

21-1924/1-31-7

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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

COMMISSIONER:

The Honourable Chief Justice McKeown

OTTAWA, SATURDAY, APRIL 26, 1924

No. 7

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1924

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, Saturday, the 26th day of April, 1924.

Counsel:

EUGENE LAFLUR, 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.*

WILLIAM A. MACHAFFIE, Sworn. Examined by *Mr. Lee.*

Q. Mr. Machaffie, how long have you been banking?—A. Since 1882.

Q. You started with what bank?—A. The Merchants' Bank of Canada.

Q. And you left their service and went into what service?—A. The Bank of British North America.

Q. When did you leave the Bank of British North America?—A. In 1907.

Q. And where did you go then?—A. To the Home Bank of Canada.

Q. So that you were with the Home Bank of Canada from 1907 until what date?—A. 1918.

Q. When you went into the Home Bank, what position did you occupy first, and what positions did you occupy afterwards?—A. At first I was manager at Winnipeg; later, assistant to the Vice-President; and later still, assistant to the President, the same gentleman. And that is all.

Q. So you were Manager at Winnipeg, Assistant to the Vice-President and later Assistant to the President. And what year did you say you went in?—A. 1907.

Q. You had occasion to write to the Minister of Finance in 1918?—A. Yes.

Q. On the 29th of August you wrote this letter which is already on record as Exhibit 88.

HOME BANK OF CANADA

OAKVILLE, ONT., August 29, 1918.

"HON. SIR THOMAS WHITE,
Minister of Finance,
Ottawa.

DEAR SIR THOMAS,—Referring to the report of James Fisher, K.C., to you in 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.

In view of the foregoing it seems evident that the actual cash disbursed in dividends during the three years under review was furnished by the increase in deposits, and that the aggregate risk of the public is much greater to-day than when Mr. Fisher approached you.

The total amount written up in 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.

Section 153 of the Bank Act is of course violated, Head Office officials unwilling to share the guilt are obliged to get out; since matters were reported to you the following gentlemen have had to resign:

Mr. Kennedy, Toronto Manager.

Mr. Adair, Supervisor.

Mr. Hase, Supervisor.

Mr. Machaffie, Assistant to President.

The shareholders' auditor, who was the late Col. Mason's selection, is not, I am told a chartered accountant, nor a trained banker; the position of important matters is concealed from the Board, and consequently the public are denied that measure of protection contemplated by Parliament at Section 58 of the Bank Act.

Transactions in which Mr. Haney and his friends have a personal interest were becoming rather frequent, and in some cases the outcome was disastrous to the bank.

This lack of disinterestedness on the part of Mr. Haney, coupled with the fact that much important information is withheld from Mr. Lash, seems to justify the conclusion that the arrangement made by you with these two gentlemen does not afford the public an adequate measure of protection.

All of which is respectfully submitted, I am,

Yours faithfully,

(Sgd.) W. N. MACHAFFIE,
Late Assistant to President."

You wrote that letter, Mr. Machaffie, did you?—A. Yes, but there is one error, you said years 1916 and 1918. I think I stated the years 1916 and 1917.

HIS LORDSHIP: Yes, 1916 and 1918 were read.

Mr. LEE: I thought I said '17. And '17 is right.

Q. Before touching on that letter, had you ever written any letters in reference to this matter before that to anybody?—A. Yes.

Q. To whom did you write?—A. To the Hon. T. A. Crerar, who acted as Chairman of the Winnipeg Committee of Directors.

Q. You wrote letters then to the Hon. T. A. Crerar, John Kennedy and John Persse. Did you write this letter of the 28th September, 1915?—A. Yes.

Q. Did this letter go to them?—A. Yes.

Mr. LEE: My lord, I think a copy of this should go in. The witness states that the Crown desires the possession of this letter in Toronto.

Mr. MACHAFFIE: I do not know that they said quite that, but I was asked by Mr. Glarkson whether I would testify at the criminal trial and I said I presumed I would have to if I were called, that is all.

Mr. LEE: We will put it in here meantime.

Mr. YOUNG: So far as possible, Mr. Commissioner, we desire that the originals should be obtainable in Toronto.

His LORDSHIP: There is no reason why the letter should not be read into the record now and he can take it back with him. I quite appreciate that the Crown must have the original. A copy may be filed.

Mr. LEE: This letter was sent by you and is as follows:

EXHIBIT No. 133.

Filed by Mr. Lee, April 26, 1924.

Copy letter, Sept. 28, 1915, from W. N. Machaffie to T. A. Crerar, et al, re the general management of the bank.

“THE HOME BANK OF CANADA

WINNIPEG, Man., Sept. 28, 1915.

T. A. Crerar, Esq.,
John Kennedy, Esq.,
John Persse, Esq.,

Gentlemen:—As Senior Branch Manager in the Bank, the writer feels it his duty to make certain observations regarding the management. I recall that since 1912 serious doubts have been entertained as to the soundness of the general management. About that time I learned that the Eastern Directors had no knowledge of a loan of \$4,500,000 to a company of which Col. Mason was a Director, that the fact that the Toronto office was never inspected has been frequently commented upon, that in June, 1912, Mr. Kennedy while in Toronto requested Col. Mason to come to Winnipeg to confer with the Western Directors, that Col. Mason agreed to do this but that the conference never took place.

In October, 1914, information reached me of a most serious state of affairs at Toronto, this information was at once given to the Western Directors who arranged to visit Toronto. The situation as it developed at this time and subsequent visits, as described in various conversations with the Western Directors is understood by me to be as follows:—

The Eastern Directors at first opposed investigation stating that Col. Mason enjoyed their full confidence. Col. Mason offered to furnish full information but was soon detected in lying. This caused the Eastern Directors to withdraw their confidence and join in the demand for a full investigation, this investigation has recently been completed in spite of Col. Mason's efforts to balk it, and all Directors now know that Col. Mason's hopeless incapacity and wrong-doing has brought the bank to a position where its continued existence is most seriously threatened, the Directors however fear to remove Col. Mason because of the probable effect on depositors (the Bank being in no position to meet a run) and also because of his threat that under certain circumstances he would 'close our doors.'

With the President and General Manager and also the Assistant General Manager discredited, I, while not an executive officer, feel that in the opinion of the Banking world some responsibility may be thought to descend to me as Senior Branch Manager. I therefore ask the Western Directors to take legal advice particularly as to whether matters ought not to be placed before the Minister of Finance and by whom.

In considering the expediency of such a step at the present time because of the large interests involved weight should attach to the importance of the bank going through the present grain season without disturbance.

In conclusion the writer invites serious consideration of the suggestion made verbally for reorganization on a plan which includes the admission of new capital on a basis involving no new risk to the investors.

Yours truly,

(Sgd.) W. A. MACHAFFIE."

Mr. MACHAFFIE: Where you read the words: "about that time I learned that the Eastern Directors had no knowledge of a loan of \$4,500,000." The amount is wrong. What I dictated was \$450,000.

Q. You say that should be \$450,000?—A. Yes.

Q. With that correction, that was your letter written to these Directors in 1915?—A. It was.

Q. Did you have any conversation with any of these Directors following this letter, and if so, with whom?—A. I do not recall a conversation just at that time. Their lawyer however, called on me.

Q. Who was their lawyer?—A. James Fisher, K.C.

Q. Will you tell me how you got this original letter back?—A. James Fisher came to my house one evening. I think the date is on that letter.

Q. Would this be it: .

"Handed back by James Fisher November 4th, 1915."

A. That was the date.

Q. Is that the date he handed it to you?—A. Yes. Mr. Fisher had that letter with him and also one which he had drafted, addressed to the Western Directors, and the course of our conversation was about on these lines: Mr. Fisher thought my letter was too strong and that I ought to withdraw it and sign the one which he had drafted. I had very great respect for Mr. Fisher; I had known him for twenty years and regarded him as a personal friend, but I declined to accede to his request.

Q. That is, you thought your letter was not too strong?—A. I did not accede to his request.

Q. Then what next occurred?—A. I wrote another letter to the Hon. T. A. Crerar. It is there.

Q. You have not the original of that letter?—A. No.

Q. Have you a copy of it?—A. I have.

Q. Is this the copy?—A. That is a copy, yes.

Q. And you wrote this letter?

Mr. LAFLEUR: Are you giving an Exhibit number to that letter of the 4th November.

Mr. LEE: Having been read into the record at Mr. Young's request, I was not going to mark that as an Exhibit.

