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# ROYAL COMMISSION

TO ENQUIRE INTO AND REPORT UPON AFFAIRS OF THE

# HOME BANK OF CANADA

And in the matter of the Petition of the Depositors  
in the said Home Bank of Canada

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COMMISSIONER:

The Honourable Chief Justice McKeown

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OTTAWA, WEDNESDAY, MAY 14, 1924

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No. 13

## CANADA

IN THE MATTER OF A COMMISSION appointing the HONOURABLE HARRISON ANDREW McKEOWN a Commissioner to enquire into and report upon affairs of the HOME BANK OF CANADA.

AND IN THE MATTER OF THE PETITION of the Depositors in the said HOME BANK OF CANADA.

Before the Honourable Chief Justice McKeown, the above named Royal Commissioner, at Ottawa on Wednesday, the 14th day of May, 1924.

*Counsel:*

EUGENE LAFLEUR, K.C., AND H. J. SYMINGTON, K.C.,  
for the Government of the Dominion of Canada.

R. J. McLAUGHLIN, K.C., A. G. BROWNING, K.C., AND W. T. J. LEE,  
for the Depositors.

MCGREGOR YOUNG, K.C.,  
for the Attorney-General of Ontario.

R. A. REID,  
for certain shareholders; (Opposing the double liability.)

SIR THOMAS WHITE, K.C.,  
appearing on his own behalf.

Mr. LEE: My lord, when we last met, at the previous sitting, I asked to be allowed to put in a statement in reference to the amount of the deposits. I now desire to file a statement certified to by Mr. Calvert, who was the Assistant General Manager of this bank, showing the amount of deposits in the various branches when the bank opened on the 31st May, 1916, and the amount of the deposits on the 31st May, 1918; and the amount of deposits as shown when the bank suspended payment on August 17th, 1923. I have shown this to the learned Counsel for the Government and they are satisfied that this should go in.

## EXHIBIT No. 177.

Filed by Mr. Lee, May 14, 1924.

## Statement of deposits showing amount on May 31, 1916, May 31, 1918, and August 17, 1923.

	Deposits May 31, 1916	Deposits May 31, 1918	Deposits Aug. 31, 1923
<i>Branches open may 31st, 1916.</i>			
Toronto:			
8 King St. West.....	\$1,358,974 78	\$1,767,793 26	\$2,424,401 09
78 Church St.....	1,076,141 24	1,570,316 36	1,583,088 27
Queen and Bathurst.....	403,023 58	484,731 99	529,256 27
Bloor and Bathurst.....	317,084 92	389,190 91	594,833 53
Queen and Ontario.....	249,543 76	296,661 47	354,685 88
West Toronto.....	144,726 25	192,661 42	232,436 37
Broadview and Dundas.....	60,067 40	123,214 31	195,948 74
Yonge and Woodlawn.....	64,541 06	74,351 34	148,301 86
Yonge and Eglinton.....	21,660 34		
Alliston, Ont.....	310,725 22	562,001 77	367,753 89
Belle River.....	147,890 99	128,930 53	181,831 03
Calgary, Alta.....	297,398 86	359,846 56	344,662 70
Cannington, Ont.....	175,573 32	237,964 49	217,195 24
Cre-swell, Ont. (Sub to and included in Cannington)			
Crystal City, Man.....	44,257 26	69,706 05	64,727 00
Delaware, Ont.....	59,780 64	75,408 77	106,976 10
Everett, Ont. (sub to and included in Alliston)			113,843 08
Fermie, B.C.....	419,536 40	610,605 02	786,402 04
Goodlands, Man.....	49,568 90	75,853 40	60,595 89
Grandview, Man.....	36,704 65	189,945 96	112,401 13
Ilderton, Ont.....	192,043 34	211,356 72	221,690 09
Komoka, Ont.....	48,465 51	64,929 87	94,556 75
Lawrence Station, Ont.....	122,813 60	148,745 84	206,429 32
Lindsay, Ont.....	112,612 49	182,964 87	164,094 31
London, Ont.....	254,974 17	291,214 52	356,616 73
Lyleton, Man.....	88,933 60	104,555 10	91,530 26
Manilla, Ont. (sub to and included in Cannington)			
Melbourne, Ont.....	121,392 87	139,345 95	214,253 23
Montreal, Que.....	204,487 42	630,865 07	637,171 33
Montreal, Bonaventure.....	69,199 48		
Montreal, Hochelaga.....	90,552 55	135,990 53	300,736 43
Montreal, Mt. Royal.....	26,917 59		61,702 29
Moose Jaw, Sask.....	162,121 98	271,454 68	249,848 29
Neepawa, Man.....	97,727 89	277,202 13	137,073 45
St. Thomas, Ont.....	127,772 42	153,080 51	146,311 32
Sandwich, Ont.....	125,340 74	195,344 23	241,725 95
Sintaluta, Sask.....	53,658 16	78,977 56	83,059 28
Sunderland, Ont.....	78,432 32	107,230 45	122,799 04
Tantallon, Sask. (sub to and incl. in Welwyn)		84,041 39	93,617 63
Tecumseh, Ont.....	67,052 90	72,628 76	198,899 82
Thornedale, Ont.....	173,807 83	187,206 26	187,469 83
Verdun, Que.....	33,333 81	76,860 77	168,346 23
Walkerville, Ont.....	197,401 12	222,246 17	282,463 83
Welwyn, Sask.....	176,587 94	213,038 99	142,921 85
Weyburn, Sask.....	34,475 54	93,460 67	98,324 46
Winnipeg, Man.....	553,998 03	1,046,997 21	419,097 89
Total.....	\$9,351,282 87	\$12,219,201 86	\$13,340,140 32
<i>Branches opened May 31, 1916 to May 31, 1918.</i>			
Cabri, Sask.....		131,751 00	111,597 02
Vancouver, B.C.....		91,275 54	146,996 35
Total.....	\$9,351,282 87	\$12,442,228 40	\$13,598,733 69
<i>Branches opened May 31, 1916 to May 31, 1918.</i>			
Foreign Department.....			
Roncesvalles, Toronto.....			117,036 24
Danforth and Main, Toronto.....			159,762 76
Yonge and Charles, Toronto.....			95,097 45
Queen and Kenilworth, Toronto.....			109,801 44
St. Clair and Glenholme, Toronto.....			73,097 32
Forward.....	\$9,351,282 87	\$12,442,228 40	\$14,153,528 90

	Deposits May 31, 1916	Deposits May 31, 1918	Deposits May 17, 1923
Brought forward.....	\$9,351,282 87	\$12,442,228 40	\$14,153,528 90
<i>Branches opened May 31, 1918 to Aug. 17, 1923—Con.</i>			
Amulet, Sask.....			20,222 31
Angus, Ont.....			61,610 43
Arnprior, Ont.....			231,133 63
Battrum, Sask.....			28,470 51
Blairmore, Alta.....			188,722 07
Cobocok, Ont.....			132,897 65
Eganville, Ont.....			44,559 65
Franklin, Man.....			40,411 79
Hamilton, Ont.....			750,212 58
Khedive, Sask.....			49,499 76
London East, Ont.....			37,442 01
London Market, Ont.....			53,588 84
Ottawa, Ont.....			201,883 10
Rosser, Man.....			30,207 10
Scarboro' Junction, Ont.....			5,709 46
Shackleton, Sask.....			30,153 52
Shelburne, Ont.....			104,570 00
St. James, Man.....			46,600 37
Windsor, Ont.....			145,412 44
	\$9,351,282 87	\$12,442,228 40	\$16,354,844 72
4A—Interest Reserved.....	7,000 00	43,000 00	5,415 94
4C—Unclaimed Balances.....	9,000 00	4,000 00	11,528 50
Due Dominion Government.....	500,000 00	3,151,000 00	243,838 53
Due Provincial Government.....	765,000 00	3,226,000 00	1,234,438 56
	\$10,632,282 87	\$18,866,228 40	\$17,850,066 25
26 C.—Off.....		33,000 00	53,844 44
	\$10,632,282 87	\$18,833,228 40	\$17,796,221 81

His LORDSHIP: Exhibit 131 purports to show the deposits in the different branches. It appears on pages 249 and 250 of the record. That is supplemented in this document you now offer by what further particulars, Mr. Lee?

Mr. LEE: The particulars are, showing the deposits in 1916 and 1918 and in 1923 at various periods, for your lordship's benefit. At each of the respective periods mentioned in our statement, in our petition.

Mr. SYMINGTON: None of these figures seem to agree. They may require some explanation. Your Exhibit 131 at page 250 shows the deposits in 1923 at the time of the suspension at 15 million odd. You must have deducted the Government deposits, I suppose?

Mr. LEE: That is exclusive of those Government deposits. The Government deposits due according to this statement to the Dominion Government on the 31st May, 1916, were \$500,000.

His LORDSHIP: Let me follow that. Where is that shown?

Mr. SYMINGTON: We were discussing, Mr. Lee, the 1923 amount. Your exhibit at page 249, put in by Mr. Browning, shows your deposits at \$15,247,000

Mr. LEE: \$15,531,552.

Mr. SYMINGTON: You now show them at \$17,796,221.

Mr. LEE: \$17,796,221, yes.

Mr. SYMINGTON: Is the difference the Government deposit?

Mr. LEE: That is the only explanation that I have to offer, that that is the difference.

Mr. SYMINGTON: We would like that accurately if we can get it.

Mr. McLAUGHLIN: We have a statement showing the deposits—page 495—exclusive of the Government deposits. So far as this statement is concerned, I do not think it really adds anything to what is already in, except to show the final.

Mr. LEE: Mr. Edwards' statement, in the exhibit filed by you—No. 170—showed the deposits at \$19,295,735, as of June 30th, 1923.

Mr. SYMINGTON: All I want to get at is how this difference is made up. If it is made up of the Government deposits, then we understand it.

His LORDSHIP: On the face of it that would hardly appear to account for it.

Mr. SYMINGTON: No, I don't think it does.

His LORDSHIP: No, it does not, on the face of it. Mr. Clarkson during all of his evidence was careful to say that the figures he submitted were not or might not be entirely accurate, but they were the best that he could present to us at the moment. It may be that this being later, may have corrected inaccuracies which appear in the previous figures.

Mr. LEE: I think, sir, these would be absolutely correct, because Mr. Calvert was the manager at the time at which the bank suspended and he has gone over this very carefully and checked up the figures and certified to them.

Mr. SYMINGTON: Is Mr. Calvert now in the employ of the liquidator?

Mr. LEE: Yes.

Mr. SYMINGTON: It is a rather surprising thing to disclose here that the deposits in 1918 were more than they were in 1923.

Mr. McLAUGHLIN: That is accounted for by the Government deposits. I think all of these statements are correct but this differs from Mr. Edwards' in this respect, that his statement is of the 31st June and these others are at different dates.

His LORDSHIP: While you are considering this question of deposits, Mr. Lee, are you putting forward this amount of \$17,796,221.81 for any purpose of calculation?

Mr. LEE: No, the only purpose of it is to show to you, sir, accurately what the deposits were so far as we know them in these various periods. We show that the deposits went up to upwards of 8 millions between May 31st, 1916, and May 31st, 1918. Those were the dates respectively of annual meetings of the shareholders. And then we show the amount of deposits as of the date of suspension. It has already been given in evidence here, that in 1923 a million dollars was drawn out in one deposit, and of course that might account to some extent for that drop. I do not know whether there was any other money drawn out.

His LORDSHIP: Yes, that might be. Now in this statement you have submitted last, showing deposits of \$17,796,221.81, you include about a million and a half due to the different Governments, don't you?

Mr. LEE: I include about a million and a half due to the different Governments, yes, sir.

Mr. McLAUGHLIN: Those are excluded as preferred claims.

His LORDSHIP: Those are preferred claims, and they have to be paid, as you say.

Mr. McLAUGHLIN: They have been paid in full.

His LORDSHIP: Have the depositors been paid anything at all?

Mr. LEE: The depositors have been paid 25 cents on the dollar of their deposits, and that was obtained by a loan by the liquidators, upon all the assets of this institution, from the various banks in this country, so that they now have a prior lien. After the Government's lien, they have a prior lien on all the assets of this institution before any dividend is declared.

His LORDSHIP: Well then, presumably they have made an accurate calculation of the amounts that they have to pay or the amount that is due at any rate in order to make a 25 per cent payment?

Mr. LEE: Yes, my lord.

His LORDSHIP: Have the liquidators made an estimate as to how much more they will be able to pay?

Mr. LEE: I do not think they have, my lord. It is only in the public press that I have seen some statement that is alleged to have been made by Mr. Clarkson that they might be able to pay 15 cents on the dollar.

Mr. SYMINGTON: More?

Mr. LEE: Yes, more. There is nothing in Mr. Clarkson's evidence. Nor do I know that he made that statement definitely to the press.

Mr. McLAUGHLIN: In Mr. Clarkson's evidence he states that capital and reserve and 9½ millions in addition had been lost at the time the liquidation began.

Mr. LAFLEUR: What occurred to us was that perhaps it might be useful, if it is possible, to get some kind of an estimate of the final dividend that the depositors may expect to get.

Mr. LEE: I do not think Mr. Clarkson could do more than give you a suggestion of what he thinks, because a great deal will depend upon the value of these various assets, these timber limits and so on; and with the cost of liquidation of course, to be deducted, so that it is impossible to say.

Mr. LAFLEUR: You agree with me that the amount of your client's loss will depend upon what final dividend may be paid, and we will have to make some suggestion as to that.

Mr. LEE: Yes. Well, that is the statement that was contained in the press.

Mr. LAFLEUR: Was there any foundation for that do you know?

Mr. LEE: I think there was. I think Mr. Clarkson did make a statement, some weeks before that, that it possibly might be 20 cents on the dollar more.

Mr. BROWNING: His last statement was; between ten and fifteen cents.

Mr. LEE: Yes.

Mr. SYMINGTON: If his estimate was 9½ millions loss, it would appear to work out at about that.

Mr. LAFLEUR: Then that is as near as we can get to it?

Mr. LEE: That is as near as we can get to it at the present time. Of course if there is very much more litigation, a great deal of which is now looming up, it may be considerably less.

His LORDSHIP: Would you make clear to me the connection between the loss of the reserve and capital and the amount which the liquidator will be able to pay in addition to the 25 per cent? I did not follow that.

Mr. SYMINGTON: Sir: if you observe, Mr. Clarkson says, as I understand it, that in his opinion the capital and reserve are gone and in addition to that he says there is 9 million odd dollars gone. Now they have as deposits 17 million, 9 million of which is gone; that would leave 8 million with which to pay 17 million less the costs of liquidation.

Mr. McLAUGHLIN: There is 1 million of that which is preferred. \$15,500,000 is about the amount.

Mr. SYMINGTON: Mr. Edwards puts the loss, in his estimate, at less than that. He says \$7,700,000 or something of that kind. In that there would be 8 million to pay 17 million.

Mr. LEE: Mr. Clarkson some weeks ago, under cross-examination, put the loss between eight and nine and a half millions. At that time he could not say anything better than that.

His LORDSHIP: There is a million and a half to come out of that eight for preferred claims I suppose.

Mr. SYMINGTON: That is reduced to 17 million. Leaving the 16,300,000 with about 7 to 8 million to pay as far as their estimate goes.

His LORDSHIP: If you had not any expenses to pay that would be just half, would it not?

Mr. SYMINGTON: Yes.

His LORDSHIP: Well, that is what I wanted to follow. I may say I would like to have, from some quarter or other, as accurate an estimate as can be furnished of the amount which would be necessary to be advanced in case the loss were made up. I can see how a Committee might ask that question the very first thing, how much will this involve, and I would like to embody in my report something which would throw light upon that.

Mr. LEE: Would a letter from Mr. Clarkson at the present time be sufficient?

His LORDSHIP: I suppose he would be the best one to give it.

Mr. LEE: It would save us recalling him. If a letter from Mr. Clarkson to your lordship would be sufficient and would satisfy my learned friends we will undertake to get that and put it in.

His LORDSHIP: I would like to have it in some form or other.

Mr. LAFLEUR: If that incident is closed, may it please your lordship, the Honourable Mr. Robb is in attendance, and as we do not wish to keep him waiting I propose that he should be heard.

His LORDSHIP: Certainly.

Hon. JAMES A. ROBB, sworn.

*Examined by Mr. Symington:*

Q. Mr. Robb, you are Acting Minister of Finance for the Dominion Government?—A. Yes.

Q. And you were Acting Minister of Finance in the month of August, 1923?

—A. I was temporarily acting for Mr. Fielding during his absence.

Q. What was your first intimation as to the Home Bank being in difficulties?—A. Oh, that was the evening that Mr. Stewart, one of the Directors, arrived from Toronto.

Q. Arrived from Toronto?—A. Yes.

Q. And communicated with you?—A. I recall that the Honourable Mr. Graham, my colleague, telephoned to my room and wanted to see me along with a man from Toronto. He brought Mr. Stewart up to my room, and there Mr. Stewart told us of the position of the Home Bank. He said that it came as a shock to them. The Manager had died and they had put in a new Manager, and when he had advised them of the condition he found the bank in he stated that they had called in a man in whom they had confidence to make an examination, and he had verified the statement and advised them to come out in the open and tell the Government frankly just their position. That was his mission down to Ottawa.

Q. And as a result of that conversation, Mr. Robb, what did you do?—A. Well, we located the Prime Minister who was out at dinner, and I recall having told him that a situation had developed which I thought he should know at once, and we arranged to go down to his house upon his return. It was getting on late, I think it was about eleven o'clock when we went down there.

Q. Yes. Now, the Prime Minister has told us about that evening. Have you read his evidence, Mr. Robb?—A. Yes, and just in that regard, when I read the Prime Minister's evidence, I noticed that he seemed to be in doubt as to who was present besides Mr. Graham, Mr. Stewart and myself, and indicated that he thought possibly it was the Honourable Mr. Low. I have talked that over with the Prime Minister and refreshed his memory, and I have his authority to say that he is now satisfied that the other person present was not the Honourable Mr. Low but was the Deputy Minister of Finance, Mr. Saunders.

Q. And that agrees with your recollection?—A. Yes, I had telephoned Mr. Saunders to come to the hotel before we went down there.

Q. Apart from that, do you substantially agree with what the Premier says about the meeting that night?—A. Yes.

Q. Then what next did you have to do with the matter?—A. Well, after that conference that night, Mr. Stewart told us that two other of the Directors were coming to Ottawa in the evening. They arrived in Ottawa in the morning, and I had a conference with the three of them in my room in the hotel.

Q. Those other two being?—A. Mr. Casey Wood and Mr. Gough. I might say that they were urging the Government to make a deposit, and represented to us that they feared unless they had some other funds they would have to close. I recall that they gave us one reason why their funds were going out rapidly, and that was that they had on deposit a considerable amount of funds from the Government of the Province of Ontario, and that the Province of Ontario was then issuing cheques to meet the payments of school grants that were due, and that was withdrawing rapidly funds they had available.

I need not say to you that we absolutely refused to make any deposit on their own statement as presented to us. We would not have been justified, but we were anxious to have this bank steadied, if possible. They represented that they had sought the aid of other banks in Toronto and wanted to know what to do, and they suggested that they might go to Montreal and see the larger banks there. They went to Montreal on the noon train. I went to Montreal on the afternoon train, as I wanted to keep fully posted as to what progress they were making. It had been arranged before I reached there that they should have a meeting with Sir Vincent Meredith of the Bank of Montreal that evening, and I recall that Mr. Spinney, Sir Vincent's confidential man, came down to the Ritz Hotel to pilot us up to Sir Vincent's house, and we went up there about nine o'clock.

The Directors presented their position very fully to Sir Vincent Meredith who went into it carefully. I made it clear to him that I was only there as an onlooker, interested as acting for the Minister of Finance to know just what position this bank was in, and to know what could be done to save the situation.

After looking into it fully, Sir Vincent did not offer very much hope but said he would like to look it over again in the morning, and if there was a possibility, in any way, that he might be able to help them out long enough until they were able to arrange an amalgamation with some stronger bank, but, generally speaking, he thought they should take advantage of the clause in the Act and appoint a curator at once, and that would give them ninety days to arrange for an amalgamation with another bank.

Q. That is the substance of the conversation?—A. That is the substance of the conversation. I left them that night after we returned from Sir Vincent Meredith's. I walked down with them, and we parted there in the rotunda and I came to Ottawa next morning.

Q. And is that all the connection you had with the matter?—A. Yes. We were watching it very closely. As I recall it, two or three days after that they appointed a curator and went into liquidation.

