THE MONTREAL STOCK EXCHANGE

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HISTORY AND ORGANIZATION OF THE MONTREAL STOCK EXCHANGE

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History and Organization of the Montreal Stock Exchange

The object of the thesis is well described by its title. It is an attempt to describe the founding, history, and organization of the Montreal Stock Exchange.

The first three chapters are historical. The first traces the rise of the Stock Exchange as an institution; the second tells of the conditions under which it evolved in Canada. The third chapter describes the growth of the Exchange from its establishment in 1874 up to the present time.

The remainder of the thesis deals with the organization and constitution of the Montreal Stock Exchange and compares it to the organization and constitution of other great stock exchanges. There is a discussion in the last chapter about the much mooted question of stock exbhange regulation, and while not actually taking sides, the chapter sketches the history of previous attempts to curb speculation by legislation.

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CHAPTER I

THE RISE AND DEVELOPMENT OF STOCK COMPANIES AND STOCK EXCHANGES

Someone has said that the Stock Exchange is the outward and visible sign of inward material growth. Others have described it as a business barometer, whilst others have been less flattering in their description. But however opinions may differ, all will agree that it has a very important place in the financial and industrial structure of the community. At the present time, it overshadows the entire business world, and no city of any size or pretensions is without its stock exchange.

How did this institution evelve? When did it have its beginnings? The Stock Exchange, as we know it, is barely one hundred and fifty years of age. But the seeds that gave rise to it lie centuries back in the days when Italy awoke not only to a new world of art and learning but also to commercial supremacy.

The influence of the Italian City States on subsequent financial history can hardly be over-estimated. For four centuries the Italian Banks were predominant in Europe. The prestige and power of such banks as the Bank of Venice, the Bank of Medici, and the Bank of St George at Genoa were responsible for spreading Italian influence into every country of Europe.[1] Lombardi merchants established trading connections in London and gave their name to

1. It must be remembered that these banks were only rudimentary institutions. They were not banks in the modern sense of the term. They were merely groups of privileged persons who undertook to raise a fund or "banco" of money and lend it to the government. Of circulating paper, of bank credit, or of banking function in the modern sense, they as yet represented little or nothing.

Lombard Street. The early Italian partnerships, the "societas" and the "commenda", were the precursors of the joint stock company. The formation of the African Company in the sixteenth century, one of the first joint stock companies in England, is a direct extension of the "societas."

In time the Italian banks declined, and their place was taken successively by the Hanseatic league and by the Bank of Amsterdam.

The Bank of Amsterdam, which reigned supreme for over one hundred and fifty years, had been founded for a rather different reason than the Italian banks. The latter had been established to take care of the debts of the various Republics, whereas the Bank of Amsterdam had been formed to provide a common, permanent and steady currency, in which the foreign bills of exchange domiciled there might be paid.

The immediate cause for the fall of the Bank of Amsterdam was the dishonesty of its directors, but its decline was probably inevitable because of the rise of England to the position of leading commercial power.

In 1694, the Bank of England had been founded by William Paterson. Its purpose was similar to that of the Bank of St George at Genoa in that both institutions were formed for the funding of the national debt. The formation of the Bank of England meant that general dealings in shares were given considerable impetus. The Bank of England was not the first joint stock company. By the end of the seventeenth century, there were many joint stock companies, and, notwithstanding what some authorities have written, there was an active market for their shares in London. Many of the terms used by traders had already been coined. Between 1689 and 1695, "the mechanism of stock exchange dealings had been well developed. Time bargains were well understood, and put and call options were not unknown. The business of a stockbroker was specialized and a tariff of charges had been established, varying from 10s to 5s per share, while the transfer fee of companies was 2s 6d."[1] There were even lists published giving the prices and quotations on the shares of some of the better known companies.

The appearance of the joint stock company in England was due to two causes. As has already been mentioned, the Mediaeval Italian partnerships was one of these causes; the other was the corporate activity that originated in the gild. The "societas" embodied the principle of partnership and effected a combination of capital, but it was of a temporary nature, and, moreover, there was a limit to which partnership could be extended. The gild, on the other hand, embodied the idea of perpetual succession and corporate life. The union of these two ideas resulted in the joint stock company.

The immediate forerunner of the joint stock company in England was the regulated company, as typified by the Merchant Adventurers, the Staplers and the Eastland Company. The regulated companies occupy a mid-way position between the merchant gilds and the joint stock company. The regulated company had a complete constitution; it had perpetual succession and a permanent body of officials, but subject to the rules of the governor and assistants, each member might use his capital as he thought best. Obviously

1. W. R. Scott. "History of Joint Stock Companies till 1720."

this arrangement precluded trade to distant countries. The larger vessel required for such trade would be beyond the means of an individual member, and the accounts would be hopelessly confused if a number of Adventurers loaded their goods on the same ship. Consequently, when it was desired to open up trade with distant countries, such as Russia and Africa, need was felt for a new organization. The arrangement of capital on a joint stock basis supplied this need.

In 1553, the first English joint stock company of any importance was established. This was the Russia Company, at full length -- "The marchant adventurers of England for the discoverie of lands, territories, isles, dominions, and seignories unknown, and not before that late adventure or enterprise commonly frequented." A year later another joint stock company was established to trade with Africa. The Russia Company represents the evolution of the joint stock compnay from the regulated company, while in the case of the African adventurers, the same goal is reached from the partnership.

The charter of the Russia Company granted it the right of trading with Russia, or with any other countries that might be opened up by the adventurers in the future and which had not been commonly frequented by Englishmen. The Company was originated by a group of adventurers, headed by Sebastien Cabot, who subscribed £600 each by calls of £25 on each share. "It was decided that there should be 'one common stocke of the company', and that no member or servant might trade on his own account."[1] Under

1. Ibid footnote page 3.

the charter Sebastien Cabot was named governor for life. After his death, there were to be two governors. The members had the right of meeting and electing the officials.

The Russian Company differed from the African Adventurers in that the former owned their ships whereas the latter hired their's. Thus the undertaking of the African Adventurers was in complete continuity with the mediaeval "commenda", and indeed, might be described either as an intricate form of "societas" or as a joint stock company. These African expeditions were promoted by five chief adventurers, who each had a partner under him. Although not incorporated, this undertaking was frequently described as a "company", and in 1564, the calls on the shares were sanctioned at a meeting "of which a formal minute was kept."

The profits of the first joint stock companies were enormous. In 1553 the expedition that sailed to Africa brought back no less than 400 lbs weight of gold, 250 ivory tusks, besides large quantities of spices. Indeed, as one authority points out, in the African trade a profit of from forty to sixty per cent was considered poor.

One remarkable feature about these first joint stock companies is the establishment at an early date of a small but comparatively free market for their shares. Each share was liable to be called for varying amounts; sometimes the amount called was very large, and the owner would be forced to sell a fraction of his share in order to pay the call on the remainder. Naturally, these fractional shares would be sold to the highest bidder.

It is not possible to form an accurate estimate of the number of shares in existence at this period, although we do know that the total capital subscribed in joint stock companies in 1570 was approximately £100,000. The greater part of this amount was invested in the African Adventurers, Russia Company, the Mines Royal, and Mineral Battery Works. By 1695, it had grown to £4,250,083, invested in one hundred and forty English, Irish, Scottish, and colonial trading companies. Of the one hundred and forty companies, six, namely the East India, African, Hudson's Bay, New River, Bank of England, and the Million Bank, represented a capitalization of £3,232,000.

The date 1695 marks the beginning of a crisis of great severity, which culminated, in 1696, in the suspension of cash payments of the Bank of England's notes. One result of the crisis and the great fall in the value of security prices which it entailed, was the public odium that fell upon the newly-formed profession of stock-jobbing. The blame for the fall in prices of securities was laid directly to the manipulations of the stock jobbers. The commissioners appointed to inquire into the trade of England in 1696, reported of them as follows:

> "The pernicious art of stock jobbing hath of late so perverted the end and design of companies erected for the introducing and carrying on of manufactures to the private profit of the first projectors, that the privileges granted to them have been commonly made no other use of by the first procurers and subscribers but to sell them with advantage to ignorant men drawn in by the reputation, falsely raised and artfully spread, concerning the thriving state of the stocks. Thus the first undertakers getting quit of

the company by selling their shares for much more than they are really worth to men allured by the noise of great profit, the management of that trade and stock comes to fall into unskilled hands; the manufactures intended to be promoted by such grants, come from very promising beginnings to dwindle away to nothing and be in a worse condition than if they were perfectly left free and unassisted by such laws and patents."

Eventually the hostility to the stock jobbers became so marked that they were expelled from the Royal Exchange, where they were accustomed to carry on their business. They migrated to Change Alley, and for three-quarters of a century, Change Alley was the stock exchange. It was there that the brokers met, in the coffee houses and on the street, to bid against each other for their favourite security. It was there also, in 1720, that the scenes of the speculative frenzy known as the "South Sea Bubble" were enacted.

Space does not permit to go into the history of the South Sea Company and the boom and collapse of which it was the cause, but it is worth remarking that the prejudice against the stock jobber faded before the visions of sudden wealth and riches. For in the hey day of the boom, peer elbowed commoner in his frantic efforts to obtain the security on which his extravagant hopes were fastened.