Mr. YOUNG: Cannot you put in a copy?

Mr. LEE: I will put a copy in. The copy will be Exhibit 133.

Mr. LAFLEUR: All the letters are marked with Exhibit numbers and it is more convenient that they should be.

Mr. LEE: This is Winnipeg, Manitoba, 14th October, 1915, addressed to T. A. Crerar, Esq., Director, Winnipeg.

EXHIBIT No. 134.

Filed by Mr. Lee, April 26, 1924.

Letter, Oct. 14, 1915, from H. A. Machaffie to T. A. Crerar.

"THE HOME BANK OF CANADA,

WINNIPEG, MAN., October 14, 1915.

T. A. CRERAR, ESQ.,
Director,
Winnipeg.

DEAR SIR,—Referring to the concluding paragraph in my letter of 28th ulto, addressed to our Winnipeg Directors, the position appears to be that we have assets valued at approximately \$2,400,000 according to our last annual report. A considerable portion of these assets are based on securities such as standing timber and some Real Estate which yield no revenue and of, at present, problematical value; our practice of adding interest to such accounts in order to pay dividends on our present capitalization is not sound and must lead to serious trouble. The correct procedure I believe to be as follows:—

Ascertain the actual value of our assets, i.e., the price which a purchasing bank should be asked to pay for them, divide the amount in two parts, Capital and Reserve, the Capital to be an amount on which our present actual earnings would meet a dividend and leave something each year to the good, the Reserve to be represented by non-revenue bearing assets at a modest valuation.

Reorganization on these lines has taken place in many Banks in Canada and elsewhere which have later become prosperous.

In a small Bank such as ours however there is the serious danger of this course causing a run by depositors, especially as the bulk of them are in one city, Toronto. Such a run might mean forced liquidation, a vast shrinkage in values, heavy expense and in short huge loss to our shareholders and perhaps a call for double liability.

The interests of our shareholders can best be protected by a course of action about as follows:—

After ascertaining the actual value of our assets and before taking steps to reduce our Capital we should explain the position to the Minister of Finance and bespeak his good offices with the Bankers Association, the members of which are most anxious to prevent financial troubles in any quarter. We should then ask the Association to find a prospective purchaser at a price to be agreed upon (which would be the actual value) but to give us an option say of two years in which to endeavour to get the Bank on a better basis and to agree to recoup in full any new shareholders who might take stock during those two years. When able to announce such an agreement we would be in a strong position to publish our reorganization, financial men and the Press would commend our action and the Bank might easily attain a higher position in public esteem than it does to-day, judging by the steady withdrawal of deposits which goes on in Toronto.

Assuming that our depositors would be satisfied we could then look to the West for fresh capital to increase our earning power, investors being protected by the agreement, if at the end of two years substantial progress in realization and earnings had not been made the sale could go through, and our shareholders would at least be protected from the waste and shrinkage of a forced liquidation, and our Directors would have done their duty to depositors, shareholders and the public.

Yours truly,
Manager."

Mr. LEE: Now, did you do anything further after sending that letter until you sent the letter of August 29, 1918, or did you have any conversations with the Western Directors, and if so, what were they?—A. Shortly after writing that letter, Mr. Crerar asked me if I would take the position of General Manager of the bank. I told him I would very much rather not, as my interests were entirely western, but that I would not see him stuck.

Q. You told him you would rather not as your interests were entirely western, but that you would not see him stuck?—A. Or words to that effect.

Q. Then, what next occurred?—A. I was called by telegram to Toronto in March, 1916, and learned later that it was because of a suggestion made by Mr. Crerar to Mr. Haney that I was brought to Toronto.

Q. Did you go to Toronto?—A. I went to Toronto, yes.

Q. What year was that?—A. March, 1916.

Q. When you arrived in Toronto did you immediately go on with your activities in the bank?—A. Mr. Haney told me that I had been called down there to act as his adviser temporarily, that I was to retain my rank as Winnipeg manager, that I was detailed for special duty temporarily in Toronto.

Q. Did you go on under those circumstances?—A. Naturally.

Q. And you acted as his adviser?—A. Yes.

Q. How long?—A. Until August, 1916, when I was appointed Assistant to the Vice-President after having been asked, at the same meeting at which I was asked and agreed to accept the General Managership.

Q. At the same meeting you were asked to accept the General Managership?—A. Asked if I would, and on what terms.

Q. Did you accept?—A. Yes.

Q. Immediately?—A. At once.

Q. And that would be in August, 1916?—A. Yes. The appointment did not go through on that date, in fact, it never went through. Before the meeting adjourned, Mr. Haney stated that there was a matter regarding which he wished to consult Mr. Lash and he would like the appointment to stand over for a week or two, and asked me if I saw any objection to being appointed Assistant to the Vice-President at once, on that date, which was done.

Q. And you were appointed Assistant to the Vice-President that day?—A. Yes.

Q. And then you acted as Assistant to the Vice-President continuously until you went out of the service?—A. No. The following December, I think it was December, but I am not sure, Mr. Haney was elected President and I was appointed Assistant to the President.

Q. And then, as Assistant to the President, you had direct supervision over all matters connected with the bank?—A. No. I asked Mr. Haney to define my responsibilities and authority, and got no satisfaction from him.

Q. You asked Mr. Haney to define your responsibilities and authority, and you got no satisfaction from him?—A. Yes. I may say that, so far as I know, Canadian Banks never have such an office as Assistant to the President, or Assistant to the Vice-President. The custom in Canadian banks is that the General Manager is the executive officer of the bank, and the President is Chairman of the Board of Directors. This situation was entirely out of harmony with my pre-conceived ideas of what it should be, and I did not quite know where I was at, you see.

Q. Then how long did you act as Assistant to the Vice-President?—A. In January following I asked Mr. Haney to send me back to Winnipeg, stating that I thought my services would be of more value in Winnipeg. He refused to do so, and displayed a little heat, I think. I then discontinued attending Board meetings. I kept to a room of my own on a separate flat from Mr. Haney, and did not go to him unless sent for, or unless I had something to ask him, or communicate to him, which was very seldom.

Q. So that your relations with Mr. Haney were a little bit strained about that time?—A. Yes.

Q. What caused this?—A. My request to be sent back to Winnipeg, I believe.

Q. Had there been any loans at all that you were not satisfied with, or anything of that kind?—A. Yes, but it was not because of that. You want to know why I made that request, do you?

Q. Yes.—A. The reason was this. Under the Bank Act any officer, no matter what his rank, commits a penal offence if he concurs in a misleading statement regarding the bank's affairs, if he merely concurs in it. I knew from conversation that Mr. Haney intended adding interest to the Frost account on the following May for the half year's statement.

Q. That would be in 1917?—A. That would be in 1917, yes. I had done as much as I could, I thought, to influence him against it, without success, and I felt that if I continued sitting at that Board it might be held that I did concur in a course of action which I knew to be wrong.

Mr. LAFLEUR: When you say "adding interest" what do you mean?—A. Taking it into the profits.

Q. That is, unpaid interest was carried into the profits?—A. Yes.

Mr. LEE: And did that prompt you to ask to be sent back to Winnipeg, that was one of the things?—A. That was the chief thing.

Q. Were there any loans that you did not approve of?—A. I did not like the methods in practice at all. The ordinary method is, that all applicants for loans should make their application to a Branch Manager which should be forwarded by him to the General Manager with the Branch Manager's approval. The General Manager should then consider the matter and, if he sees fit, put it before the Board. If he does not see fit, refuse it without consulting the Board. But in the Home Bank, at that time, a great many transactions were introduced to the bank by Mr. Haney himself. The Acting General Manager had no chance to consider these. Personally, I had no authority one way or the other, and the fact that I could not consider them was irrelevant, but the Acting General Manager could not. You might say that the business was railroaded through in that irregular manner.

Q. And Haney was then President?—A. He was President in December of 1916.

Q. Well, are there any other reasons that prompted you to ask to be sent back to Winnipeg?—A. I think not.

Q. Then you did not go back to Winnipeg?—A. No.

Q. Why?—A. He did not send me.

Q. Then what next occurred, were you made General Manager?—A. No. I spent the winter in that room. The Acting General Manager used to come up and see me frequently and discuss any Western matters. I told him on one or two occasions that I considered myself a prisoner, chaffingly, you know. That lasted until the following first of November.

