement form, which is a large sheet, the accounts that qualify for entering are set down, one after the other, in alphabetical order. A heading is raised for each account, and under that the subsidiary or collateral names, and the security held, are given, arranged first, by classes and then in alphabetical orders. For example, the customer's loan bills are entered first. The name of the endorser of each bill exceeding the amount fixed upon as minimum is given, and the amount. If the loan is secured by pledge of some specific security, the security is described. Next the overdraft, if any. Then, in entering trade bills, the names of promissors are given, with the amount for which each one is liable. Liabilities under the minimum amount are entered: "So many trade bills under $——, $——."

The past due bills are entered in a manner to specially strike the attention, usually in red ink. At the foot the amount of the customer's indirect liability, with the particulars thereof, is given. When the totals are extended there will be shown the total amount of the customer's loans and overdraft, of his trade bills, the grand total of his liability, and probably columns will be provided for a comparison with the total amount as of the same date in the previous month and in the previous year.

Then a liberal outer margin is provided in which the manager is expected to give the customer's rating, the surplus he claims over what amount of liabilities, his character, standing, capability, the condition of his business, and other facts calculated to assist the general manager in his efforts to get a clear idea of the desirability and safety of the debt. Each subsidiary name or security has also to be reported upon, but the remarks are not so minute or so full as in the case of reporting on the principal.

When all the accounts qualified for the statement are treated in this manner, the totals extended and carried forward to the end of the last sheet, the statement is completed. As it contains only a part of the loans and discounts, the total shown at the end does not balance with anything. Copies being required, for reference and for guidance in making out future statements, the writing is done in copying ink.

The Main Return.

The monthly or bi-monthly liability statement differs from the above described one only in its being a complete exhibition of the customers' liabilities. Every account exceeding the minimum fixed—anywhere from $300 up to $500—goes in, and, as the small accounts are bunched at the end, the total can be balanced within a few hundred dollars with the general ledger figures.

This also is press copied. A special copy book is kept for the liability statements. All three of the statements which have been described are to be signed or authenticated by both manager and accountant.

It may be, if a complete liability report is required once a month, that the report on large accounts is not required at all. As before stated, each bank follows whatever policy it thinks best in this matter of statements required from the branches.

CHAPTER XI.

The Cash.

After serving in turn as junior, ledger-keeper, and discount clerk, the bank officer's next promotion is likely to be to the teller's box, or the cash. As he rises to the higher posts, with increase of responsibility, his fidelity bond is gradually raised. He will have been receiving also increases in salary every year, probably on the occasion of the annual revision of salaries, with perhaps one or two increases for special reasons. On receiving his appointment as teller there will be, in all probability, a further raise in his guarantee bond and a further increase in salary.

The Teller's Risk Fund.

Some banks acknowledge the teller's extra risk of personal loss by establishing a special or extra remuneration for them. The way this is done is to credit each teller with $100 a year, or more, in addition to his regular salary, for the whole period of his service in the box. The money is not paid to him, as his salary is, but is reserved or held at his credit in the head-office books.

Shortages in his cash which he cannot make good himself are charged against his balance. Interest is allowed, and, six months or a year after he leaves the cash, he may draw whatever is at his credit. This delay in permitting withdrawal is exacted as a precaution against shortages attributable to him occurring in the cash after he has left the box. Other banks follow the practice of granting their clerks special increase of permanent salary on appointment to the teller's position.

Strong arguments can be adduced in favor of the more universal adoption of the teller's risk funds. It is impossible to deny that the bank officer is under special risk of loss while he serves his bank as a teller. When his cash is over, he knows that it is so either because he has underpaid a customer or given short credit on some entry passing through. It is most likely to turn up at the next balance day, if not before. He must make thorough search for it. If it does not turn up, the bank requires him to credit the amount to teller's surplus account, where it is held as a liability of the bank against any possible demand that may be made for it.

On the other hand, when the cash is "short" there is always the danger that some dishonest payee has been given more than he was entitled to, and of the transaction not being discovered. In this case, the teller loses. He must pay out of his own pocket whatever is required to keep the balance of his cash equal to the amount shown in the cash-book. The most accurate men have their "off"-days. Everybody is liable to make mistakes. Where there is no risk fund, the teller is apt to feel some injustice pressing on him from the fact that when other officers make mistakes the only penalty they have to pay, in nearly every case, is extra work looking for balances, or a little trouble in rectifying. They do not, except in unusual cases, suffer any deduction from their income; they receive the full amount of their salaries. With the teller's mistakes it is not so. There is a much greater chance of them costing him money. He works as hard as the others and as carefully, and naturally feels that he should, like them, have the full benefit of the salary that is allowed him. This he does not get when he is called on from time to time to make up petty shortages. When he knows that the extra risk belonging to his post is covered by a special allowance, he feels more secure in the enjoyment of his salary, the sense of injustice is entirely eradicated, and it should tend to make him a more valuable servant.

Taking Over the Cash.

Before entering upon his duties the new teller must take over the cash. As soon as his predecessor has balanced for the day on which the transfer is to take place, he enters the teller's box, and counts the money which makes up the balance of the teller's cash. The officer about to vacate the position is responsible until the whole is formally counted and taken over. It is his duty, therefore, to be present in the box and to personally oversee the whole operation.

The full particulars of the teller's cash are entered every day in the teller's balance book. All the different kinds of money are entered in the proper order. A page of the balance book is given to each banking day. At the top will be the specifications of the bank's own notes. The denominations are printed in, with a blank space in front for the number of each. The cash is all arranged in bundles, 100 notes to a bundle, usually fifty notes facing outwards on each side.

So, beginning with the bank's own notes, the new teller counts them and as he does so, ticks off the specification in the balance book. The broken parts of bundles will be in wooden slats held together by rubber bands. The cash counted and ticked off must be kept apart, in his sole possession. He is responsible for that. So he goes through each subdivision of cash; the bank's own notes, the Dominion notes, or legal tender, the specie, the notes of other banks in Canada, the United States currency.

When the cash is counted there will be, if other banks are in town, a list of cheques on them which are to be cleared next banking day. These are to be ticked off and the total taken in with the others. Now-a-days the silver is to a large extent kept in coin-packages constructed so as to give a clear view of what is inside. But there may be quite a considerable lot, perhaps several hundred dollars, rolled up in paper cartridges of convenient sizes for paying out over the counter. He will have some doubts as to whether he should accept these as containing the amounts marked on the outside, or whether he should break them all open, count them and roll them up again and make sure that the correct amount is contained.

In deciding this question the particular circumstances of the case should help. If the former teller is leaving the bank no chances should be taken; if he is promoted to a higher position in the same branch the rolled up silver can be accepted subject to count, which can be done at leisure. But the incoming teller is responsible for every dollar of cash he signs for, and he should therefore on general principles make sure of everything. On finishing the count, the extensions are checked and all the items composing the balance examined carefully to make sure that all are ticked off.

When the additions are checked the balance shown by the book is to be compared with the cash-book balance, and if it agrees, the new teller initials or signs the balance book, accepting the responsibility for the balance there shown, and releasing his predecessor; the teller's keys are turned over to the new-comer, the cash is locked up in the safe, and everything is ready for the taking up of the new duties on the morning of the next banking day.

The Cage—Its Isolation.

As soon as he has access, the next day, to his compartment in the safe, the teller brings out his tin box containing the cash he needs to use; takes it into the teller's cage and locks the door. With regard to these cages, the approved practice is to have them give complete cover from all sides and from above. The roof, and the sides above the wood-work are built of stout wire. In the front railing a small wicket is placed, through which the teller transacts business with the public. Another wicket at the side for passing vouchers, etc., to the deposit ledger keeper, and the door for ingress and egress constitute the means of communication with outside. The door to the cage is provided with a spring lock which can be opened from the inside by turning a knob, but requiring a key to be opened from the outside. The rules are strict on the point of complete isolation. The teller must not part with the key to his cage door, nor must he allow any one, even of his fellow-officers, into his cage while the cash is there.

Formerly the tellers' cages had walls but no roof. Ingenious thieves took advantage of this to provide themselves with long canes or sticks with a contrivance at the end for taking hold of such things as bundles of cash, and, watching their opportunity, were able on several occasions to reach over the front railings and get away with parcels of money snatched up in this manner from the counter. The roof over the top was the answer given by the banks to these attacks.

After the roof was added it proved valuable also as a defence against a different kind of attack. The officers of a certain bank at a small country branch, other than the teller were overpowered one day several years ago, during the noon-hour, by a couple of desperate villains, one officer being killed by them. The teller, however, was in one of the new style of cages. He kept his door closed and refused to open it or hand over his cash though threatened with revolvers. The hold-up men feared to fire their guns, but they made desperate efforts to break into the cage—one of them getting up on top and tearing and pounding as hard as he could. Thanks to the stoutness of the wire and the lock, and to the opposition of the teller, they were unable to effect an entrance, and their lookout announcing that several customers were approaching, they took themselves off without getting the plunder.

Why Isolation is Necessary.

The reason the other clerks are not allowed in the cage is that the teller alone is responsible for the cash in his charge. If he is short at the end of the day and has religiously obeyed the rules he can be quite sure in his mind that his fellows have not stolen from him nor let him in for loss through errors made by them in transacting business on his behalf. If the door is sometimes locked and sometimes open, the teller constantly running out of his cage, other officers going there in his absence, paying cheques or receiving deposits for him, the difficulty of tracing a shortage is multiplied because there are so many the more of possible ways in which it might have occurred.

The best tellers are extremely strict on this point. While their cash is out of the safe they hardly ever let it, or their cage, out of their sight. They aim to be able to say at the close of every day, "It was not possible for any one, in the bank or out of it, to have taken a single dollar from my cash without my knowledge, between the time it was brought from the safe in the morning and the time it was put back there in the evening."

Preparing for the Public.

On getting the cash out, the first thing is to arrange it in order convenient for handling through the day. The cash drawer will have a row of compartments for the till money. A compartment each will be provided for the ones, twos, fours, fives, tens and twenties; a block of wood with several bowl-shaped hollows is there for the coins. Only the broken parts of bundles are put in the drawer; the bundles themselves are stored in convenient order in the tin box, which is kept on the floor or on a low shelf or table immediately to hand.

The pressure will fall chiefly on the fives and tens, and to a less degree, if there be quite a demand for change, on the ones and twos. It is necessary to take stock of the supply on hand. Should it be deemed insufficient the accountant or the manager must be asked for some of the treasury stock. This latter is under the dual charge of the two of them. It is kept in the treasury compartment of the safe, on which there are two combination locks, the numbers of one being known only to the manager, those of the other only to the accountant.

Requisition for Treasury Cash.

We may suppose the teller to be in short supply of certain denominations. He has requisitioned for some treasury cash. The process—the accountant would take the treasury book, which is a continuing record of the denominations and total of cash held in the treasury, and enter therein the specifications of the notes to be handed over, deducting them from the amounts at present held. Then he and the manager, in company, take the money from the compartment. The teller signs the treasury book opposite the amounts set down as given to him, and the new money thereon belongs to his cash. In the cash book at the end of the day, as the treasury balance is reduced, there is so much the more for the teller to account for.

Clearance with Other Banks.

There are several things to be done before the opening hour. The bills for the day have to be taken over. They are initialed for in the diaries, as already described. Then the deposits, or clearances, with other banks in town are to be made up and sent in. By way of illustration we may suppose that there are two other banks to deal with, the Bank of A. and the Bank of B. In the deposits received from the customers during the previous day would be a number of cheques drawn on these two banks; also a number of their notes. Among the notes and bills due the day before would be some that had been presented at and accepted by each one of the other two. Their notes, and cheques on them, would be received in various manners in the ordinary course of business. All this must be cleared early in the morning. So the teller makes out a deposit slip for each bank. Taking the Bank of A. first, he specifies the cash at the top, then enters each one of the cheques and items to be sent in.

To be secure against a fraudulent or wrongful claim of shortage, which might be made by the teller of the bank receiving his package, he would have to get a fellow-clerk to check his count of the cash. This checking would have to be done in such manner that the two of them could positively declare that the cash, as stated on the specification, was within the package on its being closed, sealed, and initialled.

There is not the same necessity for the checker to examine the cheques and bills belonging to the deposit, for they can always be traced. Each one would have the bank's stamp on the back, and could hardly be negotiated wrongfully.

When the two deposits—for the Bank of A. and the Bank of B.—have been made up, checked, and sealed, in packages, they are sent out at ten, or shortly after. At important branches two officers are entrusted with these deposits. A guard is also sent by smaller branches when the amount of cash enclosed is large. The banks receiving the packages check them over, and, all the items and the total being found correct, the latter is entered in the pass-book, which is sent along, and initialled, and the clearance is completed.

Deposits by Other Banks.

Among the first customers with whom the teller has to deal are the clerks from the other banks, who will have deposits for the bank similar to that which the teller has just been preparing for them. There being no clearing houses in the lesser towns, an account is kept in the general ledger for each of the other banks in town. They are debited with what the teller sends out to them and credited with what they send in. As for the balances, or differences between deposits, there will probably be an arrangement to have them run until a certain maximum, usually $1,000 or $2,000, is exceeded; then the debtor bank must settle with the creditor by giving it a draft on one of the settling centres—Montreal, Toronto, or Winnipeg.

How "Sundries" are Disposed of.

During the previous day there will also have been received a quantity of notes of other banks not having branches in town. These are called "sundries." They are allowed to accumulate till a parcel of $1000 can be made of them, and then are shipped to the nearest centre where redemption will be made. All banks must arrange, under the terms of the Bank Act, to redeem their notes at one chief place in every province.

We shall suppose that there are enough sundries for a parcel, and that one is to be despatched, say, to Montreal. It will go to the Montreal branch of the bank, and the Montreal teller, whose duty is to receive money parcels from the branches, will see to it that all the notes sent in the parcel are duly presented at the banks whose names they bear, in the Montreal branch's regular daily clearance.

But the Montreal teller is not expected to sort them. They must go to him, each bank's notes properly sorted and ticketed. Little slips or specifications are provided for this, called bordereaux. When the sundries are sorted, ticketed, and ready for packaging, the parcel is checked by another officer in the same way and for the same purpose as the cash in the other bank's deposits was checked. Sealed and addressed, the parcel is entered in the parcel book under a number, and is called parcel number so-and-so. An officer and guard are sent to the express office, (or to the post-office, if sent by registered mail, insured), after first initialling for the package in the parcel book. They bring back the proper receipt from the express company or the post-office. The teller must send an advice of the parcel to the addressee.

Now we see that the teller has parted with an amount of cash and cash items. There was a deposit for each of the other two banks and this parcel of $1,000 for Montreal. His entries are as follows: When he gets the bank books back with his deposits entered and initialled, the amount shown in each may be entered on the debit side of his blotter. When his parcel is complete and ready to send he makes out a slip debiting Montreal branch with $1,000, giving the parcel number. On his being shown the parcel, or the receipt for it, the accountant initials this slip, and it becomes one of the vouchers of the day. The three debits, of course, effect a reduction equal to their total in the cash book balance.

CHAPTER XII.

Teller and Customer.

Methods of Counting Cash.

By the time these things are done it will doubtless be approaching ten o'clock when the bank's doors are to be thrown open. It has already been mentioned that among the first customers will be the officers from the other banks with their deposits. Immediately on opening the package presented by one of these, the cash which it contains, consisting of the bank's own notes, is checked and ticked off with the specifications on the deposit slip. There are two methods of counting; each has its advocates. In one, the bills are held firmly on the counter with the left hand while the right runs through the pile, throwing up one bill at time; in the other, the bills are held in the left hand and leafed out one by one on to the counter.

A great many tellers use both methods, the one for the original count, the other for the check count. In counting receipts of all kinds it is very desirable to get a view of the **whole** of each bill taken. It aids in passing on genuineness, and prevents attempts to pass bills from which large portions have been torn.

Experienced tellers prefer to have the depositor handing in cash remain directly in front of the wicket, with eyes fixed closely on the deposit until the cash is checked and found correct. When this is done there can be no misunderstanding in the event of a shortage being found in the deposit. In every way such practice is superior to the loose methods followed by some depositors. They push their deposits through the wicket while the teller is, perhaps, checking another deposit, and, without waiting even to see that the teller takes it and places it out of reach of parties from outside, they run off to the ledger-keeper's wicket or to some other. When the teller finds a $5 or $10 shortage in the cash specified on one of these deposits the situation is not very comfortable for him. Though the depositor cannot dispute the teller's count, he may think him capable of slipping the missing bill into his pocket or the till. It is a good plan for the teller to insist on depositors, private as well as bank, watching him while he counts the cash.

Disposition of the Vouchers.

When the cash has been checked and ticked off, each cheque or voucher listed on the deposit slip is taken up in turn. As he is to give credit in his books for each item, the teller has to be careful to see that all are in shape to be treated as cash or its equivalent. Is it an obligation of the bank? is the first question to be settled. Cheques drawn on the bank, bills and notes domiciled at the bank, when due and accepted by the ledger-keeper, have to be accorded consideration.

The next thing is the scrutiny of the signature, and after that of the date and the amount, the attention being given, with reference to the last, to the written words in the body of the document rather than to the figures. Then, if a cheque be not accepted, has the customer so much at his credit? Some few will have to be referred to the ledger-keeper to settle this question. After that the endorsements are to be examined. The endorsement of the payee of "order" cheques must be on the back, in the same form as written in the body or face of the cheque. If the payee has endorsed it over to another party, the discharge from this endorsee must be in evidence. Lastly, the stamp of the bank depositing the item must be there for the purpose of tracing the payment and guaranteeing the prior endorsements.

As each document is passed it is ticked off on the slip. Any that are rejected—cheques for which there are not sufficient funds, items incomplete or informal—are laid aside, deducted from the total, and handed back to the depositor with the explanation why they are refused. The slip, with its amended total, is now initialled by the teller, entered among the general items on the credit side of his blotter, and handed out to the ledger-keeper for entering in the depositor's pass-book. This is the process followed with other bank deposits. It is much the same as that followed with individual depositors.

Customers' and Banks' Deposits.

The deposits of its individual customers, when they exceed the withdrawals by the same customers, quite often represent accessions of resources by the bank. The deposits of other banks do not represent gains in resources except when made by banks having drawing accounts with the bank. The bank deposits, received in the daily clearings, consist of obligations of the bank's presented for redemption; the balances have to be settled in hard cash when they exceed the agreed-upon maximum.

The bank's individual customers are expected to deposit with it all the items they receive in the regular course of their business, even when the items are cheques on other banks in town. So the composition of the customers' deposits will be somewhat different from that of the bank deposits. There will be in the cash, sundries as well as the bank's own notes; the other items will consist of cheques on other banks in town as well as on the bank itself, with probably some cheques or sight drafts on outside points.

So far as the cash and the cheques on the bank itself are concerned, they are checked in exactly the same manner as that outlined. It is to be remembered, with reference to the latter, that they are "orders" addressed to the bank; and, on the bank's accepting them through certification, or on a deposit, or through paying over the money for them, they become dead instruments, and the bank cannot legally revoke its action without the consent of the parties thereto.

Outside Cheques and Remittances.

The items drawn on other banks and on points outside are obviously on a different footing. When these are accepted in a deposit, or when cash is paid for them, the action constitutes an advance by the bank. They have exactly the same character in this respect as notes and bills discounted—the bank buys the documents, reimbursing itself through collecting them. As they can be, and are in most cases, collected at once, they are classed as quick or liquid assets, by way of distinction from the ordinary discounts, which, having longer maturities, are not so quickly convertible into cash.

The cheques on other banks in town will be collected next banking day. So will a number of those on banks in other towns that are not too far distant. The sight items and cheques on distant places will require some few days—from two to ten. Cheques on other banks in town are always taken at par, because it costs nothing to collect them, and because the bank is out of its money for one day only. Though, by taking these cheques on his own responsibility, the teller is making advances of the bank's money, and so usurping the manager's particular function, he is quite commonly allowed to pass on them when they come within the limits of everyday business transactions.

Instinct.

Some may be certified or accepted by the banks on which they are drawn. If he is familiar with the initials of the ledger-keepers of the other banks, he has no reason to doubt these unless there is something about them that strikes him as queer or unusual. A good teller, with experience in the cash, does not disregard it when there flashes through his mind an instinctive thought that there is something "queer" about a document he is asked to accept. It may appear perfectly regular and formal, but some little thing that is not as it should be, he may not be able to tell what it is, has got on the edge of his nerves. The bestowal of a little extra care on such documents may quite possibly result in stopping some fraud.

In passing on cheques on other banks, received on a customer's deposit, the teller has several things to consider. The first is the standing and responsibility of the customer depositing them. If he is financially strong, able to take dishonored cheques up at once, almost anything that is formal can safely be taken from him. If he is weak and hard pressed it is a different matter. Then the name signed as drawer of the cheque has, obviously, to receive more consideration. The point to be kept in mind is that nothing must be taken except what will certainly be paid. The bank must have confidence that each cheque will be paid on being presented at the bank on which it is drawn, or, failing that, that the customer who deposited it will take it up at once.

Why Endorsement is Essential.

It is necessary thus to require the customer to endorse every cheque on another bank, whether payable to his order, payable to bearer, or however drawn. The endorsement shows from whom the cheque was received, it guarantees the correctness of the prior endorsements, if any, and holds the customer liable until the cheque is collected. It is desirable to have customers endorse also all cheques on the bank itself deposited by them. It serves the first two of the three purposes mentioned.

It is hardly necessary to put the cheques on other banks, received on deposit, through any particular register or book. The amount of each one is recorded, under the heading of the bank to which it belongs, in the teller's balance book, forming a part of his cash balance until cleared the next day.

In the case of cheques and sight drafts on outside points the requirements, as to being authorized by the manager, are somewhat stricter. In taking them the advance made by the bank is for a slightly longer term. The transaction, therefore, calls for something more in the way of judgment. The orthodox practice is for the customer to get them initialled by the manager before handing them to the teller. The manager may, and sometimes does, delegate the duty in part to the accountant in so far as it covers the taking of small items in the ordinary course of business from regular customers. Quite often, when the teller is an experienced man, his judgment fully relied upon by the manager, he is left practically free to take small items in the ordinary course, on other banks in town and on outside points as well.

Rates of Commission to be Paid.

The items on outside points are called remittances, because they are remitted for collection or credit. In addition to the points mentioned as having to be considered in the case of the local cash items, there is another to be taken into account when dealing with remittances. It concerns the commission or exchange to be charged. That should properly be based on the length of time the bank will be out of its money and on the cost of making collection. In all probability there will be an understanding or arrangement with the regular customers as to the rates of commission they shall pay. It may be based on the varying circumstances of the customers' accounts. A bank that is properly run demands that every account on its books shall, in some way, be profitable.