Q. The next day I think it was?—A. Yes.



*Cross-Examined by Mr. McLaughlin:*

Q. Mr. Robb, did they submit any report to you as to the actual state of the bank?—A. They submitted a statement that they had had prepared of their condition.

Q. You have not got the statement?—A. No, I have not got the statement.

Q. And was that Mr. Calvert's statement, the Assistant General Manager?—A. No, it was a statement that had been prepared for them by Sir Thomas White. They said to me when Mr. Calvert had told them of their position that they wanted to get some man who could dig into it and get them the truth, and that they had located Sir Thomas White up the country somewhere and brought him down, and that he had prepared the statement. It was on Sir Thomas White's advice that they had made a frank statement to the Government and the Bankers' Association of their position.

Q. Well, what did that statement show their position to be?—A. Well, rather hopeless.

Q. Insolvent?—A. I should say so.

Q. Do you know to what extent it showed their deficiency to be?—A. I cannot give you the figures, no. I kept no memorandum of those figures.

Q. Well, then, that statement was presented to Sir Vincent Meredith I suppose?—A. Yes. They made practically the same statement to Sir Vincent Meredith that they had to the representatives of the Government.

Q. He seemed to think the bank was too far gone to be saved?—A. Apparently that was the conclusion he reached.

*Cross-Examined by Mr. Reid:*

Q. Mr. Robb, you say that when you went to Montreal and called on Sir Vincent Meredith that evening he suggested that there might be an attempt made to amalgamate with some other banks?—A. I understood that they had been hoping for that, the Directors had been hoping for that.

Q. Yes, but what I say is that Sir Vincent Meredith suggested that at his house that evening?—A. No, he did not suggest that. He suggested that he would look into it and see if it were possible that he could advance them money enough until they could attempt to arrange an amalgamation.

Q. Did you, as Finance Minister, or the Government, take any steps after that, during the Wednesday evening prior to the Friday of August 17th when the bank suspended, or make any attempt to assist them to obtain an amalgamation with another bank?—A. No.

Q. Now, in the evidence of the Prime Minister given on Friday the 9th day of May he said:

"I received a phone call from one of my colleagues mentioning that Mr. F. M. Stewart of Toronto was in the city, and had been in conversation with Mr. Robb, the Acting Minister of Finance at the time."

Can you tell us who the colleague was that called Mr. King up at his house? A. I did not call him at his house, I called him where he was dining. He was at another house dining that evening. It was I who called him.

Q. And arranged for a meeting at his house at ten or eleven o'clock?—A. Yes. I suggested to Mr. King that a situation had developed that I thought he should know at once.

Q. That was on Tuesday evening?—A. Well, I cannot tell you the evening. The records go to show it must have been the evening of the 14th.

Q. August 14th, 1923. Now, did you have any interview with any of the Directors of the Home Bank on Monday?—A. No.

Q. The first interview you had with any of the Directors of the Home Bank was on that Tuesday evening when Mr. Stewart arrived in the City?—A. Yes, rather late.

Q. And Mr. King, the Prime Minister, in his evidence says—

Mr. SYMINGTONS Page, please.

Mr. REID: Page 560. The Prime Minister says that Mr. Stewart told him he had come to place the situation before the Government. He said he had consulted with Sir Thomas White in Toronto, and that Sir Thomas had advised that he should see the Government, and in the next paragraph, on the same page:—

“When he”—that is meaning Stewart I presume—“had outlined the situation, I asked him what it was that he wished to place particularly before the Government. He said he had come really to find out if it would not be possible for the Government to make a deposit with the bank—

And then in the fourth paragraph, page 560, Mr. King says:

“I was aghast when the suggestion was made, and immediately said that the circumstances which he had mentioned were sufficient in themselves to make it impossible for the Government to consider for a moment transferring any of the public funds—”

And then in the next paragraph:—

“Then Stewart was anxious to know whether the Government would lend its good offices to have the Bankers' Association—”

Then a few lines down in the same paragraph:

Mr. LEE: I think my learned friend should read the whole of it.

Mr. REID: I do not want to encumber the record by reading the whole page.

Q. What I want to show is this, Mr. Robb, at the time that you had that meeting at the House of the Prime Minister on the evening of August 14th, 1923, it was a meeting of the Dominion Cabinet.

Mr. SYMINGTON: Well, surely that is a question—

Mr. REID: Just sit down, don't get so excited.

Mr. SYMINGTON: I will not sit down and my friend is not going to tell me to sit down.

Mr. REID: I don't want to get mad.

Mr. SYMINGTON: I wish you would then I could handle you. The fact is, if my friend is going to establish a Cabinet meeting then, of course, he cannot get any answers to his questions. It is very simple, it was not a Cabinet meeting.

Mr. REID: My lord, what I want to show is this. On page 560, when the Prime Minister refers to the meeting at his house, he refers to the fact that Mr. Stewart was there to place the matters before the Government, and what I want to ask is this, that having placed these matters before the Government we are entitled to know, from first to last, everything that took place between that time and the date of the suspension of the bank, that is all.

His LORDSHIP: You can ask Mr. Robb the questions, and if there are any objections I can rule on them.

Mr. REID: Then did you consider that a meeting of the Cabinet?

The WITNESS: No.

Q. You did not?—A. No.

Q. When you went to Montreal on that afternoon of August 15th, how long did the meeting at Sir Vincent Meredith's house last?—A. Well, I cannot tell that offhand. We were there quite a time, I imagine, perhaps a couple of hours. I cannot tell you offhand.

Q. And he asked you to wait over till the next day in Montreal?—A. No, no, he did not ask me to wait over.

Q. I understood you to say that Sir Vincent Meredith asked until next morning to look into the situation and see what could be done.—A. He suggested to the Directors that he would look into the situation next morning.

Q. But you were there representing the Dominion Government?—A. I was there looking on to see if the Government could be helpful, or see in what way we could protect the situation.

Q. Now, following the meeting at Mr. King's house on the night of August 14th, 1923, that is Tuesday, Mr. King has told us, in his evidence, that there was a meeting of the whole Cabinet on Wednesday, August 15th.

Mr. SYMINGTON: Mr. King did not say that. Mr. King said there was the usual Cabinet meeting on Wednesday; he did not say a full Cabinet meeting.

Mr. REID: Mr. King does not say anywhere that there was the usual Cabinet meeting on Wednesday. I would like my learned friend to point that out.

Mr. SYMINGTON: Show the Commission where he said there was a full Cabinet meeting. My learned friend's questions are so inaccurate that I think he should guard himself.

Mr. REID: Your answers are equally inaccurate.

Q. Then following the meeting at Mr. King's house on Tuesday evening, in the ordinary course you would report that matter to the Dominion Cabinet?—A. It was a conference in Mr. King's house.

Q. And you reported that?—A. Is my honourable friend aware of the oath of a Cabinet Minister?

Q. Yes. I am not asking what you said at the Cabinet meeting or what you did, I am not asking anything confidential, I am asking if in the ordinary course of Government business you would or did report that matter to the Government the following morning?

Mr. SYMINGTON: You need not answer.

The WITNESS: I have made it a rule never to discuss Cabinet matters, even with my colleagues, outside of the Cabinet room. That is about the only way a Minister can keep out of trouble.

Q. So you did report the conference?—A. I have not said I did.

Q. I am asking you?—A. I am not saying whether I did or not.

Mr. SYMINGTON: Will your lordship rule on that.

His LORDSHIP: Mr. Robb seems to be well advised as to his rights. I understand he is declining to answer.

Mr. REID: All I will say is that I think it is unfair to the shareholders at any rate, speaking for them, to have a Cabinet Minister, I do not care who he is, hide—

His LORDSHIP: Do not reflect on the witness, if you please.

Mr. REID: Not on the witness, any Cabinet Minister who tries to hide behind the secrecy of the Cabinet, I do not think it is fair. All I want to know is if the matter was reported to the Government, I am not asking anything else, but the simple question;—was the conference at Mr. King's house reported to the Dominion Government as it should be. Do you refuse to answer?—A. Yes.

Q. Now at the conference at Mr. King's house on that evening of August 14th, 1923, you say that Mr. Stewart who came there with a statement asked for a deposit of some kind. Can you tell us the amount he asked for?—A. No I cannot tell you the exact amount.

Q. About the amount?—A. I could not tell you that, but we gathered from their statement that they would require a considerable amount.

Q. You remember that it was August 14th, 1923?—A. I have looked that up by dates I had in my book.

Q. And you remember that you called Mr. King up at the house where he was dining?—A. Yes.

Q. And you remember the meeting at his house at about 11 o'clock?—A. Yes I remember that.

Q. Can you remember that the amount was not say, \$5,000,000, or \$10,000,000?—A. I would not say what the amount was.

Q. I am not asking you to say what it was but can you remember about what it was?—A. Now you cannot put words into my mouth, sir.

Q. Was it \$10,000,000?—A. I have given you my answer, you cannot put words into my mouth.

Q. Do you refuse to answer?—A. No I do not refuse.

Q. You say you have suffered from a lapse of memory?—A. No I do not, I say I do not carry amounts of dollars and cents in my head from day to day. I am not going to pin myself down to any question of dollars.

Q. I am not asking you to pin yourself down to any exact amount, I am asking can you remember about the amount? You remember all the details in connection with the meeting on Tuesday and all the details in connection with the meeting on Wednesday, both in Ottawa and in Montreal, but you can remember nothing at all as to whether it was \$100 or \$5,000,00 that was asked for at that meeting.

Mr. LEE: Does it matter?

The WITNESS: It was a considerable amount.

Mr. REID: All right. You say Mr. Graham came to the house that evening with the others.—A. Yes.

Q. Did you all arrive there together?—A. Yes, I recall that it was a very wet night and we took a car and drove down.

Q. That was on Tuesday night. On the following Wednesday you had a meeting with the Directors of the Home Bank, all who came to Ottawa?—A. I met informally these three Directors in my room.

Q. Mr. Gough was there?—A. Yes.

Q. Was Mr. Graham there?—A. No.

Q. Do you know if Mr. Graham had an interview with Mr. Gough at all at any time in reference to this matter?—A. I could not tell you.

Q. Was Mr. Fielding in Ottawa during that period, that memorable week?—A. No, Mr. Fielding was away for a much needed rest.

Q. At what time of day to your knowledge did Mr. Stewart arrive in Ottawa on that Tuesday?—A. I could not tell you exactly but I inferred that he had arrived on the train which reaches Ottawa in the evening.

Q. What other Ministers of the Crown to your knowledge had an interview with the Directors of the Home Bank?—A. I know of no Ministers other than those I have mentioned.

Q. What other Ministers of the Crown to your knowledge, had any knowledge whatever of the coming of the Directors of the Home Bank to Ottawa on that Tuesday evening?—A. I do not know that any of the Ministers knew they were coming until they arrived on Tuesday evening.

Q. Did you talk this Home Bank matter over with any other Members of the Dominion Government after the conference at Mr. King's house on Tuesday night?—A. I said a few minutes ago that as a Cabinet Minister I have made it a rule never to discuss questions outside of the Cabinet room. That is a safe way to keep out of trouble.

Q. Did you have an interview with any Members of the Dominion Cabinet after the Cabinet meeting on Wednesday?—A. I could not tell you that, I cannot recall.

Mr. REID: You see, my lord, it may seem irrelevant but the significant thing is—

Mr. SYMINGTON: These explanations are irrelevant.

Mr. REID: I want to get some questions answered and I want to explain what I want.

Mr. SYMINGTON: The best way is to explain to his lordship instead of putting speeches on the record for the newspapers.

Mr. REID: I am not thinking of the newspapers.

Mr. SYMINGTON: One wonders what else you are doing.

Mr. REID: You can correct a lot of abuses through the newspapers that you cannot otherwise.

The significant fact is that on Wednesday, August 15th, following the Cabinet meeting in the morning, the Honourable Mr. Murdock goes across the street and draws out his deposits and on the Thursday morning next he draws the rest.

Mr. LEE: It appears to me that when your lordship gave my learned friend the opportunity of cross-examining on behalf of certain shareholders it was not your intention to give him unlimited scope to go into all these matters and perhaps delay us for a considerable time. I must object to my friend going into a lot of matters that are absolutely irrelevant to our case.

Mr. McLAUGHLIN: This being the depositors' case we ought to have charge to some extent of the way it is presented. We have endeavoured to bring out the facts without attacks on anyone, but Mr. Reid comes down here, supposed to be representing shareholders, and at the last meeting he made a statement with reference to Sir Thomas White which the public have blamed us for, they say we are making personal attacks and playing politics, which we have endeavoured entirely to avoid. I think if Mr. Reid wants to make a case for the shareholders it should be taken up independent of and subsequent to our case.

His LORDSHIP: I think that is right. I think, Mr. Reid, on the objection being taken, you had better confine your questioning of this witness and any subsequent witnesses to something pertinent to the depositors' case. Not that you will not be given the opportunity in the further work of the Commission to develop this line of enquiry if you wish, but as the objection has been taken I think you should limit your questions to such as have some bearing on the matter we are trying out just now.

Mr. SYMINGTON: Might I also suggest that the counsel confine his efforts to questions, not statements.

Mr. REID: Well, some counsel cannot distinguish between a question and a statement. With reference to one statement by Mr. McLaughlin, all I said was, I drew your lordship's attention to a newspaper report in the *Globe* and the *Ottawa Journal* that Sir Thomas White had got a \$1,500 fee a couple of days before the bank closed, and I suggested that he should be given opportunity to come here and explain. I made no reflection on Sir Thomas White or anyone else, I simply drew the matter to your lordship's attention.

Mr. SYMINGTON: I think you said he should be haled here.

Mr. REID: Now one or two more questions. When you got to Montreal on Wednesday afternoon or evening what was the first thing you did?

The WITNESS: I think I went and had some dinner.

Q. And after that?—A. Probably had a smoke.

Q. Did you personally telephone Sir Vincent Meredith's house?—A. No.

Q. You had no communication whatever with him over the telephone?—A. No.

Q. When you want to interview the Bankers' Association I presume that as a rule, being Finance Minister and occupying a high position in the Government of the country, you would send for them to come to your office?

Mr. SYMINGTON: Is this material to the depositors' case or any other case?

The WITNESS: I have no comment to make, I am not asking you any questions as to what your presumption in the matter is.

Mr. REID: Do you usually, when you wish to interview the Bankers' Association concerning a bank which is in trouble, send for the Bankers' Association to come to your office or do you go and see them?—A. When the banks get into trouble, as the experience of the Home Bank shows, they come to us.

Q. And when you want to find out what the Bankers' Association will do, do you ask them to come and see the Finance Minister or does the Finance Minister go and see them?—A. Oh that might be a matter of convenience.

Q. Who made the arrangements with the Dominion Government for the Home Bank Directors to come to Ottawa?—A. There was no arrangement made with the Dominion Government.

Q. Well, with any Cabinet Minister of the Dominion Government?—A. No.

Q. The first intimation you had was when?—A. I have told you that a few minutes ago.

Q. When Mr. Stewart called you up?—A. No, Mr. Graham. I gave that in my evidence a moment ago.

Q. So that Mr. Stewart had been to see Mr. Graham before he saw you?—A. I imagine he looked up Mr. Graham who was stopping in the hotel then I think.

Q. And you cannot give us any details whatever as to the amount asked for or anything concerning the reporting of that interview of Tuesday to the Dominion Government the following morning?—A. You would not expect me to carry those figures around in my head all the time.

*Cross-Examined by Sir Thomas White:*

Q. I need not say, Mr. Robb, that I had no intention when I came here this morning of cross-examining you. I came as a witness. But his lordship has kindly allowed me to act also as my own counsel and there is one statement you made that to my mind is, unintentionally on your part of course, inaccurate and I wish to clear it up.

You said in evidence that the report which was presented to you was my report. Now I wish you to just recall the circumstances to your mind clearly. Was it not a letter of advice which I gave upon the Calvert report?—A. Oh, yes that is right, it was your letter.

Q. Just one other thing, that you did not touch on, but which was touched on in the Prime Minister's evidence the other day. He said that he understood that I had advised either Mr. Stewart or the deputation to lay the facts before the Government and the Bankers' Association. He did not say in his evidence that I had advised anybody to ask for a deposit from the Dominion Government. Now I do not understand you to say that in my letter of advice I had suggested that they should ask for a deposit from the Dominion Government.—A. I made no such statement.

Q. I said you had not. I was referring to the Prime Minister's statement. Unfortunately he was misreported. You agree that as far as your recollection goes my advice was to lay the facts before the Government and the Bankers' Association?—A. As I said a moment ago, freely and frankly.

Mr. SYMINGTON: I think Mr. Reid asked Mr. Crerar to come back for some questions.

Hon. T. A. CRERAR recalled: (already sworn)

*Examined by Mr. Reid:*

Q. The last time you were here I referred to the stock which you held in your own name, and also to the stock which was transferred from the Grain

Growers' Company to Mr. Daly and subsequently dealt with in some way; and I asked you at the time whether the stock you received for yourself was bonus stock, and I think you said, No.—A. That is correct. At any rate it was not bonus stock.

Q. What year did you become connected with the United Grain Growers' Company?—A. I was elected a Director and President in July, 1907.

Q. And you were a Director and President from that time until when?—A. Up until the present.

Q. You are still connected with them?—A. I explained that in my evidence.

Q. Well, I do not want the detail, but you are still President and connected in some way?—A. I am still President of the United Grain Growers Limited, and of course a Director.

Q. In the early days of the operations of the Home Bank in the West were you engaged in selling any stock of the Home Bank?—A. Our company was selling shares in the bank in Western Canada. We had that arrangement with the bank as agents.

Q. What was the name of your company in those days?—A. The Grain Growers' Grain Company.

Q. Do you recognize this as a prospectus issued by the Grain Growers' Grain Company selling Home Bank stock in the West?—A. I think probably it is. I remember some literature was prepared at the time. It is ten or twelve years ago and it is difficult to recall it.

Q. I suppose you, in order to advance the interests of the Home Bank in the West in the way of securing deposits and selling shares of stock, you yourself took an active part in doing that?—A. Doing what?

Q. Selling stock and boosting the bank in the West?—A. No; I do not know what you mean by an active part.

Q. Did you yourself personally sell any stock in the Home Bank as an agent?—A. I cannot recall that I did; my duties were very numerous outside of selling stock.

Q. As a vendor of the stock in the West the Grain Grower's Grain Company was an agent for the Home Bank, was it?—A. We were an agent for the Home Bank in selling the stock.

Q. Did you yourself receive any commission of any amount for the sale of the stock of the Home Bank?—A. You mean personally?

Q. Yes.—A. No, sir; not a cent.

Q. Did you receive any remuneration from the Grain Growers' Company, as it was then called, for your services in connection with the sale of Home Bank stock in the West?—A. Not a cent.

Q. Then did you know a gentleman named Kennedy whose name appears on this prospectus, one of the Directors of the Grain Growers' Company?—A. Yes, I know Mr. Kennedy.

Q. He was connected with the company at the same time as you were I presume?—A. Yes, he was a Director of the company.

Q. Was he selling any Home Bank stock in the West?—A. He may have been; I cannot recall any particulars of that.

Q. He may have been selling it personally?—A. As an officer of the company.

Mr. SYMINGTON: Do you mean for the company or for himself?—A. Oh, for the company.

Mr. REID: It would look from this prospectus that there was some arrangement made with Mr. Kennedy or you or whoever would sell stock for the Grain Growers' Grain Company to receive remuneration as commission for the sale of the stock they sold in the West?—A. Receive remuneration from—?

Q. From the Grain Growers' Grain Company Limited?—A. No.

Q. Or the Home Bank?—A. The Home Bank was paying a commission to the Grain Growers' Company for the sale of shares.

Q. And of course it was to the interest of the Home Bank and the Grain Growers to sell all the stock they could in the West?—A. Well, I do not know that it was particularly to the interest of the Grain Growers Limited.

Q. Well, the Grain Growers' Company would receive commission from the Home Bank?—A. The commission was a small thing, as I recall, 5 per cent.

Q. Can you remember how much stock the Grain Growers Co. sold in the west?—A. No, I cannot.

Q. You have no idea whatever?—A. I cannot recall, no.

Q. What influences were used in the west to get farmers and western people so largely interested in the stock of the Home Bank, what was the method of operation?—A. I do not recall that any particular influences were used. I remember at that time there were a great many districts in Western Canada without banking facilities and we were a farmers' company and our officers and directors were frequently asked by farmers to use our influence with the banks to get branches opened, not alone the Home but other banks, to provide facilities at points where no banks were located.

Q. And I suppose these farmers in the west who were dealing with the Grain Growers Co. would now and again have some stock offered them if they wished to buy it, I suppose that is one way of doing it, customers of the Grain Growers Company would be offered shares in the Home Bank by the company?—A. Oh, yes, anyone who wished to buy the shares had the opportunity of doing so.