By this time the most prominent and reputable of the brokers had been accustomed to meeting in Johnathan's Coffee House. By 1762, they formed the aristocracy of the profession and had come to be looked upon as the Stock Exchange. In 1773, they raised a subscription among themselves, gained control of a coffee house in the north end, and placed over the door the inscription, "The Stock Exchange." It was the first time in history that this name had been given to any building. Membership, however, did not appear to be rigid or even exclusive, for anyone could obtain admission by paying sixpence for a day.

But the rooms were soon felt to be inadequate, and in 1801 a fresh subscription was raised (£20,000) and the foundation for a stock exchange based on an exclusive membership was established. In 1801, the foundation stone of the new structure was laid on Capel Court. By the deed of settlement, March 1802, the Exchange was given a constitution which has remained with but little alteration up to the present time.

At first the Stock Exchange did not include all branches of the profession. Dealings in the shares of foreign companies were still carried on in the Royal Exchange, and a great part of the trading in Funds was carried on in the rotunda of the Bank of England. By 1878, however, both had been absorbed by the Stock Exchange.

There was needed but one more step to complete the mechanism for a modern stock exchange, and that was supplied in 1873 when the Stock Exchange Clearing House was established. The formation of the Stock Exchange Clearing House brings this chapter to a conclusion. It meant that the evolution of the Stock Exchange was complete. Already the institution had sprung up in other countries. The Paris Bourse had been established in 1788, and the New York Stock Exchange in 1817; thus the London Stock

Exchange could no longer claim to be the sole representative of the species, and there is therefore no point in following its history further. In a later chapter, however, there shall be a discussion of its methods of trading and organization.

CHAPTER II

THE RISE OF PUBLIC AND CORPORATE SECURITIES IN CANADA

Early Canadian industrial and financial development is inseparably connected with the colonial policies of first the French and then the British governments. And both were most interested in preserving in Canada a free and open market for the manufactured goods of the home countries. Consequently all but the most primitive industries were discouraged. The fishing industry and the fur trade were by far the most important, although, under the governorship of Talon, shipbuilding achieved a thriving but short-lived prominence. Of manufactures there was little or nothing, and what little there was seemed a cause of grave concern to the home government. On receipt of Sir Guy Carleton's report on the manufacturing conditions in the Colony, Lord Hillsborough expressed considerable alarm at the extent to which the colonists were clothing themselves. Hillsborough instructed Carleton "to attract the energies of the people of Quebec to some more innocent and imperially useful occupation." He went on to say that "the privilege of clothing the people of the empire was regarded as an essential prerequisite of the textile industries of the mother country." [1]

Carleton's report furnishes a fair picture of the state of manufacturing in the Province. From it we learn that there were being produced considerable quantities of flax which were made up into a coarse linen. What wool there was - it was not plentiful - was worked up by the women into knitted garments for winter wear.

1. Adam Shortt. "Canada and its Provinces." Vol. 5.

It was estimated that about one third of the inhabitants clothed themselves by their own industry. Pottery was made for kitchen use but not for table use. There were one or two tanneries that produced a coarse grade of leather. In 1767 the manufacture and export of potash began, and for half a century Canadian potash was in great demand in England. In 1768 a rum distillery was established in Canada. Iron forges had been founded under the French Regime and continued to operate under British rule. In 1770, 400,000 pounds of bar iron were produced, and in the following year, 200 tons of pig-iron were exported to England.

It is evident from the report that except for a few crude articles, the colonists were dependent upon importation from the mother country of almost all their manufactured goods.

A factor which considerably hampered industrial growth was the confusion of the currencies which resulted from the British conquest. To quote from one authority, "Canadian paper money had become an article of wild-cat speculation, its value varying with every rumour as to its possible redemption and the rate at which the various issues might be accepted." [1]

The prevailing coinage in circulation was the Spanish dollar or piece of eight, the currency associated with the West Indian trade. The actual standard was the shilling. Money was very scarce in the Colony, and in order to attract it and keep it in circulation, it was constantly being overrated. The intrinsic value of the piece of eight was 4s 6d, but the actual rate at which it changed hands in the colonies varied from 4s 6d to as much as 7s. In Massachusetts and in Nova Scotia the rating was 5s, whilst

1. Adam Shortt. "Canada and its Provinces."

in New York Colony it was 7s 6d. Both of these ratings were introduced into Canada. The former rating known as the Halifax currency was used by the merchants of Quebec; the latter, known as the York currency, was used by the merchants of Montreal.

In the year 1764, Governor Murray passed an ordinance for regulating and establishing the currency of the Province. This ordinance, which was based upon a proclamation of Queen Anne in 1704, gave a separate rating to the gold and silver coins in use in the colonies. The Spanish dollar was rated at 6s; the French crown at 6s 8d; and the British shilling at 1s 4d. The Spanish pistareen was rated at 1s 2d, and the French nine penny piece at 1s currency.

At the time, there was a great scarcity of small change, and to meet this need it was the custom to cut up the coins into halves and quarters. But as this practice led to fraud, it was forbidden by ordinance in 1764. A more successful device to provide small change was the issue of small bills by merchants, which were good at the face amount for merchandise. When the better known merchants were scrupulous to honour these bills or bons, as they were called, they gained a wide circulation and served a definite need. The bons by supplying a fairly reliable currency based on paper undoubtedly paved the way for the later issue of bank notes.

The same may be said for the army bills, which enjoyed a high reputation during the war of 1812; and when they were eventually redeemed and withdrawn, it was because of the gap that they left that the first proposals for a bank in Canada came about.

It was with the rise and establishment of the banks that it became possible, for the first time, to carry on a business in the transfer of stocks. As a matter of fact, the first market for securities was composed entirely of bank stocks.

Although there was felt the pressing need of a bank, it was not coming immediately. It was not until May 19th, 1817, that the Articles of Association of the Bank of Montreal were adopted. The authorized capital was $1,000,000 or £250,000 currency, and a large proportion of it was subscribed by Americans. The Bank of Montreal has the distinction of being the first and oldest Canadian bank. In the following year, however, three others were established; these were the Quebec Bank at Quebec, the Bank of Canada at Montreal and the Bank of Upper Canada at Kingston. It marked the beginning of an era of bank promotions.

The second or chartered Bank of Upper Canada began business at York in 1821, with an authorized capital of $500,000. It was followed by the Commercial Bank in 1831 and the City Bank of Montreal in 1832. Consequently, by the year 1840, there must have been some business in the transfer of bank shares alone. We know that in the same year, the public debt of Lower Canada was £113,975 currency; and that Upper Canada has issued debentures to the amount of £415,000 currency, of which £213,000 was outstanding. Eight years earlier the first Canadian railway had been organized. This was the Company of the Proprietors of the Champlain and St Lawrence Railway, incorporated in 1832. The capital provided for was £50,000. and on May 1st, 1832, at the Exchange Coffee House in Montreal, the subscription books were opened.

The railway era in Canada, however, can hardly be said to have begun before 1851. In 1850, there were only sixty-six miles of railway in Canada. The passing of an Act in 1851, providing for the construction of a railway between the two Canadas, began a decade of speculation in railway stock. The result of the Act was the completion of the Grand Trunk Railway in 1856, between Montreal and Toronto. The promoters of the Grand Trunk held out extravagant hopes of the profits which the railway would bring in. One writer has said that "the descriptive statements of the prospectus were so uniformly enthusiastic that a modern real estate prospectus seems restrained in comparison." [1]

In the speculation that followed, many of the banks became heavily involved, for which they were at a later date overtaken with a just retribution. It was an age of remarkable expansion, and dealings in shares of all kinds were given a considerable impetus. This is borne out by the fact that in 1854 some Montreal merchants and business men began to hold informal meetings to transact business in the transfer of shares and securities. [2] A similar practice had begun in Toronto in the year 1852. A fair idea of the nature and extent of their dealings may be gained from an extract taken from the Montreal Witness in the year 1858:-

> "Stocks: Bank of Montreal -- very little in the market. Demand good at 108½ to 108¾ for both old and new stock. Commercial Bank, Midland District, has advanced to 107, with sales since payment of the dividend. City Bank has been sold at 104 -- and 103¾, but there are sellers today at 103, at which it is

1. "National Highways Overland" by S. J. Maclean.
2. The word "broker" was scarcely applied to these men at this time. A few years later, however, there were definitely brokers whose business consisted in transferring securities for their clients. At the time of Confederation they were known as the board of brokers.

"heavy. Bank of Upper Canada - considerable amounts offering, but the demand has completely fallen off -- there being no buyers at 82. People's Bank -- asked for at par, at which there have been small sales. Montreal Mining Co's Consols -- buyers at $1.50. Procurable but only to a limited amount at $1.60. G. T. Railroad -- no stock in market. Gt. Western of Canada -- there is little inquiry for this stock, but our quotation of 85 is purely nominal. Montreal Tel. Co. stock -- a dividend of 5 per cent for the last six months was payable yesterday. Holders today are firm at 110. Government Debentures -- nothing doing. Procurable at 99½. Consol. Mun. Loan Fund Debentures -- the latest sales are at 83¼ to 83½, the tendency being downwards. In other stocks -- nothing to report."