The profit may come through the maintenance of a large balance on deposit, free of interest; through exchange or commissions, discount on loans, circulation of the bank's notes, or in other ways. It may happen that a man's account is, in itself, absolutely devoid of profit, but is worth while because of his control or influence over some other business or account that is profitable. These things all enter into the matter of establishing rates of commission on remittances received from the regular customers.

There are plenty of indications that competition between the banks for desirable accounts has resulted in many branches conducting their business in remittances at an actual loss. It has led them to take cheques and drafts on other points at rates which do not pay, and the accounts through which they are received do not in every case yield profits in any other manner to warrant their favorable rates on remittances.

So the teller is careful to mark on each remittance, lightly in pencil, the amount of the commission to be charged on it. The total of the commissions on all the remittances contained in any one deposit is to be deducted from the deposit or paid by the customer in cash.

When this is done and the items of the deposit found to be formal and correct in every particular, the deposit slip is initialled, entered on the credit side of the blotter under the heading, "Current Accounts," and handed out to the ledger-keeper for entering in the deposit ledger and the customer's pass-book.

Cash Receipts at once go Under Cover.

The cash contained in the deposits is sorted as quickly as possible into the place reserved for it in the cash drawer, the operation being used, if time allows, as a second counting or checking of the amount. One of the things impressed on nearly all tellers is that it is dangerous to leave cash lying on the counter. It may be snatched through the wicket in front. A teller, whose counter is often piled with odds and ends of cash from deposits, lays himself open to the charge of slovenliness. When the practice is followed of getting the cash contained in a deposit out of the way before tackling another, there is not the same danger of a mix-up of deposits, which might cause trouble if an error existed in either.

Cancelling the Paid Cheques.

The cheques on the bank itself, contained in the deposits, are to be stamped paid and cancelled at once. The paid stamp is placed over the drawer's signature; the cancelling is done by drawing the pen heavily through the signature. As they are dead documents, these cheques must be treated at once so that they will be not negotiable. Then they are put on a file, and, as the opportunity offers, entered in the blotter along with other vouchers and passed out to the other departments.

The remittances, as they come in on the deposits, are kept apart in a clip. In the shape in which they are received, many of them, being endorsed in blank, and thus payable to bearer, could be negotiated by parties wrongfully obtaining them. Danger from this source can be obviated by stamping them at once—the bank's name clearly on the face, and "Pay to the order of ——— Bank" on the back, immediately over the last endorsement.

Remittances.

To effect collection they must be sent away to the points on which they are drawn, or to clearing centres. They will be of two classes—those which can be sent to other branches of the bank, and those which must go to other banks or other correspondents. All must be entered in the remittance book. This book can be subdivided as desired. There may be the two subdivisions—for the branches and for others; or one or two of the principal branches, to which large numbers of remittances are sent, may be given places by themselves. A separate place may be given to items on the United States; also to items on England. The items are numbered, and full particulars of each recorded in the book, so that all the necessary information for procuring duplicates is available. The remittances sent to branches are debited to the branches to which they are sent; the others are debited to the correspondent, if sent, for example, to a New York bank for credit of account, and to an account in the general ledger, which may be styled: "Cash Items," "Remittances," "Bank Collections," or something else, if they are sent for collection and remittance.

Items Sent to Clearing Centres.

It is possible to debit to the branches some of the items on points where the bank has no branches. By way of example, let us suppose a bank in Ontario receives a cheque on some Nova Scotia point where the Bank of Montreal had a branch. The bank in Ontario might send it at debit to its own Montreal branch for the face amount, less the commission that the Bank of Montreal, Montreal, would charge for negotiating the item. Thus it would be cleared in Montreal.

This can be done without risk with certified cheques, drawn on banks of undoubted strength. A point that has to be considered is that the process causes a delay of a day in the presentment of the cheque at the bank on which it is drawn. As a rule, the bank is under obligation to forward these items to the places at which they are domiciled as quickly as possible. Should it happen that an item is sent by the slower process and the drawer or the drawee fail before it is presented, there might be a case against the bank for damages if the customer who deposited the item can prove that it would have been duly honored had it been sent direct.

Cash Item Lists.

Though each of the remittances on points where the bank has a branch is in effect a debit for that branch, entries are economized by listing all items—cheques and bank drafts—received the same day payable at the same point. The total of the list is then the debit entry. When the remittances are all recorded, numbered and listed, the teller passes them out, first entering each item on the debit side of his blotter. On their being entered in the proper books, they are sent away in letters to the points at which they are payable.

Fraud in the Remittances.

It has occasionally happened that defalcations occurred in connection with these remittances. Those payable at branch points are simply sent at debit. But the items sent to other banks have to be sent for collection and remittance, being debited in the meantime to a general ledger account. When the payments come back from the correspondents the general ledger account is re-credited with the amounts.

The crooked work has been done in the second stage of the proceedings. In the mail in the mornings will be a number of drafts sent by other banks as payment for remittances, collections, etc. Dishonest clerks having the handling of these, have been known to use the drafts to draw cash for themselves instead of to credit them to the account to which they belong. By keeping track of the items so wrongfully used they have been able, through substituting others from time to time, to carry their frauds through a long time till they amounted to considerable sums.

How to Stop it.

This can be effectively stopped by keeping what is called a waste book, or sundry credits book. When the manager opens the mail in the morning he records in this book all the items for which credit entries should go through during the day. Then, when he checks the cash book next morning, he takes the waste book and sees that every item entered there has been duly credited. If any credits are missing, it is an easy matter to trace the items.

Other Receipts Over the Counter.

Besides the deposits in current account there are various other receipts coming in over the teller's counter. There are deposits of the savings bank customers, and of deposit receipt holders, purchase money for drafts and transfers, settlements for notes and bills due. In all of them it is necessary to be sure that the cash and other items received are "good," and that for each credit accorded, an equal amount of cash, cash items, or debits, is received.

As the savings bank depositors and those who prefer the more old-fashioned deposit receipts are not as familiar with banking methods as are the regular daily customers of the bank, the teller has to take a little more trouble to explain things to them, and perhaps to write out slips for them. A great many of them are timid, and have an idea that the bank does not much want to be bothered with such small business as theirs. A first-class teller will lay himself out to convince them that the bank values their business, and to make them feel that they are welcome visitors whenever they call to deposit or withdraw.

Value of Small Deposits.

One of the main things to be borne in mind is that the bank derives the great bulk of its loanable resources from this class of its customers. The bank returns show that while the demand deposits, or current accounts, can show wide fluctuations, the course of the notice deposits is steadily upwards. They have a character of permanence that fits them well for employment in current loans and discounts to the business interests of the country. Therefore, every bank desires to have its notice deposits increase as rapidly and steadily as possible, and the teller is an officer who has special opportunities to forward the interests of the bank in this matter. He is the one, more than any other, coming in direct contact with the depositors of fixed or permanent money. Many of them judge the bank from the demeanor of the teller. If he is crusty and surly, turning to attend them with a frowning or unpleasant countenance, the customer is apt to say: "My business is not wanted at **that** bank." A teller of that kind can do incalculable damage to the bank's interest. He had better be kept out of the cash department altogether, no matter how skilful he may be in counting money, wherever the savings department business is important.

One of the peculiar things about bank depositors is that a large number of them have deposits in different banks. In transacting business with the bank they will, time and again by inadvertence, disclose the fact that they have, in addition to their deposits in the bank, respectable deposits in other banks, or in the Post Office or Dominion Government Savings Bank. The right kind of a teller will prove to be a factor in unconsciously influencing these deposits to his own bank through the good-will which his customers have for him. He will not require, either, to have recourse to undignified methods to get them. If the bank's depositors are converted into active friends, it is impossible to measure the good they can do through influencing their friends and acquaintances to go to it with their business.

CHAPTER XIII.

The Bank's Business in Exchange.

Regular and occasional customers, from time to time during the day, ask for drafts on other points in the country, or on points in the United States, Europe, or elsewhere. When the bank receives the money from one of these customers and gives him its draft on the point desired, it is said to have sold him exchange. If the draft is on some point in Canada, it is called inland exchange; if on New York or some other United States point, it is called New York, United States, or foreign exchange; if on London and drawn in sterling, sterling exchange. The word exchange is here used in its broader sense. In practice it is coming to have the same meaning as commission, and is applied to the tolls or charges which bankers make when they issue drafts or buy remittances.

Inland or Domestic Exchange.

This function of the banks—the buying and selling of exchange—is important; and it is worth while for young bankers to aim at understanding it. The business in inland exchange is the most important; and bulks the largest. People in all the villages, towns, and cities are all the time sending money to other places in Canada. It may be for purchases of goods, for presents, or contributions to friends or relatives, payment of debts, or for other purposes. The bank stands ready to receive the money at its branches, and to issue in exchange a draft, or order, good for the required amount at the point to which the remittance is to be sent. It does not matter how small or how large is the transaction. It can quote a rate of commission for which it will undertake the operation.

It will be interesting to trace the working of this part of the banking machinery. There are various kinds of drafts. The simplest of all is that wherein the bank draws on one of its branches. Even in these the profit made is not by any means uniform. There are a number of things that enter into the calculations.

How the Profits Vary.

The extent of the actual profit made by the bank, apart from the commission charged, depends, first, on the nature or consideration given by the purchaser for the draft. He may give a cheque on a standing deposit of his, in which case the effect of the draft is to redeem a deposit liability. He may give a cheque on, or notes of, another bank in town, in which case the bank is put to no expense in collecting them. He may give the bank's own notes, his payment saving it to that extent from the expense of bringing in its notes for counter purposes, in which case there is a collateral profit to be added to the commission charged on the draft. He may give sundry bank notes, in which case there is an expense involved in shipping them away, and the actual profit is reduced by that extent. He may give a cheque on an outside point, itself subject to a commission charge, in which case it sometimes happens that double commission is received and no actual transfer of funds takes place. He may discount a note, in which case the draft is the form in which the bank makes the advance.

Then the profits are affected by the manner in which payment is made by the branch at the other end. Does the payee deposit the amount to his credit? Then the bank holds the funds. The transaction as a whole results in no loss of deposits, but, perhaps, a gain. It may result in the bank's lending money at 7 per cent., the proceeds going on deposit at 3 per cent. Does the payee present the draft at the counter, demanding cash? Then the bank gains in circulation, for it pays out its own notes. This circulation will be bad, indifferent, or good, according to the length of time the notes remain outstanding. Does the draft come in through another bank? Then it has to be settled for in legals or hard cash.

Another factor affecting the profits is found in whether the general trend of currency is towards or away from the drawer branch. Usually the transaction is most profitable when the transfer is made in the direction contrary to the trend of currency; and least profitable when made in the same direction as the trend.

To illustrate: Take two branches, A and B. A uses more currency than it receives, and is constantly shipping it in. B receives more than it uses, and is constantly shipping out. If A were to issue a draft on B, the transfer would be made contrary to the general trend. A would probably receive currency from the purchaser of the draft, lessening the amount it would require to ship in. B would pay out currency, lessening the amount it would require to ship away. Expenses might be reduced at both ends. On the contrary, if B were to draw on A, the expenses might be increased at both ends.

Ultimate Payment in Settling Centres.

Another point to be borne in mind is that, no matter what branch may be drawn upon, payment will, in most cases, be made, ultimately, by a branch in one or other of the big settling centres, Montreal, Toronto, Winnipeg. The practice of the banks in the small places is to settle their differences by drafts on these places; and that means that everything between banks, practically, is settled and paid for in the big cities. That is one reason why the supply of "legals" and gold is concentrated at the central branches.

Competition in Exchange.

But, though all these things enter into the profit and loss calculation when a draft is sold, the bank cannot allow for them in its negotiating with the customers. To be on the safe side it must assume that the funds will have to be transferred in every case to the branch on which the draft is drawn. The collateral gains and losses have to be taken as they come. One of the results of over-competition in banking is a tendency among the banks to forego or reduce their commissions on remittances, transfers, and drafts, with the idea that the collateral or extra profits will suffice to bring them out on the right side.

At the best, this is a haphazard kind of banking. It is a real service the banks do for their customers when they collect for them moneys payable in other places, and when they make payments on their customers' behalf in the sundry cities and towns where the customers have payments to make. Because the banks are able to make a great many of these collections and payments at little or no cost is no reason why they should perform the services without charge. Their ability to perform them economically is very largely due to the establishment of complete systems of branches and the gathering together of large volumes of business, wherein it happens every day that many debit and credit transfers offset each other. It would certainly seem that the bank stockholders were properly entitled to a considerable share of the benefits resulting therefrom.

Drawing on Other Banks.

It quite frequently happens that customers desire to get drafts on points where the bank has no branches If other banks are represented in these places it is open to the bank to use them. It may be that there is represented another bank with which the bank has a general arrangement for the reciprocal encashment of drafts at par. In that case the draft is drawn on an agreed-upon branch, and across the end is written a request for the other bank to pay it at par.

If there is no bank at a point whereon a draft is wanted, with which a reciprocal arrangement is running, all that can be done is to add to the amount which the customer wishes to remit ten cents or thirteen cents, or 1-10 or ⅛ per cent, and to request one of the banks located there to cash it less that commission. In the first case the bank retains the whole of the commission received from the customer, but pays the other bank through extending par facilities to all of its branches; in the second, it divides up the commission with the other bank, or makes an extra charge on the customer buying the draft. It has been found in practice that the real cost to the bank is about the same in both instances.

Another form of drawing is when the draft is drawn on a bank with which the bank maintains a running balance. Then the bank occupies the same relation to the drawee bank as its own customers occupy towards itself. These accounts or balances with other banks are generally on the basis of quid pro quo. The one institution maintains a balance with the other, or pays it in some other way, for the privilege of drawing at par on a complete set of branches.

New York and Foreign Exchange.

When a customer desires to remit money to some place in the United States, the bank can meet him by giving him a draft on New York. As New York is the great settling and reserve centre of the United States, the banks in practically all the cities, towns, and villages in the States keep accounts with one or more New York banks. Thus it has become the practice for banks all over the Union to pay New York drafts at par.

So the bank must have an account with a bank in New York. In the aggregate there will be large sums passed through this account, and at times the balance may be heavy. Therefore, it is necessary to select a strong institution as banker. The account may be divided among two or more banks. The bank or banks selected are styled New York correspondents.

All the items on the United States, or the bulk of them, that are received, are sent every day at debit of the correspondents. The drafts drawn by all the branches, which are actually cheques on the accounts, are credited to the correspondents when drawn. The correspondents, on receiving the remittances, credit them to the bank's account; the cheques are charged up as they are presented for payment.

New York Funds.

The New York correspondents do not handle this business for nothing. Commissions are to be paid on items drawn on many points out of New York, and, perhaps, a specified balance is to be maintained. That is the way the bank pays for its privilege of drawing on New York. The fact that the account costs something should be borne in mind when fixing the commissions in purchasing United States remittances and in selling drafts on New York.

There is another circumstance to be considered in this connection. Demand items, payable at New York, and the balances which the bank has in New York banks, are called New York funds. The rate of commission at which the banks can purchase items on the United States, as well as the rate at which it can sell drafts on New York, is governed, to a considerable extent, by the circumstance of whetherNew York funds are at a premium, at par, or at a discount in the Montreal and Toronto markets.

At Premium.

As to the causes of fluctuations, it will be sufficient here to mention that, speaking generally, New York funds are at a premium in Montreal and Toronto when the demand for drafts, or exchange, on New York is greater than the supply; and conversely, they are at a discount when the supply of drafts, or exchange, is greater than the demand. When very high interest rates are ruling in New York for call and time loans, the circumstance will have a tendency to increase the demand in Montreal and Toronto for drafts on New York, and it may, very likely, result in New York funds going to a premium. Those parties in Canada who have blocks of capital available for lending, being desirous of profiting from the high New York interest rates, send their money there to be put out. So there is a flow of money towards New York. The banks that have balances there, available for drawing, are said to have New York funds to sell. When there is no very pronounced flow of money one way or the other, these banks will likely sell their funds at par to other banks; but under circumstances like those just described their balances in New York become possessed of an additional value. For the time being it is worth more to have money in New York than to have it at home.

Therefore, they ask a premium from other banks for drafts on New York. This premium cannot get beyond a certain figure—from 5/64 to 3/32 of 1 per cent. —because that is the cost of sending gold to New York in large amounts. If more were asked, the bank wishing to purchase would refuse to pay it, and would ship gold.

At Discount.

On the other hand, it often happens that the Canadian banks find their balances in New York accumulate to unhandy proportions. This may happen through their getting payment in New York for a specially heavy export of Canadian goods, sent to Europe or the United States, at a time when New York interest rates are very low, and when, at the same time, the banks want their funds back in Canada, or it may happen through the transfer to New York of proceeds of Canadian bond and stock issues in London.

Then the shoe is on the other foot. The banks offer their New York funds in Montreal and Toronto, desiring to get "legals" in exchange. The balances in New York are then depreciated in value; New York funds are at a discount. But the discount, the same as the premium, cannot exceed a certain limit, which is the cost of bringing gold from New York to Canada, for no bank would sell its New York funds at a discount that amounted to more than the cost of bringing gold.

Effect of the Panic.

During the banking panic, which began in New York in the last half of October, 1907, quotations for New York funds were affected by the modified form of suspension of cash payments by the New York banks.

As the banks would not pay cash for large cheques, cash or currency promptly went to a premium of 3, 4 and 5 per cent. As a matter of fact it was not the cash that appreciated in value, but the balances in bank that depreciated. As the owners of the balances could not draw them on demand in cash, the balances became less valuable. The circumstance would tend to send New York funds to a discount in Montreal and Toronto.

Influence of Sterling Market in New York.

In Canada, sterling exchange, which is usually exchange on London, has a connection with New York exchange. There is no independent market for sterling in this country. We get our quotations from New York. The reason is because the market there is broad and strong. The great bulk of the exports and imports of the whole continent is settled for in New York. There are nearly always plenty of buyers and plenty of sellers. So it happens that the Canadian banks use that market for their sterling exchange. The New York quotations for sterling are fixed each day according to the demand for, and supply of, London remittance.

If New York funds are at par in Montreal and Toronto, the quotations for sterling exchange here will be the same as in New York, because the transfer of funds between Canada and New York, theoretically necessary to carry out the operation, can be made without gain or loss. And the Canadian quotations are shaded one way or the other according as New York funds are at a premium or at a discount.

Head Office Fixes Rates.

But the branch offices have nothing to do with these intricate calculations. Practically every day each branch gets from the central office a quotation slip with the rates for the day on New York and sterling exchange, and they base their transactions on these rates. If the slip says New York funds are at a premium of 1/16 per cent. between banks, that means that the bank can sell its New York exchange in large blocks to other banks at that rate. The rates over the counter are not shaded so finely. The branches must bear in mind that funds in New York are more or less valuable, according to the fluctuations, and their attitude in buying and selling is regulated thereby.

The customers are not given the benefit of all the fluctuations. For example, the bank does not usually give a man a premium when it buys a New York draft from him, even if the funds are quoted at a premium; and it does not sell its drafts at a discount to customers, even when the quotation slips show a discount.

Sterling Exchange.

In sterling, the matter is somewhat different, and a customer may get over par, $4.86⅔, for the London remittance he sells to the bank, or he may buy remittance from it at less than par, provided the quotations are such as to enable the bank to allow him those rates and make its customary agreed-upon profit.

The fixing of the rates on transactions in sterling and in New York exchange, is one of the manager's functions. When the customers want drafts on London or on New York they should appear before the teller with their requisitions made out, and with the rates of exchange duly marked by the manager. In the case of a New York draft the teller must see that he gets the full amount of draft and commission, then enter the items on the credit side of his blotter and hand out the requisition so that the draft may be drawn. With a requisition for a sterling draft there will be more to do. It is to be drawn in pounds, shillings and pence.

Inside and Outside Rates.

The requisition will be marked with two rates—an inside and outside rate. The inside rate represents the credit that must be given to the central branch that operates the London account; the outside rate represents the amount for which the customer is charged. The difference will be the profit made by the branch. A specimen requisition slip with the calculations made follows:—

Portsburg, April 10, 1912.

Wanted from the Bank of Canada
Draft on London, England, on demand,

In favor of Jno. Jones & Co.
For £80 at 9 per cent........... $387.56
.89

At 9¼ per cent. $388.45
Henry Smith, Applicant.

Eighty pounds at 9 per cent., the inside rate = $387.56. This is the amount to be credited to the central branch, to whose account the draft will be charged by the London bank. Eighty pounds at 9¼ per cent., the outside rate = $388.45. This is what the customer pays in. The difference, 89 cents, is the profit made by the branch.

The calculations are made by the aid of exchange tables. On his making them, and on their being checked by the accountant, the teller satisfies himself that he has received the proper amount from the customer, initials the requisition slip, and, after entering the items on the credit side of his blotter, passes it out for the draft to be drawn in accordance therewith.

When the Bank Buys Exchange.

When the bank is buying the exchange, the items will come to the teller as deposits by customers, or cash will be paid for them over the counter. The rate of commission will be marked on each item. All that has to be done in the case of the New York drafts is to deduct the commission from the face and to pay over, or give credit for, the balance. Of course, it is necessary to see that they are formally drawn and properly endorsed.

In buying sterling exchange, there will be again two calculations to make—one amount, the lesser, being the amount paid to the customer; the other, and greater, being the amount at which the branch debits the item to the central branch. The difference is the profit made by the branch buying the item.

How London Account is Operated.

As will have been foreseen, it is necessary for the bank to have an account with a London bank to enable it to carry on these and other operations in sterling exchange. Not nearly so many drafts on London are wanted at the branches as there are drafts on New York. All the branches may have accounts in their general ledgers with the New York correspondents; and they may debit and credit the correspondents with the respective transactions put through.

But it is found best to have the London account operated directly by one or two of the central branches, such as Montreal or Toronto, and New York, if the bank has a New York agency. Then, though the lesser branches may draw on the London bankers, they do so on the central branch's account. The drafts they draw would be charged by the London bank to the central branch; the items they send for deposit would be credited also to it.

The New York items purchased go to the New York correspondents for credit of account. The sterling items may go to the central branch at debit, or they may go direct to London for credit of the central branch.

The fact that the banks send a great many of the sterling items they receive direct to London banks for credit is in no sense a contradiction of the statement made, a short distance back, that New York is the sterling exchange market for this continent. For whenever the banks wish to adjust their London balances—draw down a credit balance that is too large, or cover an overdraft—they are accustomed to do it in New York.

CHAPTER XIV.

Receiving and Paying.

Some of the principal modes of receipts which the teller will be called on to handle have been discussed in the foregoing paragraphs. It is hardly necessary to mention more, but it should be said, while on the subject, that in every well-regulated branch it is strictly laid down that the teller shall not initial the customers' pass books, nor make any entries therein. He is the officer to accept, check, and certify their deposits, but he must not be the one to receipt for them on behalf of the bank. That is the function of the ledger-keeper.