Q. And the selling of stock in a farming community is as a rule rather a difficult and exceptional operation to a farmer who does not understand the value of stocks?—A. No, I would not agree with that at all.

Q. But when you did undertake to sell some stock in the west you found little difficulty in having the farmers take it if they had the money to do so?—A. I do not know what you mean by "difficulty." For instance, if a branch of the Home Bank was opened the people of that district were interested in that fact, and as I believe happened in the case of other banks also they frequently bought stock.

Q. And the Grain Growers Company issued a prospectus in which they say:—

"Take this opportunity of getting in on the ground floor, not of a visionary bank but of one strongly established and paying good dividends. Let us have a Home Bank which would be the people's bank. Read this prospectus and learn about it and think about it."

That was the first intimation I suppose that the farmers in the west had of stock in the Home Bank being for sale?—A. No, I think the matter was referred to in the newspapers.

Q. But you used this prospectus for all it was worth to sell the stock to the farmers?—A. That prospectus was probably sent out, I cannot throw my mind back ten or twelve years,—in fact it is longer than that, that was fourteen years ago.

Q. Did you recommend the stock to any one?—A. You mean personally?

Q. You, personally?—A. I cannot recall that I did, no.

Q. You might have done so?—A. Well, I cannot recall. You are asking me to go back and recall conversations I may have had sixteen years ago, and I am sorry my memory is limited, I cannot do it.

Q. You bought stock yourself to the extent of 40 shares at one time and 26 shares another time?—A. I bought some shares, yes.

Q. Personally?—A. Yes.



Q. You were a holder of 66 shares yourself for which you paid how much?  
—A. I told you the other day my memory is I paid \$124 and \$125 a share.

Q. No, I think that is not in the evidence.—A. I think you will find it in the evidence.

Q. Then you sold it after you became a member of the Government, in October, 1917, I think you said you sold out your shares some time in 1918?—  
A. No, if you will read my evidence you will see I stated that I sold part of it—

Q. In 1918?—A. Some time in that summer or autumn of 1918, and the balance in 1923.

Q. And how much did you get for it when you sold it, do you remember?  
—A. No. I think I mentioned it the other day.

Q. No, it does not say. It is not in evidence.—A. I cannot recall, Mr. Reid. I thought it was around either under or over 70 for the first lot that was sold.

Q. And how much for the second?—A. It was over 90.

Q. When you bought that stock did you buy it from the Home Bank or from the Grain Growers, Limited?—A. I bought it from the Home Bank.

Q. Direct?—A. I bought it through a broker.

Q. Where, in Winnipeg?—A. In Winnipeg, yes, as I recall.

Q. There is another thing I want to ask you about. Just one more question and I will be through. In addition to boosting the sale of the stock of the Home Bank to the farmers in the West, did the United Grain Growers Company, Limited, or the Grain Growers Company, Limited, induce the employees of the company to use the Home Bank as a depository for their money?—A. No, I cannot recall that that was done. As a matter of fact, the majority of the employees of the company, I think, had their accounts in the Home Bank; because the company had its account there. I had my own personal account in the Home Bank.

Q. But you did not lose any money in the Home Bank?—A. No, I had money on deposit in the Home Bank when the crash came, and my personal account had been kept in the bank until that time, but as it happened, I had borrowed some money from the bank and was owing the bank some money, and the curator gave a ruling that one offset the other.

Q. So you did not lose anything in the Home Bank?—A. I did not lose anything myself.

Q. And you sold your stock out before the crash came also?—A. I sold my stock.

Mr. SYMINGTON: That is a very misleading question; you should not ask it in that form.

Mr. REID: It is in evidence and we understand it.

Q. Now the employees of the Grain Growers Company, Limited, or the United Grain Growers Company, Limited, used the Home Bank as a place to deposit their moneys, and when the Home Bank failure came did the employees of the Grain Growers Company, Limited, or the United Grain Growers Company, Limited, have money on deposit in the Home Bank?—A. I cannot get the meaning of your question?

Q. In short, it is this. When the Home Bank failed, did any of the employees of the United Grain Growers, Limited, or the Grain Growers, Limited, have any money on deposit in the Home Bank anywhere in Canada?—A. I think they did. I think some of them had. If you will pardon me a moment, I explained the other day that an account was kept in the Home Bank whereby the salaries of the employees, or a considerable number of the employees, I cannot recall how many, were paid through the Home Bank. We had an account there for that purpose. The money was deposited to their credit in the Home Bank. The reason of that was, that the Home Bank had been the Bank we had done business

with,—as I explained the other day in evidence,—up to 1917. Many of our staff had their accounts there. It was just across the street from our office. It was a convenient place for the members of our staff to do their business.

Q. And when the failure came they lost considerable of their money I suppose?—A. I don't know what their position was.

Q. They lost something. I mean the employees of the United Grain Growers lost a lot of money in the failure of the Home Bank by having their deposits there.—A. As a matter of fact I think probably the company will reimburse them.

Q. I was coming to that. After the failure of the Home Bank, and the loss of the money of the employees of the United Grain Growers Company, Limited, who had their funds placed on deposit in the Home Bank by the company of which you were President and Director?—A. No, just wait a moment. That arrangement was made as the result of a consultation with the staff. We don't do these things in the arbitrary manner you suggest, Mr. Reid, at all.

Q. I am not suggesting anything. I am saying that the United Grain Growers Company of Canada, being agents of the Home Bank to sell its stock and to boost the bank in Western Canada, were naturally doing everything in their power to do that, and one of the things was to get the employees—you say, after consultation with them—to place their money in the Home Bank on deposit.—A. Oh, no; no.

Q. Did they place it on deposit there?—A. Let me endeavour to make the thing clear. As I recall, not a share of the stock was sold subsequent to 1911 or 1912 by the Grain Growers Grain Company or any one else in Western Canada. That is my recollection. During that period, and up to 1917, while our company had its commercial account in the Home Bank, the majority of the staff, the employees of the Grain Growers, had their personal accounts in the Home Bank. As a matter of fact some two or three or four years ago, I cannot recall exactly when, this arrangement was reached with the employees of the company, whereby their salaries would be paid to their accounts in the Home Bank twice monthly as their salary cheques came due. My recollection is that arrangements was made within the last three or four years.

Q. And of course that helped to swell the deposit of the Home Bank?—A. I don't know. I don't know what these people did with it, whether they took it out or left it there, or anything else. I cannot tell you.

Q. What I say is, that these deposits of the employees of the United Grain Growers, Limited, helped to swell the deposits of the Home Bank and made more funds available for lending purposes?—A. I cannot say as to that Mr. Reid.

Q. Did the United Grain Growers Company borrow at all from the Home Bank?—A. As I stated the other day in evidence, we have not borrowed since September 1917.

Q. Have you borrowed personally since September, 1917?—A. I have had my personal account in the Home Bank since 1908, as I explained a moment ago.

Q. And you say that at the time of the crash you had overdrawn your account a little?—A. No, I had a note due. The Home Bank held my note for money I had borrowed and I had money on deposit in the bank.

Q. So you came clean out of the Home Bank?—A. I don't hear you.

Q. I say you came clean out of the Home Bank, without any loss. Now when the bank failed and the United Grain Growers Company, Limited, or their employees, lost their money as depositors in the Home Bank, did the United Grain Growers Company, Limited, reimburse them at any time for the amount which they had lost?—A. I think as a matter of assistance to our staff, that the company did assist them.

Q. You would know, you were President?—A. I don't know. Our business is rather a large one, Mr. Reid, and I am sorry, but I don't know all the details

of the business. As a matter of fact I think that the company is protecting these members of our staff under an arrangement made; not because we had any obligation whatever to do it, but as a matter of assistance to our staff. We do not want any of the members of our staff engaged in the company's service, to be worried over financial losses or anything else; it impairs their usefulness as servants of the company.

Q. And of course as a result of the early days, of the sale or urging the sale of stock and deposits in the Home Bank, you thought there was a sort of moral obligation on the United Grain Growers to reimburse them as far as possible for their losses as depositors?—A. No, I may tell you frankly that never entered our minds at all.

Q. But you did reimburse them?—A. I think that was done, but I cannot swear absolutely.

Q. Can you tell us the amount?—A. I cannot.

Q. Was it \$10,000?—A. No, I cannot tell you.

Q. You have no idea whatever?—A. I have already told you twice that I don't know. What is the use of asking me a question like that?

Q. Do you sign the cheques of the United Grain Growers Company, Limited?—A. Very rarely.

Q. There are other officers delegated to do that?—A. Half a dozen.

Q. Just one more question. When you were sworn in as a member of the Cabinet, you say that was in 1917 in October or November?—A. October 1917.

Q. You were sworn in then, and on January 3rd or around there you resigned as a Director of the Home Bank. When did you leave the Government, what month or year was that?—A. I think on the 6th June, 1919. Or the 4th June.

Q. Nearly a year and a half you were in office?—A. It was early in June anyway.

Q. During the time that you were a member of the Dominion Cabinet, and with your full knowledge of the conditions of the Home Bank, did you take any steps or do anything whatever to right the matters of which you had been complaining some years before.

Mr. SYMINGTON: That is an unfair question. Mr. Crerar has already said he had not any knowledge, he had not been in attendance at meetings. Why say "with your full knowledge"?

Mr. REID: Why, he was writing letters all over the place between 1916 and 1918, suggesting mergers and everything else. I am only asking one question.

Q. Did you do anything, while you were a member of the Dominion Cabinet, between October 1917 and when you resigned in June, 1919, to right the wrongs about which you were complaining for some years previously in connection with the Home Bank?—A. What do you mean by "did I do anything"?

Q. Did you take any steps? You had become a member of the Cabinet and were in a position to take active measures to either have an amalgamation made of the Home Bank, or to do something to save the depositors and shareholders and to save the situation generally by real energy and action, better than you had ever been in before; did you do anything during that period along those lines?—A. Well now if you are through making a speech, Mr. Reid, I will answer your question.

Q. I am trying to elaborate so that you will understand what I am asking, and then I ask you: did you take any steps along those lines?—A. If you mean, did I take any steps with those who had been associated with me as Directors, did I have any communication with anyone outside, I will answer, no, I did not.

Q. Or with the Government?—A. I refuse to answer.

Mr. REID: That will do.

*By Mr. Lee:*

Q. Just one question, Mr. Crerar. I asked you the other day a few questions as to the stock sold to Mr. Daly. When the stock of the Grain Growers was sold to Mr. Daly, the thousand shares, was there any limitation put upon where Mr. Daly should sell that stock, what portion of Canada?—A. Not as far as my knowledge goes, Mr. Lee, there was not. I may say in further answer to that, Mr. Lee, as I explained the other day in evidence, these negotiations were carried on by our treasurer, but I am very certain there was not.

*By Mr. Symington:*

Q. Mr. Crerar, your company had a Commission Department among its other departments in Winnipeg, what is known as a Commission Department?—A. Yes.

Q. And that department of your company sold Home Bank shares and other things on commission?—A. Yes, we had a department for selling our own shares at the same time.

Q. And the company had many departments in connection with its business?—A. Yes, probably half a dozen.

Q. You were not in charge of the Commission Department personally?—A. No.

HIS LORDSHIP: I think that will do, Mr. Crerar.

SIR THOMAS WHITE: My lord, I desire, with your permission, to make a statement to you with regard to an interview which I gave the press on Tuesday of last week; to explain the circumstances to which I shall testify in evidence a little later, and to say what was said to your lordship by Mr. Lafleur on receipt of the telegram from me, that in making that statement to the press no disrespect was implied toward the Commission.

On Tuesday morning of last week in Toronto, I read this in the *Globe*. I will read the heading first:—

“Records of Bank show fee of \$1,500 to Sir Thos. White.”

That is the large heading. The next heading is:—

“Directors’ Minute Book discloses interesting entry two days before close.”

And the next heading is:—

“Services as Adviser.”

A disclosure of unusual interest in connection with the transactions occurring during the last days of the Home Bank of Canada was made yesterday, when it was ascertained that Sir Thomas White, former Minister of Finance, received a fee of \$1,500 for services rendered as special adviser. An interesting memorandum relating to Sir Thomas’s connection with Home Bank affairs appears in the directors’ minute book under date of August 15, 1923. It reads as follows:

“Resolved, the bank do pay Sir Thomas White \$1,500 on account of his fees for services as special adviser in connection with the present situation of the bank’s affairs.”

This payment was made by cheque, and Sir Thomas cashed it before the bank suspended payment at the close of business on August 17.

The bank directors carried their case to Ottawa, throwing themselves on the mercy of the Government, and, through the Federal authorities, on the Canadian Bankers’ Association, on the eve of the collapse. This, no doubt, was the deputation referred to by Premier Mackenzie King in the House of Commons. At that time the Premier promised to make the details known later. He is expected to testify before the McKeown Commission in Ottawa to-day.

The *Globe* endeavoured last night to obtain a statement from Sir Thomas White regarding the matter. At his home in Queen's Park it was stated he had retired early and could not be disturbed.

Now what I wish to call your lordship's attention to as the principal reason for making a statement to the press, is the heading. The Commission was sitting, and daily reports of its proceedings were in the press. Then this heading appears in large type:—

“Records of the Bank show Fee of \$1,500 to Sir Thos. White.”

And on the bulletin board of a Toronto newspaper, without any explanation at all, there appeared the statement:—

“Sir Thomas White receives fee of \$1,500.”

The innuendo is plain.

Now I made a statement to the press, which I shall not read, but which I shall give in evidence. I may say in extenuation of my fault, if it was a fault, in making the statement—which, as I stated to your lordship, meant no disrespect to this Commission—that the only way that that innuendo could be met was by prompt publicity. I wish to thank the newspapers of Canada who gave publicity to the statement which I made.

In my statement I referred to the advice which in August last I had given in my capacity as Counsel or Solicitor to the Home Bank. I stated that it was my intention to apply to the liquidator for his permission to present before the Commission the letter of advice which I had given as legal adviser upon that occasion. I applied to Mr. Clarkson and he said he would personally have no objection to my giving that letter, and to my presenting that statement in evidence to your lordship. I find, however, that I cannot do that, and in order to save time I am going to ask your lordship to allow me to submit briefly the authorities which absolutely prevent, and which bar me, as a rule of law, from waiving the privilege which belonged to my client and not to myself, and which the liquidator, I find, is unable to waive in the place of my client. On account of the misstatement which was made, I would like to have this on the record. It is very brief, and it will help your lordship in deciding a little later whether the document, which I have here in my pocket, may be produced in evidence or not. I may say that all the authorities are in agreement about this, but I submit only these citations from Taylor on Evidence, and I know that the rule of law, which is elementary, is so well known to your lordship, that I must apologize for making the citation. I refer to:—

“TAYLOR ON EVIDENCE;” 11th Edition; vol. 1, page 618.

Section 911, h.

Secondly, as regards professional communications the rule is now settled that where a barrister or solicitor is professionally employed by a client, all communications which pass between them in the course and for the purpose of that employment are so far privileged that the legal adviser, when called as a witness, cannot be permitted to disclose them, whether they be in the form of title deeds, wills, documents or other papers delivered or statements made to him of letters, entries or statements written or made by him in that capacity, and this even though third persons were present. After stating the rule in this general form it seems almost needless to add that cases laid before counsel on behalf of a client, and the opinions of counsel thereon, stand upon precisely the same footing as other professional communications from the client to the counsel and solicitor or to either of them or from the counsel and solicitor or from either of them to the client. The privilege is the privilege

of the client and not of the professional adviser; the adviser therefore is bound to claim the privilege, unless the client has waived it, which it is open for him to do.

912. The rule equally applies though the solicitor be employed in the character either of a scrivener to raise money, or a conveyancer to draw deeds, or though the conversation relate only to the sale of an estate or to the amount of the bidding to be reserved. In fact it extends to all communications between a solicitor and client relating to matters within the ordinary scope of a solicitor's duty.

913. If touching matters that come within the ordinary scope of professional employment, legal advisers receive a communication in their professional capacity either from a client or on his account and for his benefit in the transaction of his business, or which amounts to the same thing, if they commit to paper in the course of their employment on his behalf matters which they know only through their professional relation to the client, they are not only justified in withholding such matters but bound to withhold them and will not be compelled to disclose the information or produce the papers in any court of law or equity either as a party or as a witness.

And at page 65, under section 919.

It seems to be now settled that in strict law the judge ought not to look at the writing to see whether it is a document which may be properly withheld. The same rule applies where the documents called for are in the hands of solicitors for the trustees of bankrupts.

923. The rule does not require any regular retainer or any particular form of application or engagement or the payment of any fees: It is enough if the legal adviser be in any way consulted in his professional character.

927. The protection does not cease with the termination of the suit or other litigation or business in which the communications were made. The seal of the law, once fixed upon the communications, remains for ever, unless removed by the party himself in whose favour it was placed, or perhaps in the event of his death by his personal representatives, and therefore if the client becomes a bankrupt his trustee cannot waive the privilege without his particular permission.

I might say that in addition to my own opinion, upon the authority which I have quoted, that I have taken the opinion of other Counsel; and while I am not only willing but anxious to waive any privilege that I might myself have I am absolutely bound by the law not to waive it.

Now, with your permission, Sir, I should like to go into the witness box and testify as to the circumstances under which I was engaged.

His LORDSHIP: You may:

Sir THOMAS WHITE: I have no other evidence to give, but I should say further, in fairness, that the second day after, the Globe published in full the statement which I have given, and that their headings correctly state the situation. The headings are:

"Statement issued regarding cheque."

"Sir Thomas White explains his business with Home Bank."

"His advice was sought."

Those are the headings; with which I am quite content.

Sir THOMAS WHITE (Recalled) (Takes the witness chair): I have been sworn before, Mr. Commissioner.

I resigned as Minister of Finance on August 1st, 1919, owing to the state of my health. I was unable to do anything for a year and in September, 1920 I opened an office in Toronto and since that date I have been practising law there.

After I resigned as Minister of Finance, I had no communication of any kind whatsoever, nor did I transact any business with the Home Bank, or on behalf of the Home Bank, or with any of its Directors or officers. As I explained in evidence the other day, I was under the impression that the Home Bank was going on well, under the Presidency of Mr. Daly.

My summer home is in Lake Rousseau, Muskoka, and is about 150 miles north of the city of Toronto. I was up there in August of last year. That is to say, a little over four years after the time when I resigned from the Ministry of Finance. I had been in Muskoka since June. On the Sunday preceding the failure of the Home Bank, I received a telegram from Mr. Casey Wood. I have not the telegram here; I think probably it is in Muskoka. He asked me in substance to come down to Toronto to advise on an important situation. I did not want to come down, so I went over to Port Carling to telephone to find out what it was about. He could not very well tell me over the telephone, but I gathered that it was some trouble with regard to the Home Bank; so I came down that Sunday night arriving in Toronto a little after midnight, I think; and the next morning, at my office in the City of Toronto, I was consulted by Mr. Wood and I think Mr. Calvert, with regard to the Home Bank. As I have stated, while I should be very glad, personally, to waive any privilege that attaches to my advice, I am unable to do so.

I remained as adviser during the week following the Sunday when I came down, and I think that I returned either on Friday night or on Saturday morning. I am not sure which but I think on Friday night.

I received, by agreement, the sum of \$1,500 for my services. That was paid to me by cheque in my name and I deposited that cheque to my account with the Canadian Bank of Commerce I think on August 14th. That would be Tuesday or Wednesday, I am not sure which. I think Tuesday. That cheque went through the clearing house and was paid in the usual course, so that the money was placed to my account. In other words, I received payment. I imply that the cheque was paid because the amount was credited in my book and not charged back. That is the statement.

His LORDSHIP: Do any of the Counsel desire to ask Sir Thomas any questions?

Mr. McLAUGHLIN: My lord, this is a matter of course in which myself and Associate Counsel were acquainted with the facts since our early investigation.

We considered that this was just a matter of Sir Thomas White's personal business and that going into it would not assist your lordship in any way in answering the questions that have been submitted to you. For that reason we felt that we had no concern with it, and we did not bring it up. We feel the same now and I have no questions to ask Sir Thomas.

His LORDSHIP: I think you took a very proper view of it, Mr. McLaughlin. I think that is all, Sir Thomas.

Mr. SYMINGTON: I understand, Mr. Commissioner, that that closes the case on this branch.

While we have gone outside this particular branch, we now have reached the stage where argument will be presented to your lordship in accordance with the arrangements made at the last sitting. I understand the Order to be that my friends for the depositors lead. I do not know whether my learned friend Mr. Reid has any interest in the argument or is going to make an argument. Perhaps he will so state?