Q. That would be November, 1917?—A. Yes. In July, 1917, Mr. Gough told me that he was determined that my appointment, as General Manager, should go through at once, remarking that it was a shame the matter had stood so long. That was in July. In August, I was sent for by Mr. Haney, and met him, Mr. Gough, and Mr. Daly, who asked me to say in what capacity I thought I could best serve the bank, the position of General Manager being out of the question, and another Winnipeg Manager having been appointed.

Q. They had appointed a General Manager to Winnipeg in the meantime, had they?—A. A Branch Manager to Winnipeg in May, 1917. I told them that the bank badly needed a proper inspection department, that I was willing to undertake the task of erecting such a department and carrying on the work. Mr. Haney said he would mention that to his Directors.

Mr. LAFLEUR: Inspector of the local branch, or general inspector?—A. Oh, the whole bank.

Mr. LEE: Had they not a proper system of inspection at that time?—A. No, never had.

Q. Do I understand you correctly when you say that this bank never had a proper system of inspection?—A. I believe that is right.

Q. Had the Toronto office been inspected from the time the bank started up to that time?—A. Only once, so far as I know.

Q. How many years before had it been previously inspected?—A. It was inspected when these troubles began.

Q. And who inspected it?—A. Mr. Adair and Mr. Hase, if I remember correctly.

Q. However, just go on with your story, what occurred next?—A. The first of November, 1917, I applied for three months leave of absence which was granted.

Q. And did you go back to the bank in 1918?—A. Oh, yes.

Q. And resumed your service about when?—A. It is doubtful if you could call it a resumption of service. I found the head office premises reorganized and no room for me provided, no desk room.

Q. However, your salary was being paid all the time?—A. Oh, yes.

Q. Now, had you occasion at any time, after the meeting which you have spoken of, of the Directors, when they asked if you would accept the position of General Manager, of seeing the Minister of Finance, Sir Thomas White?—A. Yes. I called on him in December, 1916.

Q. Who accompanied you?—A. Nobody on that occasion. I had been taken to see him by Mr. Haney before that.

Q. You had been taken to see him by Mr. Haney when?—A. I should say about June, but I may be wrong as to that.

Q. That is, June of 1916?—A. Yes.

Q. And then you saw Sir Thomas White in December of 1916, yourself?—A. Yes.

Q. What was the reason for your call?—A. I went down to arrange for money from the Dominion Government for our grain business.

Q. It was not in connection with the appointment of Manager?—A. Oh, no.

Q. When you saw him with Mr. Haney, in June of 1916, was there any discussion with Mr. Haney at that time in reference to the General Managership?—A. With Sir Thomas?

Q. Yes.—A. Not in my presence.

Q. Well, then, after 1917, or in 1917, when you resumed your service with the Bank after the three months leave of absence, what occurred?—A. That would be February, 1918.

Mr. LAFLEUR: You see, that was three months after November when he got the leave of absence.

Mr. LEE: That was in February, 1918?—A. Yes.

Q. Just tell us what occurred then?—A. I started to stir things up a bit.

Q. What do you mean by stirring things up a bit?—A. Among other things I drafted a letter to Sir Thomas White and sent a copy of it to Mr. Haney.

Q. Would this be the letter you drafted, would you listen as I read it? Letter of February 15, 1918,

EXHIBIT No. 135.

Filed by Mr. Lee, April 26, 1924.

Draft of letter from W. A. Machaffie to Sir Thomas White.

February 25, 1918.

"HON. SIR THOMAS WHITE,
Minister of Finance,
Ottawa.

DEAR SIR THOMAS: When I last had the pleasure of an interview with you information was asked regarding three accounts on our books, viz:—

Sir Henry M. Pellatt.
New Orleans Street Railway Matter.
A. C. Frost (N.C. Timber matter).

I told you what I could. As fourteen months have elapsed since then a further report may now be considered in order.

Sir Henry M. Pellatt:

I have nothing new to report except that Pellatt busied himself in a canvass among our Directors to prevent a change in General Management.

New Orleans Matter:

I advised you that a sum, approximately \$230,000 was advanced to acquire an equity in a link of railway in which the bank had no direct interest; it was expected that a bond issue would be floated and the bank reimbursed. This expectation has not been realized. The large amount mentioned in the report to you of two years ago remains in a position of grave jeopardy.

A. C. Frost:

Since reported to you this account has been again written up some \$200,000 for interest. I cannot let this opportunity pass without pointing out that the aggregate amount written up in this account if added to the amount of Home Bank stock carried by the bank would account for the greater bulk, if not the whole of the bank's capital, while, as you have been advised, there are numerous other accounts in a precarious position.

Mr. Haney, the President, has also been appointed Chief Executive Officer, and as such is practically a Dictator. I have endeavoured to have an inspection system installed, and wrote Mr. Haney on the subject on the 13th inst. and now enclose a copy of that letter for your further information.

Mr. Haney's policy is to endeavour to rehabilitate the bank by a series of speculative ventures, chiefly in steamship activities. While withholding comment on this policy I cannot refrain from offering criticism of the methods in use. Briefly stated, the bank furnishes large sums of money without security, and is to receive but a moiety of the expected profits, the bulk of such profits going to Haney, C. A. Barnard, another Director, and F. J. Stewart, a personal friend.

Mr. Barnard has a liability to the bank of some \$260,000 in connection with Home Bank stock, but neither he nor Haney are personally responsible for the bank for these fresh advances.

In conclusion I beg to state that the contents of this letter have been placed before Mr. Haney.

I am,
Yours faithfully,

(Sgd.) W. A. MACHAFFIE,
Asst. to President."

A. Yes, that is mine.

Q. That letter was never sent to Sir Thomas White?—A. No.

Q. To whom was it sent?—A. To Mr. Haney.

Q. Why did you not send it to Sir Thomas White?—A. There were several reasons. The most serious statement in that letter was based on hearsay so far as I was concerned. I felt that to make that statement to the Minister was a very serious matter; it was also a very serious matter not to make it if it were true. I thought it good tactics at the time to put it before the Board in that manner, to invite discussion. Doing so could do no possible harm and it might do some good.

Q. It would be in the bank's interest?—A. It could do no harm anyway. There was another reason why I did not send it; I had previously conveyed as

I thought practically the same information to Sir Thomas White verbally through his half brother, and I had reason to believe that it had reached him.

Q. As to the condition of the bank?—A. Yes.

Q. What came of this letter, was there anything came, any result?—A. I met Col. Mason, that is the son, the next day and he told me that my letter contained serious misstatements and that Mr. Gough would be glad to see me. I called on Mr. Gough and that was the first of a number of interviews with him. I immediately told him the letter had not gone forward.

Q. Did you and Mr. Gough discuss the bank's position then?—A. Yes.

Q. Frankly?—A. Yes and frequently.

Q. What next occurred?—A. I wrote a letter to Mr. Gough.

Q. That would be in February, 1918. Now follow and see if this is the letter you wrote (February 15, 1918)?—A. That is not the letter I mean. It is one of those three I gave you since I came in here I think.

Q. Is it this letter of March 26th 1918:

EXHIBIT No. 136.

Filed by Mr. Lee, April 26, 1924.

Letter, March 26, 1918, from W. A. Machaffie to R. P. Gough.

"THE HOME BANK OF CANADA,
HEAD OFFICE,

TORONTO, March 26th, 1918.

R. P. GOUGH, Esq.,

Vice President, The Home Bank of Canada,
Toronto.

DEAR MR. GOUGH,—During the first of our recent interviews, I was greatly struck by the air of conviction with which you expressed the belief that our capital is intact. Coming from a man as disinterested as yourself, it led me to reconsider the propriety of forwarding the letter of complaint which I recently addressed to Sir Thomas White.

You furthermore spoke most strongly regarding the wrongfulness of adding interest to doubtful accounts, which also impressed me.

Unfortunately however I cannot shut my eyes to this fact; that your judgment is necessarily based on information gathered and imparted to you by men who are known to have added interest to doubtful accounts to an astonishing extent.

May I now offer a practical suggestion—it is that Mr. Pease, President of the Canadian Bankers' Association, be invited to nominate a man to make a brief examination and report to you. In urging this step, I desire to point out that Mr. Pease has a national reputation for large-mindedness; that he has employees who have had experience in making rapid estimates of the position and prospects of struggling institutions; that the Royal Bank know you well personally; that the quiet of the Easter Holidays would afford an excellent opportunity for a cursory examination by Mr. Pease's nominee, in association with yourself, Col. Mason and the writer.

I sincerely trust this suggestion may appeal to you.