Defalcations by Tellers.

This rule is the bank's defence against what is, perhaps, the most frequently practised of all the forms of defalcation—the taking of money by tellers from customer's deposits. This is more apt to occur with savings bank customers than with depositors in current account. It is a very foolish proceeding, and practically certain to be discovered before it runs so very long, but that does not deter short-sighted youths from the practice when they have got themselves into tight corners through extravagant living or crazy speculations.

The method they follow is to select some customer who comes to the bank very infrequently—say, once in five or six months or so—and, on his making a deposit, if circumstances are favorable, to appropriate all or part of it instead of crediting it to the customer on the bank's books. There may be several favoring circumstances permitting this. The customer may have forgotten to bring his pass book, and may not demand any receipt or acknowledgment of his deposit; or he may suffer the teller himself to enter the deposit in his book, the teller being able to do so unnoticed by the other bank officers; or it may be possible because of loose discipline at the branch.

Having taken the money, he must keep a record of the man's name and of the amount stolen, and prevent, as long as he can, the customer's coming to a knowledge of his account as it stands on the bank's books. Then, as other opportunities present themselves, he steals more and more, keeping track of names and amounts. If any of the customers, whose money has been taken, come in to withdraw their funds, or to make fresh deposits, he is careful to keep them away from the ledger-keeper. He honors their demands for cash, if presented, taking fresh money from other depositors to keep up the deception.

As is obvious, the teller's task in concealing his frauds becomes more difficult and complicated as the game goes on, and it is only a question of time before his superiors come to a knowledge of what is occurring. It is sometimes revealed by accident.

These things are most apt to occur in offices where the discipline is lax, the rules loosely observed. In branches which have manager and accountant giving close attention to the office routine, and particular about the bearing and conduct of the staff, the chances are that some one or other of the men will detect the signs of crookedness before it has had time to go very far.

Guards Against Fraud.

There are two other principal means of protection against this class of fraud. One is the bank's custom of shifting its officers from one post to another; the other is inspection of the branch. Any day there may come word for the teller to proceed to another branch. The orders being from the general manager, and, perhaps, designed as a check on this particular teller, he has no choice but to go; and, with a new man in the box who knows nothing of what has been done, the whole edifice of fraud tumbles down as soon as the owners of the accounts that have been tampered with begin to transact business with him.

Then, at the inspection of the branch, which may happen at any time, the inspector may take the deposit and savings bank ledgers and mail to every depositor a letter-card showing the amount of his balance, as shown by the bank's books on the date of the inspection, and requesting him, in the event of any difference being discovered, to correspond directly with the inspector at the head office—the request being printed in large letters and heavily underlined. The inspector is particular to mail these cards with his own hands after personally checking off the names and amounts with the ledger. There is every probability that the despatch of these notices will discover any important frauds. They would not, however, reach depositors whose whole deposits had been taken by the teller, and whose names, therefore, would not figure in the bank's ledgers at all.

It is the banks and not the depositors who lose in these cases; for they invariably make good to the depositors the sums taken, on their being satisfied that the deposits were actually made. They do this partly as a matter of policy—to dispute their liability would make depositors generally feel somewhat insecure; and partly because they would have trouble getting out of the liability even if they wished to do so. Any depositor who could prove that he paid in his deposit to the officer appointed by the bank for receiving deposits could probably establish his claim. The law would likely hold that it was no concern of his what the bank officer did with the money after receiving it.

Ledger-keeper Must Initial Books.

Needless to say the best tellers are very careful to adhere strictly to the rules in the matter of entering and initialling deposits in customers' pass books. There is hardly the same objection to the teller's entering and initialling the pass books of other banks, since the other banks' balances are checked up closely every day, and it would not be easy to conceal fraudulent entries. But with regard to the general deposits, the best plan is for the teller to keep clear of the pass books, and to insist, all the time, on his depositors having their deposits properly entered and initalled by the ledger-keeper, or on their taking some acknowledgment or receipt from an officer other than himself.

Paying Cheques.

Of the payments made by the teller the most numerous will be those called for by cheques on current account. The bank's regular customers have almost every day payments to make locally, and the most convenient way to make the greater part of them is by cheque on the bank. Those which are given to customers of other banks, and those which come into the hands of customers of other banks, will reach the bank mostly through the bank deposits, which have already been described. But there will be a large proportion presented at the counter for cash. These may be drawn for various purposes. They may be for wages or for services performed; they may represent settlement for live stock, produce, or other goods purchased; they may represent investments of money in securities, in personal or real property, or the withdrawal of money from those investments; they may represent the payment of dividends, profits, or other distributions.

Whatever they represent, the teller has three parties to consider in every transaction in them. He must consider the bank. It is to be saved from risk or loss; and it has a right to expect him to so conduct the operation as to give it the maximum of benefit. He must consider the drawer of the cheque—the payment in prospect, when a cheque is presented, is one the bank is about to make on the instructions and on behalf of its customer. So the teller has to keep his interests in mind. Lastly, he must consider the payee, who holds the bank's obligation, and will expect to have his convenience respected.

Certification.

In guarding the bank's interests the first thing is to be satisfied that the cheque is good. Is the drawer's signature genuine? Has he sufficient funds at his credit? These are matters for the ledger-keeper to pass on. He has, in his ledger, the record of the customer's balance. He also has the custody of the specimen signatures. Theoretically, all cheques should be presented to the ledger-keeper for certification before being presented to the teller for cash. In large offices the paying teller will hardly look at a cheque till it has been been duly certified by the ledger-keeper. Business could scarcely be conducted in the cities in any other way.

But in the small offices the rule is not so rigidly insisted upon. In them, the tellers quickly get thoroughly familiar with the state of the customers' balances and with the signatures as well. There is doubt only about some few weak or inactive accounts. The teller is able to pass instantly, without the ledger-keeper's aid, on most of the cheques presented. In performing his duties he in time becomes almost as conversant as the ledger-keeper about these matters, even in the larger offices; and he is expected to use this knowledge as a check upon the ledger-keeper. That officer might be deceived by a false signature, or he might attempt to defraud the bank by certifying worthless cheques. In either case a wideawake teller might be able to check him. So, the good men do not accept blindly everything certified by the ledger-keeper. Mentally, and almost unconsciously, they check him up in a great many transactions.

The Question of Identification.

The cheque being pronounced "good," the next thing is to get for the bank a proper discharge or release for the payment it is about to make. If the cheque is payable to bearer, an effective discharge is obtained through the mere getting possession of the document by paying it. If it is payable to order, the payee's signature is required on the back. Furthermore, the signature on the back must really be that of the person named in the body of the cheque. This brings up the question of identification, which has, perhaps, furnished food for argument among bank officers more than any other subject. The differences of opinion and the difficulty in settling the question arise as follows:—

Every day quite a number of cheques payable to order are presented by strangers. When one of them hands in his cheque to the teller, his first question is: "Are you So-and-So" (naming the party mentioned in the cheque)? The stranger replies in the affirmative. The teller then asks: "Are you known to anyone in the office?" The stranger says, "No." What is to be done? If it is a cheque of $5 or $10 there is not much difficulty about it. The man's word can be taken, as hardly anybody would commit a penitentiary offence for the sake of that much. But if the amount is near $100 or $200, the question is not so easy. If the teller cashes one of these cheques without identification he does so at his own risk.

In case of his accepting a forged endorsement he will probably have to make good the amount of the cheque out of his own pocket to the rightful owner. "But," some people will say, "why not insist on identification in every case?" The answer is, that to do so would cause friction and loss of time all through the day. A great many of the payees of cheques do not understand the necessity for identification. When they are told that identification is required they are apt to take it as an affront, or they think the teller is officious and putting them to needless trouble. The strict enforcement of the rule, which is quite right and proper for the bank's protection, results in endless wrangling and ill-feeling, which disposes some tellers, and managers, too, to take a little more risk in the matter of identifications.

So long as the law makes the banks responsible for paying "order" cheques to the right parties it is hard to see how they can avoid making strangers get identified. It would seem equitable if the banks generally gave their tellers to understand that they (the banks) would accept any loss from waiving identification on small cheques—the tellers to be held responsible for everything over an agreed upon maximum. With regard to the larger cheques the friction is lessened when the teller studies to phrase his demands so as to give the minimum of offence, and to retain, if possible, the payee's good-will.

Furthering the Bank's Interests.

The matter of the identification and endorsement being settled, the next thing is to obtain for the bank all possible benefit from the transaction. The bank's interests are always advantaged by its having the good-will of the people who deal with it. They are the more disposed, then, to transact business with it and to influence others the same way.

For some cheques the teller knows that nothing but cash will do; there are others out of which a deposit may be gained. In the case of these latter doubtful ones, it is good policy sometimes to inject the idea of depositing freshly into the payee's mind. This can be done by asking him: "Do you wish to deposit or to draw cash?" It may be that a new deposit account will be gained. If he elects to take cash, in whole or in part, there is still the question of the circulation. The bank wants to get as wide and large a circulation of its notes as it possibly can.

Pushing the Note Circulation.

When it pays a cheque drawn on itself with its own notes it conserves its actual cash assets. It redeems its deposit liability through increasing its note liability. Perhaps the simplest way to explain the benefit derived from the note circulation is that while the notes are outstanding or in circulation the bank has the value for them in its possession. When they come in for redemption it parts with that value. By way of illustration let us take two banks, each of which has a capital of $2,000,000 and deposits of $10,000,000. One of them, however, has $1,800,000 of notes in circulation; the other has none. The one with the circulation has just that much more loanable resources than the other. Further, the resources which a bank .gains through issuing and keeping in circulation its notes are free of interest. It has to pay interest to its depositors for most of the resources contributed by them; but it pays no interest to the note-holders. The only expenses in connection with the uncovered and untaxed note issues are the cost of paper and printing, of transportation, and a little clerical hire.

Why Small and Clean Notes are Best.

A considerable number of the payments over the counter do not give good circulation. The parties receiving the notes at once pay them over to another bank, or pay them to customers of another bank, who deposit them immediately. The circulation only lasts two or three days, and is of hardly any value. But the parties receiving other payments will carry the notes, scattering them, through the medium of their own payments or purchases, among a number of persons, who may again pass them on to others.

The denomination of the notes has something to do with the length of time they stay in circulation. Fives and tens are handier for making payments than are twenties and fifties; they pass more freely from hand to hand. Clean, new notes are better than old, dirty ones. Therefore a payment with new fives or tens will generally give better circulation than one of old bills or of large bills. The bank will probably benefit more from it. But, of course, the convenience of the payee has to be considered in this matter. He may ask specially for certain denominations. Ones, twos, and fours, being Dominion Government notes, are not pushed into circulation. To circulate them would have the same effect as the circulation of notes of another bank. Therefore, they are paid out only in making change and when specially asked for.

Rights of Drawer and Payee.

Then, after thus looking after the interests of his bank, the teller has to give consideration to the drawer of the cheque and the payee. As the bank is acting as fiscal agent for the drawer of the cheque the teller should not, by word, manner, or action, unnecessarily give the payee the impression that the drawer of the cheque is held in small esteem by the bank. That would be ungentlemanly, impolitic, and unfair. The cheques of wealthy customers are accorded every respect. Those of smaller men, who conduct their accounts properly, should be given the same.

As for the payee, the consideration given him consists in meeting his convenience and wishes as far as they can be met reasonably and safely; and in giving a courteous attention to his business.

Payments to Big Customers.

Besides these cheques presented by the payees, there are, at every branch, perhaps every day, cheques for round amounts presented by the makers thereof for cash to take or send into the country to buy cattle, other live stock, or produce, to pay wages in the lumbering camps or in factories, etc. The customer himself, or a trusted employee of his, presents the cheque. Marked on the back of it, or on an accompanying slip of paper, will be the denominations required. When the extensions and additions have been checked, to make sure that the total agrees with the amount of the cheque, the cash is counted out and handed over.

Sometimes customers bring or send in cheques for amounts to be sent by the bank to certain addresses. In this event the customer's instructions are taken in writing, with the double object of guarding against mistakes and against possible repudiation by him. In sending these parcels, as well as all others, the only way the teller can protect himself from fraudulent or mistaken claims for shortage, made by the recipients of the parcels, is to have his count checked and his closing and sealing of the packages watched by a fellow-officer, who goes on record in the parcel book, specifically in each case, as having done this.

In the Event of Overpayment.

For tellers to mark on the back of each cheque paid, the number and denomination of the bills given for it is quite a common practice. The practice is to be commended, as it serves several purposes. It helps materially in hunting for a shortage in the cash balance; and in the event of over-payment it would have some weight, even in a court of law, in establishing the fact.

There are plenty of other kinds of payments to be made during the course of each day: withdrawals from the savings department, payments of interest on, or of the principal, of deposit receipts, payment of drafts drawn on the bank by other branches and by other banks, payment for remittances or cheques on other points, or for United States or sterling exchange purchased.

Handling the Rushes.

In some seasons there are regular rushes to be handled, in which the space in front of the teller's counter, or perhaps the whole space allotted to the public, is crowded for several hours at a time with customers to be attended to. The teller who allows himself to be stampeded or flustered by these is extremely liable to lose money, or at best to get badly mixed in his balancing. Cool-headedness, evenness of temper, and concentration of attention, are essentials under these circumstances. The experienced man does not allow his gaze to wander over the crowd, or his mind to dwell on the number of people waiting for him.

He concentrates upon the one man directly in front of his wicket, attends carefully, and as quickly as may be, to him; finishes that business and puts it away; then concentrates on the next man; and so on till he finds ultimately that the rush is over, the crowd melted away, and all that is left is a larger than usual stack of cheques and vouchers to put through his books, a bigger than usual hole in his cash on hand. Though a rush is exhilarating while it lasts, 'tis work at high pressure; some natures do not wear well under it.

CHAPTER XV.

The Accountant.

Promotion from the teller's box will probably be to the post of accountant. As the accountant has the general supervision of the office, and as he frequently takes charge of the branch in the manager's absence, it will be understood that the post is a responsible one.

In his character of "manager's lieutenant," the accountant is expected to supervise the routine work of the office. He has a closer view of the staff, and should be able to measure the capability and promise of each officer better than the manager. The latter, therefore, obtains much of his knowledge of his clerks from the accountant. But he need not lean on the accountant so much as to allow himself to be deceived when the latter, through spitefulness or partiality, endeavors to decry or overvalue the usefulness of any clerk in particular.

Extent of Accountant's Powers.

With regard to authority, the accountant's powers are those of a deputy. He gives orders and instructions to the men under him on behalf of the manager. The manager, of course, overrules him whenever he thinks it necessary. It will probably fall to the accountant to arrange the work of the office. He endeavors to do this so that it will proceed most smoothly and expeditiously. He allots the minor special tasks to the selected parties; he checks the notes, bills and statements by whomsoever made out; he keeps the general ledger, which shows the condition of the branch; he probably has charge of the accounts with the branches; he countersigns all drafts and negotiable documents issued by the branch.

A considerable part of his duties consists in relieving the manager of the control, and handling of much of the routine and minor affairs of the branch. Another important function is to act as a check on the manager, who is supreme in the day-to-day ordering of the branch affairs. The accountant, as well as the junior, takes orders from him. But the general manager and the directors look to the accountant to protect the bank's interests in the event of the manager's being unfaithful or incompetent. They expect him to detect his superior promptly should he embark on a course of defrauding the bank or its customers, and to save loss if possible.

Though the accountant has no authority of his own, he has nevertheless the power to safeguard the bank's interest.

In the Event of a Crisis.

If he is perfectly sure of his ground, in the case of a crisis arising through the manager giving improper orders to any of the staff, the carrying out of which would clearly result in loss to the bank, the accountant can step in and call upon the officer receiving the orders not to obey them, and at the same time wire to the general manager for an inspector or other official to be sent at once to the branch. Before taking extreme action like this he would need to be sure of his ground; for, if the manager should turn out to be right and faithful, the accountant would likely suffer the penalty for his indiscretion.

Dual Control of Treasury Cash.

One rule enforced by all well-regulated banks is that the treasury cash and other valuables of the branch shall be under the dual charge of manager and accountant, both being responsible for their safekeeping. In all the branch safes there are at least two compartments—one for the teller's cash, the other for the treasury cash and valuables. It is invariably provided that the manager and accountant shall have a joint control over the treasury compartment.

It has two locks, with a particular key, or a combination, for each lock. When anything is put in or taken from the treasury, the rule says that both officers shall attend in person, the intention being that neither shall have the opportunity of tampering with the contents without the cognizance of the other.

Importance of Observing Rules.

There is no doubt whatever that the strict carrying out of the spirit of this rule is in the best interest of manager and accountant alike, no matter how much confidence one has in the other. The right course, and the only safe course for the accountant to pursue, is to insist on properly performing his duty in this matter in every instance. And a wise manager studiously avoids expeditions to the safe alone, even if his accountant be easy-going enough to suffer it.

The point for the accountant to bear in mind is that the faithful observance of the rules on his part will, perhaps, deter his manager from attempts at defrauding the bank; and if it by any means happened that the manager succeeded in a fraudulent scheme in spite of the watchful regularity of his accountant, the latter would be secure in his position, and his prospects would not be damaged, when the inevitable exposé occurred.

On the other hand, should the accountant have performed his duty loosely and negligently, and loss by defalcation of the manager was thereby made possible, the bank would certainly hold him responsible for any irregularity. His position would be forfeited, and he might be obliged to make good the loss, so far as his means permitted.

Care of General Ledger.

The general ledger, or ledger of general accounts, one of the most important books at all branches, is in charge of the accountant. It is posted every day from the cash book; the accounts contained are those necessary to show the position of the branch with regard to all the various parts of its business. Deposits, loans, trade bills, cash, accounts with other branches and other banks, the items of the profits and expenses, are all shown through the medium of the general ledger accounts. The posting of it is a simple matter. The headings of accounts are plainly shown in the cash book—and they are not very numerous. To balance, it is necessary that the total of the debit balances agree with the total of the credit balances. When they are all taken down and balanced, the result is the balance sheet of the branch.

The Entries from the Letters.

Another duty of the accountant is to make the entries from the letters. These are opened by the manager, who hands them over to the accountant after perusing them. The latter takes out the cheques, drafts, and other items not requiring to go through the collection, discount, or collateral registers, and makes the entries for them. There will be deposits sent by mail, settlements for remitted bills and cheques, and various other things. The accountant makes out the entries in sets, so that the teller can easily trace his debits and credits.

For example, in the case of a bank draft for $99.87, sent in settlement of a remitted collection, the draft itself would be the debit entry. The credit entry would be: "Credit John Jones (with particulars of the collection note) $99.75. Credit commission account, .12." The three would constitute a set, the one debit balancing the two credits. On completion, the entries are handed to the teller.

Checking and Supervising.

The accountant has to check and supervise a great deal of the work done in the office. As a matter of fact, his initials as chief checker-up are found in the majority of the branch books. In supervising the work of his subordinates, he concerns himself about whether it is done cleanly, correctly, and intelligently, according to the regulations. Instructions for the clerks come mainly from him. For the younger clerks, the matter of the character and capability of the accountant is of much importance. Often it means their making or marring.

The two senior officers of a branch—the manager and the accountant—naturally exercise a strong influence upon the others. The officers of a branch put in charge of a loose and slovenly manager are apt to become loose and slovenly themselves. The manager's character has a tendency also to influence the accountant.

There is a vast difference in the estimation accorded by head office to the various branches. The relations with those whose senior officers are all that they should be are highly agreeable. Strict discipline is enforced; courtesy and attention to all customers insisted upon; the rules regarding dual responsibility and checking faithfully observed; incompetent men are weeded out; the statements carefully made out and promptly despatched. When the manager of a branch conducted on these lines is gifted with good judgment on loans and discounts, when he has the necessary firmness and skill in placing his propositions before the general manager, he is speedily marked out for a high position.

Branches in charge of a different stamp of men are an unending source of trouble and worry. It is here that defalcations and losses are most to be apprehended. The opportunity to steal is present, more or less, every day; and the environments are such as to induce a weak and silly character to take advantage of it. But, the reader will ask, why not dismiss managers and accountants of this stamp? There would undoubtedly be more dismissals but for the scarcity of men. The opening of so many branch banks has created so large a demand for men that the banks can scarcely fill it. Then, it is to be remembered that there is nothing against the men in question except that they are lax. They may have served the bank for years, and they cannot decently be dismissed without cause. And, perhaps, there are none but raw youths available to take their places. It often happens, ultimately, that they have to be dismissed anyway, or removed to some employment where their opportunities for doing harm are lessened.

The point for the accountant to bear in mind in connection with this is that, as he values his future prospects, he must not let himself be dragged down by an inefficient manager. He must fight to keep up his own morale and that of the staff; to maintain discipline, to have the rules observed, and to keep down the mistakes and the slovenly work. If the bank's inspectors are what they should be, his work will receive its proper recognition at head office.

Relieving the Manager.

The accountant will probably take most pleasure out of his capacity of manager's lieutenant. Few men can help feeling thrills of pleasure when, on the occasion of the manager's absence, they are, for the first time, "in charge of the branch." This may happen when the manager goes away on holidays, or on special business for a day or more. Head office must be cognizant of the circumstance; in fact, authority for it is to be procured from there. As a rule, only a limited amount of responsibility falls to the accountant on these occasions. The manager will go with him over the discount diary for the days on which he is to be absent, and give him careful instructions as to what he may do about the various notes and bills as they fall due. He will also leave instructions in regard to the probable demands of regular discounting customers, and require that important transactions, not covered by his instructions, be held over, if possible, until his return. If his instructions have been faithfully carried out, the manager will assume responsibility on his return for what has been done.

Bridling the Ambition.

Notwithstanding the limitations put upon his powers, the accountant will doubtless find relieving the manager delightful work. Naturally, he may have something of a desire to carry through, entirely by himself, some important and difficult transaction that will at once unfailingly impress the general manager with his ability. But if he is wise, he will keep this desire well bridled, and lay an unambitious course. A reputation with the general manager for extraordinary ability is something that can hardly be earned in a day or a week. It has to be built up by slow degrees. The opportunity for building it up will come in due time; for a man to be too feverishly impatient about it may result in the general manager thinking him a fool.

CHAPTER XVI.

The Statements.

The Balance Sheet.

As the statements for head office all pass through the accountant's hands, it will be proper to describe them while dealing with this post.

The basic statement is the balance sheet. It may be required four times a month, and is certain to be required at least twice a month. The balance sheet shows the balances of all the general ledger accounts, some of them, such as the cash collateral accounts, being bulked in one total. It informs the general manager of the condition of the branch from week to week, or fortnight to fortnight. A number of the other statements are supplementary to the balance sheet. It is not sufficient merely to show the balance in every account in the general ledger, in the successive balance sheets. In some cases the head office demands to know about all the items passed through which have effected the change, if any, in the balance shown in the preceding statement. Various statements are devised to give this information.