Mr. REID: There may be a short argument on some of the legal aspects. That is about all. As far as some of the shareholders are concerned.

Mr. SYMINGTON: Then I presume my friend will follow my friends for the depositors. Sir Thomas White will then address the Commission, and Mr. Lafleur and myself will close.

His LORDSHIP: The order then suggested is that Counsel for the depositors address their remarks to me; then Mr. Reid if he thinks it touches on the interest of his clients, it is open to him of course to argue; and then Sir Thomas White; and then yourself and Mr. Lafleur?

Mr. SYMINGTON: Yes sir.

Mr. LEE: We will have the right of reply I suppose in the ordinary course of events?

His LORDSHIP: Yes, that is one Counsel in reply.

Mr. SYMINGTON: There is really no reply; unless it is a contest between my learned friends and Sir Thomas White. As far as the Counsel for the Commission understand, they do not anticipate that any position they take will be contravened in reply; they will endeavour only to place the facts before your lordship.

#### ARGUMENT

Mr. McLAUGHLIN: My lord, the matters in question have been submitted to your lordship in evidence at very considerable length, and have been printed in a convenient and available form, and your lordship has given very careful attention to the evidence. My view of it will only be as to special matters, knowing your lordship will refer to the whole.

This Commission, I think it will be agreed by everyone, is a very important Commission. The future policy of the Government as to legislation and as to the administration of the Bank Act may depend to a considerable extent on your lordship's findings. And the security that the public, depositing with banks, will have in the future under legislation or administration, no doubt will be largely affected by your lordship's findings.

So far as our case is concerned, certain questions have been submitted to your lordship, and I do not suppose that Counsel, or your lordship, intend to go far outside of those questions, and consequently I will confine myself chiefly to them.

We commence then on January 22nd, 1916, when certain representations were made to the Finance Minister, by three Directors of the Bank. They were remarkable in a way. There is no precedent for complaints from a bank to the Finance Minister being made by Directors of the Bank itself. Consequently, they were made from the most authoritative sources and they deserved the most careful and weighty consideration. They were made to the Finance Minister, the responsible Minister of the Crown, the only person who had any authority to take any proceedings in connection with the administration of the Bank Act; and they were made for the purpose of having an independent investigation; and they were made, as appears by the evidence, not as the result of any quarrel between the Directors, not for any personal reasons, but for the reasons, as the Directors stated, that for more than a year and a half they had been diligently endeavouring to get information from the management of the bank which would satisfy them as to the condition of the bank, and that they had not been able to get such information, or information of a satisfactory nature. Such information as they had showed that the bank was in a very doubtful and disturbing condition.

Now the representations made and that were laid before the Minister appear in Book Number 1, after the Commission and Petition were put in, and appear from page 12 to page 75.



Exhibit 5, page 17, while not the first in order in the book, is really the first in logical order. It shows the capitalization of the bank, who the Directors were, and what the Directors had done; that the Eastern Directors met in Toronto and the Western Directors met in Winnipeg. I will read a few extracts from page 18.

"Early in the Fall of 1914, suggestions came to the western members that the business in the chief Toronto office of the Bank was not in good condition, and the western members became anxious therefore to have the matter enquired into, and this led to action being taken on the lines herein indicated.

The three western directors went to Toronto in November, 1914, with the special view of making particular enquiries as to the position of the chief Toronto branch, and with a view to making a complaint to some extent as to the amount of money withdrawn from the West for making loans in the East.

We called on the General Manager personally in the first place, and after discussing matters generally, we asked him to let us have a list of all loans in the Toronto office exceeding \$25,000. He suggested a private meeting with ourselves to give us the information, it being unnecessary, as he suggested, to have the eastern directors at the meeting, as they were familiar with the loans. To this we demurred, and intimated that we wished the information given at a full meeting, which was agreed to, and the meeting was thereupon held on the following day and continued next three days.

Certain information was given at that meeting, with which, however, the western members of the Board were not by any means satisfied, as is shown by a letter of 17th February, 1915, addressed by the western members to Mr. A. C. Macdonell, that letter being sent to him particularly because he was a member of the legal profession, and we relied upon him to be of assistance to us in getting the fullest information possible.

At the November meetings we made enquiry as to whether any recent inspection had been made of the Toronto office, and were told by Col. Mason that it had not been deemed necessary to have it inspected because the business of that branch came weekly before the Board. We protested against the failure to have a regular inspection; and at a subsequent meeting an inspection was directed to be made by Mr. Adair, he Bank's Supervisor. We specially urged that it should be ready for submission before the annual meeting to be held late in June. It turned out, however that the inspection report was not ready when the annual meeting was held on 29th June, but we did not know of its not being completed until we came to the meeting. It was then disclosed that the annual report had already been forwarded to Ottawa without our knowing anything of its contents.

Mr. Gooderham, a member of the Board, had during the summer of 1915, presented his resignation from the Board, but had been prevailed on to retain his seat temporarily, at all events.

Early in January, 1916, a letter, dated 31st Dec., 1915, copy of which is attached, was received from the General Manager, announcing the resignation of Mr. McNaught as a director, and the election of Mr. W. R. Haney in his place. We assume that this meeting was held on the usual weekly meeting day, but we had no notice of it. Mr. Macdonell too, was absent from the Province, as we understand, and presumably the only directors present besides the General Manager would be Messrs. Flynn and Gooderham. We replied to the General Manager's letter as per the attached copy.

On or about the 17th inst., we received from the General Manager a letter (copy attached in the Barnard memo) announcing the resignation of

Mr. Gooderham and the election of Mr. C. A. Barnard in his place. We knew nothing of this meeting, and we understand Mr. Macdonell was still absent from the Province."

This Exhibit gives a general idea of their troubles and fears, and a general idea of the way in which the bank was being conducted. New Directors were appointed at meetings of which the Western Directors had no notice. They were appointed evidently by the General Manager himself. As further stated in the evidence, Mr. A. C. Macdonell was very seldom at Directors' meetings, being largely away in connection with his public duties. Mr. Flynn was an old man who took no interest in the affairs of the bank. Mr. McNaught and Mr. Gooderham were resigning. Consequently, Mr. Haney and Mr. Barnard appear to have been the selection of General Mason, the President and General Manager, himself, we may say.

Along with this there is also two other memoranda, Exhibit 2, referring to the Prudential Trust loan, which we have discussed very fully and which I will refer to a little bit later on. And Exhibit 3, referring to the Barnard loan. The Barnard loan was never again referred to in the correspondence of Sir Thomas White, although referred to by Mr. Fisher several times. Sir Thomas seems to have entirely forgotten that loan. Exhibit 6, at page 19, speaks of a so-called settlement with Barnard. That I will refer to later on. With this memorandum were included the correspondence which the Directors had with the General Manager in connection with the difficulties extending over a year and a half.

Exhibit No. 7 is a letter from T. A. Crerar to James Mason, speaking about the inspection of the Toronto office. He says:

"The inspection of the Toronto office in June last disclosed that Barnard's debt was then \$394,000, and that there were 2,622 shares of the Bank's stock, held in the names of Barnard and Pellatt but *in trust*. The report did not show that any security was held in respect of the debt, but possibly it was meant to be suggested that these shares might be regarded as practically a security through the Bank having a lien on them. Unfortunately, neither the information furnished by the books, nor apparently what the Inspector was able to procure, disclosed how far the right of lien, if it existed at all, would be affected by the unstated trust—the report showing that no trust deed was held.

Without adding anything for interest this Barnard debt then amounted in June, 1915, to . . . . .	\$394,000
And a fresh advance has now been made to him, as you say, of	15,000
	<hr/>
Making his total indebtedness apart from interest . . . . .	\$409,000
You say that the debt has now been written down to the par value of the shares, and assumed, as we understand it, by the Fidelity Trust Company, viz. . . . .	\$262,200.00
Then Barnard has been allowed for commission . . . . .	91,539.32
And there has been written off, as you say . . . . .	57,430.23
	<hr/>
	\$411,169.55"

That Exhibit goes pretty fully into the question of the Barnard loan.

Exhibit 8 is a reply from Mason to Crerar, which does not give any further light on the subject. And Exhibit 9 is a letter from Mr. Crerar to Mr. Mason with reference to the matters above stated.

Then we come to Exhibit 10 at page 24. This is a letter to A. C. Macdonell, K.C., M.P., and I will read a few clauses from that.

His LORDSHIP: Mr. McLaughlin, this is the first, as I remember, in point of date that has been put in, that is to say, early in the year 1915, the 17th of February.

Mr. McLAUGHLIN: Yes, my lord, that is the earliest in point of date.

HIS LORDSHIP: That is the first note of alarm that was sounded publicly, if not publicly at least among themselves.

MR. McLAUGHLIN: This was among themselves. Of course, this was submitted to the Minister.

HIS LORDSHIP: Well, this is a letter to Mr. Macdonell.

MR. McLAUGHLIN: My lord, of course it is clear all of these letters were submitted, they all come from Mr. Roberts' file.

HIS LORDSHIP: Yes.

MR. McLAUGHLIN: They were submitted with Mr. Fisher's memoranda.

HIS LORDSHIP: Yes, but the submission to the Minister did not take place till some time afterwards.

MR. McLAUGHLIN: January 22nd, 1916.

HIS LORDSHIP: You see, it is almost a year after this letter was written before it came to the eye of the Minister.

MR. McLAUGHLIN: Yes.

MR. SYMINGTON: This is the first in point of date of any of the written documents.

HIS LORDSHIP: I think so.

MR. McLAUGHLIN: Well, this letter is important, for it is the first complaint, and it sets forth what the Directors were complaining of at that time.

HIS LORDSHIP: Yes, not only that but it reveals the fact that they themselves had, for some time previous, been carrying the burden of an apprehension that there was something wrong.

MR. McLAUGHLIN: Yes. Leaving out the formal matters, it says:

"You will remember that certain statements were submitted from the General Manager at that meeting, showing extremely heavy advances from the Toronto office to certain customers of the Bank, and the way in which the information was furnished was extremely unsatisfactory. For instance, in one case, the indebtedness of a certain customer was stated on the first day of the meeting as being \$1,100,000;"

I understand that this is the Pellatt account, from reading the whole thing.

"and the very next day of our adjourned meeting we were told a mistake had been made, and that his actual indebtedness was \$1,500,000, while on the next following day, to which the meeting was again adjourned, it was disclosed that the indebtedness actually reached \$1,780,000

HIS LORDSHIP: Yes. You see, they were expressing themselves as very apprehensive about this, and you will remember that this letter was written to Mr. Macdonell, and, without giving the reasons, they wrote to him because he was a lawyer and public man, and being sensitive to anything improper being done, and Mr. Macdonell rather resented being picked out to have the burden placed on his shoulders, and then, in reply to that, these same gentlemen say that they had, as a matter of fact, consulted in Winnipeg with a view of laying the whole thing at that time before the Minister, but that he, their counsel, advised that it be laid before some Eastern member of the Directorate in whom they had confidence, so you see away back there, a year before it came to the Minister's notice, these Western Directors were carrying the burden of a very heavy apprehension that something was wrong.

MR. McLAUGHLIN: A great anxiety. Well, your lordship has read those exhibits so thoroughly that it would be a waste of time to read them over again.

HIS LORDSHIP: I asked you at the very start to take it for granted that I do not know anything about it at all, and I am not going to curtail your reading of it.

Mr. McLAUGHLIN: What I have read, my lord, shows that they could not get truthful information.

His LORDSHIP: Oh, no, I am not seeking to curtail your remarks at all. You may take a different view of something that has not occurred to my mind in the way that you view it yourself. I want your views thoroughly.

Mr. McLAUGHLIN: I feel the responsibility of the case very much, its importance, a matter of life and death to so many people, I might say.

His LORDSHIP: Exactly, and I will further say to you, Mr. McLaughlin, and what I say to you I say to all the counsel, that I am not the slightest bit impatient over any length of time that you may feel it necessary to take in order to place your views fully before me.

Mr. McLAUGHLIN: We appreciate your exceeding courtesy all the way through, your lordship. It is indeed a delight and a pleasure to present a case to you.

His LORDSHIP: Now, you were about to comment on that letter, Mr. McLaughlin.

Mr. McLAUGHLIN: I would say that that first clause shows that they could not get truthful information, and when you find that the management cannot be relied upon it is an exceedingly serious matter.

As I mentioned in Sir Thomas White's examination, and he agreed with me fully, the *sine qua non* of any financial institution was the human element.

His LORDSHIP: Surely.

Mr. McLAUGHLIN: And you cannot possibly make anything succeed without a reasonable amount of honesty, integrity, faithfulness and fidelity. These are the rocks on which Sir Thomas White's house ought to have been built instead of the quicksand which he mentioned in his evidence.

The letter proceeds:

"Then in the case of the General Manager himself, you will remember he represented to us, in the first instance, that his own indebtedness was \$35,000, while afterwards it was disclosed that a mistake had been made, and that the indebtedness was actually \$76,000."

Now, these are all items which are, after all, of a serious nature. \$76,000 would not break a bank, but here was \$76,000 to the General Manager without any security whatsoever except liens on a few shares of the bank, and those shares were intrinsically worth absolutely nothing at this time, and that is a thing for a minister, if he had had time and opportunity, to consider.

Then the letter continues:

"A somewhat like situation was disclosed in the case of some other customers.

Then I must recall to your attention that in the case of a certain Trust Corporation, to which the Bank had made advances, that Corporation, it was stated, had deposited with the Bank a considerable amount of trust funds which were in the hands of the Corporation, and which were represented by the General Manager to be held by the Bank as security for the advances so made. Later on, it turned out, that a very considerable portion of the trust funds had been already withdrawn, and one could not understand, indeed, how it was that such trust funds could ever be regarded as security to the Bank for advances to a Trust Company."

Now, there was a false representation made by the Manager to his Directors, that this \$500,000 advance was secured in the first place by a deposit of \$500,000 of trust funds which, as stated in the document submitted to the Minister, were trust funds belonging to the Province of New Brunswick.

Sir Thomas says that that did not create any suspicion in his mind. The sole and only reason why it would not create a suspicion in his mind must be that his mind was full of other matters at the time, so much so that he did not give it any consideration whatever.

"You will remember that at the meeting of 30th December, at which two of the Western members were present, the following resolution was submitted by myself and discussed fully, every member, as I understood expressing full approval of its terms. The resolution was in the words following: "

Owing to the General Manager's ill health, until further instructed by this Board the Assistant General Manager and Messrs, Adair and Dodds be appointed a committee to carry on the affairs of the Bank, and that this committee will specially pass upon all credits, and make every effort possible to collect all over-due loans and bring in as early as possible a statement showing the present position of the Bank and their recommendation as to the best course to pursue in the future.

At that time the General Manager was out of the Dominion on a trip for his health—at Old Point Comfort if I remember aright—and it happened that while the meeting was in session a telegram had been received from him by the Assistant Manager, asking that no committee be appointed until his return, which, as stated in the wire, was to be immediately. This telegram was read to the meeting by the Assistant General Manager after the discussion on the resolution mentioned but before it was submitted to vote."

His LORDSHIP: May I ask, Mr. McLaughlin, with reference to Mr. Dodds. He seems to have dropped out. Later on, in an Exhibit numbered 34, Mr. Adair seems to have made a report under date of July 21st, 1915, page 58, but Mr. Dodds does not appear.

Mr. McLAUGHLIN: We have lost track of him. I do not know what became of him.

His LORDSHIP: I cannot find him, and I thought, perhaps, you could locate him for me. He seems to have wandered off somewhere and never to have been located.

Mr. McLAUGHLIN: I would like to call your lordship's attention to page 14, the note at the end of Mr. Fisher's Exhibit No. 2, which shows a very very serious matter:

"On the 14th instant, Mr. Adair wired us from Toronto that Mr. Kennedy, the assistant manager of the Toronto office, had been suspended by the general manager for taking a stand with which he (Adair) was in sympathy. And we had a further wire from Adair, intimating that Mr. Kennedy had apparently declined to sign the monthly statement, which Mr. Cooper Mason the assistant general manager of the bank, and manager of the Toronto office, had also declined to sign. It occurs to us—but this is only a guess—that they declined to sign the monthly return because it did not disclose the facts in connection with this Prudential loan."

That was a very serious statement too, when officers of the bank were coerced into signing a statement which they did not believe to be true.

His LORDSHIP: You see, that was six months later, that was in January, 1916, and that was a confidential memo for the Minister of Finance. It had got to him them.

Mr. McLAUGHLIN: Yes, that was part of Mr. Fisher's memoranda, but I had gone over that and omitted stating it through lapse of memory, and I am referring to it now.

"Under the circumstances, the Board concluded not to pass the resolution at the time, and indeed, the resolution itself was expressly worded in terms that did not on the face of them cast any reflection on the General Manager. This was thought advisable, although it was well understood that his action in connection with some of the Bank's affairs could not be at all approved.

It happened that the western directors were obliged to leave for the West that night, but before leaving the meeting they received the positive assurance of the other members that at the very first meeting after the General Manager returned action would be taken on the lines of the said resolution. Indeed, it was well understood that with a view to carrying out this purpose it would be arranged that the General Manager would take leave of absence for a time in order that the proposed committee would, independently of him, look into the affairs of the Bank under the direction of the Board. After our return to Winnipeg, and no advice being received from Toronto showing such action to have been taken, I wrote to the head office for information and received copy of another resolution that had been passed by the Board at a later date."

which did not comply with the previous one, and with which these Western Directors were very much dissatisfied.

In reply to that, there is Exhibit 11, by Mr. Macdonell to Mr. Persse, page 26, to which your lordship referred and which I need not comment upon.

And then there is Exhibit No. 12, page 28, in which the Directors applied to Mr. Macdonell and state how that they had considered the question of submitting the matter to the Minister of Finance but had been advised by counsel to submit it to the Eastern Directors in the first instance.

So that, at that time, these Directors were feeling the situation to be of a very serious character.

Then we have Exhibit 13, at page 29. This is some months later, letter of June 14th:

"Shortly after you left Toronto Mr. Gooderham sent me a letter tendering his resignation as a Director, but on Mr. Flynn and myself seeing him, he decided to let the matter of his resignation stand over until the Annual Meeting. We were in hopes that he might change his mind, but on Friday last he called to say that he had sold his stock and it is now transferred, so that he has ceased to be Director."

I understand Mr. Gooderham's stock was transferred to his gardener where it stands still.

"I was greatly surprised at this action on the part of Mr. Gooderham, as I considered his promise would have been kept. The real reason, I think, for Mr. Gooderham's action—and so he stated—was that he felt he had not been taken sufficiently into the confidence of the other Directors, and also that the attitude of the Directors had been changed when it was believed we were so likely to get that large deposit in connection with the Army Contract."

Now, that letter was in June, 1915, and what became of that Directorate until some months afterwards when another Director was elected in Mr. Gooderham's place, we do not know.

His LORDSHIP: Mr. Barnard took his place eventually, did he not?

Mr. SYMINGTON: I think the evidence is that Mr. Gooderham did withdraw his resignation and continued to act up until the following September when Mr. Haney took his place.

Mr. McLAUGHLIN: I do not know how he continued to act without owning any stock.

Mr. SYMINGTON: I think he got some stock back, if I remember correctly.

Mr. LEE: Pardon my interrupting you, Mr. McLaughlin. If your lordship would like a statement put in of when the Directors were elected, and when they ceased to be Directors, I will be very glad to put it in.

His LORDSHIP: Do, please, because sometimes one wants to know those things without looking up two or three hundred pages to find out.

Mr. McLAUGHLIN: Exhibit 14, page 30, letter from the Western Directors to the President, part of the letter being:

"Meantime, we regard it as particularly urgent that immediate steps be taken by the Executive to have a complete revaluation made on a strictly conservative basis of the Bank's assets, so that the result may be placed before the Board at that meeting. We trust that this can be arranged. The Executive will, of course, see that qualified men will be appointed to make the valuation, and we venture to suggest on our part the names of Messrs. Bird and Adair."

His LORDSHIP: Going back to that for just a minute, you will notice by Exhibit 32, of January 12, 1916, that Mr. Mason says to Mr. Crerar:

"Mr. F. G. Gooderham tendered his resignation as a Director of the Bank, and at the regular meeting to-day of the Board, his resignation was accepted and Mr. Charles A. Barnard, K.C., of Montreal, elected a Director to fill the vacancy thus created."

Mr. McLAUGHLIN: Yes, I see.

His LORDSHIP: I thought Barnard succeeded him.

Mr. McLAUGHLIN: Yes. Now, Exhibit 14, at the end of it:

"It occurs to us, indeed, that it may be necessary to consider seriously—as suggested by us indeed as long ago as last February—the question of placing the matter before the authorities of the Finance Department at Ottawa."