It is noteworthy that the list contains the names of five banks and four companies, of which two were railroads. The Montreal Telegraph Company was Canada'a first electric company and was incorporated in 1847. Amongst other stocks, which were not quoted on the list, but which were dealt in at the time, were the Montreal City Gas Company, the Champlain and St Lawrence Railway, and the Bank of British North America. No more eloquent argument for the need of an organized market for securities can be found than in the above quotation. Notice the doubt and uncertainty that exists as to first of all whether a market can be found for a given security, and secondly as to what is the prevailing price for the security.

It will be remembered that the year 1858 was a time of financial crisis, a result of the collapse of the railroad boom, which began in 1851. It was also the time of reckless granting of bank charters. The six or seven banks listed in the stock quotations in 1858 has grown to more than twice that number ten years later, and this despite the fact that there had been one or two large and disastrous failures.[1] Industrial expansion had proceeded apparently at a slower pace, although business in government and municipal bonds had considerably increased. The first two years of Confederation marked a breathing space, whilst the commercial community recovered from the shock of the abrogation of the Reciprocity Treaty; but in 1868 there began a brief but hectic period of prosperity which lasted until 1873. Between Confederation and 1874, nineteen new banks began business, whilst the total capital grew from thirty million to sixty-six million. During the same period, railway mileage in operation doubled.

As a result of the increased business activity of all kinds the Montreal brokers were encouraged to apply for a charter. The first steps were actually taken in 1872, when committees were appointed for securing the incorporation of a stock exchange in Montreal. The result was the incorporation of the Montreal Stock Exchange in 1874. Business began on the Exchange as such towards the end of January of that year.

This the first Montreal Stock Exchange met in a small room of an old building on St Francois Xavier Street, and it was from such modest beginnings that the Exchange has grown to its present importance and eminence. There were approximately fifty-five

1. The Bank of Upper Canada closed its doors in 1866, The Commercial Bank in 1867.

types of securities dealt in, of which at least half were Bank stocks. If 800 shares changed hands, the market was called decidedly active. On some days there were as few as 200 sales. Below is given a list of transactions on one of the busy days:-

Morning Session

10 shares of Bank of Montreal at 189
10 shares of Bank of Ontario at $107\frac{1}{4}$
100 " " " " " " 107
3 shares of City as $98\frac{1}{2}$
65 shares of Montreal Tel. at $179\frac{3}{4}$
3 " " " " " $179\frac{1}{2}$
$2,000 Corporation 7% stock at 109

Afternoon Session

100 shares of Bank of Montreal at $188\frac{1}{4}$
25 " " " " " " $188\frac{3}{4}$
75 " " " " " " $188\frac{1}{4}$
111 shares Merchants' at $110\frac{1}{2}$
50 shares Bank of Commerce at $124\frac{1}{2}$
200 " " " " " 124
35 shares Montreal Tel. at $179\frac{3}{4}$
$1,400 Corporation 6% stocks at $98\frac{1}{2}$

The striking fact is, of course, that by far the greater part of the transactions was in bank stocks, and that out of a total list of fifty-five issues, sales were recorded in only seven of them. It is a far cry from the thirty and forty thousand share markets of today to that time when not only was the Montreal

Stock Exchange in its infancy, but the very Dominion itself, and its industrial and commercial life. In the following chapter will be sketched the marvellous growth of the Exchange and how it rose to its position as the second leading stock exchange on this continent.

CHAPTER III

THE MONTREAL STOCK EXCHANGE 1874 -- 1934

The incorporation of the Montreal Stock Exchange in 1874 came just in time to witness that industrial expansion which was later to transform the Dominion from a primarily agricultural country to one in which the manufacturing and agricultural industries became more or less evenly balanced. By facilitating and augmenting this expansion, the Canadian stock exchanges played an important part. It might be well to remind ourselves exactly what are the services which a stock exchange performs in a community. The chief function of a stock exchange consists in providing a free and continuous market for the securities of governments and corporations. The value of such a service seems too obvious to need stressing, and yet there are people who seem unaware that the stock exchange has a legitimate function and imagine that it caters solely to a class of speculators and gamblers. In fact, as long as society is based on a capitalistic structure, it will need an organized market for its stocks and shares.

As one writer has expressed it, the stock exchange "is the organization of capital for investment, even as banks are the organization of capital for loans. But for the stock exchanges even the government would find difficulty in borrowing, whilst great schemes, national, commercial, and industrial would languish in the lack of a ready flow of capital."[1]

It was not pure coincidence that resulted in the founding of the Montreal Stock Exchange just prior to the era of

1. Charles Duguid, "The Stock Exchange" Methuen & Co., London, 1904.

Canada's great industrial development.

The Montreal Stock Exchange was incorporated under a special charter by an act of the Legislature of Quebec on January the twenty-eighth, 1874. The preamble of the charter reads as follows:-

"Whereas Donald Lorne MacDougall, E. Ford, Frank Bond, G. W. Simpson, Hartland S. MacDougall, G. C. MacDougall, F. L'Estrange Hart, Charles G. Geddes, J. D. Crawford, H. S. Strathy, H. G. Strathy, Henry A. Budden, J. Try-Davies, W. R. Oswald, Henry C. Scott, J. Burnett, and others, resident and carrying on business in the City of Montreal, have petitioned for the incorporation of themselves and others, as the 'Montreal Stock Exchange', and to be invested with certain powers hereinafter mentioned, and it is expedient to grant their prayer; Therefore, Her Majesty, by and with the advice and consent of the Legislature of Quebec, enacts as follows:- "

Then follow the general provisions of the Charter. The "aforesaid persons and others" were declared a body politic and corporate by the name of the "Montreal Stock Exchange", and by that name it could sue and be sued and have perpetual succession. The powers given to the Exchange were wide ones. It had complete control over its own affairs: it could issue by-laws for the regulation of its members, impose fines and penalties, acquire property -- personal and real -- up to the amount of $500,000. The objects of the Corporation were declared to be "to provide and regulate a stock exchange and offices in the City of Montreal." It was "to compile records and publish statistics respecting the business of the members of the said stock exchange, to promote the observance of such regulations and requirements as may be by by-law established not contrary to law; to which ends the Corporation is hereby empowered by vote of the majority at annual, quarterly, or special meetings of the said stock exchange, to make all proper and needful by-laws for its government: for the maintenance and regulation of the said Montreal Stock Exchange, the offices and property thereof, for the raising of capital not exceeding in amount the aforesaid sum of five hundred thousand dollars by the issue of transferable shares or otherwise, etc., etc., "[1]

The liability of a member was limited to the amount of his unpaid subscribed share or shares in the capital stock of the Association. It was also provided that the Exchange should be governed by a Committee of management all of whom must be members of the Exchange. The Corporation was empowered to admit as member any persons they saw fit and also to expel any member "for such reasons, and in such manner, as may be by by-law provided."

Thus under its charter, the Montreal Stock Exchange was subjected only to the property limitation: otherwise it was given complete freedom to govern itself and conduct its business in the way it best saw fit.

If, as has already been mentioned, the inspiration for a stock exchange resulted from the prosperity of the early seventies, the Montreal Stock Exchange was actually born in depression. The year 1873 saw a series of panics in the leading exchanges of the world. In the United States there were colossal bank failures, and Great Britain experienced a severe reaction from the

1. Charter of the Montreal Stock Exchange.

fevered prosperity of previous years. In Canada, although there was little financial panic, there began six years of "stagnation and hope deferred, making the heart sick."[1]

They must have indeed been trying times for the new-found institution. There have been no official figures compiled showing the sales for these early days, yet enough can be gathered from files of the newspapers to indicate that there was a serious dwindling in the number of transactions on the Exchange. If it had not been for the transfer of bank stock, the members of the Exchange would have made a very meagre living indeed. It appears that they were most anxious to obtain new business and to persuade corporations to list their securities on the board. On the inside cover of the book containing the record of transactions from January 1873 to March 1874 is the following notation:

> "A. M. Cohen promises one case of champagne
> & Wm. Rhind " two cases " "
> for the first company they place on the board."

In spite of this incentive, the official list did not grow. In 1874 the total was sixty-five, and in 1884 it was sixty-four. By 1894 the number had actually fallen to fifty-one, and it was not until another ten years had elapsed before it reached the original figure of sixty-five.