The balance sheet of a branch bank is, like any other balance sheet, an exhibition of assets and liabilities. By means of the balance sheet the position of each branch is set out exactly the same as if it were an independent office. The debit balances shown in the general ledger —in other words, the assets—go on the left side, and the credit balances, or liabilities, go on the right side. Substantially, the items on both sides are made up as follows:—

Assets.

Net balance due by other branches (if branch supplies capital to them).

Cash (with specification).

Loans and discounts (subdivided into classes).

Past due debts.

Collateral notes on hand.

Due by New York and other correspondents.

Due by other banks.

Premises.

Office furniture and safe.

These are totalled, and underneath are put the fictitious accounts, or profit and loss accounts, showing debit balances, as follows:—

Charges account, representing salaries and other expenses.

Interest paid on deposits.

Liabilities.

Net balance due to other branches (if branch borrows capital from them).

Deposits (subdivided into classes).

Cash collateral accounts.

Due to other banks.

Due to New York or other correspondents.

Collateral accounts.

These also are totalled, and beneath them are placed the fictitious accounts, with credit balances, viz., Discount and Interest Received, Commission, etc.

Accounts with Branches.

As might be expected, the accounts with the branches necessitate a good deal of book-keeping and a number of statements. There are two methods in vogue. One is for the branch to have in its general ledger an account for each one of the other branches with which it has transactions. It is not necessary to pass all the debits and credits each day through the general ledger. A supplementary book can be used, the branches affected being arranged each day in alphabetical order. The items pertaining to each are gathered together under the proper heading, and the total of the debits and the total of the credits for each branch carried into its account in the general ledger at the close of the day.

The other method is called the "head office system." Under it the branch carries only one account in the general ledger, styled "Head Office Account." The record of the dealings with the branches is kept in a supplementary book, and the grand total of the debits and of the credits posted each day.

Adjusting Differences.

When the first system is followed the branches adjust with each other the differences shown in their balances on any given day. This adjustment of the balances is quite an important operation. The necessity for it arises in the following manner: The general ledger of "A" branch on a given date will show a balance at debit of "B" branch of, say, $42,765.18. On the same date the general ledger at "B" branch will show, perhaps, $38,423.09 at credit of "A" branch. The adjustment consists in reconciling these two apparently contrary amounts. The difference happens because entries made at one branch have not been responded to by the other. For example, if the date taken be October 15th, it will, perhaps, be found that "A" has drawn several drafts on "B" during the 13th, 14th, and 15th October, crediting "B" with the amounts as the drafts were drawn and issued; but as they had not been presented at "B's" counter for payment, up to the evening of the 15th, "B" had not yet, on that date, debited them to "A." Similarly, "A" may have forwarded to "B" at debit, on the couple of days immediately preceding the 15th, a number of remittances, sight drafts, or cheques, which "B" has not yet credited, not having effected collection. Such items as these are called outstandings. Those described would be outstanding entries of "A" branch.

In the adjustment between the two branches account would also have to be taken of "B's" outstandings. To enable the officers of the two branches to discover their outstandings "A" would have to send "B" statements containing all the entries affecting "B" that had **originated** in "A" branch during the period since the last adjustment, and all the entries affecting "B" that had been made at "A" branch **in response to** entries by "B." Likewise, "B" would have to send similar statements to "A." Thus, both can discover what entries have not been responded to. When all the outstandings of both are taken into account, the balances as shown by each branch should then agree; their accounts would be adjusted.

The Head Office System.

Under the other system, the adjustment is done at the head office. Each branch sends to head office, as often as head office requires, the two sets of statements, one containing the entries **originating** at the branch; the other containing the entries made **in response** to entries of other branches. The adjustments are all made on the basis of the balance due to or by "head office." At the branch, no account is kept of the balance due to or by any other branch. The accounts with other branches are all contained in the single net item: "Balance due to (or due by) head office." And in the balance sheets each branch shows that one balance.

The adjustment of the branch accounts at head office is a delicate and complicated operation, requiring close and accurate attention and much patience. The adjustment is not between branch and branch, but between branch and head office. In head office, a branch ledger is kept, showing the net balance due to or due by head office for each branch.

The posting in the account of each branch in the branch ledger is done from the branch statements containing the **original** entries. The statements containing the **responding** entries are used to tick off the others and to discover which are outstanding. Thus it happens, on a given date, that the branch balance sheet shows, say, $72,615.40 at debit of head office. On the same date, the branch ledger at head office will, perhaps, show $74,760.21 at credit of that branch. The difference is accounted for in the outstandings.

Statements required from the branches in connection with the accounts with branches may be made out by any officer whom the accountant happens to designate. In their preparation, faithfulness in transcribing the items, neatness and clearness in writing and figuring are the qualities chiefly required.

Discount and Other Statements.

Loans and discounts are another fruitful source of statements. Some of them have already been described.

One, not previously mentioned, is the regular week-to-week report of paper discounted. This is to inform head office of the details, and is practically a running copy of the discount register, the totals being carried forward from week to week to prevent anyone at the branches from tampering with past records. Then there is the diary balance. To effect this the amounts of discounted bills in the diary are totalled, by days, and the whole added together. The sum agrees, of course, with the general ledger balances. The object of this is to test the accuracy of the diary; also to show the extent of the maturities at near and distant dates.

The past due bills are to be reported on occasions more or less frequent. Head office wants to know the status of these debts from time to time. Changes in the circumstances of the debtors and other items affecting the prospects of recovery are to be given. In connection with the collaterals, a collateral diary balance, on the same principle as the discount diary balance, is usually required, as is also an occasional statement of the balances of collateral notes held on account of each collateral borrower.

In the case of accounts with correspondent banks, a weekly statement of the items passed through may be required. The premises, and office furniture and safe are described and valued only on special occasions, such as at the end of the bank's fiscal year and on inspections.

Profit and Loss Details.

Head office demands explicit details of all the profit and loss accounts—charges, interest paid, discount and interest received, commissions, etc. From the statements supplied by the branch practically all the receipts can be checked up in the head office; also all the disbursements. The discount sheets, which contain the copy of the discount register, show the rate and the amount of interest collected against every bill discounted. The totals of the columns show the amounts credited to discount or interest received. Other statements show how the amounts charged to interest paid are made up—the deposits or accounts which received the interest are specified, with the interest allowed on each. Vouchers for the charges account items must accompany the statements, and a sharp lookout is kept to see that the items of expenses are properly authorized.

Statements of Ledger Balances.

Once a month, or once a quarter, on balancing his current accounts ledger the ledger-keeper must send down a statement or list of the balances making up the total contained in the ledger. A list of the savings bank balances is also called for at fixed periods, and of the deposit receipts outstanding. As the statements are made up they are handed to the accountant, who compares the balances shown in them with his general ledger balances, examines them sufficiently to satisfy himself that they are properly and correctly made up, and affixes his initials to make them official. Many banks have four general balance days a month, on probably the 8th, 15th, 23rd and last day. On these days there are always a large number of statements to be sent out.

CHAPTER XVII.

Manager of the Branch.

Promotion to the managership may come in any one of several ways. It may come by regular succession, the accountant succeeding to the higher position at the same branch. He may be appointed manager of another branch already existent; or he may be given charge of an altogether new branch to be opened by himself.

When the appointment is to a new branch, the start is made upon a clean sheet; the newly-appointed man has the business of his branch to build up from nothing. There is no predecessor, whose blunders will handicap him, or whose wise policy will help him. His failure or success will be of his own making. But the case may be different in the event of his appointment to an existent branch. A good deal will then depend upon what his predecessor has been.

Influence of Predecessor.

It happens sometimes that the former manager, through weakness of character and poor judgment, has got the branch affairs in a bad mess. He may have loaned the bank's money to people not at all entitled to consideration, and he may have got some of the bank's respectable customers into troublesome circumstances through allowing them too much credit. In this event, the new manager is likely to have a difficult and disagreeable task, for it will be his duty to retrace the false steps taken by his predecessor. He will have to press his debtors, and to liquidate and collect, where his predecessor scattered credits with too free a hand. Even when he possesses and uses consummate tact and ability, he will hardly escape unpopularity in the locality, which may result in the establishment of fresh opposition in the shape of a branch of a bank not previously represented.

On the other hand, he may fall into a seat of a totally different kind. His predecessor may have been a strong and able man, who has built up a nice business, has his customers well-trained in sound banking principles, and, moreover, well affected towards the bank. Such a man is likely to leave the branch affairs in a clean and healthy condition. The office is likely to stand well in the estimation of head office. And it behoves the newcomer to sustain its good reputation. On starting he will have the benefit of his customers' good-will; and he will not be obliged to play the disagreeable and ungrateful role of debt-collector. Furthermore, he will have, in all probability an efficient and contented staff—a matter of no small importance to a new manager.

Dispensing Credit.

The most important of the manager's functions is that of dispensing credit. He is the agent through whom the head office places the funds of the depositors and stockholders. In small transactions, he exercises his own discretion within certain limits; transactions exceeding an understood maximum must be authorized by the general manager. It is obvious that the general manager could not be expected to authorize specifically all the occasional notes for $50 or $100 discounted by the branches. If it happen that the manager of a small branch is so inexperienced that he cannot be trusted to handle these minor operations by himself, he will be put under the tutelage of some neighboring manager until he gains the necessary knowledge.

The Routine.

Except in the very small branches the manager has little to do with the routine work of the office. In the morning he opens the letters, and, after entering the items in the sundry credits book, hands the correspondence to the accountant. Then there is the cash book of the previous day to check and the vouchers to examine. Some managers call off the deposit and general ledgers in order to keep the closer in touch with their customers' transactions and the general business of the branch. There are the letters to write and drafts to sign. The discount and liability statements are to be revised and completed. The custody of the bills—collections, collaterals, and discounts—entails considerable work. Where the bank has a fairly large volume of business a good deal of time will be taken up in dealing with the succession of customers who wish to discount or put through transactions of a special nature.

A whole volume would be required to discuss in detail all the phases of the manager's work. That will not be attempted here. It will suffice if a short sketch is given of his relations with the staff, the customers, other banks, and with head office.

Manager and Staff.

For the manager to be just and fair in his treatment of the men under him is of as much importance in banking as in other professions or businesses. Discontent and friction are sure to follow when favoritism is practised. In every office staff there is a variety of material.

The conscientious manager tries to make something out of all this. If the inefficient clerks are hopeless, he gets rid of them as soon as possible. The indifferent men he tries to stimulate and improve; and the good men he encourages to the best of his ability.

In some offices the clerks are treated all alike. When the increases come, all get the same; when a vacancy occurs, the man next below gets the place, regardless of what his merits are. This policy would be all right if the men were all equal. But they are not. It is apt to be heart-breaking for a bright and diligent employé to find that his intelligent and industrious application to the bank's interests apparently produces no effect whatever; and that his careless and inefficient desk-fellow gets just as much as he. If he persevere, he will, in time, out-distance the other; but young men do not, as a rule, look very far into the future; they are apt to be unduly affected by the circumstances of the days that are passing. No manager does his whole duty to the bank who fails to get for the specially good work of his good men special marks of the bank's appreciation. A good man may be spoiled through a too quick advancement. For him to develop into the very best senior material, his progress should not, therefore, be too rapid.

Manager and Customers.

Briefly, the two things the manager is expected to accomplish with regard to the customers is to keep their accounts in such manner that they are profitable and safe for the bank, and to hold their good-will. To accomplish this latter, it is not necessary that he should aim at becoming "popular." As a matter of fact, the head offices are rather afraid of managers who are too popular; as they think the popularity may, perhaps, have been achieved partly through laxity in looking after the bank's true interests. A manager who freely loaned the bank's resources to all and sundry, whether they were worthy or not, and who collected cheques on other points, and did other things for nothing, would probably become popular in short order. But he would very soon pay the price, perhaps by losing his position. Many able men, on the other hand, have shown that it is quite possible to properly guard the bank's interests and yet retain the good-will of their customers. They necessarily have tact and good sense. When the manager explains in the right way that the bank is in business, like its customers, to earn profits on the capital embarked, and that it has a very proper right to remuneration for the facilities it extends, just as the customers have a proper right to sell their goods at a profit, most business men will willingly pay commissions and fair rates in spite of the fact that an opposition bank may have offered to take their business on easier terms.

Different Kinds of Business—The Farmers in High Regard.

The kind of business the manager will be called on to transact will depend on the kind of a district in which his branch is located. The majority of the country branches are located in the prosperous agricultural districts. In them there are considerable dealings with farmers. There is much variety in the business of the various agricultural branches. A branch in an Ontario town, for example, will contrast sharply with a branch in a Manitoba or Alberta town. In the East, the bulk of the farmers' business consists of deposits; in the West it consists of loans. Wherever it is, the farmers' business is highly prized. Taking the farmers as a whole, it can be said that they do not use the bank's capital—they furnish deposits to equal or more than equal their borrowings. The dealings of the bank with them, therefore, consist in its turning over their money at a profit. Moreover, loans to farmers, when properly made, comprise one of the safest of the bank's investments, and cause probably less anxiety and trouble than any other class of loan.

Of the other classes of dealings there are many where the opposite of this is the case. It cannot be said that manufacturers do not use the bank's capital; they do, and most extensively. The amount of loans to manufacturers far overbalances the deposits received from them. And quite frequently the loans are difficult to handle, and occasion much trouble and anxiety.

Handling Farmers' Accounts.

Those who have been most successful in dealing with farmers exercise care not to let their loans exceed the surplus liquid assets of the borrowers. They avoid making advances that will be regarded by the borrower as something that can run on indefinitely—like a mortgage. They require a clearing up of liabilities every year.

The notes offered by farmers are usually endorsed —one good farmer backing another, or else notes secured by produce shortly to be sold. In the East the loans are not usually large enough to be specially referred to head office; but in the West they are on a larger scale. Loans of the big farmers there not infrequently amount to one or two thousand dollars or more before their liabilities are cleared off through sale of produce or live stock.

The Produce and Live Stock Buyers.

Then there are the accounts of the produce and live stock buyers. They require advances of the bank's money to enable them to pay cash for what they buy. The advances are usually for short dates, and are secured by endorsed notes, or by pledge of the commodities bought. These men, especially the live stock buyers, are expert traders, and pretty keen on getting horses, cattle, etc., from the farmers as cheaply as possible. As a rule, they are careful of their reputation at the bank, and do not try to get ahead of it. For all that, the loans have to be carefully watched.

The Town Merchants.

Town merchants are considerably in evidence in the branch books. They will be of all sorts, from the rich man or rich firm keeping a large deposit with the bank down to the struggling little shopkeeper, who makes fifteen or twenty dollar payments on his bills as they come due. In dealing with them, the manager has to use more or less care and watchfulness, according as they are weak or strong. He can discount for them with tolerable freedom the notes of good farmers, because the latter may quite legitimately give for their store accounts notes due in the fall or at a time when they expect to sell some of their surplus goods. But notes of professional or other men living in town, when offered by the local merchants, are scrutinized more carefully. They are not always proper instruments for the bank to advance on, because the makers often lack realizable property.

Manufacturers.

There will probably be some manufacturing industries in the neighborhood which will require to borrow by way of direct loans when stocked up with raw material. The bank may also be required to discount customers' paper representing sales of finished products. The loans may be on the security of the raw material, on endorsed paper, or on other security. Advances of this kind, and all other important transactions, are made in accordance with the terms of credits granted by the head office.

There is other business of a regular and occasional character. In most country branches the above classes of loans and discounts will constitute an important part of the whole. The business of the lawyers and others of the professional classes consists more largely of deposits, remittances, etc.

CHAPTER XVIII.

Financing the Crops and the Mines.

One of the admirable points about the Canadian banking system is its efficiency in handling the yearly harvests. Nearly every autumn the banking system of the United States displays weakness in the face of the crop-moving problems. In various parts of the Union interest rates rise and money becomes tight. In ordinary years nothing like this is seen in the Dominion. The business men and others dealing with the banks notice no difference whatever in the attitude of their bankers. They are able to borrow just as easily and at the ordinary rates—the moving of the crops makes practically no difference to them. A brief description of how the Western wheat crop—the most important part of the harvest—is financed will give some idea of the excellent working of the system. The operation is described as seen from the inside of a bank.

The Western Wheat Crop.

During the summer the banks prepare for the crop-moving by ordering large supplies of new bank notes from the bank note companies. Big parcels of these come in at more or less frequent intervals. At the head office, and perhaps at several depot branches, clerks are set to work countersigning them. Every year, between August and the end of November, the amount of bank notes in circulation increases some $15,000,000 or $20,000,000. This increase is chiefly in fives and tens. Then there may be anywhere from $40,000,000 to $60,000,000 of notes withdrawn as worn out or disabled each year. To replace those withdrawn, and to provide the fresh notes needed when the maximum circulation of one year exceeds the maximum of the preceding year, $50,000,000 might be required. If this $50,000,000 were half fives and half tens, over seven million notes would have to be got ready.

Credits of the Grain Firms.

Preparation for the crop is also made in another way. The grain firms arrange their lines of credits, and their respective banks undertake to advance the monies needed for buying the grain. The manager of the Western branch office is expected to keep himself informed as to the exact date on which grain deliveries will commence at his town. We may suppose that he has as his customer a grain buying firm, with elevators at four or five points in the neighborhood, and which has arranged for a line of credit of $50,000. A few days previous to the expected beginning of deliveries the manager will arrange to have a supply of the bank's notes sent to the branch to augment his stock-in-hand. These are mere printed promises to pay, and represent no actual cash whatever.

The deliveries commence. The day before, the grain firm will come in with cheques for $6,000 or so, and will ask for cash to send to the points at which it is buying. Then, perhaps every day, the firm will require some cash—taking it in the bank's notes. It will begin by using its own capital, but that will soon be exhausted; then it begins to borrow under the terms of its line of credit. As fast as the grain is bought it is put through the elevators and loaded on cars for Fort William, Port Arthur, or Duluth, the terminal points on Lake Superior. As soon as a car is loaded, the railroad station agent gives the shipper the railroad bill of lading, made out for a round number of bushels—the capacity of the car. So the grain firm is receiving, day by day, the bills of lading for cars loaded from its elevators at its buying points. These bills of lading constitute the security it is to give the bank. It turns them in as cover for the loans. Day by day the loan gets bigger, day by day the bank's notes are rushing out. Every few days fresh parcels of notes are received from the depot branch that is supplying. In the meantime, the cars are proceeding to the lake ports. The grain firm will, perhaps, sell from time to time to Winnipeg exporters, or to the big milling companies. For each sale it draws its draft on demand, or at sight, upon the purchaser, and instructs the bank to attach certain bills of lading to the draft. The bank applies the amount of the draft upon the firm's indebtedness, forwards the draft to Winnipeg, and instructs its branch there to "deliver documents attached on payment only." When the draft is paid in Winnipeg, the security is given up. So the account will run. The drafts covering sales of wheat are being applied on the debt; the purchases of grain are increasing it. The maximum of the credit, $50,000, may be reached, or it may not. As the deliveries begin to fall off, the demand for the bank's notes will slacken; and by-and-by the grain firm's indebtedness will begin to come down. After lake navigation closes, it may allow its elevators to fill up with grain to hold through the winter, to avoid shipping to the sea ports, via all-rail route, which is expensive, and to save the storage charges levied by the terminal elevators at the lake ports. In that case, a dead loan of some thousands of dollars may be asked for through the winter. In the spring the advance runs off.

Besides this grain dealing firm there will probably be several Winnipeg firms buying in the market at this point, as well as the agents of the big milling companies. The operations of these would be financed in much the same way, but in Winnipeg banks.

After the process has been going on for some time, the bank's notes begin to come in again. They are brought in by the farmers, who deposit them, by the traders and merchants of the locality, and by the other bank or banks in town. Eventually, the receipts of notes exceed the payments, and the circulation is said to be contracting. In redeeming them the bank gives credit on its books, or, in the case of other banks, its settlement draft on a settling centre.

Grain Accounts in Winnipeg.

To follow the process to the cities. There, it is a case of the big exporting and milling firms sending out large amounts of cash to many points at which they have elevators, of their taking over or paying the drafts from country dealers and farmers—their indebtedness to the banks meanwhile growing to large proportions. The security against their advances consists largely of wheat in store at lake ports or milling centres. Their accounts are liquidated by sales and shipments from those points. A boat is loaded with grain for Buffalo for export via New York. The bank buys the lake bills of lading and carries them till they can be exchanged for an ocean bill and a sterling bill of exchange drawn on Liverpool or London. The sterling bill is sold in the New York exchange market, and the bank has its money. Similarly with the exports via Montreal. When the sterling bill of exchange is drawn, with ocean documents, it can be negotiated in New York.

Utility of the Note Circulation.

The strong point about the Canadian method of financing the crop, that which enables the operation to be so easily done, is the use which is made of the bank notes. The extra $20,000,000 or so that is injected into circulation is not cash at all; it is merely a mass of credit instruments. It serves the purpose of a circulating medium every bit as efficiently as the hard cash which the United States banks are obliged to use. In Canada, it is not a case of an existing stock of money being called upon to do extra work at crop-moving time; it is, instead, a case of an extra supply of credit instruments being called into existence specially to do that work. When the work is done, the extra supply vanishes and is seen no more till further need for it arises. The banks are able so easily to make the large loans to grain buyers because the grain buyers take the proceeds of the loans in the banks' own notes.

Business in the Mining Towns.

In Canada, of late years, a good deal of attention has been directed to the various mining centres. Although only a small proportion of the bank branches are located in these districts, the business they do is somewhat different from that transacted in the ordinary branches, and it will be interesting to trace some of the peculiarities. Dealings with the mines compose a considerable part of the whole. The general manager of an old and conservative Canadian bank, with many years' experience in this kind of business, used to advise his managers: "Remember, the bank lends no money on a hole in the ground"; that is to say, it is not a banker's business to provide money for development work. The practice of the most conservative banks is well defined. Their rule is rigid, that shareholders of the mining companies must find the money themselves for development work. When mining companies have reached a certain stage of development and are shipping ore to a smelter and getting returns regularly, business may be done with them by lending money upon ore on the dump or in transit. But the managers have to keep in mind the fact that ore from different levels of the same mine will often vary considerably in value. In granting accommodation, the bank is guided considerably by the past record of the companies it deals with.

In the free milling gold camps where the ore passes through the stamp mill, the clean-up is usually reduced at the mine to gold bars, which form an excellent bankers' security until shipped to an assay office and returns are received.

In the Klondike.