Yours faithfully."

Q. Is that the letter?—A. That is my letter.

Q. Did that letter reach Mr. Gough as far as you know?—A. Oh, yes.

Q. Did you ever discuss it with Mr. Gough afterward?—A. Oh, yes.

Q. How soon afterward?—A. Very soon; almost immediately.

Q. Mr. Gough at this time was very anxious to have you appointed as

General Manager, was he?—A. Not at that time. It was in July, 1917, that he told me he was determined to have me appointed at once.

Q. You say you had a number of interviews with him at that date; what came of the interviews, if anything?—A. The principal thing was this; that Mr. Gough said he could not do as I suggested, ask for the Bankers' Association to nominate a man, he said Mr. Haney would never forgive him. Mr. Haney, was away at that time. Mr. Gough was really in charge of the bank, and Mr. Gough said he was afraid to take such a step; but, he said, I will tell you one thing, if I remain on this Board I am going to see that a trained banker be appointed General Manager, and a Chartered Accountant be made auditor.

Q. What followed that?—A. That is the only matter of importance. That advanced the situation—well it ended the situation so far as I was concerned, I saw that matters were likely to pass into capable hands, and I felt no longer any responsibility.

Q. You felt that you had done your duty?—A. Up to that date.

Q. As far as it appealed to you. That was in March, 1918?—A. Probably April by that time.

Q. Then what next occurred after that?—A. I left the bank I think on the 1st of May.

Q. What caused you to leave the bank? Pardon me, before you answer that what was the condition of the bank at this time, about the time that you were speaking to Mr. Gough?—A. That was 1918, those figures are 1917.

Q. Then will you give me what the condition of the bank was in 1917 when you made these figures? What month did you make these figures in?—A. About midwinter 1917.

Q. Where has this memorandum been ever since?—A. With my papers.

Q. What is this memorandum?—A. Just a list of accounts in the Toronto office which in my judgment would not be taken over by any other bank.

Q. Does it show the amount?—A. \$5,507,000.

Q. I see these figures—A. Please do not mention those names, some of those people are in business in Toronto to-day.

Q. Well what were the other accounts in the bank?—A. In the Toronto office?

Q. Yes?—A. They had another \$2,400,000, making \$7,900,000 altogether.

Q. The \$2,400,000 in your opinion at that time were—

Q. All right.

Q. Collectable?—A. Yes.

Q. But the \$5,507,000, what was your opinion at that time in reference to those accounts?—A. They were unacceptable to another bank. In preparing those figures I had had from start to finish this one idea in my mind, that the Home Bank had to be sold to another bank, and I was trying to figure out what sort of price we ought to get. Mind you, all I say as to those accounts is that they would not be acceptable at their face, by another bank.

His LORDSHIP: That paper is under control.

Mr. MACHAFFIE: May I amend it in any way.

His LORDSHIP: You can do whatever you like, you can put it in your pocket if you like.

(One item struck out by Witness.)

EXHIBIT No. 137.

Filed by Mr. Lee, April 26, 1924.

List of items totalling \$7,900,000.

New Orleans..	\$ 791,000
Fidelity Trust (Barnard)	261,000
Frost..	1,955,000
A. G. Holmes..	205,000
King Shoe..	201,000
James Mason..	90,000
J. C. Mason..	20,000
Pellatt..	1,728,000
Murray-Kay..	250,000
	<hr/>
	5,507,000
Other..	2,400,000
	<hr/>
	\$ 7,900,000

Q. You kept this memorandum, Exhibit No. 137, ever since up to the present time?—A. Yes.

Q. Then what next occurred after March, 1918?—A. At that time I sent that draft letter addressed to the Minister to Mr. Haney, Mr. Haney replied with a letter to me stating that I had been fired.

Mr. LAFLEUR: What was the date?—A. March or April 1918, I have not the exact date,—No, Mr. Haney took that action directly I drafted that letter, whatever the date of that letter would be the date of Mr. Haney's action. Isn't it February something?

Q. It was when you sent the draft letter?—A. Yes.

Q. Are you quite sure about that? That is the draft letter Exhibit No. 135? How did you come to write that subsequent letter to Mr. Gough if that incident took place?—A. After Mr. Haney had written to me?

Q. Yes?—A. Well his letter was so absurd, he said I had been sacked at a date prior to the date of that letter.

His LORDSHIP: Have you the letter that Mr. Haney wrote you?

Mr. LEE: I am going to read this and ask him if this is a copy.

WITNESS: In the correspondence some place there is a letter from Mr. Haney to Mr. Lash enclosing my draft letter to the Minister and saying it was by an ex-employee of the bank, and to give colour to his statement that I was an ex-employee he said I had been fired at the end of the previous month.

Mr. LAFLEUR: He said to you?—A. His letter to me.

Q. Sent to Mr. Lash?—A. His letter to Mr. Lash referred to me as an ex-employee.

Q. But had he said to you that you had been fired?—A. He wrote to me to that effect.

Q. That is the letter I would like to get in.

Mr. LEE: On February 13, 1918,—I think this is in as Exhibit No. 126, I have only a copy,—you wrote a letter to Mr. Haney in these words:

“THE HOME BANK OF CANADA,

HEAD OFFICE, TORONTO, February 13, 1918.

(Filed by April 22, 1924).

M. J. HANEY, Esq.,

President and Chief Executive Officer,

The Home Bank of Canada,

Toronto.

Inspections

DEAR MR. HANEY:—You may recall that on several occasions during the past fourteen months I urged an inspection of Toronto Office; that during several interviews last autumn, shortly before my departure on leave, I asked permission

to organize an Inspection Department, and do the work myself; that you promised to discuss the matter with the Board and advise me of their decision.

On several occasions in my presence Directors, among others our Vice-President, Mr. Gough, have complained that they are uninformed of the position of large and important accounts. Because of this our Depositors are deprived of that measure of security contemplated by Parliament when enacting Clause 58, of the Bank Act. A statement in our Annual Reports regarding Inspection is misleading. I am impelled therefore to draw your attention in this formal manner because the penal clauses in Sec. 153, of the Bank Act, apply equally to offices like myself, and to Directors and officers vested with authority: it is therefore essential that my non-concurrence should be a matter of record.

In conclusion I desire to congratulate you on the growth of the Bank under your management, and to express the hope that the matters referred to will receive your serious consideration.

I am, yours faithfully,

(Sgd.) H. A. MACHAFFIE,
Asst. to President."

Q. You sent that letter to Mr. Haney?—A. Yes.

Q. Then on February 15, 1918, you directed this letter to Mr. R. P. Gough.

HIS LORDSHIP: That letter is not yet in evidence.

Mr. LEE: I do not think so, but in the meantime I will put this in.

EXHIBIT No. 138.

Filed by Mr. Lee, April 26, 1924.

Letter, Feb. 14, 1918, from M. J. Haney to W. A. Machaffie.

Copy.

"February 14, 1918.

"DEAR MR. MACHAFFIE:—I herewith acknowledge receipt of your letter of the 13th instant and contents are noted.

Yours very truly,

(Sgd.) M. J. HANEY."

"W. A. MACHAFFIE, Esq.,
The Home Bank of Canada,
Toronto."

Q. That was the answer you received to your communication of February 13th?—A. Yes.

Mr. LAFLEUR: Are you putting in that letter of the 15th to Mr. Gough?

Mr. LEE: I am going to put in this letter; on the 13th you received this letter.

EXHIBIT No. 139.

Filed by Mr. Lee, April 26, 1924.

Letter, Feb. 13, 1918, from M. J. Haney to W. A. Machaffie.

Copy.

"February 14, 1918.

DEAR MR. MACHAFFIE:—I will be pleased to know this afternoon that you have finished the work and made the transfers of property held in trust by you for the bank. This matter has been pending for some considerable time and I think it is desirable to have it completed without delay.

Yours very truly,

(Sgd.) M. J. HANEY.

W. A. MACHAFFIE, Esq.,
The Home Bank of Canada,
Toronto.

Q. Did you receive a letter of which that is a copy?—A. Very likely, I do not remember.

Q. Have you the original of that letter?—A. No.

Q. What has become of it, do you know?—A. I haven't it here, it may possibly be at home, I did not think it was vital to the subject.

Q. Will you look it up and let me know?—A. When I go home?

Mr. YOUNG: I am familiar with that acknowledgment, it must have been on the liquidator's file.

Mr. LEE: Then on the 15th February you wrote a letter of which this is a copy.