His LORDSHIP: Yes. You see, that is nine months after they first sounded the alarm.

Mr. McLAUGHLIN: Yes, that is November, 1915.

Then we have Exhibit No. 15, a further letter from Mr. Persse to the General Manager. There is a suggestion made there that the Western Directors attend the meetings at Toronto.

"We are assuming that the suggestion is made at this time because of the unsatisfactory conditions disclosed during the past year in respect of some of the larger accounts carried in the Toronto office, and because, perhaps, of the representations we have felt it our duty to make to yourself and our Eastern colleagues on the subject of these accounts. We think it well, therefore, to present to you somewhat fully the views that occur to us in considering this proposal."

They go on to show the great difficulty there would be in requiring a man to go to Toronto every two weeks, and then on the next page, 32:

"You will also recall that at one of the November meetings we asked for the last report on the inspection of the Toronto office, when, to our utter surprise it was made known that it had not been inspected at all in the near past.

"Against such a condition we earnestly protested and urged that Messrs. Bird and Adair should be at once instructed to make a full inspection—"

A little further down:

"It is painful for us to say so, but we feel that the conduct of the Bank's business has been too much guided by one man rule. We are, in fact, given to understand that large advances have been sometimes made without full information being given to the Board, and, in fact, without the Board's formal sanction. So far as we are concerned, we are bound to protest against such practice. We will be disposed at every meeting at which we attend to press for any and every change in the conduct of the Bank's business that may appear advisable. We wish our colleagues in the East to know that this will be our attitude, and we hope to have a full and frank discussion of the whole situation at the proposed meeting—"

Exhibit 16 gives Mr. McNaught's resignation and Mr. Haney's election to the Directorate.

His LORDSHIP: Yes, Mr. Haney took Mr. McNaught's place, Barnard taking Mr. Gooderham's place.

Mr. McLAUGHLIN: All of this shows that the Directors in the East who were taking anything like an active part in the management were resigning, getting out.

Exhibit 19, page 35, refers to the Prudential Trust Company loan and the serious part of this special communication is:

"What is of more serious consequence, grave doubts are arising as to the financial ability of the Trust Company. It is represented from sources which cannot be ignored that the Company have their funds pretty well locked up and it now seems quite possible that we may be obliged to rely upon the security to a more or less extent."

This is by the General Manager to Crerar:

"This security is a Street Railway in Algiers, which is a portion of the City of New Orleans—its value has been estimated variously from \$500,000 to \$1,000,000. There is a Mortgage Deed on the property, held by one 'Carroll,' amounting to \$180,000. This mortgage falls due on the first of December prox., and we learn that Carroll is preparing to take steps to foreclose unless the full amount of his claim is met at maturity. In addition, there are other debts, amounting approximately to \$50,000, but these need not be immediately considered."

Exhibit 22 is a letter from the General Manager, Mason, to Crerar, referring to the Prudential Trust Company mortgage, and saying that sale proceedings were being contemplated by the prior encumbrances in New Orleans.

Exhibit 23, page 39, is the reply to that, in which they go, very fully, into the misrepresentations that have been made to them in connection with the Prudential loan.

Then we come to Exhibit 24, further complaints about the Prudential loan. There is quite a long memorandum attached to that, showing the misrepresentations made to them from time to time.

Exhibit 29, pages 48 and 49, reading at page 49 with reference to the Prudential loan:

"Mr. Lash, while advising that the Bank should not alone pay off the Carroll loan, and otherwise look after the Algiers situation, thought that the delay obtained and arranged for should be used to bring pressure to bear upon the Prudential Company, and clear up the situation as to the attitude of that Company."

Then he continues:

"He thought also that if a question should arise as to the Home Bank sharing with the Prudential Company on proper terms in making



the suggested advances, in connection with the Algiers situation, the matter might be further considered; in other words, he did not, in the meantime, express a definite view against the advisability of the Bank so joining, having regard to the whole situation. He was also of opinion that the Bank had no right, on the facts as stated to him by Mr. Anglin, to retain the \$300,000 deposit, pending repayment of \$500,000 New Orleans investment."

Exhibit 30 is a very long letter by the Western Directors, referring largely to the Prudential matter.

Exhibit 31 is a letter to Mr. Crerar by the General Manager, General Mason, in which he says, among other things:

"Referring first to your favour of the 10th inst., the total amount of the indebtedness shown on the books of Toronto office as due by the Prudential Trust Co., Ltd., is \$695,000, principal, plus arrears of interest—this includes a Deposit Receipt of \$200,000, issued in May, 1911, in favour of the Ontario Government and lodged with the Ontario Government by the Prudential Trust Company as security for the transaction of business by the Trust Company in the Province of Ontario—it has no connection whatever with the New Orleans, Southern & Grand Isle Railway."

So far as that \$200,000 is concerned the bank seems to have had no security at all except the security of the Trust Company.

It goes on at page 54 to say:

"There is a prior underlying bond issue of \$512,500, which, it is said, has no legal claim on anything but the rolling stock, plant, etc., of the Steam Road, but not on the stock of the Algiers Street Railway Company, held by the United States Mortgage & Trust Company—This security being solely for the bond issue of \$1,025,000."

HIS LORDSHIP: Now, just while you are on that and breaking in for a moment, in Mr. Clarkson's evidence he, without making a definite statement about it, rather suggested that they were going to pull out of that New Orleans business without much loss. His evidence suggested that, did it not?

MR. McLAUGHLIN: He does not know, but the history of the matter is this, which Mr. Clarkson states in his evidence—

HIS LORDSHIP: The reason I am mentioning it is this, that Mr. Clarkson puts it down at \$700,000, or thereabouts; he puts that down in his statement of assets and liabilities of the bank, Exhibit No. 131. Well, you see, if the bank makes good on that, or anywhere near it, it throws light on the query that I raised a while ago as to the amount which would be involved in recouping the depositors.

I am inclined to think, Mr. McLaughlin, that those who have entrusted this work to us will expect us to advise them, perhaps fairly definitely, as to what commitment it would mean on their part.

MR. McLAUGHLIN: Yes. We have had, of course, difficulties in getting details. You remember Mr. Clarkson's evidence where he said he does not want to say the loss is going to be so much where he is trying to make collection of a claim, but he stated that the loss would be nine and a half million over and above the capital.

MR. BROWNING: I am somewhat familiar with the New Orleans situation, my lord, and Mr. Clarkson's answer is perfectly correct. There are surrounding circumstances legally that make it impossible for him to say what amount, if any, will be realized upon the assets there.

His LORDSHIP: I am addressing myself to counsel generally. Does that carry with it the conclusion that it would be impossible for this Commission to advise as to what the commitment would be to help the depositors out?

Mr. BROWNING: I think so. It is impossible to say what will be realized on the B.C. timber limits, for instance, and I think that that applies in connection with the New Orleans situation.

Mr. LEE: It does not make it impossible for your lordship, if your lordship sees fit, to make a finding that the Government should be advised to take this bank over and allow the salvage to go back to the Government.

His LORDSHIP: I would not think the Government would consider that, would they, Mr. Symington?

Mr. SYMINGTON: Do not let us assume any decision on your lordship's part in that way. I think the correct statement, in answer to your question, is that nobody can state, even approximately, what may or may not be the result, at least so I will argue to your lordship, as far as I have been able to size up the evidence. It may be because Mr. Clarkson from the idea of not injuring himself in the liquidation does not want to say, but certainly on the evidence before us nobody can say, in my estimation, what the loss will be.

His LORDSHIP: Well, I think that too. That is the conclusion I came to in looking over the evidence, but being anxious to put all the information before those who have asked for it, and for fear that the depositors might, perhaps, be deferred, at any rate in their argument, I am directing the attention of counsel to that phase of it, so that if it is possible for them to put me in a position to say, well, it will require so much, it would help them if I was able to do it. I would not think, Mr. Lee, that it would be probable that the idea of recompensing the depositors by taking over the wreck would recommend itself, I don't think it would.

Mr. McLAUGHLIN: That is, of course, what we hope the Government will do.

His LORDSHIP: Well, it may. I have no right to say it won't.

Mr. McLAUGHLIN: It might in the long run be the best. We will take that biggest loan which we have, four and a half millions on the B.C. timber. Mr. Clarkson says there will be two and a half millions of a loss there anyway. If the Government were to take that over, in ten or fifteen years it might be worth a good deal of money.

His LORDSHIP: You know more about the Government than I do. I live a long distance away, but I really want you to put your case in the strongest light you can for the depositors, that is all.

Mr. McLAUGHLIN: Thank you, my lord, and that, of course, is the way we feel, but we are hampered by the circumstances of the case. I have gone over this with Mr. Clarkson, and, as he says in his evidence, he has got a certain claim, for instance, take the Pellatt claim. He says he wants to realize every dollar he can on it, but there is a certain legal question, and if it is decided against him the loss will be very very large. If it is decided the other way it won't be quite so large. Now, he says, he cannot, in the interests of the realization, make that public at the present time.

His LORDSHIP: You will have to deal with the facts as they are.

Mr. McLAUGHLIN: Yes, we will have to do the best we can with the facts as they are, and what we are all anxious about is not to do anything that would have a tendency to injure the realization of every dollar that can be realized out of the estate.

Referring to the Prudential Trust matter again, you see the situation of that is that there was originally a loan of \$500,000 made, on which the Pro-

vince of New Brunswick was supposed to be security to some extent and which was clearly fraudulent on its face. That loan had increased with accrued interest to something about \$695,000. Just how the deposit with the Ontario Government works into it I do not know but it had increased anyway. Sales proceedings were taken, the steam railroad bonds were no good, the prior bond issue would not realize more than 50 cents on the dollar. The Algiers road, the security of which was the deposit of the stock with the U.S. Trust Company was subject to a previous bond mortgage of \$300,000 and to unsecured liabilities of \$50,000 or \$60,000. \$254,000 of previous bonds had been pledged to Carroll for \$180,000. Carroll took some proceedings and a Receiver was appointed, the Algiers road was sold and bought in by Carroll from the previous encumbrancer. At that moment all the security for the Prudential Trust Company loan was gone except the covenant of the company itself; then the bank made a further investment through Herdman & Company of Montreal of \$235,000 buying the Algiers road from Carroll.

Mr. SYMINGTON: Was not that all on the part of the bank, the Carroll purchase was really done for the bank, and was arranged before the foreclosure?

Mr. McLAUGHLIN: I do not think so.

Mr. SYMINGTON: I gathered that impression, I would like to know if you can point to any evidence.

Mr. McLAUGHLIN: The Prudential Trust Company took no part in that advance and could not assume any liability. So if the bank gained or lost on the subsequent investment of \$235,000 it was no concern of the Prudential; if they made money on it that did not diminish the liability of the Trust Company in any way, if they lost money on the subsequent investment it did not increase the liability of the Trust Company. That is how in rendering a statement to Sir Henry Drayton they professed that the New Orleans indebtedness had been to some extent reduced. They did not give him any information about the \$235,000 which with interest and costs was charged in their books to Herdman & Company. I understand the total at the present time of both claims against the New Orleans situation in something over \$1,100,000.

His LORDSHIP: Yes, \$1,143,000. I have never yet itemized that amount, I was waiting for you gentlemen to do that for me if it is necessary.

Mr. McLAUGHLIN: That amount is made up of the original \$695,000 mentioned in the exhibits I referred to and \$235,000 additional which was paid for the Algiers road.

His LORDSHIP: That is \$930,000.

Mr. McLAUGHLIN: And the accrued interest and costs make the total. It has been running since 1917 anyway, about six years at the time of the liquidation.

Mr. SYMINGTON: I think your lordship will find it on page 194, exhibit No. 107, the position as it was in 1918, and since then it is only a question of interest.

His LORDSHIP: They add the Herdman item to the New Orleans indebtedness?

Mr. SYMINGTON: They bring the Prudential up to November 15th, 1918, and then add Herdman \$268,318, making \$933,000.

His LORDSHIP: What did they get for that Herdman advance?

Mr. SYMINGTON: They got control of this Algiers Railway as I understand, which it is now suggested, may save the account. As I understand, it is contended by Mr. McLaughlin and his friends that the old line being gone, their original advance to the Prudential secured by that was gone, and the fact that it led indirectly to them protecting the security by this subsequent purchase of the Algiers line did not make the original investment a good one.

Mr. McLAUGHLIN: It is legally an entirely separate transaction. If the bank makes money out of it it will help the liquidation but it does not pay the Prudential Trust Company loan. That is the position we take.

His LORDSHIP: I was wondering if there is any letter, I had not observed one, in which it was stated specifically what was done with the money, the proceeds of the Herdman loan, and what resulted from it.

Mr. McLAUGHLIN: At the bottom of page 264, Mr. Clarkson's evidence—

"Mr. McLAUGHLIN: This is the statement you have in your report: "In this year, 1917, the New Orleans and Belle Isle Railway Company went into receiver's hands following which its assets were taken over by holders of securities for loans prior to those held by the bank as security."—A. When I say 1917 I mean the fiscal year, the financial year between June the 1st, 1916, and May the 31st, 1917. That may have been in the fall of 1916, because my understanding is those receivership proceedings took place in the year 1916.

Q. "The bank later acquired the South New Orleans Light & Power Company by the purchase of securities to the amount of \$235,000. This raised its indebtedness to \$845,000."—A. Well, now, technically that is incorrect, because the two have always appeared separately on the books, but at the time I made that report it was my understanding that they were linked together as they are still mentally linked together in the minds of the officers, that the \$500,000 advanced to the Prudential Trust Company was one transaction; that is connected with the steam railroad which owns some of the shares of this electric railroad, but the purchase of the electric railroad through this receivership and acquisition of the bonds against the property was another transaction.

Q. They were two debts but both in connection with the New Orleans property?—A. Yes, and they are both mentally linked together, although they are legally separate.

Q. So when they reported to Sir Henry Drayton that the New Orleans debt had not been increased they did not say anything at all about the additional advance which was in the name of Herdman & Company?—A. They could not under those circumstances, if they so reported. Mark you, Mr. McLaughlin, I have not read this correspondence."

That I think is the explanation.

Mr. LEE: Read the next clause to his lordship.

"Q. That is the explanation of the report to Sir Henry Drayton, that the New Orleans account had been reduced. The way it was reduced was by writing off some interest that had been charged before, and the additional advance of \$235,000. The additional advance, of course, you say, is mentally connected. While it may be legally and technically separate, no doubt the advance was made for the purpose of saving the previous investment.—A. I can see no other reason for it."

Mr. McLAUGHLIN: I think as far as that is concerned your lordship has a full grasp of the facts and I do not want to make them appear different from what they are.

Mr. SYMINGTON: The matter is further dealt with on page 108 in a report from Mr. Mason. It would appear that they had the security of the steam railroad which controlled the electric railway upon which there was a sort of second mortgage, Carroll having the first, and when they went down there according to this report they decided that the steam railway was not of a satisfactory nature and should be abandoned, but there was a good margin in the

assets and property of the Algiers Railway which in their opinion should be protected. That is they had a sort of second mortgage on that.

Mr. McLAUGHLIN: The security they had on the Algiers road was this, that the steam road owned the stock of the Algiers road and this stock was deposited with a trust company as security for the issue of bonds which the bank had. It was not a second mortgage, it came subsequent not only to the bond mortgage, but subsequent to their debts, it was only a pledge of the stock.

Mr. SYMINGTON: Yes, there was \$50,000 other debts and \$180,000 bonds. That seems to be the situation.

His LORDSHIP: Is that where you get the \$235,000?

Mr. McLAUGHLIN: The \$235,000 was paid for the actual purchase of the road. This Algiers road was taken over by a private company under a Receivership and they became absolutely entitled to it. Then if I understand rightly the way the bank handled it was they formed a new corporation which took over the road and issued bonds to the extent of \$1,000,000 or more which came to the bank.

The next exhibit I refer to is No. 34 on page 58. This is a very important exhibit. It is the inspection of the Toronto Branch Office by Mr. Adair. When that report was produced here from Mr. Roberts' file in the Finance Department, all of which was before Sir Thomas White, there was a schedule attached to it, which is not printed. The reason it was not printed is that it would not be for the benefit of the liquidation and might be injurious to the credit of some people who have paid their debts.

Mr. SYMINGTON: The schedule is in, attached to the exhibit.

Mr. LEE: Might I point out that in Mr. Clarkson's report issued to the Court, referring to the New Orleans Railway, he says:—"During this year (that is the 14th year) advances in respect of the New Orleans investment amounted to \$1,104,000 of which \$882,000 appeared on the books of the bank in the name of the Prudential Trust Company of Montreal, and the balance as an advance to Herdman & Company."

Mr. McLAUGHLIN: This schedule (attached to Exhibit No. 34) is very important. As it was not thought wise to publish it I do not want to read it for the same reason, but I want to refer to it. Mr. Edwards goes over the items contained in this statement and shows losses in connection with them amounting to about \$600,000.

His LORDSHIP: That was a report to the Directors, was it?

Mr. McLAUGHLIN: Yes, on the inspection of the Toronto office.

His LORDSHIP: Where did it come to this Commission from, who produced it?

Mr. McLAUGHLIN: It is one of the documents submitted by the Western Directors to Sir Thomas White, it comes from his file. Mr. Edwards also had a copy which he had taken from the original in the bank office, he referred to it but it was not put in as an exhibit.

His LORDSHIP: This came from Sir Thomas White's file.

Mr. SYMINGTON: No, it was filed by Mr. Fisher with the Department as part of his evidence justifying his memorandum and was in the Departmental file.

His LORDSHIP: When did it reach the Department?

Mr. SYMINGTON: With Mr. Fisher's representation on January 22, 1916.

His LORDSHIP: One is apt, or at least I am, to get mixed on the dates—

Mr. SYMINGTON: If your lordship will recall that exhibits numbered 2 to 42 comprises the brief of the Western Directors tendered to the Minister.

Mr. LAFLEUR: It is the supporting material of their memorandum.

Mr. SYMINGTON: After exhibit No. 42 is the correspondence between the Minister and other people, but exhibit 2 to 42 comprise the brief which Mr. Fisher laid before the Minister of Finance in January 1916.

His LORDSHIP: One is inclined to misapprehend in reading these papers produced from the Minister's file and looking at the date and seeing 1915, to think he must have known of it then, but in fact he did not until January 1916.

Mr. LEE: That is the first he ever heard of it.

Mr. McLAUGHLIN: I refer your lordship to this exhibit and ask you to use it in connection with Mr. Edwards evidence, which will show that while it was entirely ignored in the Minister's correspondence it is really one of the most important documents that is in. Any person reading it, and reading Mr. Adair's comment will see that there was practically nothing properly margined, —well perhaps I am going too far in saying that because there were a few good loans, but there was quite a large amount of loans not properly margined. At the bottom of page 58, exhibit 34, Mr. Adair says:

“Call loans—These amount to \$1,607,000 of which \$1,492,000 is advanced to Pellatt & Pellatt. Five accounts only, amounting to \$20,074 would appear to be adequately margined.”

Exhibit No. 35 on page 59, gives a statement of the Frost account as it existed at that time. Exhibit No. 37 is a letter from Merrick & Company, solicitors in New Orleans to Mr. Anglin acting for the bank. Exhibit No. 38 is a further letter from Merrick & Company in which they report:

“As regards the rights of the Home Bank of Canada against the New Orleans & Ship Island Railroad and the Algiers Railway and Light Company, we are sorry to say that we can see very little possibility of the bank's recovery of any respectable part of its investment.”

Then Exhibit No. 39 is Mr. Adair's report. He and Mr. Anglin went to New Orleans to report on the situation there, and on page 65 Mr. Adair says:

“In the following report I have left out of consideration entirely the steam railroad property. Everyone interviewed agreed that there was nothing possible from this property beyond the first bondholders, who would not likely receive more than 50 cents on the dollar.”

On page 68, Mr. Adair goes on to discuss the Algiers road, which was the only security:

“As a lending proposition, I am inclined to think that \$300,000, is an outside figure. As a fair valuation, midway between the attitude of a purchaser and a vendor, \$400,000. As a prospect, with the New Orleans Street Railway Co. in mind, for a logical purchaser, say \$500,000.

Mr. McCaleb, the Company's Secretary, is very familiar with the history and condition of the road. He claims to have specialized in his legal practice, upon telephoning and street railway properties; he gives the following estimate of values:

Total construction value.. . . . .	\$200,000
(\$150,000, for Algiers proper)	
Value of franchises.. . . . .	200,000
Total.. . . . .	\$400,000

Then he speaks about the liability:

“I would feel safer, owing to the uncertainty as to the amount of repair work necessary, and to the condition of the present rolling stock, to place total liabilities at \$300,000. It, therefore, does not seem a proper

thing to me for the Bank to put any further amounts into this proposition without at least a material assistance from the Prudential Trust Co., and find itself operating a railway at so great a distance with the prospects of a comparatively small profit."