In the Klondike, the practice is to buy gold dust as it is brought in, paying for it such a figure as would cover cost of shipment to the assay office in Seattle or San Francisco, and insurance and interest, and leave a margin of profit. The banks have their own assayers and gold buyers in Dawson, and they can tell with great exactness merely by looking at the dust that is brought in where it came from and what it would yield when melted down. There is a great difference between the value of the gold obtained from the various creeks. For gold from the richest creeks $3 or $4 more per ounce can be paid than for that from the poorer creeks. The arrival of the banks in Dawson consequently made quite a change in the purchasing power of the dust recovered by certain miners. Before they came, gold dust was the general medium of exchange at a rate of $17 per ounce, and little or no discrimination was made against the poorer qualities.

Dealing with Promoters and Organizers.

Another phase of the business at mining camps is that which results from the activities of promoters and organizers. They are selling stock to outsiders more or less all the time, and are continually offering for discount their sight drafts, with mining scrip attached. As the people engaged in this business are sometimes of little or no financial standing, it is by no means an uncommon thing for the drawee of one of these drafts to refuse it.

Naturally, the banks receive numerous applications for loans on mining stocks, but they are, it is said, almost universally turned down.

Apart from this special class of business, there are in mining camps, as everywhere, merchants whose stocks of goods and good accounts and bills receivable show a sufficient margin over their liabilities to warrant the banks in advancing to them.

In dealing with the members of a mining community the managers have to be on guard quite as much against the optimism that seems inseparable from the business as against intentional fraud. All the men who plead for loans of a few thousand dollars to sink a shaft or drive a tunnel a short distance to a point where they have figured out to their own satisfaction that they will strike a vein are not rogues. On the contrary, many of them implicitly believe what they say; but, though they are usually willing to pay well for the accommodation, it is almost a sure thing that the banker who lends a ready ear to proposals of that kind will live to rue it.

Banking System Flexible.

The banking system of Canada is very flexible, and the banks readily adapt themselves to the special needs of all the particular industries in different parts of the country. Besides farming, manufacturing, and mining, they finance lumbering, the fisheries, the dairy industry, in the country districts, in addition to the more complicated business met with in the cities.

CHAPTER XIX.

Relations with Other Banks and with Head Office.

One of the perplexing questions which a new manager may be called on to decide is that regarding his relations with other banks in town. Should he be friendly or hostile? It may very likely be that one of the other bank managers is making a dead set at his business, secretly interviewing his customers and offering them special inducements to change their accounts.

The Profit in Friendliness.

On general principles it can be laid down that it is best to keep on friendly terms with the other banks. Sometimes that is next to impossible because of the opposition manager's conduct; but the advantages resulting from a friendly co-operation of all the banks in town are important enough to make it worth while trying to bring about One advantage is that the banks are the better able to check the practice of double or triple borrowing by designing persons. A man who may be entitled to, perhaps, $500 credit and no more will frequently go to each bank in town for that maximum sum, and each manager remain in ignorance of the loans from other institutions. When the banks act in harmony, there is a much better chance of these operations becoming known. Then there can be understandings about rates of discount and commissions, the loyal observance of which conduces to the profit of all the banks.

On the other hand, when the competition is exceedingly bitter and personal, when the managers of two banks hardly speak on meeting, there is apt to be an unsatisfactory state of affairs all round: rates all gone to pieces, and business done at a loss or no profit; the customers, taking advantage of the fact that there are no consultations or friendly conversations, play off one bank against another, and, besides getting things done for nothing, they are likely to get more credit than they are entitled to.

Dealing with Head Office.

As head office is the source whence promotion and advancement come, the manager naturally regards his relations with head office as of the highest importance. He especially wants to be on good terms with the general manager. The general manager is the chief executive officer of the bank. Although he derives his authority from the board of directors, and has his important steps confirmed by it, he is the law unto the branch managers.

Communication between the manager and the general manager takes place almost wholly by letter, except in the case of branches in the immediate vicinity of head office, and even when the manager of a nearby branch has secured favorable action on a request or an application of his, the policy is followed of writing letters about it, so that the whole affair is properly recorded, and can be referred to at any time. Thus it comes to be a matter of some consequence to the manager that he have skill in letter-writing. The man who is able to express himself clearly, concisely, vigorously, and to present the salient features of propositions so that they will make the proper impression will be more successful in putting through the deals of his customers than another man possessing an equal reputation for judgment, but who is not so facile with his pen.

The author has a clear remembrance of what he was told by a senior manager about this matter of head office correspondence, on the occasion of his promotion to a branch managership. After explaining how the correspondence should be conducted, and how a great soberness and conservatism of expression should be cultivated, the senior wound up with the caution: "And don't prophesy." Those who never occupied the position would be surprised to know how strong is the temptation to inform the general manager in these letters what will happen in the future—in connection with the branch business, and the developments in trade, prices, etc., in the neighborhood. This desire or temptation should be promptly stifled. Otherwise the manager will not be able to avoid appearing rather foolish sometimes in the eyes of the person whose good opinion he specially wishes to cultivate.

Reporting Special Happenings.

The general manager wants to know how the branch is progressing. He can tell, roughly, how things are tending from his examination of the balance sheets. But any special change in the figures, or any interesting banking or financial happening in the locality—

such as the gain or the loss of an important deposit, change of bankers by any of the important business men or firms, movements of other banks—should be faithfully reported. To enable him to pass intelligently on all the propositions emanating from the various branches, and perhaps to decide as to whether or not the branch shall be kept open, the general manager requires to be reasonably familiar with the financial history of the place. Besides these general letters or reports there are always particular matters to be written about—changes in the positions of the members of the staff, special expenditures of the bank's money on the office or on the building, the working of particular discount accounts, applications for new credits.

Watching the Credits.

It has already been observed that the lines of credit granted by the bank to the larger borrowing customers are given, subject to certain terms and conditions. The general manager stipulates on behalf of the bank that the borrower shall give certain signatures or certain documents as security, that the credit shall be reduced or paid off by a certain date, or something else. In the actual working out of these credits it often happens that the borrower wants an easing up of the conditions. He may overstep the limits as to total amount; he may not pay off or reduce as agreed upon; he may want to give security other than that named in the stipulations. In all of which events there must be considerable correspondence with the general manager.

Usually the manager evinces something of a disposition to excuse the customer's position. He is influenced insensibly by his fears that the customer will move his account to another bank if held too rigidly to the letter of contract. The general manager, having a better knowledge of what frequently results from laxity in this respect, insists upon the observance of the conditions.

Thus originates a large part of the head office correspondence. There are a number of instances in which the conditions may with safety and propriety be relaxed. But if the manager champions his customers too ardently or too promiscuously, the general manager may get the idea that he is more intent upon holding his business than upon guarding the bank from loss.

Applications for Credits.

There will also probably be considerable correspondence regarding applications for new credits. Maybe the manager has succeeded, after a long campaign, in inducing a good customer of another bank to make application for a line of credit. The general manager is a great deal more suspicious of these proposed changes of bank accounts than is the manager. He has in his mind the fear that the other bank may be "unloading" an unsafe or undesirable account; and he always requires a full and satisfactory explanation as to why the change was decided upon before he will consider the application.

In all this correspondence it is advisable for the manager to be very careful and conservative in the promises and opinions he forwards. The customers should be educated to keep their promises well within the limits of what they can perform, and so the manager should keep his own. The chief thing to aim at in this respect is to build up a reputation with the general manager, so that he will get in the way of observing, mentally, to himself on reading the letters: "I can depend on what this man says." It takes time to build such a reputation, but once attained it carries great rewards.

Transferring the Profits.

One of the operations about which correspondence with head office is necessary is that of transferring the profits. This is done at the end of every quarter, or at the end of the half-year. All through the term the amounts of profits and expenses are accumulating in the general ledger accounts devoted to them; at the end, these accounts are cleaned up and the net result transferred to head office.

It has already been shown how, when each bill is discounted, the bank appropriates from the gross amount a sum representing the interest to the date of maturity. These appropriations are credited to interest or discount received. The balance of the account at the end of the term will show the gross amount received. But although these profits are collected or appropriated, it may be that some part of them is not yet actually earned, because the bills to which they pertain have not yet matured.

Allowing for Rebate.

If the bank discounts on 1st October a bill for $1,000 due 1st December, appropriating on the day of discount, say, $10 for interest, and if the quarter or the half-year ended on 31st October, so far as this special transaction is concerned, it will have actually earned on 31st October only half the amount appropriated by it, since half of the term of the bill is yet to run. Therefore, although it may be that the bank will not be called on to relinquish, in the form of rebates, any of the profits pertaining to the unexpired terms of bills, it is necessary, before the net results for any term can be arrived at, to calculate the rebate on all bills not yet due, at a fixed rate per cent. To do this it is not necessary to take each bill by itself. The totals shown by the discount diary afford the means for a much shorter calculation.

The Calculation.

For example, if the diary shows $5,720 due 1st November, and $6,834 due 2nd November; and if the fixed rate is 6 per cent., the end of the quarter, 31st October, then interest at that rate would be figured for one day on $5,720, for two days on $6,834, for three days on the total due 3rd November, and so on till all the bills had been covered. These interest calculations, on being added together, would represent the amount of rebate at 6 per cent. on unexpired paper, or the amount of profits appropriated by the bank but not yet earned. If this process is not followed, if the bank publishes as profits all the funds appropriated by it as interest and discount, without deducting the rebate, it would be showing as profits of one year some that belonged to the next.

There will have been, at the end of the preceding quarter or half-year, an amount reserved for rebate representing what was then required to make rebate at 6 per cent., or at whatever rate is fixed, for all unmatured paper under discount. By way of example, we may suppose this amount to be $4,726.13. It will be standing in the general ledger at credit of rebate of discounts. All that has to be done on this succeeding occasion is to readjust that balance. Suppose the calculations of interest on the diary totals, referred to above, when added together, amount to $4,965.23. That will be the amount required to make rebate on unmatured paper on the present occasion. As there is already reserved for that purpose $4,726.13, it is only necessary to debit discount account with $239.10 to bring the rebate reserve up to its proper figure. It sometimes happens that the total amount required is less than that already reserved. Then the rebate reserve is reduced, the difference being credited or added to the profits of the term just ending.

The total amount shown at credit of commission and exchange may be taken into profits, as it is practically all earned. These amounts are debited, or taken out of the accounts, and credited to profit and loss account.

Charges and Interest Paid.

Then with regard to the outgo, the two principal items are charges and interest paid. All expenses belonging to the term should be shown in charges account whether the money has been paid out or not. For example, if the bank pays $720 a year rent, payable half-yearly, and if the last payment was made on 31st August, two months before the end of the term, there would be two months' rent, or $120, to be debited to charges and credited to a suspense account till actually paid out. Also bills for stationery, electric light, gas, telephone, etc., are to be treated in the same manner. If the bank owes the money, it is to figure in the expenses of the year.

With regard to the interest on deposits, that must be calculated up to date and either credited to the depositors' accounts or reserved in the same manner as the rebate was reserved.

A specimen set of the entries passed through profit and loss account at the end of the quarter or half-year—closing entries they are called—follows:—

Profit and Loss Account.

31st October, 1912.	Dr.	Cr.
Transferred from discount received account		$7,420.86
Transferred from commission account		281.30
Transferred from other revenue account		24.60
Transferred from charges account..	$1,964.20	
Transferred from interest paid......	4,728.61	
Profits transferred to H. O........	1,033.95	
	$7,726.76	$7,726.76

The profits transferred or credited to head office would make a good or bad showing according to whether they represented a high or low percentage on the amount of capital supplied to the branch by head office.

Capital Supplied to Head Office.

If the deposits greatly overbalanced the discounts, probably the interest paid account would exceed the discount received account, and instead of a profit there would be a deficit to transfer. This would be regarded as a favorable showing if the deficit represented a low enough percentage on the average amount of capital supplied by the branch to head office during the term. As the deposits exceed the discounts, the branch will have supplied head office with capital drawn from the district, and this capital will be available for use by other branches whose discounts exceed their deposits. The deficit transferred to head office by the branch represents the cost to the bank of the capital drawn from its district.

CHAPTER XX.

Inspection of the Branch.

The various stages of the work at a country branch, from junior up to manager, having been outlined, it remains to describe what takes place during an inspection.

It is to be remembered that the head office is constantly receiving from the branch, reports, statements, and letters, setting forth the condition of the branch's business, and the capability and trustworthiness of its various officers. The information thus derived has to be taken as dependable and truthful; but obviously head office could not go on indefinitely accepting all the statements and reports emanating from the branches as being absolutely true and correct. So a staff of inspectors is maintained, with headquarters at head office, taking their orders from the general manager and reporting to him and to the board of directors, whose duty it is to visit all the branches without notice, to examine and verify all the balances shown by the books, and to satisfy themselves generally that the business of the branches is well and faithfully administered.

Qualifications for an Inspector.

To fill inspectors' posts specially bright, tactful and trustworthy men are required. They have to be able to cover thoroughly that part of the branch work where defalcation or malfeasance may be hidden; to notice suspicious looking entries and transactions with an unerring instinct, and to trace them unfailingly to their obscurest origin. They must have tact so as to efficiently perform their duty to the bank without needlessly antagonizing or offending the branch officers; and lastly, they should be capable of sizing up the advantages and disadvantages of the branch's operations and position, and of advising the manager how to improve them.

Usually, the first notice the branch has of the coming of the inspector is his appearance at the door or in the office with his heavy suitcase, filled with inspection forms, and, perhaps, with an assistant in his train. His coming is, almost invariably, saluted with groans, not always inaudible. Manager and clerks alike recognize that it means nightwork, perhaps till twelve o'clock or later, and that the current work of the office will have to be allowed to accumulate to a considerable extent, while the staff bends its energies towards completing the inspection. First of all, the inspector must present his credentials and authority to inspect the branch. On delivering these to the manager, the latter has no choice but to allow him to proceed.

Verifying the Cash.

The inspector always makes the cash the object of his first investigation. If he arrives before the books and cash are balanced, he takes possession of the teller's box as soon as the latter has balanced. If the cash is already balanced, he goes into the box at once. And if the money is in the safe and the time-lock set for the next morning, the inspector puts his seal on the safe, or on the vault, so that none can enter without his knowledge. In short, he takes whatever precautions seem to him necessary to prevent a hasty fixing or covering up of such shortage or irregularity as may exist.

In connection with this subject of inspecting the cash it should be said that ordinarily the rules of the bank provide for at least two full examinations of the cash by the manager during each month. One of them is on a fixed date or occasion, the end of the month; the other is left to the manager's choice. He aims to surprise the teller, appearing at the teller's cage some evening after the balance is struck and demanding admission for the purpose of counting the cash. So the teller never knows for certain what day his cash will be examined. Any day during the month the manager may inspect him, and any day in the year the inspector may arrive.

Balance Sheet the Basis of Inspection.

To form the basis of his examination, the inspectoı immediately calls for a balance sheet. So the books have to be closed and all the closing entries, commonly made on balance days, have to be put through, even if only one day has elapsed since the last previous balance day. Although he requires the balance sheet for his basis, the inspector does not wait for its completion, but proceeds to examine the cash. If he has an assistant, the assistant will take the teller's cash, and the inspector himself the treasury cash. If he is alone, he puts a seal on the treasury and begins to examine the teller's cash. The teller should remain present in the box all the time of the examination. He is responsible for his balance, and nobody, not even an inspector, must be given the opportunity to take anything without the teller's knowledge. The inspector takes the balance book and checks off all the specifications. He takes nothing for granted, splits open the paper cartridges of silver, to see that no fraud is concealed, and, when he has examined everything, and found that the sum claimed to be there is actually there; and that the balance agrees with the cash book, he seals up the deposits to go out to the other banks in town next morning, and encloses a letter requesting the other banks' officers to advise him (the inspector) if any of the cheques included in the deposit are dishonored.

When the teller's cash is counted, the inspector examines the treasury cash; and from that he proceeds to all the other items of the securities. He continues until he has satisfied himself that every item on both sides of the balance sheet is correct.

Examination of Loans and Discounts.

The examination of the loans and discounts is especially thorough. An officer is set to work to make a complete statement, from the discount diary, of every bill discounted, arranged in order of maturity. The sheets on which the record is made are added; the totals must agree with the balance of loans, trade bills, or other class of bills as shown in the balance sheet. The sheets are handed to the inspector, duly balanced. On receiving them he instructs his assistant, if he has one, to check the additions; if he has no assistant, he checks them himself. Then he takes the sheets and checks off with the record every bill in the bill-case, carefully scrutinizing the signatures and other details of each bill. If anything strikes him as peculiar or unusual he asks explanations of the manager, or sends notices to the parties concerned.

He is careful to see that all bills are properly drawn, and that the bank has a clear title to them. This examination takes a long time at all branches where the discount business is heavy. Until the examination is completed the inspector keeps all the bills in his possession to prevent substitution of securities. When he has checked off every item on the sheets there will remain the remitted bills, which he cannot examine because they are held by the bank's correspondents in various towns and cities.

Verification of Remitted Bills.

These remitted bills are to be verified. Clerks are set to work to make out verification slips. One of these slips is headed up for each correspondent, and on it are recorded the particulars of all bills which the branch books show to be held by that correspondent. Each slip is added. A summary list is made of the totals shown by each slip. The addition of this summary should give the total of the remitted bills.

When the verification slips are completed and balanced, the inspector takes them and checks off each item on them with the items on the bills' discounted sheets. Then he sees that the slips are mailed to the respective correspondents, whose names they bear, arranging the procedure so that additions or alterations cannot be made after he has checked them, without his knowledge. The envelopes are closed directly under his eye, and he himself, or his assistant, mails them. Each slip is headed up with the announcement that it purports to be a list of bills held by the correspondent on account of the branch unpaid on the evening of the certain date on which the inspection commenced. The correspondent is asked to check the list over, and, if correct, to verify it and send it to the inspector's department at the head office; if the list is incorrect, the correspondent is expected to notify, not the branch, but the inspector's department.

When, for every item on his sheets, the inspector has either seen the bill itself or seen its particulars entered on a verification slip and the slip despatched to the correspondent said to hold the bill, the correctness of loans and discounts as entered on the balance sheet is considered to be established, as far as can be.

Of Collections, Collaterals and Securities.

In exactly the same way, the collateral notes and the collection bills are listed and examined. All the warehouse receipts, stock certificates, bonds, debentures, hypothecations, etc., are examined in detail. The inspector demands to see everything; and he does not pass anything till he satisfies himself that it is exactly as represented on the books, that it is formal and legally proper in every respect, and that the bank has a clear title where it should have one. If names on notes are signed by power of attorney or procuration, he requires to see the documents by which the powers have been delegated.

Of the Deposit Ledger.

The inspection of the deposits also is done with great care and thoroughness. The current account ledger is taken first. The ledger-keeper has first to balance it, then to make out a complete list, on forms furnished by the inspector, of the individual balances—debit and credit—making up the total. The total, of course has to agree with what the balance sheet shows as held by the branch in the current account ledger. Formerly it was the custom in practically all of the banks for the inspector to send a notice to each depositor showing the amount at his credit in the bank's books. On the ledger-keeper's completing his list of balances, he was given a quantity of printed letter cards, headed with the name of the bank and of the branch, and reading as follows:—

"The books of the bank show standing at your credit (or debit) in current account at this branch, on the evening of............the sum of............

"Should you not reply to this notice, it will be assumed that you find the amount correct. In the event of your discovering any difference or discrepancy you are requested to correspond direct with the Inspector's Department, ... Bank, ..., Montreal (or Toronto)."

On all of these cards the date of the inspection was first stamped in, then one was addressed to each one of the names shown on the list, and the amount of the balance written in. This done, the ledger-keeper handed over the list of balances and the cards to the inspector. The inspector took the list, and with it before him went through the ledger, carefully checking every account for suspicious entries and untidy or inefficient work. He checked off each balance with the list. The checking of the ledger and the balances finished, he satisfied himself as to the additions of the list, and, if its total agreed with the amount shown on the balance sheet opposite current accounts, the correctness of the list was regarded as established. Then he took the letter cards and checked each one to see that the name and amount on it were exactly the same as given on the list. The cards were not allowed out of his sight or possession after being checked. A clerk was called to close them up ready for mailing, this being done under his eye. Then the inspector himself, or his assistant, took them to the post-office.

Of the Savings Bank Ledger.

The savings bank ledger was taken in exactly the same way, a letter-card notice being sent to every depositor whose name appeared on the ledger, stating the amount shown at his credit on the date of the inspection. At present the same process is followed except that a number of banks have discontinued sending the notices to depositors. The expense in the way of postage and extra labor was considerable, and it has been thought, doubtless, that the reduction of expenses would offset any defalcations which the letter-cards would have served to prevent.

Deposit Receipts.

Deposit receipts are on a somewhat different footing. Each receipt, on its being issued, constitutes a separate contract entered into by the bank. For the inspection a complete list of the outstanding receipts is made out, and balanced with the general ledger or balance sheet. In the ordinary routine, the branches are called upon to furnish head office with fortnightly or monthly statements of the receipts issued and paid. Some banks require the paid receipts to be sent to head office along with the statements on which they appear. There is thus a constant check on the branches in this matter. The inspector supplements it by observing all that is to be observed in connection with the deposit receipt register and the paid receipts held by the branch. Notices are not usually sent to deposit receipt holders.

Overhauling Other Departments.

All the departments are taken in turn, the inspector examining them very closely. His investigation is for the purpose of ascertaining, on the behalf of head office, whether or not the affairs at the branch are really as reported in the branch statements. He makes it his business to meet the principal borrowers, talks to them about their accounts, and sizes up their businesses.

Among the things he has to report on are bank premises, vault, safe, furniture, etc. He describes whether the premises are well or ill located, how suitable they are, and suggests improvements or changes. He goes fully into the defences against burglars and thieves, describes the safe, the combinations on it, and the precautions taken. He is particularly careful to see that the rules about dual custody of securities and cash are observed.

Reporting on the Staff.

When he has gone over everything else he reports on the staff. Taking the manager first, he gives head office his opinion of their trustworthiness and abilities. His visit will only last two or three days, but he will have seen all the men, and have had some opportunity of judging them at previous inspections of the same or another branch. Of course, he has them under close observation while he is there, and forms his opinion to quite an extent from the manner in which they do the inspection work. This test is not absolutely reliable, since some clerks get flustered or nervous when an inspection is on, and are not able to give a good account of themselves. However, the manager and accountant furnish much of the required information.

Verification of Securities.

At branches where stocks and bonds are held as security for loans, or merely for safekeeping, the inspector gives careful attention to them. In the case of inscribed stocks notices are sent to the corporations issuing them stating that the books of the branch show so many shares of the par value of so much standing in the name of the bank, and requesting confirmation. Also communications are addressed to all owners of stocks and bonds, with detailed statements of the items held, and of the loans against them, if any; and the addressees are required to certify the statements as correct, and return them direct to the inspector. Particular care is taken in the inspection department to see that every list of securities sent out for verification is received back duly certified.

CHAPTER XXI.

The City Branch.