One might be led to believe from the fact that the total of the stock list showed a tendency to drop or at best to hold level, that the Exchange was not in a healthy condition. The truth is otherwise. The Montreal Stock Exchange throughout this period experienced a slow but steady growth. The sales, which in 1874 seldom exceeded 800 daily, were, by 1892, often four or five thousand a day. There had also been a noticeable change in the

1. O. D. Skelton. "General Economic History of Canada (1867 - 1912)". Toronto, 1913.

relative activity of the types of stocks transferred. In 1874, the transactions were confined chiefly to bank stocks. In 1892, the transactions in bank stocks formed a comparatively insignificant part of the total. The leaders had become Telegraph, Cable-Pacific, Richelieu, and Canada Cotton. The composition of the stock list had also been considerably changed. Although the total listed securities were less than in 1874, the number of transactions was far greater. The reason lies in the fact that bank stocks were being replaced by more active industrial issues. Between 1867 and 1892 there had been no less than fourteen bank failures: the shares of many of these banks had been listed on the Montreal Stock Exchange. To offset this defection, new industrial enterprises, which had sprung up as a result of the national policy of the MacDonald ministry, were beginning to list their securities on the Exchange. The tendency became even more pronounced in the years that followed. There were further failures among the banks, and the practice of the large institutions absorbing their smaller rivals was just beginning. On the other hand, more and more industrial concerns were establishing themselves on a solid foundation. Foreign capital, especially British, was becoming interested, and, as a result, the daily average of transactions on the Stock Exchange more than doubled itself in the decade from 1892 to 1902. In 1902, it was not uncommon for 15,000 shares to change hands.[1]

Besides the increase in the volume of sales, there were other signs to show that the Exchange was expanding steadily. By 1887 the Montreal Stock Exchange had outgrown its modest quarters

1. On Jan. 3rd 1902, the Montreal Gazette shows that approximately 15,700 were transferred. On Saturday, March 10th of the same year, there were 13,800 sales for the half session.

on St Francois Xavier Street and was obliged to move to more commodious ones at 11, St Sacrement Street.

Three years previously, it had taken the important step of establishing the stock exchange clearing house. By adopting a clearing system so soon after its inception, the Montreal Stock Exchange for once broke away from the influence and tradition of New York. The first stock exchange clearing house to come into existence was the one at Frankfort, established in 1867. Its example was followed in turn by the Berlin, Hamburg, Vienna, and London Stock Exchanges. The London Stock Exchange was not formed until 1873. The New York Stock Exchange did not establish its clearing house until the year 1892, eight years after Montreal. The New York Exchange has always guarded its members' accounts very jealously; it was feared that the establishment of a clearing house would reveal brokers' business secrets. Eventually the volume of cheques that passed through the hands of the banks for certification became so great that they forced the Exchange to adopt a clearing system.

The early balances of the Montreal Stock Exchange Clearing House fluctuated in a remarkable manner. In 1886 they were $22,073,972; in 1896 they amounted to $14,551,802; and in 1902 to $61,519,531. In 1903 they had fallen to $31,238,675.[1] It is interesting to compare them with the balances for the past six years. These balances are:-

1928	$185,618,326	from May 15th to Dec.31st
1929	309,273,097	year
1930	141,140,625	"
1931	61,823,536	"
1932	22,690,143	"
1933	46,087,598	11-months to Nov. 30th.

1. These figures represent cash balances paid into the clearing house against delivery of securities.

The growth of the clearing house balances is just one illustration of the remarkable expansion of the Exchange.[1] The Clearing House was at first established as a department of the Stock Exchange and continued as such until 1926, when it was reorganized as a company. The Stock Exchange Clearing House Company is controlled, and all its shares are held by the Montreal Stock Exchange.

As an additional evidence of the growth of the Exchange during the closing years of the century, we find that in 1901, the original forty seats provided for were all used up. In November of that year, five additional seats were created, and in 1902, on three successive occasions, the membership was increased by five bringing the total number up to sixty. Since then the membership has been increased on various occasions. In 1910, an addition of five seats brought it up to sixty-five; two years later, in 1912, it was increased to seventy-five. It stood at that number throughout the war, but in 1920 during the post war boom, another ten seats were created. In 1926, however, the membership was reduced to eighty, at which figure it now stands, just double what it was at the beginning.

1904 is a landmark in the history of the Exchange, for it was in that year that the present stock exchange building was

1. The clearing house figures are not an infallible guide to the activity of the stock market, for the reason that they do not represent the cash value of transactions but really the balance between sales and purchases. If these should by any chance be exactly even, the balances would be nil, whereas there might have been considerable activity in the market. Taking this fact into consideration, however, the balances do seem roughly to correspond to the main trends of business activity, for instance, with the figures for the volume of sales from 1928 to 1933.

completed and occupied. It will be remembered that at this time the great tide of immigration was just beginning. The total number of immigrants was 23,895 in 1900. In 1904 no less than 130,331 entered the country. Every succeeding year saw a larger and larger volume until a peak was reached in 1914; the figure for that year was 402,432.

This life-giving stream imbued the whole country with an optimism that had rarely been seen before. Consequently, when the members of the Montreal Stock Exchange moved into their newly completed building in 1904, they must have felt that a great future lay ahead of them. This hope is well expressed in a pamphlet which they published at that time.

"The members of the Montreal Stock Exchange," it ran, "look forward to a prosperous Canada. This country is just beginning to develop its resources, and is likely to be the attraction for emigrants from abroad until such time as most of the available land is taken up. The tide of immigration which has, in the past, been directed to our neighbours to the south of us, is now to a great extent coming our way, and the country must make great strides in the next few years.

"The members of the Montreal Stock Exchange, having confidence in the growth of the commercial centre of Canada, have signified their faith in the future of their country by erecting a modern structure, architecturally pleasing to the eye, and of sufficient size to accommodate 200 members."

Their predictions were to a great extent realized in the years that immediately followed; an unforeseen obstacle occurred, however, in the paralysing effect of war.

The outbreak of the World War in 1914 resulted in a terrific shock to the delicate machinery of the stock exchange. For the first time in its history, the London Stock Exchange closed. Practically all the other great stock exchanges of the world followed suit. The New York Stock Exchange was closed for months. In Montreal, trading was suspended from the last week in July 1914, until Easter Tuesday in 1915.

The war years were at the best a period of marking time. The thoughts and energies of the country were in the struggle before them: it was not the time for expansion and development.

What had been interrupted in 1914 was resumed again at the close of the war, but at a slower and more cautious gait. 1920 was a year of boom, and 1921 one of financial crisis. The succeeding five years were marked by stagnation and adjustment: then gradually there came a return of confidence, and finally in 1928 and 1929, the exciting day of unprecedented speculation. The following table gives the volume of sales on the Montreal Stock Exchange from 1917 to 1933, which may be taken as a reliable guide to the state of activity on the Exchange.

VOLUME OF SALES FROM 1917 TO 1933

1917	1,096,219 shares
1918	1,108,986
1919	3,865,683
1920	4,177,962
1921	2,068,613
1922	2,910,878
1923	2,091,002
1924	3,072,366
1925	4,601,857
1926	7,081,150
1927	10,706,614
1928	20,490,003
1929	25,739,261
1930	11,099,404
1931	5,310,049
1932	2,909,191
1933	7,663,533

The sales in the above table cover the very eventful years from the close of the war up to the present time and give an idea of the huge speculative bubble that was forming. There was a rise from two million to twenty-five million within eight years. At no other time in its history had the Stock Exchange witnessed such a rapid expansion within so short a time. It is not surprising to find that, as a result of this vast increase in activity, the value of the Stock Exchange seat was very much enhanced. In 1874 the original seats on the Montreal Stock Exchange sold for $500; in 1929 one fetched a record price of $225,000. And then the bubble burst: security prices collapsed; and the shrinkage in the volume of business on the Exchange was more severe than anything ever before experienced. If the rise in yearly sales from two million to twenty-five million in eight years can be called spectacular, words fail to describe the fall from twenty-five million back again to two million in less than one-quarter of that time. The recent prices for seats reflect the changed conditions. They have lately sold from between fifty to sixty thousand dollars.

The growth in the number of listed securities also increased considerably during the post war period. Up to the beginning of the century little or no increase was recorded; there were sixty-five issues listed in 1874 and sixty-four in 1904. But in the following decade the number jumped to one hundred and nine: the present figure is two hundred and forty-one. The following table gives the number of securities listed on the Montreal Stock Exchange since its incorporation, by periods of ten years.

1874.......65

1884.......64

1894.......51

1904.......64

1914......109

1924......147

1934......241

A word remains to be said about the Montreal Curb Market. Originally the curb markets were held in the streets and were composed of brokers and listed securities that the stock exchange did not recognize. Gradually, however, there was a tendency for a closer and closer connection to be established between the curb and stock markets. Most of the important curb markets are now housed and are organized in intimate relationship with the stock exchanges.

The Montreal Curb Market was organized in 1926 in such a way that it became in reality a subsidiary organization to the Montreal Stock Exchange. It was first housed in the Canadian Pacific Telegraph Building on Hospital Street. In 1929 it moved to new quarters in the Montreal Stock Exchange Building, an extension having been especially built for it.

In 1926, every member of the Montreal Stock Exchange had the right to subscribe for one seat of the Montreal Curb Market. All the members of the Exchange availed themselves of this privilege, which accounted for 77 seats out of the authorized 100. The remaining 23 seats were all disposed of by September in the same year for $1,000 each. In 1929 the price of a seat on the Curb rose to $50,000: the prevailing price is now around $15,000.

The chief value of the curb market lies in providing a testing place for the securities of new companies prior to their being listed on the stock exchange. Since 1926, there have been twenty-five issues that have graduated from the Montreal Curb Market to the Montreal Stock Exchange. Whenever this takes place, trading in such a security on the Curb Market immediately ceases.