So they had a road the construction cost of which was \$200,000 and the franchise value very uncertain, and prior claims against it of \$300,000 according to Mr. Adair's report.

His LORDSHIP: It was really after that report that they did proceed to loan the extra \$235,000?

Mr. McLAUGHLIN: They did not loan it, they bought the property in the name of a corporation controlled by the bank, and issued bonds to the bank. Of course we fully understand they thought it a good gamble to buy for \$235,000.

His LORDSHIP: That might be all right if a man was dealing with his own money, then he can gamble if he likes to, but putting out other people's money is different.

Mr. McLAUGHLIN: It was something they should not have done, although in this case it may turn out well. There are so many things of the same nature, like the British Dominions Holding Company where they bought ships and made \$1,500,000 loss, so it would have been a great deal wiser if they had kept out of this speculation.

Mr. Anglin was with Mr. Adair, and his report is Exhibit No. 40, on page 69. At the bottom of page 71, he says:

"I understand from Mr. Adair that Mr. Davis would probably put the figure rather higher than \$250,000 whereas Mr. McCalcb, who probably knows the actual cost of construction, as Mr. Adair tells me, put it as low as \$200,000. Of course these estimates are on the basis of a going concern."

Mr. Anglin, ending the report, says:

"On the whole, I should myself be somewhat skeptical as to the existence of any very considerable value in the franchises at the present time."

Adjourned at 1 p.m., until 2.30 p.m., on Wednesday, May 14, 1924.

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### AFTERNOON SESSION

OTTAWA, ONT., WEDNESDAY, 14th May, 1924.

Proceedings resumed at 2.30 p.m.

Mr. McLAUGHLIN (Continuing his argument): Exhibit 41 at page 73, my lord, is Mr. Lash's opinion, which, on the whole, is not favourable to the bank advancing any more money on the New Orleans property.

Exhibit 42, page 74, is a statement of an alleged settlement with Barnard. That shows that the bank were writing off \$133,000 and over, and giving Barnard \$15,000 in cash and taking a note of the Fidelity Trust Company for the balance. It also shows that Barnard disputes any liability whatever on the claim and states that he was only acting as trustee for the bank in connection with the purchase of Banque Internationale stock, and the exchange of the Banque Internationale stock for the Home Bank stock. That statement has

never been denied and Mr. Edwards in his evidence shows that in the final settlement he was treated as an agent, and that he appeared to be an agent from the beginning to the end; and the including in their statements a loan to Barnard of some \$400,000 was merely a fraud and a misrepresentation; that it merely represented the ownership of 2,622 shares of the Home Bank stock, which really belonged to the bank, and was finally taken over by Daly, by the Manufacturers' Holding Company, a company which is indebted to the bank in over a million dollars which will be a dead loss. And that shortly before the bank's failure, a loan was obtained by Daly on the stock, from some American banks; fraudulent of course; and the bank got some small portion of the alleged indebtedness in that way. But it shows that in 1916 the \$411,000 of indebtedness of Barnard was a nullity. It did not exist.

Page 75, Exhibit 42, finishes the brief that Mr. Fisher laid before Sir Thomas White. All of the documents printed up to page 75, all the Exhibits up to Exhibit 42, together with the schedule to Exhibit 34, which your lordship has before you, complete the documents submitted to Sir Thomas White.

Now summarizing these documents it is shown that for a year and a half, these directors had been trying to get information and had failed to get it; that they had twice before suggested laying the matter before the Minister of Finance, but the first time their Counsel advised them to correspond with some of the Eastern Directors in the first place, and the second time they were put off by General Mason; it shows that Mr. Kennedy, one of the officers of the bank, had been suspended, because he refused to sign the monthly reports; it shows that the management was entirely bad and unreliable, and were giving from time to time false information; that new Directors were appointed, practically, by the General Manager without any notice to the Directors that such business was coming up; that the annual return to the Government of 1915 had been sent forward to the Government without having been laid before or approved by the Directors; it shows that the Barnard loan of \$411,000 was an absolute nullity, only represented by the bank's stock, which Barnard claimed that he had only held for the bank and that he was under no liability whatever. It shows that the alleged settlement with Barnard was no settlement at all, was a mere play upon words; that the Fidelity Trust Company was controlled by Barnard. That appears at page 85. I did not refer to that in going over it. It is one of the documents laid before Sir Thomas, shortly subsequent to this. As I say, it shows that the Fidelity Trust Company was a company controlled by Barnard, had no open office, had a judgment against it for rent, and was merely a name. It shows that an alleged loan of \$695,000 to the Prudential Trust Company, was not a loan to the Prudential Trust Company at all, but was a loan to the New Orleans Railway Company, and alleged to be guaranteed by the Prudential Trust Company; that it had been wrongly reported in returns to the Government, as they reported that they had no current loans outside of Canada; it shows that this Prudential Trust Company loan was "Born in sin, and shapen in iniquity." That there was first an attempt at the use of a half a million dollars of the money of the Province of New Brunswick, by its trustee, not for the benefit of the Province but for the interest of the trustee, or some of the officials of the trustee, and that that was no security. It shows that the \$750,000 first mortgage bonds, which it was alleged that the bank held as security, were not first mortgage bonds at all of the Steam Railroad, but were secured only by the deposit of stock of a subsidiary road; it shows that the Counsel, that had been retained in New Orleans had reported that there was little hope or little chance of the bank recovering any respectable portion of their investment; that Mr. Adair and Mr. Anglin had gone down there and reported against the bank advancing any more money; subsequently of course the deal was made that we have gone over, by which the bank purchased the Algiers Road. That was not be-



fore Sir Thomas White. Before the bank purchased the Algiers Road, their security for the original debt was completely gone, and all they had was the covenant or the agreement of the Prudential Trust Company, an agreement which the bank never took any steps to enforce and which the Trust Company have repudiated, and had repudiated at that time on the ground that it was *ultra vires*. Their repudiation is shown in the evidence at pages 334, 341 and 343. Sir Thomas White's evidence. So he knew at the time that they repudiated the liability. The whole thing looks so suspicious and so crooked that it impresses it upon our minds that there are some things that we do not know about it yet. It was an extraordinary loan for a bank to make. Gen. Mason, it appears, was also Director of the Prudential Trust Company; and A. C. Macdonell, a Director of the Prudential Trust Company, was shortly afterwards made a Director of the Home Bank. Having found so many crooked things in connection with the Home Bank, it does strike one as very suspicious that the loan was made, and very doubtful whether the money, or a good deal of it, ever went to the railway company at all. That of course is only a surmise, but the elements of suspicion are so great that it impresses itself upon one. Then it shows the Pellatt account, running up to something over two millions of dollars; being partly a call loan to Pellatt & Pellatt, and partly loans to various land companies controlled by Pellatt. These are reported upon in Mr. Adair's schedule, and the securities held for them are notoriously insufficient and not a good banking proposition at all. Mr. Edwards, who has audited it, estimates a loss of some \$850,000 in 1916, after valuing the securities. That is information that could have been found by any independent audit at the time. A typical case in connection with the Pellatt is the Home City Estates account, which is referred to in Mr. Adair's schedule, to show how financing was being done. In the case of the Home City Estates it is shown that a certain piece of real estate was bought for about \$325,000; that the Home City Estates was formed and that it took over the property subject to \$200,000, and in payment thereof gave its paid-up stock; in payment of the equity of \$125,000 gave \$600,000 of paid-up stock and \$418,000 of promissory notes; the \$418,000 of promissory notes were taken by Sir Henry Pellatt and discounted in the Home Bank, which accounted for part of the Pellatt & Pellatt loan. But according to Mr. Clarkson's evidence—which also could have been found by an auditor at that time—\$100,000 of this \$418,000 went to General Mason and his son as a side grant and also half the stock of the Home City Estates belonged to General Mason and his son.

Then it shows the Frost account to be about \$1,850,000 at that time, and the history of that Frost account to some extent appears in these papers and in the subsequent correspondence and in the evidence. Frost had no money to buy timber limits; the bank advanced him the whole purchase price of the timber limits, and the Chicago and Milwaukee loan and accrued interest was tacked upon top of that. Then the interest accumulated from year to year, nothing was ever being paid, written up in the profits in the year 1915, the last statement before the matter was submitted to Sir Thomas White, and the interest on this loan amounted to considerably more than the whole profits of the bank.

Then there is Mr. Adair's report, which is a very important one. Mr. Edwards has gone over the accounts mentioned in Mr. Adair's report, at page 502 of his evidence and he estimates a loss on the Canadian Debenture Corporation of \$60,000; Canadian Property Company, improper charges of \$60,000; the A. G. Holmes account, which was for buying scrip, and which was practically little or no security, left nearly \$200,000. Mr. Adair estimates a loss of \$150,000 on that. The W. G. Mitchell & Co. account a loss of at

least \$100,000. The account was \$125,000 and Mr. Adair's report shows that the only security held was shares to the value of \$2,765 and a collateral note for \$29,000. This is an account which has never been paid, and neither have the shares. The Relindo Shoe Company, a loss of \$100,000. The Company was insolvent at the time and little hope of recovering anything. The total of their claim was \$116,500. The Bank subsequently tried to recognize that company and their loss, accumulated very much; larger than if they had taken the loss at the time. Then the Imperial Export Company, in liquidation, a claim of \$19,000 against it. Mr. Adair reports that not more than \$5,000 will be realized. James Mason, \$71,460, and the security some shares in the Home Bank, even at the quoted price only worth \$23,000. There was a total loss of \$71,460. On other items in that report, Mr. Edwards makes out a loss of \$100,000. Adair's report shows a loss to the bank, as commented on by Mr. Edwards in his evidence, to the extent of in round figures, about \$700,000. It also shows that in the three largest accounts three times the capital of the bank was sunk in frozen assets upon which no interest was being paid; that these three largest accounts amounted to more than half of the bank's deposits.

It showed a case which was, as admitted by Sir Thomas, disturbing. He would not admit that it was suspicious. But I think the words "disturbing" and "suspicious" and all the synonyms that they may have in the English language, are not sufficient to properly characterize the state of affairs that Mr. Fisher's brief disclosed.

The first question that your lordship is asked to answer is: were there representations made to the Finance Minister in 1915 or 1916—our petition says 1915 and 1916, but we have not access to the documents at the time and 1916 appears to be the date.

The second question is: what were those representations?

Your lordship of course will summarize those representations in a better way than I could possibly do.

Now I come to the second stage which is what was done with reference to these representations. I will go over the correspondence chronologically. Part of it has been put in by Mr. Roberts in the Departmental file, and part of it by Sir Thomas White. Sometimes they are in twice, but I have indexed them chronologically.

The first one is Exhibit 43 on page 75. It is a letter from Sir Thomas White to General Mason:—

"DEAR GENERAL MASON.—There has been placed officially before me a memorandum signed by James Fisher, K.C., of Winnipeg, acting on behalf of Messrs. Crerar, Kennedy & Persse, Directors of your Bank residing in Winnipeg. This memorandum calls attention to certain accounts of your Bank about which it is evident the Directors in question are much concerned, and in the circumstances I deem it my duty to ask for full particulars from your Board and from your Auditor whom I have to-day written in the matter. The accounts in question are as follows:—

1. Prudential Trust Company, \$500,000. Certain correspondence which has passed between yourself and Mr. Crerar with reference to this account has been placed before me and so far as I can ascertain from this correspondence the amount mentioned would appear to have been advanced by your Bank to the Trust Company upon trust to invest, under the guarantee of the Trust Company, upon security of the bonds of the New Orleans and Western Railway Company, which from the memorandum and correspondence would appear to be of comparatively little value.

2. Pellatt & Pellatt, the Home City Estates Limited, Toronto City Estates Limited—total amount of advances over \$2,000,000. In connection with this it is pointed out in an inspection report of your Toronto branch, of which I have been furnished with a copy, that the securities held are for the most part unlisted and not desirable as call loan collateral.

3. A. C. Frost & Company—amount of loan \$1,700,000, the security for which appears to be principally in timber limits and licenses.

There are some other accounts referred to in the inspection report mentioned which would appear from the report to be in an unsatisfactory condition but the three set out above would appear to be those about which the Western Directors are chiefly concerned.

I shall be obliged if you will write me officially, setting out concisely the history of these loans and indicating the amounts of unpaid interest (if any) in such accounts. I also request a detailed statement as to the securities held as collateral and the valuation placed upon them by your Bank. Apart altogether from the question of security, the loans appear to me to be exceedingly large having regard to the capital of your Bank and I can only express the hope that the concern which is undoubtedly felt by the Directors mentioned may prove to be unfounded. In directing to you this letter with reference to the memorandum which, as I have stated, has come before me officially, I am following the practice which we have hitherto adopted in similar cases and am acting under the provisions of Section 113 of the Bank Act."

Sir Thomas does not mention the Barnard account at all about which the Western Directors put in a special memorandum, and he somewhat ignores the inspection report of Adair, which shows the general condition of the head office of the bank to be so very bad.

The next in order is No. 46, on page 78. That is a letter of Sir Thomas White to Sydney H. Jones, asking him to make an investigation under section 56A.

The third question your lordship is asked to answer, I believe, is: was an investigation under section 56A justified?

There can be no doubt about that on the material submitted; and Sir Thomas White's opinion also was that it was justified. That is shown by the action he took and by his evidence, when he says undoubtedly it was justified.

The selecting, as the auditor to investigate a matter of this kind, of the bank's own auditor would seem to me to be fallacious, to be entirely unwarranted. I could easily imagine circumstances where the Government required some further information, where that information could readily be supplied by the bank's auditor; but where the charges were, fraud, misrepresentation, and dishonesty, and where it was charged that the reports sent in from time to time by the bank and signed by the auditor were false, false as to that Prudential loan, false as to the Barnard loan, false in the fact that they carried indebtedness like the Osborne & Francis indebtedness at its full face value long after that firm had ceased to function as a brokerage firm at all, the fact that they continued to carry the Prudential loan at its full face after the security had all gone, and that all of these things had been certified from time to time by the auditor, then the sine qua non of an investigation by an independent honest investigator was absolutely required, and the bank's auditor was not such a person. No person, my lord, would have confidence in this investigation, if we did not believe that the investigator, the Commissioner, was absolutely independent. Not only honesty is necessary for a fair investigation, but independence, because human nature is such that unconsciously our interest and our position influences our mind and judgment; no matter how honest a man may be, if he is in a position so that

he cannot be independent, he is not a proper investigator. We know, in the case of an arbitration, how very particular the law is, that no arbitrator shall have any interest; no matter how high his character may be, or how honest he may be, he must have no interest whatever in the matter on which he arbitrates.

Before I take up the next document, I just wish to refer for a moment to those already cited. They mention the Frost, Pellatt and New Orleans loans. They omit any mention of the Barnard loan at all. In the letter to Mason, Sir Thomas mentions the Adair report, which is before your lordship.

Then I refer to Exhibit 48 at page 79, which is the acknowledgement to Mr. Fisher of the correspondence and brief. He says:—

“Dear Mr. Fisher,—I beg to acknowledge receipt from you, acting on behalf of Messrs. Crerar, Kennedy and persse, Directors of the above Bank, of a memorandum with correspondence attached relating to certain accounts and transactions of the Bank, also a copy of an inspection report designated as the “Toronto Branch Inspection No. 1” and dated July 21st, 1915, dealing with certain accounts of the branch in question, I have drawn to the attention of the President and the Auditor of the Bank the accounts about which I understood from you your clients were principally concerned, namely, the Prudential Trust Company account, the A. C. Frost & Company account, and the Pellatt accounts, requesting detailed information and explanation.”

Then we go to No. 44 at page 76, which is merely a letter of General Mason asking for a delay.

Then 45, on page 77 is merely a letter by Sir Thomas giving the time asked for by General Mason.

No. 49 on page 79 is a further letter by General Mason to Sir Thomas White. It is not important.

Then on page 80 we have No. 50, a letter from Sir Thomas White to General Mason.

“Dear General Mason,—I have to thank you for yours of the 1st instant. It will be satisfactory to me if I receive the statements asked for by the end of next week. I should like a copy of the agreement between the Bank and the Prudential Trust Company in order to understand the precise legal position of the account with the Trust Company. It will be necessary for me in this connection, in order to ascertain the financial responsibility of the Prudential, to order an investigation under the authority of the Trust Companies Act. I do not see very well how I can reach a conclusion as to the value of the guarantee of the Trust Company without such investigation.”

That investigation appears not to have been ordered and never to have been made.

The next in order is No. 51, at page 80, which is an office memorandum made by Sir Thomas White, in the latter portion of which he says:—

“I spoke strongly as to the Frost account and generally impressed upon them that a heavy duty devolved upon them in respect of the administration of the bank with which they were now identified. With reference to the matter of payment of dividends and taking into Profit Account interest upon such loans as the Frost loan, I stated that this was a matter of judgment devolving upon the Directors who would have to be careful to see that they did not by payment of dividends impair the capital of the bank and diminish the security of depositors and other creditors.”

This was a very mild way of treating our friends.

The next one will be Exhibit 70 at page 161. This is a letter of Mr. Lash dated February 14th, and seems to be the first time that Mr. Lash comes into this correspondence.

With reference to Mr. Lash's relationship to the bank: Mr. Lash and his firm had been acting for the bank for some time; as appears by the correspondence, they had acted for them in connection with the New Orleans Railway specially. Sir Thomas White endeavoured to make some point by denying that Mr. Lash was Counsel for the Bank at this time. Some little time later he was formally appointed Counsel and his firm Solicitors for the bank, but that did not make any difference whatever as to his position; he was acting as Counsel for the bank and his firm acting as solicitors for the bank in the matters in question. Whether they had been regularly appointed General Solicitors or Counsel or not made no difference whatever as to his duty, or as to his position, or as to the credit or otherwise that we should give to his actions.

This letter is one of the important letters and it commences:—

"My dear Sir Thomas, I telegraphed you this morning saying that I was writing you to-day to explain why you have not received the information you asked from General Mason. I was, of course, referring to the statements which you called for from the Home Bank. I am writing you privately because I want to tell you frankly what the present position is and I do not know how much of this information you would like to make official. If you want any of it repeated in an official form let me know and I will write you officially. Quite recently the Home Bank has been consulting myself and Mr. Anglin about some of the complicated accounts, etc., and in this way I began to get an inkling into the situation. On Saturday last General Mason and Mr. Barnard, one of the Directors, had a long talk with me. They showed me the letters which you had written to General Mason asking for information with respect to three important accounts. Mr. Barnard explained what had taken place at the interview which he and Mr. Haney had with you, and they explained also what had taken place at the subsequent Board meetings at which the Winnipeg Directors were present. The special reason for their talk with me on Saturday was to ask me to take down to you some long statements which had been prepared respecting the three accounts referred to. Some little time ago I formed the opinion that until a full investigation into the values of the bank's assets and into their liquid and tied up position was made nobody could form an intelligent opinion as to the course which the bank should pursue with reference to the big accounts referred to or with reference to the more important matter of its going on in business. I have no opinion upon the latter question because no opinion can be formed without the information referred to. I became satisfied some time ago that the General management was woefully defective but of course I could not express any opinion upon this to the General Manager himself who came to consult me. I learned privately from Mr. Fisher when he was here that the Winnipeg Directors were unable to obtain from the management sufficient information to enable them to judge as to the accounts referred to or as to the general position of the bank and that they had appealed to you to call for special returns about the three accounts. I expressed to Mr. Fisher my opinion about the management, and told him that unless new management was introduced the position of the bank would, I thought, become more complicated and might become hopeless."

Mr. Lash's opinion at this time seems to have been very sound.

"I was glad to learn that the General Manager had offered his resignation and that a committee of the Board had been appointed to

seek for a new General Manager. I was also glad to learn that at the Board meetings when the Winnipeg Directors were here, and after the natural acrimonious discussion which took place, harmony was restored and the Board became unanimous with respect to the proper treatment of the bank's affairs. This I think was largely due to the fact that Mr. Haney, one of the new Directors, convinced the Winnipeg Directors that he was in accord with them instead of being, as they had feared, in accord with the management. The other Directors followed Mr. Haney's lead and all are a unit with respect to (1) introducing new and efficient management; (2) getting to the bottom of all important accounts and transactions of the bank; (3) going into no new accounts or important transactions until the permanent position is decided upon."