The description, just completed, of the routine and work of a country branch applies also, so far as general principles are concerned, to the city branch. But, of course, the work in a large city office is a great deal more specialized. For example, the current account ledger and the savings bank ledger might be assigned in the country office to one clerk. In the city, on the other hand, there would be one man or two men on the savings bank ledger, and there might be three or more current account ledgers, each having its special keeper. Similarly with the discounts and the other departments —in the country office one man will have sole charge of one or more departments, while in the cities the work of each department is split up into parts, a man being assigned to each part. In some respects, therefore, as already remarked in an earlier chapter, the country office is the more favorable for acquiring an all-round knowledge of banking. In a much shorter space of time the beginner gets an experience of the various departments. He has a more comprehensive view of the whole business. If he is in a large city office his attention each day will be pretty well taken up with the one-sixth or the one-fifth part of a department. But in the country he will have to do with two or three departments, and will be able to see more clearly what is going on in all.

The Messenger.

In the city office the junior does not figure at the foot of the pay-list. Below him stand the messengers. In the Canadian bank the messengers occupy a place of their own. They are distinct from the staff proper in that they are not called upon to do the clerical work of the bank, except probably the addressing and recording of letters and such like. The messenger is usually taken on at a maturer age than the junior; before entering the bank's service he may have been a workingman. His pay will be higher than that drawn by the junior, but he is not commonly regarded as eligible for promotion.

However, if he is young and possessed of the requisite education, there is nothing to prevent his entering the staff proper as a junior, and from that post working his way up like any other.

The messenger's duties are varied. He acts as porter and night guard. He has charge of the book vaults, brings out the books in the mornings and takes them back at night. He is the polite and obliging usher on the watch through banking hours for persons unfamiliar with the bank's methods; he will guide all such to the proper wickets and show them how to transact their business. He is on the watch for pick-pockets and other crooks. He takes the collection bills out, presenting all drafts on the parties on whom drawn. He convoys all parcels of money and valuables sent to the clearing house, other banks, the express office, and post-office. He runs messages for the manager and other high officers of the bank. Generally he wears a uniform when on duty. Though he customarily remains a messenger, his salary is subject to regular or occasional increases and he may rise to respectable emolument.

A large office may have three, four, or more of these messengers, the duties being divided among them.

The Juniors.

Every city office has a number of juniors. They are being taken on all the time, trained as speedily as possible, and put into the several departments or sent out to the branches.

Space will hardly permit a detailed description of all the departments of a city branch. The principle of working all of them is the same as in the country. It will suffice to describe how the principal departments are subdivided.

Division of Current Account Ledgers.

The collection department needs no description beyond what has already been given. When the current accounts are divided among two or more ledgers, the division is made according to the names of accounts arranged in alphabetical order. One ledger will be styled "A to G," and will contain all the accounts beginning with those letters; another will be "H to N," and a third "O to Z." The letters may vary, as it is aimed to have an even distribution of the work. Each ledger must have its special supplementary cash book, containing the record of all the transactions passed through it. The totals of these supplementary books are carried each day into the general cash book. There is an account in the general ledger for each current account ledger. A great deal more certifying or accepting cheques has to be done in a city office. The ledger keepers have to be more on the alert for forgeries and fraud of one kind and another.

The discount department also is divided into parts, according to the amount of work to be done. There may be two, three or more discount registers—one being devoted to each important class of loans and discounts.

The Tellers.

The tellers' positions in the big offices are responsible and important. There will be several tellers, all of them probably handling heavy sums in cash. They have to be constantly on the watch for frauds, as there is more of that meditated and attempted in the cities than in the country. It would be largely a repetition to describe their duties, but the opportunity can be taken to explain the working of the clearing house, which is an institution peculiar to the cities.

The Clearing House.

It has been explained how, every day, in the country, the customers of the bank bring to it in their deposits cheques on, and notes of, other banks; and how the teller sorts out the items that are obligations of other banks in town, and sends to each one its own at the beginning of the next day; and how he despatches his "sundry" notes, or notes of banks not represented in town, to the central offices for redemption. The same process goes on daily in the cities. The depositors bring in notes of other banks and cheques on other banks in their deposits. In the principal cities every bank in the country is represented by a branch or by a redemption agent, so practically everything in the way of bank notes can be cleared daily. Then, every day's mail and express bring from the branches and correspondents a large number of cheques on other banks, and a number of parcels of other banks' notes. When everything has been sorted and the deposits for the other banks all prepared for sending out there will be, perhaps, seventeen or more parcels. Before the clearing house was instituted these parcels had to be sent, each one to the bank it was intended for, and each other bank would have to send its deposit in exchange; after the seventeen exchanges were effected every bank would have to settle probably seventeen differences per day—one with each of the other institutions. Under the clearing house system the parcels are all sent to the clearing house, or place appointed for the exchange of parcels. Each parcel will have pinned to it a ticket stating the amount of the contents and the name of the bank it is intended for. The clearing clerk sent out by the bank will bear with him a sheet containing a list of the amounts sent by his bank to the respective other banks, the name of each bank being set opposite its amount. These are added together; the total represents the bank's clearing for the day. Arrived at the clearing house, there will be seen a circular row of eighteen compartments or boxes, each compartment bearing the name of a bank, and giving room for one man. The clearing clerks take possession of the compartments belonging to their respective banks, and the messengers or clerks sent to accompany them begin their rounds. Each one in succession calls at every compartment and delivers the parcel for that bank. As he does so, with each parcel he presents the clearing sheet, and takes upon it the initial of the clerk receiving it. When the clerk has gone the rounds he will have divested himself of all his parcels and will have on the clearing sheet the receipt of an accredited representative of each bank.

In the meantime the clearing clerk will have been receiving the parcels delivered by each one of the other banks. When all are received he enters the amount shown by the ticket attached to each one on another sheet, opposite the name of the bank from which it was received. When all are entered, the items are added and the total represents what the bank must give credit for. The difference between this and the total of its clearing sheet represents the balance it will have to pay or receive at the clearing bank.

A Specimen Clearing.

To illustrate this, two examples are given of a clearing in which seven banks participate:—

Bank "A" sends out to Bank	"B"	....	$10,236	14
" " "	"C"	....	7,426	18
" " "	"D"	....	9,174	30
" " "	"E"	....	2,361	70
" " "	"F"	....	3,462	81
" " "	"G"	....	1,411	10
			$34,072	23
And receives from Bank	"B"	....	$ 8,426	10
" "	"C"	....	9,116	11
" "	"D"	....	3,276	14
" "	"E"	....	1,823	10
" "	"F"	....	4,163	08
" "	"G"	....	1,010	81
			$27,815	34
Balance		....	6,256	89
			$34,072	23

In that clearing Bank "A" would receive $6,256.89. In the next illustration the shoe would be on the other foot, viz. :—

Bank "A" sends out to Bank	"B"	....	$ 7,562	10
" " "	"C"	....	2,740	81
" " "	"D"	....	4,176	20
" " "	"E"	....	3,650	01
" " "	"F"	....	1,746	22
" " "	"G"	....	1,000	11
			$20,875	45
Balance		....	2,600	33
			$23,475	78
And receives from Bank	"B"	....	$ 8,726	14
" "	"C"	....	3,265	71
" "	"D"	....	4,276	93
" "	"E"	....	2,216	70
" "	"F"	....	3,174	10
" "	"G"	....	1,816	20
			$23,475	78

A glance at the first illustration shows where the economy is effected through using the clearing house.

All the exchanges are made at the central place instead of being made separately with each institution. Under the old system Bank "A" would have had to settle differences with each one of the other six banks—it would have had to collect from "B," "D," "E" and "G," and to pay to "C" and "F." Through the clearing house it has merely to collect the one balance of $6,256.89.

Striking the Balances.

To resume the description of the clearings. After all the sheets are balanced and the difference or balance which each bank has to pay, or receive, is arrived at, the sheets and slips are handed to the clearing house manager and balanced. The total of the debit balances should balance with the total of the credit balances. Everything being found correct, the manager signs a slip for each bank, stating the amount of the debit or credit balance it has to pay, or receive, and the clearing is completed.

Checking the Parcels.

The messengers and clerks from each bank have hurried home in the meantime with the parcels they have received, and the sheets that contain the records follow when the balances and settlements are found at the clearing house. The parcels are given to the tellers, and the contents of each parcel are carefully examined to see that the amount claimed to be there is actually there. There will be in each a list of cheques and bordereaux, with specification of cash. The cash is counted, and the cheques ticked off on the list. The ledger-keepers examine the cheques to see that the signatures are authentic, the endorsements in order, and that funds are held for them. If any item is missing, if there are any cheques in the lot for which there are not sufficient funds, or if there is a shortage in the cash of any parcel, demand is made direct upon the bank that sent the parcel, and it has to send over cash to rectify the mistake. If it does not do so, the bank can, if it chooses, stop the settlement of balances at the clearing bank until its claim is satisfied.

Paying and Receiving Balances.

At a certain fixed time, usually from twelve o'clock to half-past twelve, the debtor banks must pay in their balances at the clearing bank. Then from half-past twelve till one, provided the clearings have not been stopped, and provided all the debtor banks have duly settled their balances, the creditor banks appear and draw what is coming to them.

It will be remembered that the panic in New York was precipitated by the fact becoming known one day that the Mercantile National Bank of New York needed assistance in meeting its balance at the clearing house in that city. As failure to meet a balance promptly would be tantamount to a confession of inability to meet obligations, all the banks are most particular to be prompt in their payments. The operation of meeting these balances furnishes a daily test of the solvency and preparedness of every bank in Canada. In the event of any bank becoming straitened for cash, probably the first indications would be seen at the clearing house.

City Tellers' Additional Duties.

Tellers in the city offices have some duties which do not fall to tellers in country places. One of them is to fill requisitions from the branches for the bank's own notes. In a bank which has numerous branches a considerable number of parcels will have to be sent out daily. This department is especially busy when the crops are being financed and the "circulation" moving rapidly out.

Retiring the Worn Notes.

Then at the head offices there is the duty of looking after the worn and mutilated notes. A banknote may last from three to five years in fairly good condition. Each bank desires to keep up the quality of its notes in circulation. People will hold a new bill longest, and will get rid of dirty or torn bills first. So the banks try to keep their notes clean and sound. It would be too much expense to pay out nothing but new bills, but the tellers are instructed to carefully weed out the worn and torn notes among their receipts, and to forward them to the branch at head office. From all the branches these packets of "disabled" notes keep coming in, and they have to be got ready for the "burning," which is a ceremonious affair. The teller who receives them cancels them by stamping them or cutting them with a machine, and keeps them till he gets a round amount of $5,000, $10,000 or more. Then an officer from the head office is deputed to count and sort them. They are to be sorted into the various issues (the issues are usually known by the dates on the bills). Then the bills of each issue are arranged according to the letters and numbers, and a record taken of all the numbers in the package. After this is done the bundle is packaged up, sealed and marked with the head office man's signature. It is also marked so that it can be told at a glance what record of numbers refers to its contents.

A Burning.

These sealed packages are allowed to accumulate till they amount to $50,000, $100,000 or maybe $500,000. Then a "burning" takes place. It is to be observed that these disabled notes were obligations of the bank; they circulated as money. Now that they have done their work and are to be destroyed, it must not be done in any haphazard manner. The directors, as trustees and representatives of the stockholders (who are liable for all the debts of the bank), must not only satisfy themselves that the documents are actually destroyed, but they must put the fact on record in solemn and binding certification. On the day appointed for the burning the directors gather early in the board room, for the task before them is not a light one.

For bookkeeping purposes the central branch must carry these worn notes on the asset side of its balance sheet. It has paid for them, or given credit to the branches, banks and customers that sent them in, and they are its property. So, when the directors are ready to begin, a couple of branch officials accompany the notes from the vaults to the board room. They make a bulky consignment; $200,000 in "fives" and "tens" will fill a large clothes basket heaping full. Then the branch officials remain and watch the counting. The directors set to work and count the whole. When they have done, the notes are taken to a specially devised furnace and burned, the directors personally seeing that complete destruction takes place. The central branch gets its quittance for the notes as soon as the counting is done.

Then in one of the circulation books a record is made of the notes destroyed. Opposite this record a declaration is written out stating that "we, the undersigned directors, were personally present and did see" the destruction of the notes referred to in the record.

As the associated banks of Canada are responsible for the note issues of each individual bank, a representative of the Canadian Bankers' Association also attends, whenever bank notes are burned, and joins in the attestation.

City Discounts Larger.

With regard to the discounts at the city office, there will be, of course, larger accounts and larger transactions than are to be found in the country offices. The wholesalers bring in big batches of drafts and notes, payable in all parts of the country. Large corporations negotiate special loans. A minute description of the kinds of business encountered will not be entered upon, as it would take up altogether too much space, but a brief sketch of one phase of city banking—that connected with call loans on stocks and bonds—will be given.

Call Loans on Stocks and Bonds.

Every bank has, from time to time, a certain fund of day-to-day money. A considerable amount of loans and discounts may be paid off in the ordinary course of business, or there may be a substantial gain in deposits. No matter at what branch this happens, it is sure to be reflected by a rise in the cash at the central branches. It is so because the branches invariably remit all funds not needed for branch purposes to the centres. So, when the central branch finds its cash getting unnecessarily high if no permanent or long-time employment offers, it will put out some on the call loan market.

In New York city there is a regular place in the Stock Exchange assigned to the money brokers; it is called the money market. The money brokers find out every morning from the banks how much each one is prepared to put out. The Stock Exchange houses who want money bid for it to the money brokers. The bids are expressed in rates per cent. of interest. The money brokers do not pay over the money, nor do they pass on the security; they simply give the would-be borrower the name of the bank that will lend to him, and he must go there with his security and get the money if it be approved.

The business in the Canadian cities is hardly extensive enough for the employment of go-betweens Generally, the banks have telephone or personal requests from the Stock Exchange houses for the loans that are required. When they wish to put money out they make loans to the stock brokers as applied for until they have put out as much as they wish to. It is by means of these loans that speculation in stocks is carried on.

An Example of a Deal in Stocks.

The speculator thinks Toronto Railway stock is going to rise, and wishes to make a profit from the occurrence. It is selling, say, at 151. He instructs his broker to buy one hundred shares at 151. The broker does so. The purchase price of the shares will be $15,100. The speculator will be charged, in addition, with $25, being his broker's commission at ¼ per cent. on the par value of the stock purchased. The speculator does not figure upon paying $15,125 of his own cash for these shares. Quite probably he will only have $2,000 or $3,000 available. He merely pays in a margin either equal to ten points on the stock, which would be $1,000, or ten per cent. of the cost price, which would be, roughly, $1,500.

This cash he pays in is credited to him on the broker's books; he is charged with the cost of the stock, plus the commission. Say he pays in $1,500. He will then be indebted to the broker for $13,625, and the broker will hold on his books the hundred shares of stock as security. Now, the broker himself does not calculate to put $13,625 of his own money into the deal. He figures upon getting most of it from the bank. From the brokers the banks demand a 20 per cent. margin as a minimum. So the broker takes the $1,500 given him by the speculator, adds to it, say, $1,100 of his own money, and, taking the stock certificates to the bank, gets a loan of $12,500. The bank does not recognize the speculator at all. It has nothing to do with him. It deals with the broker. The broker's loan will stand on the bank's books thus: "Jones & Co., payable at call, $12,500 versus 100 Toronto Railway at 151=$15,100; margin, $2,600, or 20.80 per cent. of the loan." The broker, when handing in the stock certificate, hypothecates the shares to the bank, undertaking to keep up at all times a full 20 per cent. margin on his loan, and giving the bank the right to sell the stock and apply the proceeds to the debt in case of the 20 per cent. margin becoming impaired. This loan of the bank's is payable at call, which means that it has the right, also specified in the hypothecation, to call on the broker to pay off the principal any day it has a mind to, and if he cannot or does not do so the bank may sell the stock and apply the proceeds on the debt.

The Loan Clerk's Duties.

The loan clerk at the bank watches the daily market fluctuations in stocks. He must see that the bank's margin of security is maintained in all cases. Thus, if Toronto Railway dropped to 145, that would make the value of the security held against Jones & Company's loan of $12,500 to be $14,500 instead of $15,100. The margin would be but $2,000, or 16 per cent. So immediately the bank would call Jones & Company for more margin.

As a matter of fact, the Stock Exchange houses generally have something more than the 20 per cent. required, so that a moderate fall in prices does not impair it. Also, in actual practice, the identity of single transactions such as that just described, between the broker and the speculator in Toronto Railway, is hardly maintained. The bank informs the broker that it will let him have $50,000. He takes in and hypothecates a list of assorted stocks representing a number of transactions. This money that the bank is putting out may be wanted any time for the regular discounting business. Also, it is regarded as being part of the reserve against deposits. Usually, when loans are called the brokers called simply transfer the loans to other banks. But in making the loans the bank has to take into account the possibility that the borrowers may not be able to borrow elsewhere to pay it off when it wants the money. Therefore, it is careful to accept as collateral security only such stocks as can be readily sold in the market in the event of the borrower being unable to pay up on demand. Stocks with a "broad" market are preferred. That means stocks which are widely dealt in. They are better, because there is always a better chance of finding purchasers at a forced sale. What the bank officers have to be watchful about in making these loans is, first, to make them to reputable houses, then to be satisfied as to the genuineness of the certificates proffered as collateral, and to see that title to the security is properly conveyed to the bank—this after being satisfied that the real value of the security is as represented by the borrower, and that the required margin is actually there.

CHAPTER XXII.

The Head Office.

It is important to remember that by head office is meant the executive office of the bank. Usually the head office building will contain the principal branch of the bank, as well as the executive offices. Though housed together, the two are entirely distinct. The principal branch is operated as other branches are; it has its manager and full complement of staff; the manager conducts the business with the same degree of responsibility to head office as do the managers of branches more remote.

Executive Office Distinct from Principal Branch.

Of course, being the principal branch, it transacts some peculiar kinds of business—a large part of the bank's cash reserves will be carried by it, and the call loans to stock brokers, already referred to, will have considerable importance if the principal branch is in Montreal or Toronto. But head office itself transacts no actual banking business with the public. It is merely the place where the executive authority and the machinery for watching and keeping the records of the branches are lodged. It would hardly be practicable to describe the head office routine in minute detail. In all probability the practice of the various institutions would not be uniform. It will serve the purpose if the several chief departments, found more or less developed in all head offices, are briefly described and their functions explained. They may be said to be four in number: the stationery department, the inspector's department, the chief accountant's department, the general manager's department.

Stationery Department.

As each one of the important banks has a large number of branches requiring to be supplied with cheque and statement forms, paper, pens, ink, blank ledgers, registers, and other books, and stationery of all kinds, it is found to be advantageous to systematize the purchase of the articles. Of course, each one of the hundred or so branches might buy its stationery where it chose and as it wanted the articles. But it is easy to see that much is to be gained if, instead of such desultory buying, it is arranged so that practically the whole of the stationery required by all the branches for a whole year is bought at one time by one man. He can place large orders in one place and get all the advantage that goes with wholesale buying. That is the function of the head of the stationery department.

Each branch is required to send in to him by a certain date in every year its requisition for stationery. He buys it and ships the goods to the branches. This purchase of stationery by the banks is quite an important element in the stationery and bookbinding business. The various firms compete in a lively manner for the bank orders. Sometimes a good deal of friction and ill-feeling develops as a result of the placing of the orders; and the stationery clerk has to exercise considerable diplomacy in awarding them, lest he offend some valuable customers of the bank.

Inspector's Department.

The inspector's department is the headquarters of the bank's staff of inspectors. At the head of this staff stands the chief inspector. This officer fills a highly important place. In some banks one officer holds the dual position of chief inspector and superintendent of branches. However, it is not necessary that those two positions be rolled into one. When it is, the officer who holds it will be virtually an assistant or lieutenant to the general manager. His relations with the latter will be very similar to the relations of the branch accountant to his manager. He is under the authority of the general manager, but the directors expect him to check up his superior. In the event of the chief executive proving unfaithful to the bank or of his giving orders that would clearly result in loss of the bank's money or in the placing of it in extreme jeopardy, the chief inspector and superintendent of branches would be expected to go straight to the board on his finding it out. Especially since it turned out that the Czar-like rule of the late general manager of the failed Ontario Bank had such disastrous results, have the bank boards shown a disposition to place checks and safeguards about the power of the general managers. In most of the large banks those safeguards existed before the Ontario Bank troubles came to light. The systems of branches had grown so extensively as to call for the employment in the head offices of several highly paid men of large capacity—men heavy enough to take a firm stand in opposition if the general manager showed a disposition to speculate as the Ontario's general manager speculated. The chief inspector, therefore, can be regarded as being in a measure responsible to the directors, though under the authority of the general manager. He may personally conduct the inspections of the principal branches, and supervise and direct the other inspectors in their work of examining the rest of the branches.

How the Branches are Watched.

In the department the records of all inspection reports are kept so that they can be quickly and easily referred to; also, the clerks follow up and investigate the discrepancies, etc., that come to light through the sending out from the branches of notices regarding depositors' balances, securities, etc. For example, a depositor writes, stating that his balance at such and such a branch should be $1,310 instead of $1,110, as stated on the inspection notice. That case would be referred at once to the chief inspector. It might signify that the teller at that branch had stolen $200 of the depositor's money; and again, the depositor may have made a mistake in calculating his balance. Every such case is thoroughly investigated at once. The chief inspector decides whether an explanation is to be asked by letter from the branch manager, or whether an inspector is to be sent to the branch to make a closer investigation. Then all the branch returns are studied carefully in some department of the head office. Anything in them that seems queer or irregular is made the subject of investigation. If it is not important enough to warrant the sending of an inspector to the branch forthwith, or the despatch of a letter demanding explanations from the branch manager, a memo may be made so that the inspector will look into it on the occasion of his next visit there.

It may be said that the inspectors' department, and the other head office departments also for that matter, suspect and challenge more or less all the statements and returns sent in by the branches. When they are being examined the possibility that they contain untruths or misstatements of fact is never lost sight of. The function of the inspector's department is to detect falseness and fraud wherever they lurk, and at the same time to prevent wrongdoing by making it apparent to the men that it will be promptly discovered and punished.

The Chief Accountant's Department.

It is in the chief accountant's department that all the balance sheets and accounts sent in by the branches are combined so as to show the position and profits of the bank as a whole. The general ledger is a condensed representation of the whole business of the bank. The balance of the capital, of the rest, profit and loss, and of other funds belonging to the stockholders or proprietors, will appear in its pages. With regard to a number of the books—the general ledger being one of them—they are not open to the curiosity of the staff. The chief accountant himself, or a trusted officer designated by him, makes the entries, does the balancing and other work connected therewith. The books themselves are either provided with lock and key, securing the covers, or else kept in locked compartments; and none are allowed to examine them. There is a very good reason for this. Though all the employees of the bank are under strict obligation to maintain the closest secrecy about the affairs of the bank and of its customers, it is impossible for all of them to observe the stipulation to the letter. Bank clerks have their special friends and associates, some of whom will belong to other banks, and the temptation to discuss important events that have happened is sometimes irresistible.