Perhaps there can be no better closing to this chapter of the history of the Montreal Stock Exchange than to give a quotation from its recently published year book, which sums up better than anything else the position that it has attained in the sixty years of its existence.

"At the close of 1933, the current value of the securities listed on the Montreal Stock Exchange and traded in on its subsidiary, the Montreal Curb Market, reached a grand total of $5,987,206,317.03, a figure that exceeds that of any other two exchanges in Canada, and is the largest on the North American Continent outside of New York City."

CHAPTER IV

ORGANIZATION AND METHODS OF TRADING

Unlike the London and New York Stock Exchanges, the Montreal Stock Exchange is an incorporated body. For practical purposes, however, there is little difference in their respective freedom of action and privileges. Under its charter, the Montreal Stock Exchange is given a very complete autonomy. It is not, and never has been, subject to interference from any department of government. The point is an interesting one, because the New York Stock Exchange cherishes the fact that it is a voluntary association, as if fearing that incorporation might deprive it of some special privileges.

In spite of some popular prejudice to the contrary, the world's leading exchanges have developed a very high standard of conduct and ethics within their own membership. The Montreal Stock Exchange is no exception to this rule.

To err may be human, but it is also very costly for the members of the Montreal Exchange; particularly so, if it can be proved that such erring was deliberate. The Governing Committee of the Exchange holds certain weapons in its hands, the full use of which would spell ruin to an offending member. The most dreaded is, of course, expulsion from the Exchange, and the consequent withdrawal of all its facilities. For minor offences, the Governing Committee can impose fines in varying degrees.

The necessity that the public be protected is the reason for the severe code that the Stock Exchange enforces upon its members. Consequently it is not surprising to find that the Exchange is constituted in such a way that decisions may be quickly made and as quickly carried out.

Actually the organization is simple. The government of the Exchange is in the hands of a Governing Committee, composed of a chairman, a vice-chairman, a secretary-treasurer, and six other members. The Governing Committee has the power to make all rules, rulings, and regulations for the conduct of its members, providing they do not conflict with the by-laws. It has also the power to appoint sub-committees and to define their jurisdiction; it is in itself the final court of appeal from a decision or ruling of any such sub-committee.

The Governing Committee can fine, suspend, or expel any member. It can order an examination to be made into any member's books. In fact, its power over the members of the Exchange is almost unlimited. And it is because such sweeping powers are vested in the hands of a compact governing body that swift and speedy action can be taken, when need be, to put a stop immediately to any abuses that may have been uncovered -- Abuses such as washed sales, unethical manipulations, and, more rarely, corners. [1]

There is a by-law of the Exchange making it an offence for a member to act in a way that is detrimental to the interest or welfare of the Corporation. The discretion of deciding what constituted such an offence is left in the hands of the Governing Committee. What has been said above, however, is subject to one qualification. A special or annual meeting of the Exchange

1. There are, besides, certain specific prohibitions. For instance, no member may form a partnership with a suspended or expelled member. Indecorous language is prohibited. All advertising must be of a strictly legitimate character. No member may form an association ~~of~~ with a bucket shop nor take the side of the market opposite to a customer. Members are forbidden to deal with other members' employees. Employees of the Corporation may not deal in margin.

may reverse any decision or ruling of the Governing Committee. The decision of a majority of the members, assembled at a properly appointed meeting, is naturally the supreme and final voice in the government of the Corporation. It is also true that a member has the right to appeal from a ruling of the Committee by calling for a special meeting.

The Chairman of the Stock Exchange is also Chairman of the Governing Committee and an ex-officio member of all subcommittees. He is vested with the executive power of the Corporation and is responsible for the enforcement of all the rules and regulations of the Exchange and of the Governing Committee. It is his duty to call special meetings of either the Corporation or of the Governing Committee, upon written request of five members, or when required to do so by a resolution of the Governing Committee. The Chairman also has the power to make rulings for the conduct of business between members in the ordinary every day's trading and may, when special exigencies exist, suspend trading for one session.

In many ways, the constitution of the Exchange resembles a club more than it does an ordinary business corporation. The membership is limited and exclusive. Every applicant for a membership has to be proposed and seconded, posted for a time in the board room, and then ballotted for. One blackball in seven excludes him; if he should be blackballed, he cannot be ballotted for again until the expiration of six months. The name of no applicant can be posted without the permission of the Governing Committee, and very often such permission is not given until a full enquiry has been made into the applicant's character and financial standing. Before any applicant can be admitted into membership of the Exchange, he must obtain a seat or right of membership. The mere possession of a seat does not in itself imply membership, but it is a necessary qualification. Thus a man may have bought a seat or be in possession of one and yet not be a member of the Exchange.

Every applicant must be a British subject and at least twenty-one years of age; there are no other qualifications. If elected to membership he must pay an entrance fee of one thousand dollars and also one hundred dollars towards a gratuity fund.

The gratuity fund is an interesting feature of the Stock Exchange. The purpose of the fund is to provide for the families of deceased members. When a member dies, a lump sum of five thousand dollars is paid to his widow and surviving children. The fund is built up from two sources. One of them is the one hundred dollars entrance fee mentioned above; there is, in addition, on the death of any member, an assessment of seventy dollars on each of the surviving members.

The membership, at the present time, is limited to eighty. The seats or rights of entrance are under the control of the Governing Committee, and no seat may be transferred without its consent. If a member is expelled or becomes bankrupt, his seat reverts to the Corporation. The Committee may sell the seat, and with the proceeds of the sale pay off any indebtedness to the Exchange or its members. Any balance is usually paid to the original owner of the seat. In a case where a bankrupt member leaves no debts to the Exchange and has satisfactorily settled with his creditors, the Governing Committee may at its discretion return to him his seat.

All the rules and regulations which the Exchange enforces upon its members have but one point in view, and that is the promotion of a high standard of business ethics. It is a duty which the Exchange owes to the public. As we have seen, this duty is a voluntary one, and it really depends upon the integrity of the majority of its members as to whether it shall be carried out. At the present time, the by-laws of the Exchange go far im promoting and protecting the interests of both the broker and the customer; but it is because many of these by-laws set no hard and fast rule but are of a discretionary nature that a great deal depends upon the courage and intelligence of the Governors. Any laxity in enforcing the rules, or any winking at abuses might do irreparable damage to the prestige of the Exchange and play into the hands of those who wish to see the Stock Exchange placed under the direct control of the government. It is true that this resonsibility rests with the officers and the governing body of the Exchange, yet in the long run, it really rests with the rank and file of the members, in their attitude towards offenders, and the support which they give to the Governing Committee. In other words, the prestige of the Exchange depends upon the character of its membership.

The public is often unaware of the trouble which the authorities of the stock exchanges take to protect their interests. After years of agitation, the stock exchanges have at last succeeded in requiring the corporations whose securities they list to publish annual statements. The New York Exchange is now asking for semi-annual and even quarterly statements. An application for listing on the Montreal Stock Exchange must be accompanied by full information about the incorporation of the company, a statement of earnings for the previous five years, properties owned and capitalization, and a recent balance sheet and pfofit and loss account. Applications for listing mining stocks require more detailed information -- information concerning the geological properties of the country, the nature of the ore bodies and the value of the ore, the cost of production and transportation, expenditures during the preceding five years in acquisition of new properties and development, the annual production, and the provision for smelting and concentration. Corresponding details are required for oil and gas wells.

Besides the information that must be given for listing, every applicant must agree to furnish his stockholders at least once a year and fifteen days in advance of the annual meeting, a complete statement of the company's financial position. It is also required that if further issues of listed securities are made, application for listing must be made at once with the Exchange, and if there is any increase in capital stock or bonded or other indebtedness, that the Exchange be immediately notified of such increase.

As an additional safeguard, every company must agree to publish periodical statements of production and earnings and to give from time to time any further reasonable information that may be required.

While these rules do not absolutely guarantee the soundness of the stocks listed on the Exchange, they do give to them a certain prestige and standing. Certainly the investor who chooses issues listed on the Exchange is taking less risks than one who does otherwise. All the trite sayings about his being assured of an organized market, of the judgment of a large mass of buyers and sellers reflected in the price of the security, and of the privilege of using his securities as collateral -- while trite are nevertheless still true.

The above outline gives some idea of the nature of the govemnment and organization of the Montreal Stock Exchange. Its methods of trading and classes of traders are similar to those of any other American stock exchnage.

There is, first of all, the partner of the commission houses, whose chief business consists of executing orders for his firm. Their profits come from the commission that they charge their customers. Then there is the professional broker who executes orders for other members anywhere in the room. This type of trader is known as the two dollar trader on the New York Stock Exchange because he charges for his services a commission of two dollars per hundred shares.

The odd-lot dealers form another important branch. They specialize in the buying and selling of fractional lots of securities, that is, mumbers of shares that are less than a full board lot. The odd-lot dealer receives his remuneration in the quantities of sales which he makes; he usually receives enough orders in any given stock to make up a board lot, and while charging his customers odd-lot prices, he can himself buy or sell at market prices.[1] On the Montreal Stock Exchange, the board lot consists of twenty-five shares for ordinary stocks, ten shares for bank stocks, and one hundred shares for mining stock, provided, however, that if it be selling for less than one dollar, the board lot shall then be five hundred shares. The unit of trading for bonds is one thousand dollars.