Then on down at the bottom of the page, last paragraph, he says:

"I have been asked by the Committee to help them to find a new General Manager and I am doing what I can in that direction. From what I know of the three accounts referred to, the fullest statements respecting them which could be sent to you would not advance the situation very far in your mind. You would have to go deeper and inquire into the whole position."

I am referring to that especially, because all the Minister ever got was ledger statements of these accounts, and those apparently did satisfy him, although Mr. Lash told him, and rightly told him, and what any intelligent person would know, that ledger statements of such accounts as these, with such a history as they had, would be of practically no value, but merely bookkeeping statements which did not go into the matter at all, did not go into the question of the liability of the parties, like the Barnard loan, for instance, the ledger would show that the amount was charged as a loan to Barnard. Barnard so stated, and it was so stated also to Sir Thomas White in the documents filed, that he owed the bank nothing, that he was a mere trustee or an agent for the purchase of the stock.

Neither would a ledger statement of the Pellatt account show a fraudulent transaction like the Home City Estate matter.

Then on the next page he says:

"The Board seems inclined to rely very much upon my advice and I am in such relations with them that I can volunteer advice and if you would like me to advise any particular course I shall be glad to be so informed. I can give you an assurance of my personal belief that the present management is well in hand under Mr. Haney's personal direction. The General Manager is not now in charge or giving any directions."

The next one is Exhibit 71, page 162, from Sir Thomas White to Mr. Lash:

"DEAR MR. LASH: I have your private letter of the 14th instant and think I must ask you for the statements to which you refer. In themselves they may disclose a situation which apart altogether from the question of other accounts would cause me to bring the affairs of the Bank to the attention of the Bankers' Association through its President here. The position is that I have been made aware by the Winnipeg Directors of a certain condition which is most disturbing. It does not appear to me that I would be justified in staying enquiry because the Winnipeg Directors may ask me to suspend action. The real question is whether the Bank, having regard to the condition which will be disclosed by the statements should be allowed to continue business with the public."

Now, Sir Thomas White's judgment at this point appears to be sound. Why should we have a Canadian Bankers' Association if they should not be consulted in a matter of this kind? Why were they created but to exercise a certain amount of supervision over banks? The Bankers' Association is supposed to include the ablest bankers of the country. The Honourable James Mason, President of the Home Bank, was a member of that Association. That Association, surely, could be trusted to do what was in the best interests of the bank, and to do what was in the best interests of the banking situation of the country. They surely could be trusted not to do anything that would cause a crisis, if it could be avoided, not to do anything that would cause a run, if it could be avoided. It seems to me that Sir Thomas White's view, at that time, was the only rational view a rational man could take with any knowledge of banking at that particular time.

Now, we come back to 52, page 81. That is a further letter by Mr. Fisher to Sir Thomas White. At the bottom of page 81 he says:

"Meantime, I had a wire on the 15th inst., from Mr. Lash, in which it was intimated that he was in communication with you—that you were asking for a report on some matters, particulars of which he did not mention, but which I assume related to the matters referred to in my memoranda. In this wire, Mr. Lash stated, also, that he had written you explaining the present position, and that the Board was now in accord, and would have new management and full investigation as soon as possible, adding that he had the information that you asked for, but as it would be useless to you unless full investigation were made, he was holding it in the hope that you would allow investigation to be made under the direction of the Board, and he suggested that I should get my clients to communicate with you and make request accordingly."

This is inconsistent with a subsequent letter that Mr. Lash wrote. It was to have an investigation made under the direction of the Board, and this is the first time that that is mentioned.

On a little further, he says:

"It is true that my clients are most desirous to co-operate harmoniously with Mr. Haney, whom Mr. Lash, rightly as I think, regards as the strong man amongst the Eastern Members of the Board, and at the recent meetings I understand my clients gave evidence of such desire. But it was quite clear to me that they would not for a moment be content with an investigation to be conducted by the Board as at present constituted. It was decided, indeed, that after Mr. Crerar returned I was to prepare a communication to be sent to you, expressing most strongly their desire that a special audit of the Bank's affairs—touching especially the larger accounts in the Toronto office—should be directed by the Finance Department. These accounts would include especially the Frost, the Prudential, and the Barnard accounts. The latter, they strongly felt, should be fully investigated notwithstanding the settlement that had been reported to them recently, as referred to in the memorandum upon that account, and the attached papers."

That account Sir Thomas never mentions in any of his correspondence notwithstanding how often it was presented.

"Another point that they are anxious about is this: Prior to the meetings at which they recently attended, a resolution was passed, giving the general manager leave of absence, and appointing his son, who is the assistant general manager, to be acting general manager. My

clients were anxious that at once some fresh blood should be introduced into the general management for the time being, and proposed to have Mr. Adair, the Supervisor who made the Toronto inspection last year, acting assistant to the general manager. They were greatly disappointed that the Board refused to do this, but this point will be referred to more fully, perhaps, in my next communication."

It will be found all the way through that, strangely, Mr. Haney used all his influence to keep the Masons in the management, and every suggestion that was made to have any fresh blood brought into the management was turned down through his influence.

The next one is Exhibit 53, page 83, a further communication from Mr. Fisher. This is dated the 21st of February, 1916, in which he says:

"They very decidedly approve the view expressed in Mr. Lash's telegram referred to in my letter, to the effect that a full investigation is required. This, of course, they understand to mean a full investigation of the Bank's affairs generally, including the acts and conditions that have led to the present situation.

And they are equally firm in their conviction that under the circumstances disclosed in the three memoranda placed in your hands at their instance on 22nd January last, and the papers accompanying the same, including the report of the first inspection of the chief Toronto office, it will be wholly unsatisfactory to have an investigation made by the Board as at present constituted."

That is one thing they repeat over and over again, and are very anxious that that should be inspected.

On down further he says:

"I find that I was in error in stating that the Board had turned down their proposal to appoint Mr. Adair as acting assistant general manager. The fact was, as my clients now advise me, that they proposed this to Mr. Haney, who entirely disapproved of it, and urged very strongly that in the meantime matters be left as they were."

On the next page:

"Having regard also, to the general management's failure to make an inspection of that office until last summer, they are not content even in the meantime to have the general management wholly left as it now is. They were, in fact, very greatly disappointed that Mr. Haney took the attitude he did, as they were hoping that he would see his way to meet their wishes on that point at all events.

My clients wish me to assure you of their great desire to bring about a condition of accord in the Board, but their view is that there can be no real accord unless weight is given to their contentions in respect of the matters that have been brought to your notice. The fact is, that in the past no weight whatever has been given to their views, they alone having been pressing for about a year and a half for a change in the conduct of the bank's affairs, especially in connection with the general management and the Toronto office."

Down lower:

"And touching the Frost account, my clients have information which suggests to them the essential importance not only of a full enquiry into the securities, but also a full investigation into the history of the account and making of the advances as well as taking the securities."



It was found that a considerable portion of these advances from time to time went into General Masons own pocket. That is especially the case with the Home City Estates account, hundreds of thousands of which went to Mason and his-son.

"As to the Prudential account, my clients have no doubt that Mr. Anglin will be able to trace this to the bottom to a large extent, but they regard it as very important that the whole situation should be examined in the proposed investigation. They are impressed with the situation that both the president and Mr. Barnard were members of the Prudential Board, while they have been informed—through this they cannot confirm—that Mr. Barnard was himself interested in one of the New Orleans Companies that figure in the transaction.

Respecting the Barnard account, my clients realize the delicacy of the situation, seeing that it has been settled, and that Mr. Barnard is now on the Board, but they cannot refrain from expressing their conviction as to the desirability of an investigation notwithstanding the settlement."

Then on page 85:

"I am also enclosing copy of a mercantile agency report on the Fidelity Trust Company, whose paper was taken to cover the remainder of the Barnard account after the settlement. From this you will see, amongst other things, that Hr. Barnard himself is a director of this Company, and its affairs, you will see, are understood to be largely in the hands of his law firm.

On the whole, it is the hope of my clients that you will be able to see your way to direct a full investigation by an auditor appointed by your Department."

The next is Exhibit 54, page 86, Sir Thomas White's acknowledgment to Mr. Fisher, in which he says:

"The position I have taken with Mr. Lash is that I desire the statement which I have asked for on the complaint lodged by you on behalf of the Western Directors."

I think your lordship mentioned something some time about complaint.

HIS LORDSHIP: Yes.

MR. McLAUGHLIN: The letter continues:

"It does not appear to me that I would be justified in foregoing my request for such information on the ground that the Board is now in harmony. You make certain definite explicit charges which I conceived it my duty to investigate. When I receive the report in those matters from the Home Bank or Mr. Lash I shall have to determine the course proper for me to take. My duty of course lies to the public—"

I have no quarrel whatever to make with that statement. That statement, I think, expresses Sir Thomas White's sound judgment. All the Directors were interested parties. When the matter came before Sir Thomas from these Directors, when all this information and correspondence was laid before him, a state of facts were disclosed which affected the public, dealing with a public institution chartered by the Government, and no reconciliation of the Directors, no restoration of harmony, nothing whatever that could be done by them could absolve the Minister from whatever his duty might be to the public, but being the only official that stood between them and loss, that stood between them and tragedy, as has occurred in this case, no reconciliation of the Directors could have any effect whatever in absolving him from performing the great trust imposed on him under the Bank Act.

Of course it is said that this is not compulsory. It is said the words used in section 56a of the Bank Act are "may" not "must" or "shall." We all know that has been the universal practice since the earliest times in referring to the Crown and Ministers, to never use the terms "must" or "shall" but always give their powers and duties of all kinds a discretionary character on the theory that the King can do wrong, on the theory that no compulsion is ever needed to be applied to the Crown, on the theory that the Crown will always do complete justice when a matter is brought to its attention. Consequently, all the duties that are imposed on a Minister of the Crown in this Dominion are discretionary in that sense, but in a larger sense, when the circumstances arise requiring the performance of these duties for the benefit of the public, while not their compulsory duty yet it is their political duty, their duties as the servants of the Crown, as the servants of the first servant, of the whole people, to exercise the powers that are imposed on them for the general good.

The next one is 55. It is a further letter by Sir Thomas White, on the same page, to Mr. Fisher, in which he says, on page 87:

"You will, I am sure, understand that the situation is a rather delicate one and that it is important not to make a mistake in judgment either on the one side or on the other. If the bank is sound it would be advisable in the public interest that it should be allowed to continue in business. If, on the other hand, it is not solvent the question arises as to allowing it to continue. I shall endeavour to obtain as full information as possible before reaching a final conclusion. In the meantime I am informed that the Bank is perfecting its security with Pellatt & Pellatt and endeavouring in every way to strengthen its position. I am glad you have sent a copy of your letter to Mr. Lash in order that, as special solicitor for the Bank, he may understand the attitude of your Directors."

The next is a letter of February 24th, 1916, from Sir Thomas White to Mr. Lash, Exhibit 56, page 87, in which he says:

"DEAR MR. LASH: I have received this morning a letter dated February 21st' from Mr. James Fisher, K.C., of which he informs me he has sent you a copy. In view of the opinion, which these clients evidently entertain as to the larger accounts of the Bank and their want of confidence in the Board of Management as at present constituted, it would appear to me that I would only be justified in allowing a reasonable time for the Bank to perfect its security and improve its position under the accounts about which I made enquiry. I hardly think I should be warranted in relying upon the report brought back by Messrs. Haney and Crerar from British Columbia. I assure you I do not desire to take any rash step which might have a serious effect both upon the Bank and the general financial situation."

That letter is a reference which appears from time to time, that he was considering very deeply, which he had a perfect right to do, the financial situation during war times.

Then the letter proceeds:

"but on the other hand I must protect the public interest. I therefore feel that I must at an early date draw the matter to the attention of the President of the Canadian Bankers' Association with the request that the position of the Bank be investigated. It would appear to me that the Bankers' Association could do this very thoroughly and much more efficiently than any auditor I could appoint or any official I could name for the purpose."

I am still agreeing most heartily with Sir Thomas's judgment. As I said a moment ago, if the Canadian Bankers' Association are of any use at all they ought to have had an opportunity of functioning in a crisis of this kind.

The next is another letter from Mr. Fisher to Sir Thomas White, Exhibit 57, page 88. I need only repeat one clause. He says:

"My clients having presented their view very fully and very frankly—"

This is a quotation from a letter he sends to Mr. Lash as counsel for the Bank.

"to the Finance Minister and to yourself as chief counsel of the Bank, are entirely satisfied to leave the matter in his hands and yours to decide what action will be taken. No one connected with the Bank can more earnestly or sincerely than they do desire that any action taken will lead to a betterment of existing conditions."

The next one is Exhibit 59, page 89. It is a formal letter.

The next is Exhibit 72, at page 163. I have already read to your lordship Mr. Fisher's letter in which he stated that Mr. Lash had been urging to have an investigation, an inside investigation, and which Mr. Fisher did not agree to.

When I come to this Exhibit 72, I ask your lordship to turn to page 164 and read Mr. Fisher's letter which is enclosed in Exhibit 72, and which is not marked as a separate Exhibit. This letter is dated February 23, 1916, in which Mr. Fisher says to Mr. Lash:

"My Dear Lash,—I have just had a conference with Mr. Haney, along with Messrs. Crerar and Kennedy.

"In our conference we discussed the present situation somewhat fully, and I read to Mr. Haney the two letters I had written to the Finance Minister, as well as my letter of the 18th to yourself. Mr. Haney, I find, appears to be under the impression that a special audit under the direction of the Finance Minister might tend to bring about a crisis in the affairs of the Bank. Certainly neither my clients or I have had nor have we the slightest idea that such an audit would tend to such a result."

I am calling your lordship's attention to this, that this is the first time it has been suggested by anybody that a special audit or an examination of the affairs of the Bank would cause a crisis or a run on the bank, and that this idea, is not Sir Thomas White's idea, it is not Mr. Lash's idea, but is Mr. Haney's. Mr. Haney seems to be a man of great personality. He seems to be able to impress his views and force his will on everybody. All the iniquities that arose, and had brought about a change in Sir Thomas White's mind from having an honest, independent investigation to having none at all, emanated and originated not with Mr. Lash but with Mr. Haney, and is so expressed in this letter.

"They still hold to the view that, as expressed in your own telegram of the 14th, a full investigation is required, and they still hold the view that under existing circumstances an investigation by the present Board would not be satisfactory.

"I need not point out to you that my clients, who have a high regard for Mr. Claud Macdonell—" and so forth.

Now, I want to call your lordship's attention especially to the sequence of events. Some time before this Mr. Lash had suggested to the Western

Directors, no doubt acting on a suggestion from Mr. Haney, an inside investigation. They disagreed with him. Now, Mr. Haney suggests this to the Western Directors, and, for the first time, raises the question that an investigation by the Finance Department might cause a run on the bank. Mr. Fisher sends that letter to Mr. Lash, and Mr. Lash, on the 29th of February, writes to the Minister, and, in effect, he says he disagrees with Mr. Haney.

His LORDSHIP: Yes, that is so.

Mr. McLAUGHLIN: And he agrees with Mr. Fisher.

His LORDSHIP: That is right, so he does.

Mr. McLAUGHLIN: And he goes back on the previous suggestion that he had made, I suppose on Mr. Haney's suggestion, that the investigation should be inside. He says in this letter:

"Mr. Fisher's statement in this letter, that his clients, having presented their views very fully and very frankly to you and to myself as chief counsel of the Bank, 'are entirely satisfied to leave the matter in his hands and yours to decide what action will be taken' seems to throw a good deal of responsibility upon me."

And with that load of responsibility on his shoulders he goes on to repudiate his previous views and to accept the Western Directors' views that the investigation must be independent.

He says:

"In my interview with you in Ottawa on the 22nd I expressed my personal opinion as to the general position, and I said that my main object was to so manage matters that if the Bank had to liquidate, the liquidation might be with open doors. This can only be accomplished with the assistance of other banks.

"Personally, I have given up hope of being able to secure a competent person who could undertake the general management, without first fully investigating the position. I have always thought—"

Notwithstanding what he expressed before, at his clients' request.

"I have always thought that the investigation should be by an outside competent person who would be quite free from any interference by the present management or Board.

"The best course may be to consult the Bankers' Association with reference to the person who is to make the investigation, as it might be important that the Association should feel able to rely upon his report, if their assistance were asked, instead of having to get a further report from their own nominee. I do not feel that I have sufficient authority to decide this question myself, at the present time, and as soon as Mr. Haney returns from the West I shall ask that a meeting of the Board be called, at which I shall attend, and after full explanations, ask for more formal and general authority."

Now, he gave his own view, but he says he is going to ask for the views of and the authority of the Board.

On the same day, while this letter was not before the Minister, still Mr. Lash states that he had this letter, which we are reading. He states, in the first clause of the letter, that he went over the whole business and laid his views before Sir Thomas, and I feel quite satisfied that the views he laid before Sir Thomas will be the same views that he expressed the same day to Mr. Fisher in Exhibit 132, page 292, the Exhibit commencing at page 291. I need only read on page 292:

"The more I consider the Bank's position, even assuming that every account will ultimately be collected in full, the more doubtful I feel as

to the possibility of its continuing in business. The amount locked up indefinitely in four large accounts, is probably three times the paid-up capital, and more than half the total deposits; and if anything should take place which would cause a comparatively small percentage of the depositors to ask for their money, I do not see how the Bank could, without assistance from outside, continue with open doors."

The next is Exhibit 61 at page 90. That is merely a letter from Mr. Jones in which he sent in the ledger statements of the Frost account.

Exhibit 62, page 92, is merely a letter of acknowledgement.

Then we come to Exhibit 73.

His LORDSHIP: Now, you are getting down to where he changed his views altogether.

Mr. McLAUGHLIN: There are a couple of documents there.

His LORDSHIP: You are still on page 163.

Mr. McLAUGHLIN: Yes.

His LORDSHIP: That is the one you have been talking about.

Mr. McLAUGHLIN: Yes. We go to page 165. At the top of the page there is a document not marked as an Exhibit, it has gone in without a number. It is a letter from Sir Thomas White to Mr. Lash:

"Dear Mr. LASH,—I have yours of the 29th ultimo. My view is that I should in the near future consult the President of the Canadian Bankers' Association with respect to the affairs of the Bank. Please let me know when you expect Mr. Haney to return."

Then there is Exhibit 73, page 165, dated March 2nd, 1916, which is the first indication that Mr. Lash is going back upon his well considered opinion. He says:

"I had a talk with General Mason yesterday and from what he said about the timber property in British Columbia I think that it would be wise to await Mr. Haney's return before speaking to the President of the Bankers' Association, unless, of course, something should intervene which should make it necessary in the meantime. I think nothing is likely to intervene, and that no public interest will suffer pending Mr. Haney's return."

Then we go to Exhibit 74, a letter of March 4th, 1916, which is Mr. Lash's recantation. He had promised in his letter of February 29th, that a meeting of the Board would be held and that he would get his instructions from them. That meeting has evidently been held, because he says:

"The only members of the Board who could be called together at once are, the President, General Mason, Mr. Claude McDonald, M.P., Mr. Flynn and Mr. Barnard. I would not be satisfied with any decision arrived at by these gentlemen. Mr. Barnard's connection with the Prudential, and his personal account with the Bank, would make it difficult for him to express any opinion. Mr. Claude McDonald has not given much attention to the affairs of the Bank for some time past, and I think he would ask to be relieved from the responsibility of any important decision. Mr. Flynn I do not know personally, but I understand he is a very old gentleman, who very seldom expresses any opinion as to matters coming before the Board. General Mason, is of course, not the one to ask for instructions from."

A little further down it continues:

"I learned that Mr. Haney was in Vancouver yesterday, and I telegraphed him saying that it was of the utmost importance that a Board meeting, at which he and the Western members would be present, should be held at the earliest moment, and asking when he could be here with them. I have just received his reply as follows:—

"I expect to be in Toronto on March 16, and the Western Directors will attend meeting March 21." Should anything occur to change the present situation before the meeting can be held, I will at once communicate with you, meantime I would feel relieved if I got your intimation that you would not speak to the President of the Bankers' Association in the meantime. Of course I know that the public interest must be paramount in your mind, and any intimation you may give to me will be subject to your freedom of action, should you be of opinion that the public interest requires you to do anything.

If the Bankers' Association were asked to interfere, my experience tells me that no matter what the pledge of confidence may be, and no matter how faithfully it may be kept by those giving it, yet the situation would become public property in a very short time, by the whisperings or talking of others, including the bank's own staff. This would precipitate matters before we are ready to deal with them in the best interests of the public, and it is that which I am specially anxious to avoid."

Mr. Lash had evidently expressed views like that before to Mr. Fisher, and in his letter of the 29th he retracts them, and he said he has always been of the opinion that no other audit but an independent audit was of any use. And what experience could arise between the 29th of February and the 4th of March to justify him in saying that his experience showed that an investigation of that kind would cause a crisis?