Of course, when this is done there is no intention on the part of the men engaged in the discussion to reveal important secrets, or anything that could be used against their respective banks. But sometimes, through slips of the tongue or inadvertence, important information will come out, and perhaps be made use of by a competitor. So the safest plan is not to let the rank and file of the employees know too much. If the secrets of the chief accountant's department were not closely kept there would be danger of advance information as to profits, appropriations for losses, and other things leaking out in a manner to permit stock exchange speculators to engineer booms in the stock or to depress it unduly. The banks are all very particular in their desire to have these things kept close till the proper time for announcing them comes round. The idea in this is to prevent anyone's securing an unfair or undue advantage in buying or selling the stock.

And in reference to the keeping of the head office books it would undoubtedly be objectionable to any bank to have its particular methods revealed. So, in dealing with the chief accountant's department, the author will merely essay to describe the working of the circulation, the transfer of the profits from branches to head office, appropriations for losses, for reserves of one kind and another, distribution of dividends, and recording of stock holdings.

The Circulation.

What a bank gains from its note circulation has already been referred to. The conditions relating thereto cannot, however, be fully understood by the reader unless he has a knowledge of the "Bank Circulation Redemption Fund." Prior to 1890 there were some instances of bank failures in which the note holders did not get 100 cents on the dollar for their claims. And in practically every case of a banking suspension note holders were obliged to wait an indefinite time before getting full satisfaction—this notwithstanding the fact that the notes represented a preferred claim on the assets of the banks suspending payment. As a natural result of the delay in the redemption of the notes the announcement of suspension was followed in nearly every case by the bank's notes going to a discount.

Generally, in framing banking legislation it is recognized as a principle that note holders are entitled to more consideration than depositors, this for the reason that the note holder is an involuntary creditor. A man engaged in any business could hardly refuse to accept payments from his customers when tendered in the notes of any going bank. When he does accept them he becomes a creditor of the bank issuing the notes. He had hardly a choice about so becoming. But depositors are in different case; they may, in many cases, choose or select the banks with which they will deposit.

Therefore, it happened, prior to the renewal of the bank charters in 1890, that the Government intimated to the banks that they would have to do something to protect noteholders from the inconvenience and loss they suffered almost invariably when a bank closed its doors. The Bank Circulation Redemption Fund is a result of the negotiations that ensued. The stipulations governing the fund are found in Sections 64 to 69 of the Bank Act.

The Bank Act of 1890 provided that within two years from the 1st July, 1890, every bank then in operation should deposit with the Minister of Finance and

Receiver-General a sum equal to 5 per cent. of its average note circulation for the twelve months immediately preceding the going into force of the Act. And afterwards, on the 1st July in every year, it should adjust the amount of its balance so paid in to correspond with any change that may have occurred in its average circulation during the twelve months immediately preceding. This money, paid in to the Treasury, was to constitute an asset of the banks paying in. They are allowed 3 per cent. interest per annum on the monies in the hands of the Receiver-General. The total of the balances paid in by all the banks constitutes the Redemption Fund. Though it remains the property of the respective banks contributing to it, the fund is liable for the following purpose: If any bank suspends payment in specie or Dominion notes of its liabilities as they accrue the Minister of Finance and Receiver-General may, if the liquidator, receiver, or assignee fails to make arrangements for the payment of its notes within two months from the date of suspension, make arrangement for their payment, and all interest thereon, out of the fund.

All notes thus redeemed by the Minister of Finance are held by him as the property of the banks contributing to the fund. They are a first charge on the assets of the failed bank, and, on being collected the proceeds are to be re-credited to the Redemption Fund. When the Fund is depleted through redemption of the notes of a failed bank, the banks may be called upon to replenish it, but not at a greater rate than 1 per cent. per year on their average circulation.

Combined Banks Guarantee Note Circulation.

In addition to this certainty of redemption within two months of the date of suspension provided by the Act, it also provides that the notes of a failed bank shall bear interest at 5 per cent. from the date of suspension till the liquidator advertises his readiness to redeem them. The two stipulations together effectively prevent the notes of a failed bank going to a discount. In every case of bank failure since 1890 the notes of the failed banks have passed from hand to hand in equal credit with the notes of going banks. It should be said also that in no case has it been necessary for the Minister of Finance to use the fund for their redemption.

The assets of the failed banks have been sufficient to effect redemption of the notes within the two months allowed, except in the case of the Farmers Bank of Canada. In that case the going banks redeemed all Farmers Bank notes as presented by the public, and held them pending the completion of arrangements for payment by the liquidator. Thus it is seen that the combined or associated banks, in effect, guarantee the note circulation of each one of their number. The benefit derived by the individual banks is somewhat unequal. It goes chiefly to the small and weak institutions.

Bankers' Association Has Right of Inspection.

As the associated banks have thus been made liable by Act of Parliament for the note issues of the individual institutions, it was seemly and proper that they should have some powers of supervision of the individual issues. That also Parliament has provided. The powers are given to the Canadian Bankers' Association, which is an incorporated body made up of accredited representatives of all the banks. The Bankers' Association directs its efforts towards ensuring that each one of the banks complies with the law in regard to note issues. Each bank has long had the right to issue its own notes up to the amount of its paid-up capital. The banks' powers of circulation were enlarged by amendments made to the Bank Act in 1908 and 1912. By these each bank is allowed to circulate during the crop-moving time—between 31st August and 1st March in every year—in addition to its ordinary uncovered circulation, which is not to exceed paid-up capital, an amount equal to 15 per cent. of its combined capital and rest: the extra issue is subject to interest or tax at a rate not to exceed 5 per cent. per annum.*

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*As the stockholders of the Bank of British North America are not subject to the double liability, the ordinary uncovered issues of that bank are limited to 75 per cent. of its paid capital. The bank may, however, issue up to its paid capital on depositing in the Central Gold Reserves Dominion Government securities, or current gold coin or Dominion notes, equal to 25 per cent. of its paid capital; it may issue further, in excess of capital, by depositing gold or Dominion notes equal to the excess; and in the crop-moving season the bank is authorized to issue in excess of capital up to 10 per cent. of capital and rest combined, without specific security.

THE CENTRAL GOLD RESERVES.

The Bank Act of 1913 made an important change in the ordinary issue power of the banks. Section 61, Subsection 3, says:—

"Except as hereinafter provided,* the total amount "of the notes of a bank in circulation at any time shall "not exceed the aggregate of:—

"(a) The amount of the unimpaired paid-up capital "of the bank; and

"(b) The amount of current gold coin and of Dominion notes held for the bank in the central gold "reserves hereinafter mentioned."

The Bankers' Association, with the approval of the Minister of Finance, appoints three trustees, and the Minister appoints a fourth trustee. These four trustees have the custody and control of the central gold reserves. Any Canadian chartered bank wishing to issue its notes in excess of paid-up capital may at any time throughout the year deposit current gold coin and Dominion notes in the central reserves; and upon doing so the bank may issue its own notes in excess of paid-up capital up to the amount of its deposit in the central reserves. Such issues against gold or Dominion notes are not subject to tax and do not call for any deposit in the Bank Circulation Redemption Fund. So, when its note circulation approaches the paid-up capital, the bank can deposit gold or Dominion notes with the trustees, and issue against the deposit; or in the crop-moving season—from 1st September to the last day of February (both inclusive) —it may issue in excess of capital subject to tax. If it wishes to do so, the bank may use both of these methods of issuing in excess of capital during the crop-moving season.

The Bankers' Association examines the circulation books of every bank to make sure that none **over-circulates**. Heavy penalties are prescribed for over-circulation. If a bank puts into circulation an amount of notes exceeding that authorized it is liable to a fine ranging from the amount of the excess if that be not more than $1,000, up to $100,000. To facilitate the inspection and supervision of the note issues the Association has brought about a uniform method of keeping the circulation books.

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* Refers to issues in excess of capital, subject to tax, during the crop-moving season.

Computing the Circulation.

The following example is given as an illustration of how the banks arrive at the amount of notes in circulation. The Manufacturers Bank, a new bank, receives $1,000,000 in its own notes from the bank note printing company. In its books the entry is made, "Credit Bank Note Account $1,000,000." Balancing this credit will appear among the items of the cash, "Manufacturers Bank notes on hand, $1,000,000." The notes are signed and sent round to the branches for circulation. After a time a certain proportion is placed in the hands of the public.

The branches report, on statement days, the amount on hand. The difference between the amount on hand at all the branches and the balance shown in Bank Note Account represents the amount in circulation. When a "burning" takes place the amount of the notes destroyed is debited to Bank Note Account.

How the Profits Accumulate.

A good understanding of how the profits accumulate can be arrived at by taking as an illustration the discounting of a note or bill at any one of the branches. Let us say the note is for $1,000, the discount, commission, etc., charged by the bank, $18.20; the proceeds credited to the borrower's account, $981.80. In that case the bank has an asset of $1,000 in the note which it owns, and it has assumed a liability of $981.80, or parted with that amount of hard cash. In either event the effect is to swell the surplus of assets over liabilities by exactly $18.20. This process goes on at all the branches, the swelling of the surplus assets being offset, of course, by the expenses and interest paid out. During the quarter or half-year the surplus assets of the branches, taken as a whole, steadily increase. At the end of the term the profits are to be transferred to head office. In treating of the branches it has already been explained that before transferring the profits each branch must reserve the rebate or unearned interest on its discounts, and the interest accrued, but not yet paid, or demanded, on its deposits.

Debtor and Creditor Branches.

It has already been hinted that a number of branches have deficits to transfer instead of profits regularly when the time for closing the books comes round.

Some of them are regarded nevertheless as very profitable branches. When an office or branch holds $400,000 in deposits and is only able to put out in discounts $150,000 it is quite probable that the result each year will be a deficit. It is so because the interest paid on the larger amount of deposits, along with the expense of running the office, exceeds the branch's earnings. But, of course, if it does not itself use all the $400,000 it holds on deposit the balance not needed is transferred to head office, to be held available for the requirements of other branches, where the demand for discounts regularly exceeds the deposits. Quite a number of the bank head offices seek to equalize the position of their branches by allowing in each case a certain rate per cent. on the amount of the average balance supplied by the branch for use of other branches, and contrariwise by charging a certain rate per cent. against the branch that uses the money of other branches. Where this is not done the head office makes allowances in its own records for the position of each class of branch. It considers that the debtor branches are doing well if they transfer profits that amount to a satisfactory rate per cent. on the average capital used by them, and that the creditor branches are satisfactory if the deficit amounts to a sufficiently low annual percentage on the average capital supplied by the branch.

Arriving at the Net Profit.

At the branches the transferring of the profit simply consists in the branches debiting their profit and loss accounts and crediting head office, and vice versa in the case of a deficit. So there will be a number of each kind of entries received at head office.

When head office has arrived at its own profits, the net is arrived at by calculating the difference between the total credits and total debits. The effect of the transfer is to vest in head office the disposal of the surplus assets accumulated during the term. The amount is carried to profit and loss account in the head office general ledger.

The Appropriations.

Suppose the occasion is the end of the fiscal year. There will be the appropriations to make. The loans and discounts at every branch are carefully valued. The general manager decides on the sum which will be amply sufficient to provide for all probable losses from bad and doubtful debts, and, on its being authorized by the directors, the amount is debited to profit and loss account, and credited to a contingent fund or deducted from the book value of the assets. Similarly, if there is depreciation in the bonds or investments, an amount is taken from profits and applied to write down the value of the bonds as they appear on the bank's books. If it be thought advisable to provide any other reserve for a contingency or certain purpose, the funds are taken from profit and loss account. Such appropriations as these are often taken from profits before the declaration to the stockholders.

Bad and Doubtful Debts.

The general opinion among expert bankers is that the safest policy in this regard is not to publish the amount of appropriations for losses, as the publication might have an injurious effect, sometimes, on a bank's credit; therefore, in the annual reports of practically all banks is found the statement that "after making provision for bad and doubtful debts the profits were," etc. After the declaration is made, other appropriations are made for such purposes as writing down premises, contributions to officers' pension and guarantee funds, to other special purposes, for additions to the rest, and for the payment of dividends to stockholders.

These items are commonly published, as the stockholders have a right to know how their profits have been disposed of, and the information can be advertised without fear of doing injury. With regard to the other secret items, it is to be said that, although the rank and file of the stockholders are not informed about them, their representatives, the directors, are fully cognizant of all that is done.

Writing Down Bank Premises.

The accepted theory about bank premises is that no matter how valuable the various properties may be for the bank's business, it is not good banking to have them figure indefinitely in the balance sheet as assets for amounts equal to their cost. It is assumed that every year there will be a depreciation in value; and besides, some attempt is made to have them carried on the books at values about or below what they would bring at a slaughter sale. That is why it is that the conservative banks each year make appropriations of round amounts to write down premises account. The special contributions referred to—to pension and guarantee funds and for other purposes—are made in the interests of the banks making them.

Rest Now Held Sacred.

The rest, or reserve fund, as understood in Canada, is merely an aggregation of the stockholders' funds, accumulated from profits, or paid in as premium on new stock. Originally, the purpose of the rest was largely to provide for unexpected setbacks. A certain proportion of the profits was reserved to be available against a possible evil day. The rest thus formerly served as an equalizer of the dividends. That is to say, the fund was accumulated in good years with the idea that in lean years it might be available for maintaining dividends unchanged, even if profits fell off considerably. Latterly, the rest has come to be regarded as a very necessary reinforcement of the bank's credit and of its loanable resources. Nowadays, a responsible bank management would hesitate long before breaking into the rest in order to maintain a given rate of dividend. To break into the rest for any purpose is looked upon as being only less serious than wiping out part of the capital itself.

This change in sentiment has had the effect of making the rest almost as sacred as the capital, so it has been necessary in order to guard the established dividend rates, and to be ready for an evil day, to provide secret reserves, and to build up the profit and loss balance. One of the ablest and most experienced general managers, in a recent annual address, spoke on this subject as follows:—

"We think it wise to keep a substantial amount in profit and loss account, an amount which we think sufficient to provide for any reasonable contingency. A large balance at the credit of profit and loss account is a more desirable and available reserve and a greater protection to shareholders than the same amount in rest account."

Providing for the Dividend.

The dividend is provided for by debiting profit and loss account with the amount required to pay the dividend for the quarter or half year on the whole of the capital stock. This amount is placed at the credit of "Dividend No. So-and-So" in the bank's ledger, and when so placed it becomes a liability of the bank exactly the same as the deposits are a liability. The whole balance is distributed by means of cheques payable to the individual stockholders.

The Stock Department.

The stock department may be an appanage of the chief accountant's department, but usually it is a department by itself. Its principal purpose is to show a record of the stock holdings and transfers or transmissions, and of the dividend payments. The working of the department can be illustrated by describing what happens when a new bank is started. Let us say that the subscribed and paid-up capital is $1,000,000, in $100 shares. There may be 1,000 shareholders, each one owning any number of shares from one up to 500. These people own the bank, their right to participation in its assets and profits varying according to the number of shares held. A shareholder owning one share owns a one-ten thousandth interest in the undertaking; one owning ten shares has a one-thousandth interest, and so on. Once they have paid in their money they cannot withdraw it; that is to say, they cannot reclaim it from the bank, unless the majority of stockholders of the bank formally decide to wind up its business.

In that event, whoever is appointed to wind it up must first satisfy the rightful claims of all creditors, after which the residue will be divided among the stockholders pro rata to the amount of their stock holdings. Unless this voluntary winding up is decided upon, the bank holds the capital it gets from its stockholders in perpetuity, or until it "fails to meet its liabilities as they accrue." This latter is styled suspension, failure, or insolvency, and when it occurs the bank is to be liquidated unless arrangements can be made to start it again.

Double Liability Clause.

The liquidation is not left in the hands of the owners or stockholders. Because of their failure to meet their liabilities as they accrued the business is taken out of their hands, and the creditors, or rather the Canadian Bankers' Association, acting for them, appoint a representative, who has control during the suspension. In this case also the debts must be paid and the residue, if any, distributed among the stockholders. It happens sometimes that the assets of a failed bank are not sufficient to pay off its debts. Then the stockholders are called on to contribute under the terms of the double liability clause of the Bank Act. Under this, each owner of a paid-up $100 share is liable to the extent of a further $100 to the bank's creditors.

But, though a stockholder may not claim from the bank money paid for his shares, he is at perfect liberty to sell his interest to anyone who will buy. In Montreal and Toronto there is a regular market for bank stock, the shares of the principal banks are continually changing hands. When a sale is made the seller must transfer his stock to the buyer. Shares also change owners when a stockholder dies and his estate is divided among his heirs. In that case, they are said to be transmitted.

The record of the names and holdings of the owners of the bank is kept in the stock ledger. Each stockholder has an account, the number of shares or the par amount of stock held by him being his balance. In balancing the ledger, a list of the accounts is made, the balance of each one being shown. The total must equal the amount of the bank's capital. In the case of the hypothetical bank taken, the total would have to be at every balancing 10,000 shares or $1,000,000.

Paying the Dividend.

Next, let us suppose this same bank has declared a quarterly dividend of two per cent. on its stock payable 1st September to stockholders of record 15th August. In all advertisements of dividends this legend will be seen. It means that the bank gives formal notice beforehand that the parties who own the stock on the evening of 15th August will receive the dividend. In the head office general ledger, $20,000 will have been debited to profit and loss account and credited to "Dividend No. 3," let us say. A balance of the stock ledger is taken as at 15th August, and the $20,000 is distributed among the holders of the stock at that date.

The stock clerk has always to exercise great care in the matter of allowing transfers and transmissions. He has to see that they are legal and proper in every way. If there is a tax on transfers, that must be paid; he must be satisfied that the party wishing to transfer has the right to do so. Very often it is necessary to consult ancient wills or other documents which are kept on fyle, as stock is sometimes put into the names of certain holders, but the right to transfer withheld.

CHAPTER XXIII.

THE GENERAL MANAGER'S DEPARTMENT.

The general manager's department may be described as the heart of the bank. It is the most interesting of all. The source from whence advancement and increases flow, and from whence loans and discounts come, it is very much in the thoughts of staff and customers alike. The general manager himself may be engaged under contract, running five years or more. The directors, on behalf of the bank, contract to pay him a certain sum per year during the term of the agreement for managing the bank. In their capacity as representatives of, or trustees for, the stockholders, they own the bank and its whole business; their manager is supposed to get their authorization or ratification for important transactions.

General Manager and Directors.

But the general manager is an expert banker, and knows the whole business thoroughly; while the directors are generally actively engaged in outside businesses and professions. So, in actual practice, a good many of the general manager's actions are confirmed as a matter of course. It could hardly be otherwise. But, although the majority of bank directors may not be high experts on banking, they are in most cases men holding prominent places in the community by reason of their wealth and all-round business capacity. And, as a rule, they are well qualified to judge whether the bank's money is being unduly hazarded in the transactions submitted to them by the executive manager. Also, they can usually tell from their intercourse with him whether the manager is to be relied upon or not.

Thus it happens that the general manager's authority is practically despotic in all but the most important affairs. It is so either because the directors leave them to him to deal with, or because they habitually take his view of the matters referred to them.

When Opinions Differ.

A conflict might occur in two ways. The directors might wish the bank to make certain loans that the general manager did not wish to make; or the general manager might be disposed to carry an account or accounts to which the directors were opposed.

In the first case, the general manager would assuredly not forget that his chief duty was owed to the bank itself and not to any particular board that might be in power. Especially if the loan or investment he disapproved of was in the interest of any of the directors themselves, and if he considered it unsafe and dangerous, would he be likely to oppose it. And the position of the general manager of an important bank is usually so strong and commanding that he can effectively check any such disposition on the part of directors when he chooses to put his strength into the fight against it.

Then, on the other hand, in a case where the directors were firmly of the opinion that a certain loan was too dangerous or risky for the bank to make, the chances are that it would not go through, even if the general manager favored it strongly. For the latter officer could not but feel that in a case of that kind, as the directors were the parties who would chiefly stand to lose by the transaction, their ideas should prevail.

Loans and Discounts.

In every large bank the general manager delegates some part of the work of his department to his lieutenant, whatever may be that officer's designation. The particular parts so delegated would vary with different banks, but all general managers would naturally desire to keep in their own hands the business of lending and investing their bank's monies, and of watching the course and development of the advances and investments.

In most of the banks there are from time to time propositions of a special nature submitted direct to the head office. They may refer to exceptionally large loans or exceptionally important investments. While they were under consideration there would naturally be a good deal of conferring between the directors and the general manager. The latter would have no inclination to commit the bank to a heavy extent without the authority and consent of the owners, and the former would not be disposed to carry through very important transactions unless their executive manager approved them.

But by far the greater number of applications for credits come in from the branches. The branch managers receive them from their customers and forward them to the general manager.

Applications for Credit.

The banks have regular forms of application, which would-be borrowers and the branch managers are expected to fill in. The essential features of the application are as follows: The borrower must state how much he wants, what he wants it for, the security he will give, when he will repay, the rate of interest or discount. He must also give a full and satisfactory statement of his assets and liabilities, and give such information about his business and prospects as the bank requires. In return for what he expects to get from the bank the applicant undertakes, unless he be a very large borrower, to keep his whole account with the bank, circulate its notes and advance its interests as much as he conveniently can. Although this may not be incorporated in the form of words, it is nevertheless understood.

Then when the applicant has done, the branch manager begins. He must give his independent estimate as to what degree of reliance can be placed on the applicant's statement of position and his other statements. He must say how much he thinks the surplus claimed should be cut down, and give his version of the applicant's business ability and general character, his history, and the history and outcome of previous advances, if any, granted to him by the bank. Then he must recommend the granting of the credit, and say why he does so and why it would be to the advantage of the bank to grant it. (An application sent to the general manager not recommended by the branch manager would receive scant attention, and the sending of it probably be regarded as wasting the general manager's time.) Thus, only those applications which come strongly recommended are given consideration. One of the chief of the general manager's functions is the deciding as to which shall be accepted, which declined.

In doing this, he is aided materially by the fact that, in a large number of instances, he has at hand a record of the bank's dealings with the applicants for a number of years, and he will have formed an opinion as to how the various accounts affected by the credits should be handled. The standing and reputation of the branch manager sending in the application cuts no small figure. The recommendations and remarks of some managers will get a much more respectful consideration than is accorded to those of others.

Where Experience Counts.