The traders known as arbitrageurs take advantage of the

1. The odd-lot price for any given stock is one-eighth of one point above or below the market price.

fractional difference in prices of issues listed on more than one exchange. Thus International Nickel may be selling at $27.90 in Montreal and $28.00 in New York; the arbitrageur, always on the alert for such differences, buys in Montreal and sells in New York, all within the course of a few minutes. Arbitraging is difficult business and is usually undertaken by those members who have had considerable trading experience.

Finally, there is the independent trader, the man who does business on his own account. He is not connected with any house and does not accept orders from other members. He must always be ready to take advantage of the slightest indication of any change in price movements.

These then, are the main classes of traders that do business on the floor of the Exchange. The total number lies between seventy and eighty. On the New York Stock Exchange, the sale and purchase of stock is done by a nod of the head, a word, or an upraised finger. That is very often all that is binding to the contract. It is amazing that this system works so well in New York, where the membership runs into the thousands, and where the activity far exceeds that of any other American exchange. Yet it seems that although mistakes do occur, they are very few, and that to attempt to get out of a bad bargain by the plea of a misunderstanding, simply is not done.

Montreal does not adopt quite so simple a system for trading on the floor. When a purchase of stock is to be made, the trader writes out the order on a floor ticket in triplicate. It contains the name of the stock, the number of shares, and the name of the broker who is executing the order. Each broker concerned in the transaction has a duplicate of the floor ticket which is returned to his own order department. The third copy, which is initialled by the purchaser, is handed to the ticker operator, who records the sale on the ticker. This copy is eventually passed on to the Stock Exchange Clearing House Company where it is used in the daily settlement of brokerage accounts.

It is a fair question as to whether the floor ticket system might not become too cumbersome should the business on the Montreal Stock Exchange ever grow to a scale comparable with that of New York. It might then be found necessary to devise something less formal and speedier. The likelihood, however, of such a contingency is sufficiently remote to make the question one of purely academic interest.

A word remains to be said about the relations between the members of the Exchange and the firms of which they are partners, and between these firms and their customers.

A new member is well advised to choose carefully the house with which he is to become associated. The Exchange makes no distinction between the member and his financial partner should a firm go bankrupt or be found guilty of unethical practices. A by-law forbids any member to form a partnership with a suspended or expelled member, or with any insolvent person. Not is a member of the Montreal Stock Exchange to associate himself with any organization dealing with securities in Canada, except the Toronto Stock Exchange, the Winnipeg Stock Exchange, and the Montreal Curb Market. Likewise, no person is eligible for partnership in more than one firm doing business on the Montreal Stock Exchange.

All the rules and regulations of the Stock Exchange also apply to the firms which are connected with it, unless obviously such a ruling could not affect them. Many of the by-laws have the stockbroker's customer in mind. The one that prohibits the broker from taking the opposite side of the market to his customer has already been mentioned.[1] There is another that makes him responsible for dividends to the parties entitled thereto on stocks represented by outstanding certificates, the endorsements on which have been guaranteed by him. The provisions regarding bucket shops are of the same pattern.

One of the most important rulings that brings the public into contact with the Stock Exchange authorities is that which fixes the marginal limits in the purchase of stock. The power of determining what these limits shall be lies in the hands of the Governing Committee. At the present time, the marginal requirements are fairly high compared to what they once were. Any stock selling under $5.00 must be bought outright. For one that is selling over $5.00 and up to $20.00, a five point margin is required; the minimum for everything over $20.00 is twenty-five per cent of the selling price.

Although there is at present no statutory limitation of margins, the stock exchanges must always face this possibility. In view of the fact that a twenty per cent minimum margin has been consistently urged by the more moderate critics of stock exchanges, the minim~~ums~~a now in force seem reasonable.[2]

1. ~~Ibid~~ See footnote page 32
2. The Hughes Committee urged all brokers to "discourage speculation on small margins," and the Exchange to "prevent members from accepting business on a margin less than 20 per cent."

They are reasonable because they offer a greater degree of safety to the speculator but do not at the same time cut too deeply into the broker's profits.

CHAPTER V

OTHER STOCK EXCHANGES - LONDON - PARIS - NEW YORK

No account of a stock exchange would be complete without a word about the three giants of the class, the London Stock Exchange, the Paris Bourse, and the New York Stock Exchange. It would be impossible to attempt a detailed description within the confines of one chapter; consequently all that will be done is to mention a few of their main characteristics.

First and foremost, in point of age and size, comes the London Stock Exchange. It is the father of them all and still is the greatest international stock exchange in the world. Its origin and growth have been touched upon in a previous chapter of this thesis. All that remains then is to sketch briefly some of the features of its present operation.

One of the first things that strikes a foreign observer of the London Stock Exchange is the distinction between broker and jobber. The broker acts only as an agent between the public and the jobber from whom he buys his shares on the floor of the Exchange. The jobber, on the other hand, is not allowed to deal with the public but only with the brokers and other jobbers.

These two classes of traders have been compared to the solicitor and the barrister. The broker feeds the jobber in much the same way as the solicitor feeds the barrister. The broker receives his remuneration in the commission he charges his clients; the jobber gets his by selling at a one-eighth higher price than he buys.

There has been from time to time a certain amount of friction between these two classes of traders. Each has charged the other with encroaching on his territory. To the Canadian and American, accustomed to the simplicity and directness of their own system, the existence of this middleman seems superfluous and cumbersome. Most English writers, however, are unanimous in upholding the division of broker and jobber.

The London Stock Exchange is subject to a dual management. There are the Managers representing the shareholders, and there is the Committee representing the members or subscribers. The Managers, nine in number, are elected in threes for a five year's term by the shareholders. They fix the charges for the admission of new members, appoint most of the officials, and look after the building. The Committee, on the other hand, control all the Stock Exchange business; they arbitrate all disputes between members, and administer the rules and regulations. Their number is thirty, and they are elected annually by the members. They choose from among their own number a chairman and a vice-chairman. In March of every year before retiring from office, the committee re-elects all the old members, the membership of the London Stock Exchange being elected for one year only. Any member can object to any other member's being elected, but this is almost never done. The Committee of the London Stock Exchange corresponds to the Governing Committee of the Canadian and American Exchanges and has much the same powers. It can, for instance, suspend or expel any member for breaking rules, or for noncompliance with its decisions, or for dishonourable conduct.

The origin of the dual control of the London Stock Exchange dates back to the first deed of settlement in 1802, when the proprietors, who had subscribed the capital for the erection of the new building, demanded control of its financial affairs in order to protect their investment. The deed of settlement recognised the distinction between members and proprietors and laid down the form of government described above. The proprietors or shareholders depend for their dividends upon the subscription fees of the members. As a result, there is often conflict between the Managers and the Committee, as it is in the interests of the one to have a large and unlimited membership, and in the interests of the other to see it restricted as much as possible. As a matter of fact, the original investors reaped a handsome return on their money. Within seven or eight years of the outset, the whole of the original capital, represented by four hundred shares of £50 each, had been returned in dividends.

The division between proprietors and members is gradually disappearing, for the reason that shortly before the war a ruling was put into effect making it necessary for the prospective member to own three shares. Eventually all the members will be shareholders, and the problems and conflicting interests of the proprietor and member will disappear.

The listing provisions of the London Stock Exchange call for the same information as that required by the British Companies Act. One of the principal requirements is that at least two-thirds of the securities issued must have been allotted to the public as distinct from vendors and others. This is an excellent precaution against the practice of making a "market for shares." This happens when a promoter holds all the shares and arranges with a jobber to sell them. He then instructs some brokers to buy and others to sell, thus producing a semblance of activity. The public is quite often deceived by this sham activity into taking an interest in the shares.

In other respects the London Stock Exchange differs little from similar institutions. It has not the practical and noisy efficiency of the New York Stock Exchange. It has on the contrary been rather slow in adopting modern appliances to its business.[1] But, on the other hand, its ethics and business standards rank as high as, if not higher than, those of any other stock exchange.

In turning from London to Paris, we come to the institution that was for a long time the second greatest international stock exchange in the world.

The Paris Bourse is unique in that its membership is limited to a certain statutory number. Although it is one of the world's largest stockexchanges, it has less than a hundred members, who enjoy a complete monopoly in government and officially listed securities.

The origin of the privileges of the Paris stockbrokers or "Agentes de Change," as they are called, dates back to an edict of Louis XIV in 1705. In that year, twenty offices of brokers were created and given a monopoly of government business. This monopoly with a few interruptions and changes has existed in practically the same form down to the present day.