EXHIBIT No. 140.

Filed by Mr. Lee, April 26, 1924.

Letter Feb. 15, 1918, W. A. Machaffie to R. P. Gough.

Copy.

"Toronto, February 15th, 1918.

" R. P. GOUGH, Esq.,
Vice-President,
The Home Bank of Canada,
Toronto.

DEAR MR. GOUGH:—In a letter to Mr. Haney, dated the 13th instant, I had occasion to refer to you by name: It would therefore seem proper to hand you a copy, and one is now enclosed.

If my information is correct, only one inspection report of Toronto office liabilities has been placed before the Board in the past ten years— a state of affairs which I believe has only one parallel in the history of Canadian banking. I refer to the Ontario Bank during the last ten years of its existence.

We are custodians of many million dollars of other people's money; and departure from accepted banking methods must therefore impose grave responsibility upon those in authority.

Will you kindly acknowledge receipt, and oblige,
Yours faithfully,

(Sgd.) W. A. MACHAFFIE,
Asst. to President."

Enclosure.

Q. You sent that to Mr. Gough?—A. I had forgotten all about that letter. I recognize it now.

Q. You have no doubt you sent it?—A. No, I remember that Ontario Bank allusion.

Mr. LAFLEUR: I do not want to make any formal objection, but it might be unjust to third parties to file letters insufficiently proved. But Mr. McGregor Young, representing the Ontario Government, tells me he has a copy of that in his file, which was doubtless obtained from the original when it was deposited with the liquidator.

Mr. YOUNG: I do not know the source of this in my brief.

Mr. LAFLEUR: I will leave it to your lordship to say whether that is fully proved or whether it should be supplemented by production of the original. Mr. Gough is not here to speak for himself. I do not want to be unfair to any third parties. Your lordship might have to make findings on this correspond-

ence which would involve findings against these parties who are not here. I do not see any objection to their being received for the moment, but I suppose that ought to be followed up by further evidence. Does your lordship think it would be well to notify Mr. Gough or Mr. Haney in case they want to contest these particular proceedings?

Mr. LEE: They have had notification.

Mr. LAFLEUR: Only the persons under indictment have received notification. Would it be prudent to extend the notification to such persons as are not under indictment?

Mr. LEE: Mr. Gough is notified, his counsel.

HIS LORDSHIP: But Mr. Haney is not under indictment. A great deal of this correspondence is directed towards Mr. Haney and his actions would be involved in the findings I might make. I think he had better be advised during our recess.

Mr. LAFLEUR: Will the Secretary be good enough to address to Mr. Haney a letter similar to the one addressed to the persons notified.

HIS LORDSHIP: One other thing: This correspondence being put in is admittedly simply a copy?

Mr. LAFLEUR: Yes.

HIS LORDSHIP: What became of the originals, if the witness can say?

Mr. LAFLEUR: The witness says he thinks he can find the originals of letters addressed to him among his papers.

HIS LORDSHIP: He is evidently incorrect in the case that Mr. Young mentioned.

Mr. YOUNG: I have never seen these papers in my life, except in a few cheques.

Mr. LAFLEUR: How did we get these copies?

Mr. YOUNG: I have no idea.

Mr. LEE: I got them from the liquidator, copies made from the original documents which were in my learned friend Mr. McCarthy's hands.

Mr. YOUNG: My suggestion was that on my return to Toronto I would make inquiries to see where the originals may be.

Mr. LAFLEUR: We do not care about having the originals filed here, but our copies should be compared.

Mr. YOUNG: I will make an effort to locate the originals.

HIS LORDSHIP: Were you before the Liquidator in any way, have you given evidence before in any proceedings?

WITNESS: No.

Q. You have not filed your letters with the Liquidator or deposited them with anybody?—A. No.

Mr. LAFLEUR: Did you communicate any of the original letters now in your possession to the Liquidator or to the Crown Counsel in Toronto?—A. No.

HIS LORDSHIP: We have not yet accounted for the originals.

Mr. LEE: I will undertake to connect the link.

HIS LORDSHIP: Do not forget, it is so easy to undertake as we go along hour by hour, but then it drops out of counsel's mind.

WITNESS: I doubt very much if I have the original of that letter making reference to the Ontario Bank, because the matter of that letter had dropped out of my mind, and anything I have I have looked over from time to time.

HIS LORDSHIP: Then how did Mr. Lee get the copy?

Mr. LEE: From the Liquidator.

His LORDSHIP: I would rather the witness say, if he knows, because he is under oath.

WITNESS: I do not know.

Mr. YOUNG: I can give no assistance whatever on that.

Mr. LEE: I expected, if my learned friend Mr. Young was coming down, he would have brought them with him.

Mr. YOUNG: I had no notice that the witness was to be examined.

His LORDSHIP: You see these letters are going in—

Mr. LEE: Irregularly.

His LORDSHIP: Very, and they should not form a basis for any opinion I might express unless they are properly proved. I think if you have any other letters on that same footing you better lay them to one side, they can be used before me, but not really put in evidence until their authenticity is proven in some way.

Mr. LEE: Well I do not like to keep this witness until Tuesday.

His LORDSHIP: There is no occasion for that is there? Because it will be for either Mr. Young or yourself, perhaps with the assistance of the witness, to locate the originals or give some explanation to you as his counsel which you can give to me, and then I will feel justified in allowing them formally in.

Mr. LEE: Subject to your lordship's ruling I will read the further correspondence, and undertake to put in the originals if they are obtainable from the Crown.

His LORDSHIP: Or if you cannot obtain the originals, explain where they are.

Mr. LAFLEUR: And then make secondary evidence.

His LORDSHIP: Then make secondary evidence.

Mr. YOUNG: My friend speaks as if they were in the possession of the Crown, that is not so except perhaps indirectly. The suggestion would be that Mr. Lee might inquire of the Liquidator, that is all I can do and perhaps it would come more properly from him.

Mr. LEE: All right.

Mr. McLAUGHLIN: The statement by the Liquidator, who has been sworn in this matter, that these are copies of what is in his hands ought to be sufficient.

His LORDSHIP: Yes, or if anybody, counsel or witness, could make that statement my doubts would be removed, but I want to be particular not to let my views be affected by something which is not properly before me.

Mr. LEE: Then on the 16th February, 1918, you received this letter from M. J. Haney.

EXHIBIT No. 141.

Filed by Mr. Lee, April 26, 1924.

Letter, Feb. 16, 1918, from Mr. M. J. Haney to W. A. Machaffie.

“February 16th, 1918.

MY DEAR MR. MACHAFFIE: It has been decided to abolish the office of Assistant to the President after March 1st, 1918.

I will be pleased to consider your further relations to the Bank when you have completed the transfers of securities held by you in trust for the bank and certain other matters are adjusted.

Yours very truly,

(Sgd.) M. J. HANEY.”

W. A. Machaffie, Esq.,
The Home Bank of Canada,
Toronto.”

Q. Do you remember receiving a letter of which that is a copy?—A. Yes.

Q. After receiving that letter from Mr. Haney what did you do?—A. You mean regarding securities?

Q. Yes, regarding securities, and what did you do in reference to your service with the Bank?—A. Well, there were no securities whatever in my possession. Certain real estate securities had been taken in my name and were still in my name; I could not give a transfer if I had tried because I had no official description, it was up to them to prepare the transfers and have me sign them, which I did whenever a transfer was submitted to me.

Q. And you were willing all the time to sign these transfers and have been signing them?—A. Yes; as a matter of fact the transfers of a lot of properties were never prepared until a few months ago, since the liquidation.

Q. When did you retire?—A. When Mr. Haney wrote me that letter I took it to my solicitor with whom I have been in touch for some months, Mr. Strachan Johnston, and after that he dealt with my quarrel with the bank. I suppose the particulars of that are not of interest.

His LORDSHIP: I hardly think so.

Mr. LEE: Then on the 18th February, 1918, you received a letter from Mr. Gough in these words.

EXHIBIT No. 142.

Filed by Mr. Lee, April 26, 1924.

**Copy letter, Feb. 18, 1918, from Mr. Gough to W. A. Machaffie
ackg. receipt of lr. Feb 15.**

" Copy.

TORONTO, Feb. 18th, 1918.

W. A. MACHAFFIE, Esq.,
Home Bank of Canada,
Toronto.

DEAR MR. MACHAFFIE,—Yours of 15th inst. received, contents of which I have carefully noted, also copy of letter which you sent Mr. Haney on February 13.