The branch managers are often bitterly disappointed over the rejection by the general manager of strongly recommended applications for credits. The expert in the head office, who has perhaps spent twenty or thirty years or more in passing on applications and propositions of this kind, often detects weak spots where the manager suspects them not. A fuller and perhaps better knowledge of the local circumstances and conditions is conceded to the branch managers, but the general-in-chief surpasses them in his knowledge of how certain types and kinds of advances usually end. Besides, the chief officer always keeps in mind the fact that the branch manager's judgment as to the safety of advances may be warped by his desire to build up a big and profitable business for his branch, and the fact that other banks sometimes contrive very skilfully to unload weak or undesirable accounts, the banks taking them not getting a correct idea of what they are getting until it is too late to avoid a loss or a lock-up. Only those applications of which the general manager approves are submitted to the board.

Studying the Liability Statements.

Part of the work of the department consists in studying and criticizing the liability statements. These statements, as mentioned before, are devised largely with the object of enabling the general manager to follow the course of loans and advances already made. Endless correspondence regarding them takes place between head office and the branches. The former has to use constant vigilance and firmness in getting the branch managers to make the bank's borrowers live up to what they agreed to. The managers are usually in terror of losing good accounts, and sometimes they have to be peremptorily ordered to enforce the carrying out of parts of the agreement which the general manager considers essential to the safety of loans.

Disposition of Resources.

A very important part of the general manager's duties is to supervise and direct the disposition of the bank's resources. He keeps a careful eye on the amount and nature of the liabilities, and decides how much of the assets shall be carried in cash and other available forms, how much put out in the bank's ordinary business of loans and discounts. Some people might suppose that the general manager of a bank with numerous branches would require a daily statement from all the branches in order to keep informed of the bank's condition from day to day. That is a mistaken notion, for all that is necessary is for the principal or central branches to report daily, and for the others to report once a week.

At the branches the business generally goes on in a quietly regular manner. Each office is expected to report specially any large transaction—gain or loss of deposits, increase or decrease in discounts—and, owing to the system of settling all differences between banks at the centres, all important changes in the way of accessions or losses of cash are reflected almost immediately in the condition of the central branches.

So, if the cash grows too heavy and no immediate prospect of putting it out in satisfactory loans and discounts offers, instructions are given to Montreal or Toronto branches to put out so much at call; or the branch that has the surplus cash will be ordered to buy New York exchange with it, and it is thus transferred to New York and put out at call there.

Bond Investments.

Investments in bonds are not generally used as a means of employing temporary balances. Rather it is permanent funds that are put into them. It may be part of the rest or reserve fund, or a certain proportion of the "notice" deposits. The general manager selects bonds that he regards as safe, liable to appreciate in value, and which give a suitable return on the money invested; and they are held till changes in the circumstances of the bank make it advisable to convert them into loans and discounts, or until appreciation in the prices of the securities tempts the bank to sell.

A general manager might think it good policy in a time of very severe competition, when the banks were outdoing each other in offering loans and discounts to borrowers, to hold a rather stiff course—keeping up his rates of discount and insisting on getting sound security for every advance. Such a policy followed at such a time would probably result in the loss of a number of large discount accounts to other banks. The money so repaid to the bank would be put into good bonds. Then, when the cycle of extra severe competition had passed, and money became scarcer and dearer, so that the bank was able to put its funds out in commercial discounts at more satisfactory rates and on satisfactory security, funds would be turned from bonds into discounts again.

The Cash Reserve.

In his disposition of the funds, one of the chief of the general manager's cares is to have a sufficiency of immediately available assets. The funds that are employed as current discounts are regarded as more or less fixed. It will quite probably be the case that the bank could force payment of a large part of these advances whenever it chose. But to do so at all generally would cause great inconvenience to the customers, loss of valuable accounts, and perhaps excite alarm among depositors. So, as a rule, these discounts have to be allowed more or less to run their natural course. The gross amount will rise and fall with the seasonable or periodical changes in the trades and industries of the country.

At certain periods of the year the general manager knows that he will have to largely increase the bank's discounts, because certain industrial or mercantile customers then will require in the ordinary course of their business very heavy advances. At other periods the discounts will fall through the same or other large customers paying up—also in the ordinary course. It is the part of the "quick assets" to provide the funds needed for the expansion of loans, and to receive them again at the ensuing contraction.

How the Quick Assets are Composed.

The items of the quick assets are specie, legals, notes of and cheques on other banks, balances in other banks (home and foreign), securities, call loans (home and foreign). There must be enough of them, really available, to enable the bank to go its way, meeting the daily differences at the clearing houses, the seasonable expansion in its loans, the withdrawal of special deposits, without any effort whatever. Over and above this, there must be enough for all possible emergencies, the worst of which is "a run of depositors." Every prudent banker sees to it that he has a goodly fund ready at hand for these purposes.

Ordinarily, the more readily available a fund is the less is the income derived from it. For example, cash yields no direct income; balances in the strongest international banks, little or nothing. But experience shows that a bank that habitually runs very strong in quick assets indirectly derives a good deal of profit therefrom.

Its strength attracts depositors and a good class of customers; and it is able, especially in stringent times, to take up very valuable and profitable accounts which its heavily burdened competitors are forced to let go or for which they cannot compete.

The Foreign Loans and Balances.

It has been pointed out that cash reserves must form a fund apart from or outside the ordinary discounts. To be operated so as to cause no disturbance whatever to the country's finance and trade the reserves must either be in the form of hard cash or kept in an outside country. That is why the large banks follow the policy, which has brought them much criticism and abuse from those who do not understand what cash reserves must do, of keeping a considerable part of their reserves outside Canada.

As a matter of fact, the existence of this outside fund, and the knowledge that it is there available for bringing home in an emergency, together constitute one of the most solid of the bulwarks of Canada's banking. Even if brought home, as the critics wish, the foreign fund could not be used to alleviate stringency here. It is a reserve, and to be kept so it would have to be held as cash in vault, unless outright panic were to break out in the Dominion, in which case it would be used to furnish aid to solvent and worthy houses whose existence was threatened, and to pay off depositors.

How the Staff is Handled.

A very large part of the success achieved by any bank must be due to its staff of men. To get the best results out of the staff the men must be kept keen and zealous. The two great incentives causing them to put forth their best efforts in the bank's behalf are ambition and loyalty. The ambitious officer, whatever his rank, throws himself unsparingly into the bank's service when he knows that the prompt and certain reward for good work well done is rapid advancement. And when the men as a whole feel that the bank uses them well they will be far more faithful and loyal than if the idea is general among them that they are meanly treated.

If bank directors, stockholders, and general managers had a clearer idea of how a generous treatment of the staff increases profits there would be more uniformity in this respect. All over the country the clerks and officers of the different banks compare notes as to how they are used. If any one man gets the notion that he is not getting proper recognition, one effect is to kill his enthusiasm. As, time after time, the opportunity to do a good stroke for the bank presents itself to him in the ordinary course of his work, he resentfully refuses to lift a finger or to put himself out.

Good Treatment Pays.

Quite probably there will be men showing this disposition even in those banks that accord the most generous usage. In a large force there will always be some cherishing unreasonable expectations and resentment if they be not fulfilled. But, where the general treatment is good these fellows will get no hearing. Far different is it when the staff as a whole feel that the bank is niggardly and mean in its treatment of them.

Then a large number of the officers have the same hard feeling towards it in their hearts, though they may say nothing. In an hypothetical bank of this kind it is to be expected that petty defalcations would be constantly cropping up, that rudeness to customers would flourish unrebuked, that new business would be sought without vim or resourcefulness, that the loans and discounts would be carelessly handled. All this would have a decidedly detrimental effect on profits. The probability is that what would be lost that way would much outweigh what was saved in salaries, etc.

The general manager has to keep these considerations in mind in his regulation of the staff salaries and changes. He does not want to waste the bank's money through paying extravagant salaries or in the other staff expenses; he must keep the men well animated. The salaries must be well up to those paid by other banks similarly situated, otherwise discontent will spread.

Placing the Men.

An important thing is the placing of the men. The managers and other officers are to be put in the positions to which their respective capacities fit them, as far as possible. So the general must know his men.

Another thing to be remembered is that the bank is a great training school. Raw material is being taken in all the time and moulded into the desired shape, the refuse being thrown away. Then, as a means of guarding against internal fraud a constant shifting of men has to be arranged.

There will likely be a regular revision of the salaries once a year, in which the whole staff will be considered. Managers' reports and inspectors' reports are both taken as guides in this revision. Not unfrequently the general manager has an opinion of his own, entirely independent of what managers and inspectors say, as to the qualifications and merit of certain officers.

In addition to this general revision, there will be a number of special cases considered during the course of the year. Important posts fall vacant, necessitating a whole line of promotions; the salaries of the promoted men will probably be revised and increases given at once on their taking the higher places.

Opening New Branches.

An interesting part of the general manager's work is that relating to the establishment of new branches. The initiative may come from inside the bank or from outside. The branch managers are on the watch for likely places, and whenever a manager thinks the bank's position would be bettered by opening in a new place in his district he proposes to the general manager that it be done, giving his reasons. These proposals receive careful consideration, as do also the requests or petitions which come from places without banking facilities asking for the establishment of a branch. It is always desired to obtain, if possible, assurance that the bank will be given a certain minimum of business upon opening. And often there is a written undertaking on the part of the principal business men to give the bank their accounts and aid it to the extent of their powers if the branch is opened.

On the other hand, many branches are opened without any guarantees or promises of this kind. A bank may decide that its interests require the development of its business in an entirely new territory, and its entry therein has something of the nature of an invasion. It is aimed to have the branches strategically placed. For each big district or territory there is a central or depot branch, with its group of tributaries. For example, if a bank started to instal offices in Manitoba, its natural course would be, first the establishment of the central office at Winnipeg, and from that centre the others would radiate.

Unprofitable Offices.

Competition of the severest kind has been experienced of late years in the opening of branches. Every desirable place would be gone after by maybe one, two or three banks. There are signs now that this movement is being better regulated.

It is desired that the new branches opened shall be profitable, either at the start or prospectively. In default of that, it is enough sometimes if they minister to the profit or advantage of some other branch or branches. But it is to be feared that, even allowing for all this, many branches have been opened of late years that cannot but be sources of weakness to the banks owning them for some time to come.

Co-operation with Other Banks.

In addition to these matters, the general manager gives a part of his time to the shaping of the general course of the bank. Canada has recently seen how the banks' well-considered policy of repression of speculation and enthusiasm on the part of business men and others aided in enabling the Dominion to sail with dignity and honor through the stormy financial weather that overwhelmed the banking system of the United States. In preparing for trouble, and in dealing with it when it comes, co-operation is an important factor. There is probably no country in the world where the science of co-operation among the banking interests has been so highly developed as in Canada. In the first place, the system of banking lends itself admirably to co-operative action; and in addition the Canadian Bankers' Association has been developed to such a degree that when it speaks the voice is regarded as the voice of the united banking interests of the whole country.

It is the general manager who represents the bank in the Association's councils. He conducts negotiations and enters into compacts or agreements referring to general movements among the banks, getting the requisite authority from the board when necessary.

Shareholders' Audit.

Section 56 of the Bank Act of 1913 provides for an audit of the bank's affairs. The section says: "The " general managers of the banks (or in the absence of " a general manager of any bank, the official designated " by him, or in default of such designation, the prin- " cipal officer of the bank next in authority) shall, at " a meeting duly called by the president of the (Bankers') " Association for the purpose before the thirtieth day " of June in each year, select by ballot persons deemed " by them to be competent (no one of whom shall be a " body corporate) not less than forty in number, any " one of whom shall, subject to the provisions herein- " after contained, be eligible to be appointed an auditor " under the provisions of this Act."

This list of forty persons is to be forwarded to the Minister of Finance for his approval; and when approved by the Minister the list is to be published in the "Canada Gazette." From the list so published the shareholders of each bank, at the annual meeting, must select an auditor or auditors to hold office until the next annual meeting.

The auditors are to be paid by the bank. They are to have "right of access to the books and accounts, " cash, securities, documents, and vouchers of the bank, " and shall be entitled to require from the directors and " officers of the bank such information and explanation " as may be necessary for the performance of the duties " of the auditors."

If the bank has branches or agencies, the auditors are to examine the reports, returns and statements of the branches or agencies; and they may at their discretion visit any branch or agency for examination purposes.

They are to report to the shareholders, also to the Minister of Finance. The annual report of the bank, when submitted by the directors at the annual meeting, must contain the auditors' certificate or report.

CHAPTER XXIV.

The Board.

A Director's Qualifications.

Regarding the directors, Section 19 of the Bank Act says: "The stock, property, affairs and concerns of "the bank shall be managed by a board of directors." It has already been shown how, in practice, the board entrusts the active management to the professional general manager. Before taking up the matter of the relations between the board and its manager it will be well to describe again a little more particularly the qualifications required in the directors and the method of their election. The qualifications are: "Each director " shall hold stock of the bank, of which stock he shall " be the absolute and sole owner in his individual right " and not as trustee or in the right of another, as follows:—

When the paid-up capital is	Director must hold stock on which is paid up
$1,000,000 or less	$3,000 00
Over $1,000,000, not over $3,000,000	4,000 00
Over $3,000,000	5,000 00"

Also, it is required of the whole board that "a majority " of the directors shall be natural born or naturalized " subjects of His Majesty and domiciled in Canada." The object of the stock qualification is to ensure that each director has an interest in the bank he shares in managing.

The Election.

The directors are the representatives of the whole body of shareholders. They are to be elected by the shareholders at the annual general meeting at the place where the chief office of the bank is situate. Section 21, Subsection 3, says: "Public notice of the annual general " meeting shall be given by the directors by publishing " such notice, for at least four weeks previously to the " time of holding the said meeting, in a newspaper " published at the place where the chief office of the " bank is situate, and by mailing a copy of such notice " to each shareholder at his last known post-office " address, as shown by the books of the bank, at least " twenty days prior to the time aforesaid."

When the number of directors has been fixed—by the charter or by by-law—the candidates getting the greatest number of votes shall be directors. Each share carries one vote, but "no general manager, manager, "clerk or other subordinate officer of the bank shall vote "either in person or by proxy, or hold a proxy for the "purpose of voting."

A shareholder who is unable or unwilling to be present at an election can delegate his voting privilege to another shareholder. He is said then to have appointed a proxy. Once the directors are elected they may hold office till the time of the next annual general meeting of the bank, unless a movement to depose them is successfully carried out by a party of the stockholders.

How Incompetents may be Removed.

If it happen that some of the stockholders get the belief that the board of directors is unfaithful or incompetent, and that the bank's safety or its well-being calls for their immediate removal, the discontented section can call a special general meeting of the stockholders "to be held at their usual place of meeting upon giving "six weeks' previous public notice, specifying therein "the object of such meeting." This course is permitted to "the directors of the bank, or any four of "them; or any number not less than twenty-five of the "shareholders acting by themselves or by their proxies, "who are together proprietors of at least one-tenth of "the paid-up capital stock of the bank."

The Annual Meeting.

The annual general meeting is the regular occasion on which the directors formally appear before the body of the stockholders to give an account of their stewardship and to get a renewal of their office for another year. As a matter of fact, the annual meetings of a well-conducted bank are usually cut-and-dried affairs. The stockholders for the most part are content to leave everything in the hands of the directors. As long as things are apparently going right the directors submit year after year the list of names of board members, and with their own votes and those for which they hold proxies carry the election without opposition. It is hardly likely that any change in this respect will be seen in the near future, as the stock holdings are very much scattered in small lots all over the country.

Conferring with General Manager.

There is, of course, conference about the bank's business between the general manager and some member or members of the board going on from day to day; but the regular formal intercourse occurs at board meetings. Usually there are two regular days in each week for meeting. A special meeting may be called at any time to consider an emergency or important transaction unexpectedly turning up.

The president is chairman of the board. He and the the vice-president, or vice-presidents, are elected by the directors immediately after the election of directors. At the board meetings each director has one vote; the president has a vote as well as the others, and, in the event of a tie, he has a casting vote besides. The vice-president is merely a director, who takes the president's place when the latter is absent, and succeeds him for the remainder of his term in the event of his demise or removal.

Business at Board Meetings.

The directors are all busy men of affairs, and the proceedings of the board meetings are arranged so as to cause as little waste of time as possible. Very often there is routine business only to be transacted. At the previous meeting the board's secretary will have put in writing an account of what was done. These "minutes" he will have transcribed into the official book. The first thing to be done is to have them read and approved. On their being approved as correct or faithful, the record of that meeting stands as official.

The general manager submits the business that is to go before the board. A considerable part of this always consists of applications for new credits, for renewal of old ones, or of discussion as to the handling of debts and accounts held by the bank. It may be that among this is nothing of very much importance, and the directors may merely authorize the manager to take the action he proposes or confirm him in cases where he has already acted. But if there are important and weighty matters, involving large sums, coming before them it is necessary to have the particulars and circumstances more minutely described.

What a Director Should Know.

When the board has formally authorized proceedings to be taken by the general manager, or confirmed those already taken by him, then the responsibility is on the bank. Prior to that, it rests on the general manager personally.

Although a director could hardly be expected to keep himself familiar with the day-to-day working of all the accounts in which the bank is interested at all its branches, he can, and usually does, know pretty well how the important accounts are running. And he must have a tolerably clear knowledge of the bank's affairs in general—its cash reserves, investments, policy, and condition.

There must be a large amount of trust reposed in the general manager. That cannot be obviated very well. A board of directors that meets but twice a week for a couple or three hours at a time cannot thereby acquire the knowledge necesary for thoroughly checking or supervising the executive manager in all that he does.

As already mentioned, the larger and more important banks have found that the work of the head office requires the employment of a high officer as assistant or lieutenant to the general manager; and this officer's position is usually strong enough to enable him to interpose an effective check on any disposition of the chief to misuse the bank's funds.

Where such a safeguard does not exist it has been thought advisable by some banks to have a special officer appointed to represent the board, and whose duty it is to follow the course of the active management, and to assure or certify to the directors that with the bank all is as the general manager says or claims.

CHAPTER XXV.

Liquidation of Failed Banks.

As the book opened with a description of the proceedings necessary in the organization of a new bank and its commencement in business, it will be concluded with a description of the process prescribed for winding up or liquidating a bank that confesses incompetency or insolvency.

Section 117 of the Bank Act says: "The (Canadian "Bankers') Association shall, if a bank suspends pay-"ment in specie or Dominion notes of any of its liabilities "as they accrue, forthwith appoint a curator to super-"vise the affairs of such bank."

Subsection 2 empowers the Association to at any time remove the curator and appoint another person to act in his stead.

Functions of the Curator.

The curator's powers and duties are thus defined: "The curator shall assume supervision of the affairs of "the bank, and of all necessary arrangements for the "payment of the notes of the bank issued for circulation, "and at the time of his appointment, outstanding and "in circulation. The curator shall generally have all "powers and shall take all steps and do all things neces-"sary or expedient to protect the rights and interests "of the creditors and shareholders of the bank, and to "conserve and ensure the proper disposition, according "to law, of the assets of the bank; and for the purposes "of this section he shall have full and free access to "all books, accounts, documents and papers of the bank."

To keep a bank going the owners must do two things: observe the law of the land and meet all the bank's liabilities "as they accrue" in specie or Dominion notes. If the law of the land, as regards banking, is violated, the bank will be liable to have its charter revoked; and if it fails to meet its liabilities as they accrue, that is "suspension."

It should be observed here that suspension and winding-up are two different things. A bank may suspend payment, but if the suspension does not amount to "ninety days consecutively, or at intervals within twelve "consecutive months," it may resume business and retain its charter. In actual practice it is a very difficult thing, indeed, to keep a bank from being wound up once it has suspended payment. The damage to its credit is all but irreparable. If the suspension continues for more than three months in any year, that constitutes cause for winding up. The course of events may be thus explained:—

At suspension the supervision of affairs is vested in the curator as appointed by the Canadian Bankers' Association. The board and general management having confessed incompetency by acknowledging their inability to meet the bank's obligations, the bank's affairs are put under the control of the curator, who acts on behalf of the creditors and stockholders.

How Winding Up can be Avoided.

Then the stockholders have three months in which to save the bank. If they can in that time perfect arrangements whereby the bank can resume business and meet all obligations as they accrue, or if they can arrange for a sale of the bank "en bloc" to another bank, fully protecting the creditors, a winding up order is avoided. In the first case, the owners resume full possession of the business, and in the second the estate, if any, is divided among the stockholders.

But when suspension runs beyond the prescribed limit the creditors take full possession and the curator gives place to the liquidator. It may be that the same man will act as curator and afterwards as liquidator. The point is that during suspension creditors and stockholders have a joint control; but afterwards creditors are in full control.

How the Claims Rank.

The liquidator proceeds to realize the assets and to pay off the liabilities as rapidly as he can. There are three preferential claims. First of all comes the outstanding note circulation of the bank. That ranks ahead of all other claims. Furthermore, the notes bear interest at 5 per cent. from the date of suspension till such time as the liquidator announces his readiness to redeem them. As soon as a bank stops payment its notes begin to accumulate in the vaults of the going banks. These continue to accept them from the public on deposit and in other ways just the same as if no stoppage had occurred. They do so because the notes are perfectly good and because of the interest they bear. Besides being a first claim on the assets the notes are guaranteed by the associated banks through the Circulation Redemption Fund held by the Dominion Treasury.

So the notes come into the other banks and are put away in the vaults. When the liquidator has enough funds to redeem them he puts the requisite notice in the papers, and interest on the notes then ceases.

When provision has been made, by depositing with the Receiver-General the full amount required to redeem all that are out, the circulation account may be closed.

Next to the note circulation is the deposit of the Dominion Government; after that the deposits of the Provincial Governments, and then the body of the creditors.

After all the bank's debts are paid the residue of the estate if any, belongs to the stockholders, and is divided among them pro rata to the amount of stock they hold.

Applying the Double Liability.

One very important feature of bank stock only comes into prominent notice when a bank has suspended payment or passed into insolvency. It is the double liability of its shareholders. Section 125 of the Bank Act says: "In the event of the property and assets of "the bank being insufficient to pay its debts and "liabilities, each shareholder of the bank shall be liable "for the deficiency, to an amount equal to the par value "of the shares held by him, in addition to any amount "not paid up on such shares."

What It Really Means.

The effect of the clause will be better conveyed to the unlearned by means of an illustration. Suppose a man subscribes for $1,000 of the stock of a bank and has paid up $500 thereon. He is liable for the unpaid $500 whenever it is called up, and in the event of an insolvency in which the bank's assets do not provide for its debts he is liable for a further sum of $1,000.

So, when a bank stops, people at once begin to discuss the stockholders' plight. Will they be called upon to pay, under their double liability, and if so, how much?

Although bank failures in Canada are happily not frequent, among such as have occurred there have been a number in which the unfortunate stockholders have been called on to contribute under their double liability in addition to losing what they had already put into their stock.

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