In 1801, a law provided that the stockbrokers were to be appointed by the government and that their commissions were subject to repeal. The law was amended in 1816, and the brokers

1. The ticker tape, in London, is a very recent event.

were allowed to introduce their successors without the consent of government. This right of introduction corresponds to the seat of right of entrance on the Montreal Stock Exchange, and the prices paid for them have been naturally very high.[1]

Although the brokers of the Bourse are under the direct control of the Minister of Finance, they are given wide powers to make regulations for the conduct of their own business. They elect a chambre syndicale or governing board, presided over by a chairman. Like the corresponding governing boards of other exchanges, the chambre syndicale is entrusted with the maintenance of discipline, the listing of securities, and the general welfare of the Bourse.

Stock brokers are forbidden to trade on their own account under penalty of expulsion. They are also forbidden to reveal the names of those for whom they buy or sell, and consequently all their dealings must be in their own name. The minimum rates of commission that they charge are fixed by the Minister of Finance.

As might be expected, the existence of this privileged class of brokers has given rise to much criticism and strife. There is in Paris, besides the Bourse, the coulisse or curb market,[2] which deals in securities not listed on the official list; and it is the conflicting interests of these two exchanges that has been the storm centre of financial Paris for many years. For besides dealing in unlisted securities, the coulisse also enjoys a large

1. 2,000,000 francs has been paid for a right of introduction.
2. The coulisse derived its name from a narrow passage-way, where the curb brokers congregated.

business in rentes, which is legally the monopoly of the Bourse. The government winks at the practice because it realizes the value of an extensive market for its rentes. Consequently these curb brokers openly compete with the stock broker for this business.

There has always been a great deal of hostility between the Bourse and the coulisse. In 1859 the Bourse succeeded in having its rival suppressed, only to have it reappear, in 1861, in a more flourishing form than ever. Actually the transactions on the coulisse are greater than those on the Bourse. The reason lies in the restrictive and rigorous statutory listing provisions of the Bourse and the smaller margins required on the coulisse. The root of the trouble appears to lie in the monopolistic privileges of the broker. Obviously to give the whole of the great wealth which arises from the transactions on the Paris Bourse to a mere handful of seventy or eighty men is to ask for trouble. It may be taken for granted that we have not seen the end of the controversy between the coulisse and the Bourse.

In contrast with both London and Paris, the New York Stock Exchange for a long period of its history confined itself to domestic issues, entirely neglecting foreign business. The number of foreign securities listed on the New York Stock Exchange has been, up till recently, quite negligible. This policy reflects the typical American attitude of isolation. There has since been an abrupt change of front; the New York Stock Exchange now welcomes to its lists foreign issues and, in fact, competes actively with London for international business.

It has its beginnings, like most of the great financial institutions of the country, in the dawn of the nineteenth century. The traditional account of its inception is that, on May 17th, 1792, a score of stock dealers met under a sycamore tree in Wall Street and signed an agreement to charge a commission of not less than ¼ per cent. There was no formal organization, however, until 1817, when a meeting place was fixed at the Merchants' Exchange.

Until 1862, the history of the New York Stock Exchange was one of steady progress; then it was suddenly confronted with the rivalry of a formidable competitor. This was the Public Board and later the Open Board of Brokers. There was from the very beginning open warfare between the new and old boards. Each sought to outdo the other by progressively lowering its commission rates, and each forbade its members under penalty of expulsion to deal with the rival institution. In 1869, however, they were amalgamated under the title of the "New York Stock and Exchange Board." Ten years later, the Gold Board, which had been formed at the height of the gold boom during the Civil War, was also absorbed by the parent body.

The Constitution of the New York Stock Exchange has served as a pattern for the stock exchanges of the new world. The description of the organization of the Montreal Stock Exchange in the preceding chapter could, with a few minor alterations, serve equally well as a description of the New York Stock Exchange. The by-laws are divided into two sections, one which prescribes the form of government of the Exchange, and the other which lays down the rules and regulations for the conduct of business.

As in Montreal, the government of the Exchange is vested in the hands of a Governing Committee, composed of a president, treasurer, and forty members. The president and treasurer are elected annually; the forty members are divided into groups of ten members each, elections for one of these groups being held every year.

The Governing Committee has the usual wide powers of regulation and control. It appoints all the standing and sub-committees, which in the New York Stock Exchange are twelve in number, defines their jurisdiction, and alters or dissolves them if necessary. It hears all charges against members, and suspends or expels the guilty. Its decisions are final unless there is an appeal to a special meeting of the Exchange.

The rules for the conduct of business are the same as those adopted by most of the other stock exchnages. There are the usual provisions against dealing with bucket shops, taking the opposite side of the market to the customer, indecorous language, and advertising that is not of a strictly legitimate character. The membership is limited to eleven hundred and is divided up into seats or rights of entrance. The use of the word "seat" is an American invention; it is not employed in Europe. The shares of the London Stock Exchange do not correspond to the seats of the American stock exchanges, since there are many members of the London Stock Exchange who do not even own shares. The nearest approach to the stock exchange seat in Europe is the right of introduction possessed by the Agentes de Change of the Paris Bourse.

Again, we find a striking similarity between the methods of selecting members and transferring seats on the New York Stock Exchange and on the Montreal Exchange. If there is any difference, it is that the New York Stock Exchange is more particular about the financial standing of the applicant than is the case in

Montreal. The principle of the seat of a bankrupt member reverting to the Exchange for the payment of any indebtedness to the Exchange or its members, to the exclusion of outside creditors, has been contested in the American courts. The decision was given in favour of the Stock Exchange. In the case of Hyde vs. Woods, 94 U. S. 523, it was held that "neither the bankrupt law nor any principle of morals is violated by this provision."

The New York Stock Exchange is responsible for the innovation of daily settlement of brokerage accounts as opposed to the fortnightly settlements of the European stock exchanges. Practically all the Canadian and American exchanges have adopted the method of daily clearances. The one great advantage it has over the other is that it at once shows up a weak or over extended position. Where the settlements are held every two weeks, a broker may be really bankrupt and yet be able to hide his position from his fellow brokers for from ten to fourteen days. He may even attempt to retrieve himself by speculation; if he is successful, all is well, but should this speculation turn out badly, he is likely to involve some of his fellow members in his ruin. This could not possibly happen where accounts are balanced daily.

In conclusion, it should be added that New York is the great centre of speculation. The New York Stock Exchange has the largest speculative following of any stock exchnage in the world. This speculative element, which has existed from the very first days of the Exchange, has played an important part in American development. Without it, there could not have been that almost feverish progress that took place throughout the nineteenth century. That is the better side of the picture. The dark side is the excess that has produced from time to time the ruinous financial crises and panics. The last one, that of 1929, has rocked the very foundations of American industrial civilization, and it seems at the time of writing as though recovery will not be effected without some great changes in the structure of her society.

CHAPTER VI

SPECULATION LEGISLATION AND REGULATION

During the latter part of 1927, and under the ill-starred leadership of Wall Street, the stock exchanges of the world entered upon a sensational period of speculation and boom. The American continental exchanges were particularly affected as being more closely connected with the New York Stock Exchange and with the remarkable prosperity which prevailed throughout the country. As the boom grew in height and frenzy, New York became a lodestone drawing capital from all corners of the world, with the resultant effect that international trade and finance were decidedly unsettled.

The psychological and mental background was most remarkable: and even people who should have known better were ready to believe that a new era had begun and that the boom would carry on to ever greater and dizzier heights. Although it is only five years ago since the boom was at its height, the change since then has been so great, that it already seems as remote as the days of our grandmother's hoops.

One of the features of the '29 boom was the extent to which all classes of the public participated. Thanks to the invention of the ticker and the arrangements between the stock exchanges and the telegraph companies, daily quotations can be relayed from city to city and town to town with a time lag of only a few minutes. The perfection of these arrangements just prior to the boom brought the stock exchange to the very doors of people who had before only known it as a name, or at most as a place open to an exclusive but perhaps rather wicked profession. The result was that soon everyone was talking stocks; the farmer, clerk, stenographer, even the office boy scanned the stock lists with an anxiety equal to that of the most daring Wall Street plunger. The condition of the New York money market was the topic of conversation from the wheat fields of Canada to the plantations of the southern States. Every student of the times knows the extent to which farms, lands, and homes were mortgaged so as to supply funds for playing the market. The unfortunate aspect of the situation was that a very large proportion of the mass of buying was on a marginal basis; and that was why the crash was so catastrophic when it did come, as it most certainly had to.

Many observers believe that had it not been for the wholesale participation of the public, the boom would not have been carried to such an excess, and that the crash, which would have occurred probably a year earlier, would have been far less severe and would not have had the disastrous consequences to trade. If we are to accept this point of view, the only way to prevent a repetition of the same thing is to eliminate the little man; and it is difficult to see how you are going to eliminate the little man unless you cut out marginal buying. The legislation that is at present before the United States Congress proposing to regulate the stock exchanges, must have some such object in view. The proponents of the bill hope that the severe marginal requirements should do much to prevent another debacle like the one of 1929.

The question has a lively interest for the Canadian stock exchanges, and especially for the Montreal Stock Exchange, which in size and importance takes second place only to the New York Stock Exchange on the North American Continent.

Montreal has to face most of the problems that beset the larger exchange. It experienced the same frenzy of speculation, an unparalleled collapse in security prices, and a long drawn out period of deflation. It has, in fact, in its price trends closely followed the New York Market. Even the day to day fluctuations show a striking similarity. Consequently any action that affects the New York Exchange is almost sure to be felt in Montreal.