I note with pleasure your congratulations to Mr. Haney on the growth of the bank.

I am yours faithfully,

(R. P. S.) "

RFG/B

That letter was received by you?—A. Yes.

Q. Then on the 19th February, 1918, you wrote this letter. Exhibit 143.

EXHIBIT No. 143.

Filed by Mr. Lee, April 26, 1924.

**Copy letter, Feb. 19, 1918, from W. A. Machaffie to J. Cooper
Mason re transfer of securities.**

" Copy.

HOME BANK OF CANADA
HEAD OFFICE, TORONTO, 19 Feb. 1918.

Lt.-Col. J. COOPER MASON,
Actg. General Manager,
The Home Bank of Canada,
Toronto.

DEAR COL. MASON,—Re transfer of securities.

May I suggest your signing the enclosed letter addressed to the writer, so that this matter may be closed out.

Yours truly,

Enclosure.

W. A. MACHAFFIE. (Sgd.)
Asst. to President."

Do you remember sending that letter to Col. Mason?—A. No, I don't remember it. I don't know what it refers to.

Q. It is headed "Re transfer of securities," and it asks him to sign the enclosed letter.—A. I have forgotten about it.

Mr. YOUNG: It is not proven. .

Mr. LEE: Do you object to it?

.. Mr. YOUNG: Oh, no, I am not objecting to it.

Mr. LAFLEUR: That letter cannot affect anybody except the witness. If he is satisfied I suppose we may be satisfied.

Mr. LEE: Do you remember receiving a letter of which I will read you a copy? From Mr. J. Cooper Mason.

EXHIBIT No. 144.

Filed by Mr. Lee, April 26, 1924.

**Copy letter, Feb. 19, 1918, from Head Office to W. A. Machaffie
re transfer of property.**

" Copy

THE HOME BANK OF CANADA
HEAD OFFICE, TORONTO, Feb. 19th. 1918.

W. A. MACHAFFIE, ESQ.,
Asst. to the President,
The Home Bank of Canada,
Toronto.

Dear Sir,—At a meeting of the Board of Directors held on the 4th February, 1918, a resolution was passed directing me to request you to transfer to the Canadian Property Co. Limited, all properties in your name, in which the bank is interested, and to inform you that the bank undertakes to indemnify you and save you harmless from any claims which may be made against you under agreements in respect to such properties.

A certified copy of resolution is enclosed herewith.

Yours truly,

Enclosure.

Do you remember receiving a letter of that nature?—A. I have no doubt I did.

Q. Then you left the service of the bank?—A. In May.

Q. Should you have not left in March, pursuant to Mr. Haney's letter to you?—A. I thought not.

Q. And you continued on notwithstanding his letter to you?—A. I drew salary, I think, until the 1st of May.

Q. And then you went away from the service altogether?—A. Yes.

Q. And then after thinking it over for a few months, you wrote the letter from Oakville, the August letter?—A. No, that is not quite the story.

Q. Just give us the facts then in their order.—A. When the annual statement came out in July, 1918, I saw that J. Cooper Mason was appointed General Manager, and Mr. Sydney Jones re-elected shareholders' auditor; and Mr. Gough remained as Vice-President of the bank. I had a very distinct recollection of the assurances which Gough had given me a few months previously, and I felt greatly disturbed.

Mr. LAFLEUR: You mean the assurance that there would be a trained banker?—A. A trained banker and a chartered accountant. I did not want to take any further steps at that time, as I was clear of it all; but I was much disturbed, and finally wrote that letter to the Minister. I might say that had my letter to the Minister had the effect which I thought it would have, of closing the bank's doors, that I would have been a heavy loser.

Mr. LEE: You would have been a heavy loser?—A. Yes.

Q. That is after the Minister had received your letter, and had he acted on it by closing the bank's doors, you would have been a loser?—A. Had they failed they could not have paid me the amount they were under agreement to pay.

Q. So that you took a good deal of risk in writing that letter?—A. A big risk to me at that time.

Q. And the reasons of course you have told us were that after the meeting of the shareholders in May of 1918 and Mr. Gough had been elected Vice-President, and Mr. Sydney Jones had been continued on as the shareholders' auditor, and Mr. J. Cooper Mason having been elected as General Manager.—A. Appointed, not elected.

Q. And Mr. Gough's suggestions had not been carried out to you, you felt it was a duty that you owed?—A. A public duty.

Q. And you consequently wrote the letter to Sir Thomas White?—A. Yes.

Q. Did Sir Thomas get your letter?—A. He acknowledged it.

Q. That acknowledgment is in.

His LORDSHIP: Can you at that point refer by Exhibit number to that letter, so that when I am reading the record afterwards, I will be able to put my finger on it?

Mr. LEE: The acknowledgment is Exhibit No. 89.

His LORDSHIP: The one he received or wrote?

Mr. BROWNING: The one he wrote is Exhibit 88 and the one he received is 89.

Mr. LEE: Shall I read it?

His LORDSHIP: No, that is all I want to know. I do not want to read it now.

Mr. LEE: Then did you hear anything further after that?—A. After receiving Sir Thomas White's acknowledgment?

Q. Yes.—A. Nothing whatever.

Q. Nothing whatever up to the time at which the bank closed its doors?—A. Nothing.

Q. You had some difficulty I believe in getting your salary, or a settlement with the bank?—A. Yes.

Q. And you wrote a letter to the Board of Directors?—A. Yes.

Q. Was that before or after the settlement?—A. I don't recall the letter that you refer to.

Q. Do you know about what month you got settled with the bank?—A. May 1918. Do you mean a letter withdrawing one which I drafted to the Minister?

Q. Do you remember signing this letter?

EXHIBIT No. 145.**Filed by Mr. Lee, April 26, 1924.****Copy letter, May 1, 1918, from W. A. Machaffie to the Gen. Mgr.
H.B. of C. agreeing to execute transfers.**

"Copy

TORONTO, May 1, 1918.

The General Manager,
Home Bank of Canada,
Toronto.

Dear Sir,—As part consideration for the agreement made between the bank and me to-day, I agree with the bank that I will execute such transfers, assignments or other documents as may be necessary for the purpose of assigning and transferring to, or investing in, the bank or its nominee, such lands, charges, mortgages, or other securities as I may hold as trustee for the bank.

Yours truly,

(Sgd.) W. A. MACHAFFIE."

You executed that letter?—A. Yes.

HIS LORDSHIP: Did you send that letter?—A. It was signed at their request, my lord.

Q. You delivered it to them at the time and left it with them?—A. I think it was signed in my solicitor's office.

MR. LEE: This will recall it. Do you remember signing a letter on the same day in these words.

EXHIBIT No. 146.**Filed by Mr. Lee, April 26, 1924.****Copy letter, May 1, 1918, from W. A. Machaffie to the H.B. of C.
Letter of retraction.**

"Copy

TORONTO, May 1, 1918.

The Home Bank of Canada,
Toronto, Ont.

Dear Sirs,—In February last I contemplated writing the Honourable Sir Thomas White, Minister of Finance, in regard to the position of the Home Bank and in particular with reference to certain accounts, and prepared a draft of a letter (dated Feb. 25, 1918) of which draft I sent a copy to the President of the bank. No letter, however, was then or subsequently sent by me to the Minister of Finance. I have since satisfied myself that for various reasons, including my absence from meetings of the Board of the bank since January, 1917, the information and assumptions on which the draft letter of February 25, 1918, was based, were in some respects inaccurate and in others incomplete, and that the draft letter, if sent, would have conveyed a wrong impression as to the position of the bank, and the conduct of its affairs. Under the circumstances I am glad that no letter was forwarded by me to the Minister and I am pleased to know that the position of the bank in respect of the various matters with which the draft letter dealt is substantially different from and better than the draft would indicate.

Faithfully yours,

(Sgd.) W. A. MACHAFFIE."

Do you remember signing that letter?—A. Yes.

Q. Where was that letter signed?—A. In my solicitor's office. That letter was prepared by the Lash firm, I think.

Q. That was signed you say by you in your solicitor's office?—A. On his advice.

Q. What is the name of the firm?—A. Mr. Strachan Johnston, of Thomson, Tilley & Johnston.

Q. What caused you to sign a letter like that?—A. They required that, before giving me a settlement.

Q. And you say you had some difficulty with reference to getting settled up with them?—A. Yes, I had to threaten suit.

Q. And in the settlement they asked you to sign this letter.—A. Yes. Now remember, I had had all sorts of strong statements made to me by Mr. Gough, to undermine the strength of my statement which was based on hearsay, you see. Do you see the situation?