In this investigation nobody has ever suggested that there ever had been any instance when a bank run has been caused by an outside audit, and surely the Bankers' Association have tact and ingenuity, and brains enough to have a sufficient investigation made of that bank without bringing about the crisis that is feared by Mr. Lash here.

Now these words of Mr. Lash are practically the same words as expressed by Mr. Haney mentioned in Mr. Fisher's letter of February 23rd to Mr. Lash, which letter Mr. Lash forwards to the Minister. And notwithstanding that he knows Mr. Haney's views at that time and that that particular matter had been brought to his attention, still he says:

"I believe the only audit of any value is an independent one."

The next is at the top of page 167, not marked with a number, letter of Sir Thomas White to Mr. Lash:

"Copy.

Personal.

OTTAWA, March 8, 1916.

*Re Home Bank*

Dear Mr. LASH,—I have yours of the 4th instant, and think it proper to defer action until after the 16th instant when I understand Mr. Haney's report will be received as to the British Columbia timber limits held in connection with the Frost account. It is altogether probable that after that date I shall feel it my duty to bring the bank's affairs to the attention of the association. They will then have before them the material with which

I have been furnished and Mr. Haney's report, which they would no doubt desire to see before taking action.

Yours very truly,

Z. A. Lash, Esq., K.C.,  
Canadian Bank of Commerce Building,  
Toronto."

Sir Thomas White has not changed his mind at that time owing to Mr. Lash's letter of the fourth.

The next is not marked either, it is at the head of page 168, from Mr. Fisher to Sir Thomas White, merely repeating what he stated before.

Then there is letter No. 78, page 169, Mr. Lash to Sir Thomas White; and No. 79, on the same page, Mr. Lash to Sir Thomas White, in which he states that Mr. Haney had been appointed Vice-President and will make the affairs of the bank the first charge on his time till it is in a permanent position one way or the other and will if necessary devote all his time. He will accept no remuneration until it is seen that the bank can afford it, and then he will take what the shareholders may decide.

"Mr. Machaffie is an old Bank Manager and was trained in the Merchants Bk. and B.B.N.A. He has been with the Home Bank about seven years I think and most of the time in Wpg."

He was to come to Toronto at once to assist Mr. Haney in investigating the general position and Mr. Haney will employ outside assistance as may be required.

This is the commencement of a promise of a thorough investigation by Haney and Machaffie which was never made.

"5. The Board desire an opportunity of going on with the business—strengthening other accounts and straightening out tangles and it was with that in view that we came here to-day in order to explain the whole position to you and to ask you to give them this opportunity, by refraining for a while longer from asking the Bankers' Association or other outside authority to interfere. We would stay over to-morrow and explain things but unfortunately Mr. Crerar must be in Winnipeg on Wednesday and I must be in Toronto to-morrow. I would like Mr. Crerar to be present with me when I see you in order that he may assure you, as he has assured me, that he is quite satisfied now and that Mr. Haney has the full confidence of the Winnipeg Directors. His appointment as V.P. was unanimous at the Board meeting, two of the three W'p'g Directors being present. I feel quite satisfied myself that the public interest will be served by the opportunity asked for being given and if you will kindly give us an appointment for some day next week, towards the end of the week, we will come here or meet you in Toronto and give full information and such undertakings as you desire that the general position will not be changed to the detriment of depositors, etc."

He promised undertakings, I call that to your lordship's attention because certain undertakings were subsequently given.

His LORDSHIP: Yes, I noticed that.

Mr. McLAUGHLIN: The next is No. 81, page 171, Mr. Crerar's letter to Sir Thomas White. This is the letter which Sir Thomas relies upon as justifying him in not making any investigation:

"CHATEAU LAURIER,  
OTTAWA, CANADA, March 20, 1916

(Personal).

Sir THOMAS WHITE,  
Minister of Finance,  
Ottawa, Canada.

*Home Bank of Canada*

DEAR SIR,—You will have learned from Mr. Lash of our visit to Ottawa to-day to discuss bank matters with you, and our failure to see you through your absence from the city. You will also have learned of the change made at the recent meeting of the Board held in Toronto a few days ago, whereby the active management of affairs is placed in entirely new hands through Mr. Haney taking the vice-Presidency, and assuming direct executive control, with Mr. Machaffie, the Manager in Winnipeg, whom, for the time being at least, he is bringing to Toronto to assist him. By this arrangement I feel quite certain that the knowledge and information concerning the position of affairs desired by the Western Members of the Board, and also the changes they desired when they directed their request to you, and which they saw no hope of securing through the then existing management, can now be satisfactorily obtained without calling in outside assistance. In my opinion, the situation has materially improved within the past month, and, at this juncture with the changes in management recently made, it is better to have the enquiry proceed from within rather than from without."

(This is Mr. Haney's idea accepted).

"Owing to the possibility of my being unable to attend a suggested conference with you next week, I am giving this letter to Mr. Lash so that he may place it before you. I may add that Mr. Kennedy, with whom I have discussed the views herein expressed, is in agreement with them. Mr. Perse, the other Western Director, is in the South, and so we have been unable to consult him. I feel however, that were he here he would be in agreement with us.

I am,

Yours truly,

(Sgd.) T. A. CRERAR."

I wish to say with reference to this letter that no great amount of consideration should be given to it. I appreciate very highly the great and honest efforts made by Mr. Crerar and his co-Directors in the West to try to bring about efficient and honest management in this bank. They deserve every credit for it. But it is not only my experience but the general experience of the world that men are unconsciously affected by their own interests, it does not matter how honest or able a man may be, up to the present time the Lord has not created anybody who is a safe judge where his own interests are concerned.



I can visualize the position of Mr. Crerar, who I respect as highly as I respect anyone, I can feel the influence that Mr. Haney would have upon him. It started first at Winnipeg; Mr. Haney said if there was an outside investigation it would cause a run on the bank and we would have to close our doors. Our assets are in such shape that they cannot be readily realized, insolvency would be the only result. You are President of the Grain Growers Company, your company has 1,000 shares, you have 66, you do not want to take any risk of anything arising that would close the doors of the bank and let you and your company in for the double liability. That was Mr. Crerar's position at the time he wrote that letter. Without questioning for a moment his good faith, he was in the position that that was one thing he must avoid, a run on the bank, because he knew, none better, that a run would have closed its doors and brought about immediate liquidation. No person was so highly interested as he was, the President of the Grain Growers Company, the largest legitimate shareholders in the bank, owing 1,000 shares, and with considerable stock of his own. When it was put to him in that way, and further when he went down to Ottawa and Mr. Lash, contrary to his own well-considered opinion but acting on his instructions from Mr. Haney, put the same thing to him and said: "Mr. Crerar, an outside investigation will cause a run on the bank which will close its doors and put it in the liquidation" could Mr. Crerar be otherwise than terrified, you might say, at what the result might be? I think Sir Thomas White should have taken that into consideration. He knew Mr. Crerar was representing a company which was the holder of 1,000 shares and also a considerable stockholder himself, and by reading between the lines and seeing from the correspondence before him how Mr. Haney's insidious suggestion, taken over by Mr. Lash and handed on to Mr. Crerar, led Mr. Crerar to believe that an outside investigation might cause a run on the bank which was the one thing above all others that Mr. Crerar was interested in preventing.

I say that again, I want to be perfectly clear about that, because I have the highest respect for Mr. Crerar's integrity and what he did for the purpose of saving the situation. But I have never come across up to the time of this investigation, and I do not know if I have here, any superman, and I do not know anybody who would not under similar circumstances, unconsciously I believe, and perhaps consciously too, feel that above all things, in his own interest and the interest of the company he represented a run on the bank had to be prevented.

Then further he had the promise that a thorough investigation would be made by Mr. Haney and Mr. Machaffie, Mr. Machaffie especially in whom he had great confidence.

So I think he may be excused and pardoned for writing that letter, but the person to whom it was written should have taken into consideration the circumstances, the fact that Mr. Haney, the President of the bank, was so anxious to avoid an independent investigation, and had, imposed and impressed his ideas on Mr. Lash contrary to his own views, that should in the mind of Sir Thomas White, if he had been giving his mind to the subject, have increased his suspicion rather than diminished it.

The next is exhibit No. 82 on page 171, Sir Thomas White's acknowledgement to Mr. Crerar.

Then we have exhibit No. 83 on page 172. Up to this time Sir Thomas White has always insisted that the matter should go to the Bankers Association, notwithstanding Mr. Lash's previous correspondence. Sir Thomas White was the only independent person. Mr. Haney was not independent, Mr. Crerar under the circumstances could not be independent, Mr. Lash was counsel for the bank and he could not be independent; Sir Thomas White

was the only person who at this point stood between the public and the disasters that have occurred. This resumé of a conference between Mr. Lash and Mr. Haney on the one part and Sir Thomas White on the other at Ottawa explains how that was brought about:

TORONTO, March 23, 1916.

HONOURABLE Sir THOMAS WHITE,  
Minister of Finance,  
Ottawa, Ontario.

*Re Home Bank*

SIR,—Referring to the interview which Mr. M. J. Haney and I had with you yesterday, I beg to record what took place, in order that no misunderstanding with respect to it may arise. If I set forth the position correctly, will you kindly say so in acknowledging receipt of this letter; if, however, I have omitted anything material, or incorrectly stated anything, please call my attention to it."

I only refer to a few paragraphs, I know your lordship will read it all.

"(3) The Board was convinced that important changes in the management of the Bank were required, not only for the purpose of ascertaining its actual position by an inspection conducted under the direct authority of the Board, but also for improving the Bank's position with respect to the existing accounts, and for conducting its future operations, and since Mr. Fisher handed you the statement referred to, the following changes have been made, namely:—"

Then paragraph (c):—

"(c) Mr. Machaffie, Manager of the Winnipeg Branch, has been brought to Toronto to act as Mr. Haney's chief assistant. Mr. Machaffie is regarded as one of the ablest officers in the employment of the Bank. He is a trained banker, and before coming to the Home Bank, he was in the service of the Merchants Bank and the Bank of British North America. He is no way responsible for the general management in the past, and he has managed the business in Winnipeg satisfactorily. He has been with the Home Bank six or seven years."

Then the latter part of paragraph 5:—

"I handed you yesterday a letter from Mr. Crerar supporting the request which I made to you on behalf of the Board, and I may now state, without hesitation, that Mr. Haney and the three Western Directors are in entire accord, I believe the whole Board is now in accord. I mention the Winnipeg Directors and Mr. Haney specially, on account of their position, and the understanding with the Board that the important affairs of the Bank will be under their guidance."

Now Mr. Crerar denies that absolutely, the important affairs of the bank were never under their guidance, were never submitted to them.

Paragraph 8:—

"(8) With a view to ascertaining the actual position of the Bank, a thorough investigation will be made, under the directions of Mr. Haney and Mr. Machaffie. The Board is of opinion that the result of this investigation will show that the capital of the Bank is intact, and that no loss will be suffered by any of its depositors or creditors, provided that it is not compelled, by a run or depositors, to close its doors. The Board

feel strongly that if they are allowed to conduct this investigation from the inside, instead of having it conducted by someone sent in at the instance of the Financial Department or the Canadian Bankers' Association, nothing will happen, which would cause a run by depositors, but that if the investigation be conducted at the instance of any outside authority, the chances are that statements will be made, and things will be said about the Bank, which will cause a run, and which will force the Bank to close its doors. This opinion is not based upon any want of confidence in anyone who may be sent, or upon any fear that such person would himself disclose the confidence entrusted to him, but experience has shown that no person can be sent from the outside to investigate the affairs of a Bank, without its becoming known sooner or later that he has been sent from the outside. This probably results from some unguarded though innocent remark made by some member of the Bank's own staff."

I would like to know what experience there is to support that, what intimation has ever been made to your lordship of any instance where it has occurred? Mr. Lafleur in his cross-examination of Sir Thomas White mentioned the instance of the Merchants Bank and one bank after another where investigations had been conducted secretly and Sir Thomas could give no instance to the contrary. Mr. Machaffie and Mr. Edwards are both of the opinion, without any doubt whatever, that the affairs of the bank could have been investigated without anyone knowing about it. Mr. Machaffie said that the Easter holidays were coming and it could have been investigated then and the information obtained even without a man going into the bank by the bank's books being brought at night to the office of the investigator.

"(12) I think it will be evident to you that all these matters which I have referred to, and which still require attention, can be better attended to under the directions of the present Board than under the directions of a curator or liquidator, in fact it would be impossible for a curator or a liquidator to bring any of them to a successful termination."

So it was still Mr. Lash's opinion and Sir Thomas Whits's opinion that an investigation would result in a Curator or Liquidator, or why is the matter so often mentioned?

"(14) You informed us that you had given much thought to the position of the Home Bank since Mr. Fisher had called upon you in reference thereto, that the public interest must, at all time, be your guide in any decision which you might come to, and that in view of the statements made to you by Mr. Haney and myself, and of the statements in a letter which I handed you from Mr. Crerar, you thought it would be in the public interest to comply with our request, and that you would do so for the present, always reserving to yourself the fullest right to take any step, at any time, which you might think the public interest called for."

Then we have exhibit No. 84 on page 175, Sir Thomas White's reply:—

OTTAWA, March 25th, 1916.

*Re Home Bank of Canada*

Dear Mr. LASH,—I have yours of the 23rd instant in which you set forth substantially what occurred at our interview on Wednesday. You clearly understand that I reserve to myself the fullest liberty to consult with the President of the Canadian Bankers' Association or take any

other step which I may deem to be in the public interest without further communication with Mr. Haney or yourself on the subject. In the meantime it appears to me from the statement of yourself and Mr. Haney and from Mr. Crerar's letter that the position of the bank is being improved. I should like to have from you an assurance that interest upon the Frost account will not be taken into profits distributed to shareholders in the way of dividends. It would appear to me also that until the New Orleans situation is cleared it would be advisable to pursue a similar course respecting that account.

Yours very truly,

Z. A. LASH, Esq., K.C.,  
Canadian Bank of Commerce Building,  
Toronto.

We have Exhibit No. 85 on page 176, which is Mr. Lash's reply:—

“TORONTO, March 28, 1916.

Sir THOMAS WHITE,  
Minister of Finance,  
Ottawa, Ont.

*Re Home Bank .*

DEAR SIR THOMAS,—I am in receipt of yours of 25th.

I think I can give you the assurance that interest upon the Frost account will not be taken into profits distributed to shareholders in the way of dividends, and that until the New Orleans situation is cleared up, a similar course will be pursued.

I shall bring your letter to the attention of the Board, so that there may be no mistake about it.

Faithfully yours,

(Sgd.) Z. A. LASH.”

Now I am not questioning Mr. Lash's good faith, he was a gentleman in whom we all had a great deal of personal confidence, Mr. Lash must have got this assurance from Mr. Haney because he would not take it from Mr. Mason, yet when it came to the end of that year, only six weeks later, the bank took that interest into profits and paid it out in dividends. If they had not taken it in, the year's operations would have shown a loss and they could not have paid a dividend, and if they had passed the dividend the result in all probability would have been liquidation.

Then on the 23rd of March the matter is dropped. There is no further correspondence of any importance. On June 14, Exhibit No. 86, Mr. Haney writes a short letter to Sir Thomas which states that there is harmony in the Board, but the investigation that they had promised should be made by Mr. Haney and Mr. Machaffie was not referred to, and Mr. Machaffie says was never made.

Exhibit No. 87 is merely Sir Thomas White's reply to that letter.

Then although Sir Thomas White had the assurance of Mr. Lash that an investigation would be made by Messrs. Haney and Machaffie and that the interest on the Frost and New Orleans loans would not be taken into profits, for two years and five months he made no enquiry whatever whether that inspection had been made or these assurances carried out.

Sir Thomas in his evidence stated to me that he felt that his duty to the public as a Cabinet Minister would be just as great, if not greater, than would be his duty to a private client. If Sir Thomas White as a solicitor and counsel

had a case which involved \$10,000 and not \$100,000,000, as this did, or even a case which only represented \$100, given into his charge to investigate, and if he dropped it under circumstances like this and took no further notice, paid no further attention to it for two years and five months, he would certainly cease for ever and all time to do business for that client.

I do not want to make this thing personal, I think Sir Thomas White along with Mr. Crerar is to be pardoned, that he had some exceedingly good excuses which I will mention later, and I do not want to minimize in any way whatever the great services which he rendered to the country, I would much rather emphasize them, but I mention at this time this big silence for two years and five months.

Then in Exhibit No. 88 the matter came up again in a letter from Mr. Machaffie to Sir Thomas, dated August 29, 1918, in which he says:—

“OAKVILLE, ONT., August 29, 1918,

Hon. Sir THOMAS WHITE,  
Minister of Finance,  
Ottawa.

*Home Bank of Canada*

DEAR SIR THOMAS,—Referring to the report of James Fisher K.C. to you on February, 1916, and to a conversation with the writer in December of that year; at that time there seemed some hope of selling a substantial portion of the British Columbia timber held in the A. C. Frost account to a pulp company, this sale however did not materialize; this situation therefore is that the dividends for the years ending May, 1916, and May, 1917 were based on the addition of interest to doubtful accounts—in each year some 30 per cent more than amount of dividend being added to the Frost account alone—dividend for year ended May, 1918, was based on the anticipation of a profit in a British Columbia shipbuilding enterprise, in which the Bank is to receive 25 per cent of the profit, the balance being divided between M. J. Haney, President, C. A. Barnard, a Director, and F. J. M. Stewart, a personal friend of Mr. Haney's. In this connection a considerable amount of the bank's funds is locked up.”

The bank furnished the fund for these speculations, some of them turned out successfully, and the profits were divided between Messrs. Haney, Barnard and Stewart and the bank, each getting 25 per cent; very reprehensible, because while the B.C. Shipbuilding was fortunate enough to turn out all right and the bank made some money, yet the Montreal shipping venture turned out so badly that the bank lost \$1,000,000. The bank was furnishing the money and Mr. Barnard and some of the others were sharing in the profits.

“The total amount written up on the Frost account over the purchase price of the timber, if added to the amount of capital stock carried by the bank, would account for the entire capital.”

Then he goes on to mention some more things, your lordship will read the letter in full.

No. 89 on page 179, is simply an acknowledgement of that letter, which is all the thanks Mr. Machaffie got for his letter.

His LORDSHIP: Before you leave that exhibit 88, there was a prior letter from Mr. Machaffie to Sir Thomas wasn't there?

Mr. SYMINGTON: It was never delivered, it was written earlier but not delivered.

Mr. McLAUGHLIN: That is the one he proposed to write and which they asked him to withdraw and he withdrew some statements made in it.

His LORDSHIP: Then do you tell me that during those two years there was no communication at all to Sir Thomas White from anybody in connection with the bank's affairs?

Mr. McLAUGHLIN: None at all.

Mr. SYMINGTON: Did you refer to No. 86?

His LORDSHIP: Yes.

Mr. SYMINGTON: That is the last.

Mr. McLAUGHLIN: The only letter from March 23rd, 1916 to August 1918, was that letter of Mr. Haney's and its acknowledgment, neither of which was of any importance. June 1916, two years and two months that there was no communication at all.

Then the correspondence in connection with the August 1918 letter is exhibit No. 90, a letter from Sir Thomas White to Mr. Lash; exhibit No. 91 from Mr. Lash to Sir Thomas White; and exhibit No. 92 to Sir Thomas White from Mr. Lash. These are merely formal letters, Exhibit No. 92 says: —

"I know that Mr. Machaffie has had strained relations with Mr. Haney for some time past and what he says about the Home Bank and Mr. Haney must be regarded in that light."

Mr. Machaffie up to that time had borne a very high character and if there were strained relations between him and Mr. Haney it affected Mr. Haney quite as much as Mr. Machaffie.

The final result is exhibit No. 96 on page 182 in which is a report by Mr. Haney in which he gives a very glowing account to the Minister of the progress of the bank and the improvement in its condition, which has a negative value. I am afraid Mr. Haney's assurances not only were not worth the paper they were written on but they were negative quantities, things were always the other way,

Then No. 97 is the reply from Sir Thomas White to Mr. Lash; No. 98 and down to No. 105 are of no value.

In Exhibit No. 105 Mr. Lash writes to Sir Thomas giving some more of the same kind of material, and copies of ledger accounts, and so on, but nothing in the way of independent investigation made.

Mr. SYMINGTON: Your lordship will notice that Exhibit No. 107 was attached to No. 105.

Proceedings stand adjourned at 4.35 p.m. Wednesday, May 14th, 1924, until 10 a.m., Thursday, 15th May, 1924.