Q. However, you signed that letter anyway?—A. Yes.

Q. Then you ceased to have any further interest until you sent your letter to Sir Thomas White?—A. Yes.

Q. Can you tell me who drafted this letter (Ex. 146)?—A. The Lash firm.

Q. And it was submitted to your counsel?—A. Yes.

Q. And under his advice you signed it?—A. Yes.

Q. Then you got a settlement after that letter was sent?—A. At the time.

Examined by Mr. McLaughlin:

Q. Mr. Machaffie, in Exhibits 79 and 83, filed, Mr. Lash had promised Sir Thomas White that a thorough and complete investigation of the affairs of the bank would be made by Mr. Haney and yourself?—A. Yes.

Q. Was that ever done?—A. No. I never heard of it until this inquiry began.

Q. Well, then, in your examination at one time you suggested an inspection of the bank by some person appointed by the President of the Bankers' Association and yourself?—A. Yes.

Q. Well, could an inspection of that kind have been made without causing a run on the bank?—A. "Inspection" is hardly the word. The examination that I suggested could have been made, and I suggested in the quiet of the Easter holidays, Good Friday and Easter Monday; it could have been done.

Q. It could have been done entirely secret?—A. That is, a sufficient inspection to decide the great difference between the views that I was expressing and the views that Mr. Gough was expressing regarding the bank.

Q. And you were satisfied, as a banker, that that could have been done without any injury to the bank?—A. Yes.

Mr. McLAUGHLIN: That is all.

Cross-examined by Mr. Lafleur:

Q. Mr. Machaffie, supposing an inspection had been ordered either by the Minister, or, as you suggested, by some appointee of the Bankers' Association, could not that inspection had been made discreetly and quietly without exposing the bank to a run by its depositors?—A. Undoubtedly.

Q. Every time one bank absorbs or purchases another bank is not that necessarily done?—A. Mr. Lafleur, may I say a word in regard to that first answer? Mr. Clarkson, had he been asked to make an investigation, could have summoned, say, Cooper Mason and myself to his office and listened to what I had to say and to Cooper Mason's replies, and asked for the evidence that he might need to see which contention he should adopt. He could have decided the correctness of our views by having brought to his attention the relevant documents.

Q. All of these questions as to interest being carried into the profit and loss account, and dividends being paid on the strength of these fictitious profits?—

A. Without inspecting the books.

Q. Yes, without visiting the office, so that it would have been quite possible to have some kind of an outside audit without, in any way, shaking the bank's position?—A. Yes.

Q. And, as a matter of practice, I suppose, you know from your long banking experience that that is done, and has it been done without detriment to the bank?—A. I know of no instance.

Q. Well, you know that banks have purchased other banks?—A. Oh, yes, but when that happens the purchasing bank sends a representative to the head office of that bank.

Q. Exactly. Well, that is an outside audit?—A. Oh, yes.

Q. What I mean to say is, the carrying out of an outside audit is not a thing which necessarily ruins a bank, otherwise there would be no purchases ever made?—A. I do not like the word "audit". Audit seems to mean counting cash, and all that sort of thing.

Q. Well, examination of the affairs of the bank?—A. Yes, that is the word.

Q. I do not mean going into the tellers' offices and verifying their cash and things of that kind, but ascertaining the financial position of the bank?—A. Yes.

Q. And even, if necessary I suppose, to a great extent, the value of the security?—A. It is not a difficult matter for a qualified man to visit the head office of any bank and ascertain, by questioning the proper officials, whether the capital and reserve funds of a bank are intact, or, roughly, to what extent they are impaired.

Q. You filed, as Exhibit 137, a memorandum of accounts which you considered uncollectable at the time, amounting to \$5,507,000?—A. I did not say uncollectable, unacceptable to another bank.

Q. Well, that is to say, they were not satisfactory accounts?—A. No.

Q. You say they were not satisfactory?—A. They were not satisfactory.

Q. Would not be acceptable to another bank?—A. At their face value.

Q. They would be subject to a heavy discount?—A. Well, to discount, I would not cry down our own wares, I intended to make as good a bargain as I could if we sold it.

Q. You could not say to what extent they would be discounted?—A. No.

Q. But you would say, with respect to all these accounts, which you say were subject to a discount, that they were such accounts as would not justify the inclusion of interest upon them in profits, for instance, the Frost account?—

A. The Frost account, absolutely not.

Q. Or the carrying of unpaid interest of that account into profits?—A. Yes.

Q. And the New Orleans account the same way, I suppose?—A. Not unless the earnings were coming in.

Q. You know, as a matter of fact, there was no interest paid at all on that New Orleans account?—A. I knew less about that account than any other account in the bank.

Q. Assuming they had never received a dollar of interest on that account since then that should go in the same class?—A. Yes. In the Pellatt account, Pellatt, for a time, was paying his interest each quarter.

Q. But in the case of any of these inactive accounts which were not paying interest it was wholly unjustifiable to carry the unpaid interest to profit and loss and use those for payment of dividends?—A. Yes.

The WITNESS: My lord, may I say a word regarding what happened to another bank in Canada around that time?

His LORDSHIP: You are in Mr. Lafleur's hands just now. You may when he finishes with you.

By Mr. Lafleur:

Q. Now, I understand that one of your reasons for not sending the draft letter, Exhibit 135, to Sir Thomas White was that some of these charges were based upon hearsay, and you did not think it fair to transmit them to Sir Thomas White until the Directors had an opportunity of discussing the matter, and until you heard, possibly, their views on the subject, is that it?—A. Yes.

Q. Well, now, what distinction do you make between conveying such serious charges based on hearsay by letter, and conveying the same information to the Minister verbally through another person? I do not see what distinction you make there. If you were willing to have the Minister learn of this hearsay evidence through a person that you communicated with, why were you unwilling to put that in a letter over your signature, what difference do you make ethically between the two? I cannot see any difference, except that you did not want to assume the responsibility of making the charges over your own signature?—A. That was practically it.

Q. But you had no hesitation in having that communicated verbally through another party?—A. Yes.

Q. Before you had given the Directors a chance of saying what they might have to say?—A. I do not know that I have any comment to make on that.

Q. You have no explanation?—A. No.

Q. Well, now, I come to your letter of retraction, I suppose I may call it so, Exhibit 146, dated May 1, 1918, addressed to the bank, in which you say that the information and symptoms on which the draft letter of February 25, 1918, was based were, in some respects, inaccurate, and in other incomplete. Can you specify in what respects these statements were inaccurate and in what respects they were incomplete?—A. Not at this interval of time.

Q. Well, was that a correct statement that you made in your letter of the 1st of May, 1918? Were your statements incorrect and incomplete, and was it proper for you to withdraw them as you did, what do you say to that?—A. I think at the time that the representations which had been made to me justified a withdrawal. Mr. Johnston was acting for Mr. Daly in another matter and was, therefore, very close to Mr. Daly, and Mr. Johnston thought that many of my statements had not been justified.

Q. But did you think so? You made those statements, I suppose, on some foundation, and I would like to know in what respect, if any, they were unjustified?—A. They were unjustified in this respect, that I had not the personal information. They were not based on my personal information.

Q. That may be, but at the time when you made the retraction had you ascertained that your statements, though based on hearsay, were not founded in fact, can you say that?—A. Do I say they were not founded in fact.

Q. I am asking you if you could say they were not founded in fact?—A. I did not know the facts.

Q. You did not know the facts?—A. I did not know the facts regarding the Frost account until last October. Last October I told Mr. Clarkson the idea in the back of my head regarding that account, which I will tell you now, if you like.

Q. Yes, by all means.

The WITNESS Shall I tell it?

His LORDSHIP: Oh, yes

A. The first account, as I understood it, was that an official loan of around \$700,000 occurred, and that the bank advanced, roughly, another \$700,000 to buy timber. After, five or six hundred thousand dollars more in interest was added to that, and that the account was standing around two million dollars against timber which the record will show had been bought for \$700,000. That was the gossip which had reached me. I told that to the liquidators last October,

and Mr. Clarkson said, that is substantially correct. That was the first time in my life that I knew whether it was right or wrong.

Mr. LAFLEUR: Now, in your letter, Exhibit 135, which you proposed to address to the Minister on the 25th of February, 1918, you said this, as to the Frost account:

“Since reported to you this account has been again written up some \$200,000 for interest.”

Was that true or not?—A. I do not know.

Q. You do not know to this day?—A. Except through the liquidator's report.

Q. Do you mean to say that at that date, in February, 1918, you did not know, as a matter of fact, that that account had been so treated?—A. No, I did not.

Q. But you were in the bank and you knew that these interest charges were made, and that they were carried to profit and loss. Hadn't you seen that for yourself from the books?—A. No.

Q. You had not?—A. Oh, no.

Q. Well, why did you propose to write this to the Minister of Finance about the interest on the Frost account being carried to profit and loss in February, 1918?—A. I assumed that it had.

Q. One does not assume a thing like that without some foundation. I am trying to get the source of your information?—A. Mr. Lafleur, I assumed that the interest in the Frost account was added in May 31, 1916, and 1917, because I knew that Haney meant to do it. I had argued with him not to do it and he would not listen to me.

Q. And he said he would do it?—A. He paid no attention to my argument therefore, I knew he was going to do it.

Q. Do you mean to tell me that on the 25th February, 1918, you did not know, as a matter of fact, that it had been carried into profit and loss?—A. That is what I mean to say absolutely.

Q. Well, you are now convinced that your statement was perfectly true?—A. I am.

Q. And that you should not have retracted it?—A. Yes, I think that is right.

Q. Well, why did you not, before retracting it, verify whether you had made a misstatement in that letter?—A. I had no opportunity, I could not look at a thing in that bank.

Q. Am I to infer that that retraction was really extracted from you?—A. Yes, absolutely.

Q. I thought that is what you would tell me.—A. My solicitor thought it was worded in a way which justified me in sending it.

Q. And he thought he could not get a settlement of what you considered to be your legitimate claim against the bank for salary unless you complied with that demand?—A. That is it.

Q. Well, that explains it, but you did not then have any actual reason to doubt the accuracy of the information which you had collected?—A. Well, that is a hard matter. It all goes back to the position of the Frost account, which I have just described to you, about the original loss and the cost of timber. That was the gossip which had reached me. Haney violently opposed the view of the account which had been justified by that. On one occasion Haney told me the Frost account was the best account on the bank's books.

Q. Well, now, am I to take it that the following statement was inaccurate, or exaggerated, or unfounded? You add, after speaking of this amount having been written up for interest:—

“That the aggregate amount written up in this account if added to the amount of Home Bank stock carried by the Bank would account for the greater bulk, if not the whole of the Bank’s capital,—”

Was not that true?—A. I have no certain knowledge of the truth of it.

Q. You had no certain knowledge?—A. No.

Q. But you are not prepared to say to-day that that was not a true statement which you made?—A. No.

Q. Because, you see, your statements are serious statements as to the condition of the bank then, and I want to know whether you are now saying that they are unfounded, or whether you simply say you withdrew them without verifying whether or not they were untrue?—A. I had no opportunity to verify them.

Q. And you had no opportunity to verify it before that date?—A. I never had an opportunity to verify my suspicions regarding the Frost Account.

Q. I cannot quite understand how that can be, because you were in the Bank and had access to the books if you had asked for it. After hearing gossip as you call it of such a serious nature did it not occur to you during the whole of that time you were in the bank with the books at your disposal to verify the correctness of this very, very serious gossip?—A. Mr. Lafleur, I must try to define my position a little more clearly. I wrote a letter to Mr. Crerar stating that the Capital and Reserve Fund should be written down absolutely.

Q. Was that based on gossip or actual knowledge?—A. On gossip which had reached me in Winnipeg, I wrote that letter in Winnipeg; and that the situation should come before the Bankers Association and the Finance Minister. At the time I wrote that Mr. Crerar asked me if I would accept the general management. I agreed to if nobody else would. I came to Toronto with that object absolutely in view, it always was in view, I did not come down to investigate this or that or the other thing, but if and when appointed General Manager to carry out that policy. I did not go around hunting through the books to make sure of this or that; when the time came to carry out that policy and I had power to carry it out I could do so, there was no use poking around and investigating details in the meantime, and I did not investigate.

Q. Now coming back to this draft letter, Exhibit No. 135; you add that “Mr. Haney, the President, has also been appointed Chief Executive officer, and as such is practically a dictator.” That was true?—A. Yes, that happened before I left Winnipeg.

Q. That was not based on gossip, that was based on your observation?—A. I had no right to withdraw that statement.

Q. You let that stand?—A. Yes.

Q. “I have endeavoured to have an inspection system installed.” That was true, that was not gossip, that is what you had actually done yourself?—A. Yes, some steps had been taken in that direction.

Q. You told us that very strong representations had been made by you in that direction because you thought that the Toronto office, having been inspected only once during the whole of its history it was urgent to have an inspection?—A. An Inspection Department was instituted before I retracted that statement.

Q. Why were you writing if the Inspection Department had been appointed by that time, why were you proposing to write to the Minister in that way, why didn’t you tell him that in obedience to your suggestions it had been established?—A. I am not sure of the date when the Inspection Department was established or the date when I heard of it.

Q. It must have been after this letter, otherwise I cannot conceive of your complaining to the Minister?—A. I would not have written that if I had known it was established.

Q. You cannot be right on the date. And you say you "enclose a copy of that letter for your further consideration."

Q. So at that time either the Department had not been created or you had not heard of its creation?—A. That must be so.

Q. Then you add "Mr. Haney's policy is to endeavour to rehabilitate the Bank by a series of speculative ventures, chiefly in steamship activities." Was that statement based on gossip or on your knowledge?—A. Will you kindly read that again?

Q. (Quotation repeated). That was true was it not?—A. Yes.

Q. And you knew that at that time?—A. Yes.

Q. You had no occasion to retract that?—A. I might have received information,—I think I did,—showing it was not entitled to criticism.

Q. Well you add—"While withholding comment on this policy I cannot refrain from offering criticism of the methods in use. Briefly stated, the Bank furnishes large sums of money without security, and is to receive but a moiety of the expected profits, the bulk of such profits going to Haney, C. A. Barnard, another Director, and F. J. M. Stewart, a personal friend."—A. I had no right to retract that.

Q. Then finally you speak about the liability of Messrs. Haney and Barnard to the Bank, and you say that neither he nor Haney are personally responsible to the Bank for these fresh advances. Was that based on knowledge or on gossip?—A. I do not recall.

Q. You are not prepared to say that you ought to have retracted that either?—A. I do not know what I based the original statement on, I have forgotten.

Q. Now I have read you that letter and there seems to have been very little indeed that you ought to have retracted as being based on gossip, apart from what you have told us about the Frost account everything else is true?—A. The essential thing is the Frost account, because if the Bank continued the other matters were of less importance.

Re-Examined by Mr. Lee:

Q. You used the word "extorted" to my learned friend, in regard to the signing of that letter; what do you mean by that?—A. Wasn't the word suggested by Mr. Lafleur?

Mr. LAFLEUR: Say "insisted upon" if you like.

Mr. LEE: What did you mean by that?—A. I have a very vague recollection of what took place in Strachan Johnston's office, he was acting for me, I knew he was a man of the highest standing, and I would have signed almost anything he asked me to.

Q. Who drafted the letter, do you know, your counsel or—A. Their counsel.

Q. Counsel for the bank drafted the letter?—A. Yes.

Mr. LEE: That is all I have to ask. Mr. Young may have something.

Mr. YOUNG: I am not taking part.

Mr. LEE: Then that is the evidence, and Mr. Machaffie and I will endeavour to get the originals of these letters from wherever they are and put them in at the next sittings and have them marked, if they are permitted to me. If not I will endeavour to arrange for an order of the court to allow them to come here. Apparently from the decision of Mr. Justice Wright the trials are not going to take place until the fall, we cannot say yet, but we will get them in so they will be ready.

His LORDSHIP: Do you wish to make some further statement?

WITNESS: Yes, in regard to what happened to another bank which got into trouble at the time the Home Bank's condition became prominent in the early years of the war. It was the Northern Crown Bank. Their head office was in Winnipeg. They suspended paying a dividend altogether, they cut down their capital 50 per cent, and they later on sold out at a price which gave their shareholders \$100 a share, for the shares which had been cut down to \$50. That sale took place in 1916.

Q. Is there anything further you desire to say Mr. Machaffie?—A. I do not know of anything.

Mr. LEE: Then that is all my lord.

Proceedings stand adjourned at 12.10 p.m., Saturday, 26th April, until 10.30 a.m. Monday, May 5, 1924.