Criticism of stock exchanges and demands for their regulation are almost as old as stock exchanges themselves. From 1696, when the Commissioners condemned the pernicious art of stock jobbing, down to the present day, the exchanges, and particularly the stock exchanges, have had to bear the brunt of the public's resentment for what was after all very largely the public's own folly.

There have been three important commissions to investigate stock exchanges. In 1877, a Royal Commission was appointed to enquire into the constitution and customs of the London Stock Exchange. In 1893, a commission appointed by the Imperial Government in Germany issued a report on the exchanges in that country. In 1909, the Hughes Committee, appointed by Governor Hughes of New York, issued its report on speculation. In each case, the recommendations were of a conservative nature, and many of the changes suggested were adopted by the stock exchanges themselves.

In spite of the fact that the Hughes Committee reported favourably on the stock exchanges, persistent demands for their regulation were heard again after the financial crisis of 1921. Such demands have always been resisted by the New York Stock Exchange, even the mildest measures being resented. For instance, the proposal for registration of brokerage houses was opposed on the grounds that such registration would not do away with the dishonest broker; but rather make his task all the easier. There was nothing to prevent the dishonest broker, it was maintained, after he had obtained his licence, from resorting to dishonest practices; then the licence instead of acting as a safeguard to the investing public, has entirely the opposite effect by seeming to guarantee the reputability of the dishonest house. In fact, the dishonest broker could not fail to see the advantages which a federal licence would give to him.

The proposal for a federal audit of brokerage accounts was also resisted. It was held that these accounts very often carried highly confidential information about the affairs of brokers' clients, and it would be most unfair, not to say unethical, to expose them to the scrutiny of outside auditors. In a similar vein, marginal buying and the short sale were defended on the grounds that they made for an active and continuous market. Take away the marginal buying and the short sale and you indirectly take away the greatest advantages which an organized exchange offers to the public.

With the coming of prosperity, the harsh voice of the critic was for a time stilled. It is presumed that even he was overcome ~~with~~ by the heady wines of speculation. At all events, the day of reckoning brought him out again, positively screaming his resentment; and as this time his voice is mingled with those of countless of his fellows, it is most probable that something drastic

1. In every case, the expression "short sale" or "short selling" is used in the modern and popular sense: to sell what one has not got.

will be done.

At this point, it might not be out of place to sketch some previous attempts to regulate stock exchanges and speculation. Actually and historically, the first of such attempts are found embodied in statutes of Henry III and Edward I, which held that anyone who bought commodities with a view to selling them at a profit was guilty of "craft and subtlety." The first attempt, however, to regulate stock jobbing was an act passed in 1697 which was entitled, "An Act to restrain the numbers and ill practices of brokers and stock jobbers." The provisions of this act were never seriously enforced and were repealed ten years later. In 1707 a law was passed making it necessary for all brokers to obtain licences. It was followed by similar laws in 1711, 1713, and 1719.

After the collapse of the South Sea Bubble, there arose a fresh hue and cry against the stock jobber, which resulted in the passing of Sir John Barnard's "Act to prevent the infamous practice of stock jobbing." The important feature of this act was its prohibition of short selling. Sir John Barnard's Act was not repealed until the year 1860, but its effectiveness had been largely destroyed soon after its enactment by a court ruling which made it apply only to English public stocks, and not to foreign stocks, nor to shares in companies.

Apart from an act passed in 1867 prohibiting short sales in bank stocks, and later repealed, there have been no other attempts to enforce legislation on the stock exchange in England.

If England's experience can hardly be said to be encouraging to the proponents of regulation by legislation, in turning to Germany, we find an even more discouraging history.

As a result of a chain of disastrous banking failures in 1891, a commission composed of twenty-eight members was appointed by the Chancellor of the Empire to enquire into the methods of the Berlin Bourse. The Berlin Exchange differed from other stock exchanges in that it was an open board where anyone could trade by paying a small fee. Both securities and commodities were traded in. The brokers had no fixed rates of commission and could charge what they wished for their services. Sometimes even margin was not required in the trading. Settlements took place monthly. "Under the circumstances, many undesirable elements gained entrance to the Exchange and some glaring frauds resulted."[1] Of these abuses the commission took cognizance and suggested that measures be taken to prevent speculation in industrial stocks, but it reported against acceding to the demands that short selling be prohibited.

The Reichstag, however, enacted in 1896, legislation that was far more drastic than anything that the commission recommended. Short selling was prohibited entirely, and in order to curb speculation, it was required that every person desiring to carry on speculative transactions enter his name in a public register. Speculative trades by persons not so doing were to be deemed gambling contracts and therefore void. The object of the public registry was to prevent men with small capital from stock gambling and "to restrict speculation to men of capital and character."[2]

The effects of this law were entirely unforeseen. Some of these effects are summed up by Professor Emery in his "Ten Years Regulation of the Stock Exchange in Germany." He finds that:-

"Fluctuations in prices have been increased rather

1. Report of the Hughes Committee on Speculation in Securities, June 7th, 1909.
2. Ibid.

than diminished. The corrective influence of the bear side of the market having been restricted, the tendency to an inflated bull movement was increased in times of prosperity. This in turn made the danger of radical collapse all the greater in proportion as the bull movement was abnormal. The greater funds needed to carry stocks on a cash basis further increased the danger when collapse was threatened. The result was an increased incentive to reckless speculation and manipulation."

"The business of the great banks has been increased at the expense of their smaller rivals. The prohibition of trading for the account made it difficult for the latter to carry out customers' orders, because the new methods required large supplies of both cash and securities. Furthermore, an increasing share of the business of the large banks came to be settled by offsets among their customers, and the actual exchange transactions became a proportionally small part of the total transfers. This had a two fold effect. Business within the banks is done on the basis of Exchange prices, but these became more and more fluctuating and subject to manipulations, as the quantity of exchange dealings were diminished and were concentrated in few hands. The advantages of a broad open market were lost. The object of the Act had been to lessen the speculative influence over industrial undertakings. Its effect was to increase it. Finally the effect of interference, increased cost, and legal uncertainty, was to drive business to foreign exchanges and to diminish the power of the Berlin Exchange in the field of international finance. The number of agencies of foreign houses increased four to five fold, and much German capital flowed into other centres, especially London, for investment or speculation."

Professor Emery goes on to say that "the fate of the Exchange Register is laughable. The whole public revolted. The number of registrations never reached four hundred, which number would not begin to cover the banking and brokerage concerns. The Act aimed to establish legal certainty by means of registration; it proved a direct incentive to fraud. The customer was not legally liable on his contracts; therefore every reckless and dishonest little plunger who could get a broker to trust him could take a flyer with everything to gain and nothing to lose. Cases increased rapidly in the courts, and the worst element was active to the exclusion of the better. Instances even occurred where a man would play both sides of the market at the offices of two different brokers and simply refuse to settle on the losing contract."

That the act was a failure was recognized even by the Reichstag itself, which repealed most of its provisions in 1908. The Hughes Committee in reciting the history of the Act says, "In so far as the Reighstag in 1896 had aimed to prevent small speculators from wasting their substance on the Exchange, it not only failed, but, as we have seen, it added a darker hue to evils already prevailing."

The German attempt to regulate speculation is important because it is an object lesson on the effects of hasty and ill-advised legislation. It is doubly important because the recent proposals for stock market control have the same objects in view and are to be carried out along somewhat the same lines.

In contrast to the above, the British Companies Act has won widespread recognition and approval. It was first enacted in 1908 and re-enacted in 1929, together with certain additions which had been embodied in later acts. The important feature is that which calls for the registering of all companies' prospectuses. The prospectus calls for specific information as to the number of management shares, the number of shares fixed as the qualification of a director, the names, descriptions, and addresses of the directors or proposed directors. It also requires the minimum amount to be raised by the sale of shares to the public to provide the sums required for (1) the purchase of property, (2) working capital, (3) preliminary expenses, and (4) repayment of any borrowed moneys. It must give the names and addresses of the company's auditors, and full particulars of the nature and extent of the interest, if any, of every director in the promotion of, or in the property proposed to be acquired. If the interest of a director consists in being a partner in a firm, the nature and extent of the interest of the firm is required, with a statement showing all sums agreed to be paid to him or to the firm in shares or in cash to induce him to become a director of the company.

Besides filing its prospectus, every company must send to the Registrar of Companies an annual return giving a complete summary of share capital and shares, together with a copy of the last audited balance sheet of the company.

It seems surprising in view of the prestige which the Act enjoys that so long a time elapsed before anything like it was put into effect in other countries. The Hughes Committee, while admitting that it enables promoters to be easily prosecuted in case of fraud, dismisses it with the remark that it would not meet conditions in the United States, "due in part to our multiple system of

State government." Consequently, it is not surprising that we have nothing like it in the United States until the famed or ill-famed Securities Act of recent date.

There have been in Canada, however, acts passed by the Provincial Legislatures which embody most of the provisions of the British Companies Act. Such an one was the Companies Information Act passed by the legislature of Quebec in 1930, under which every company incorporated in the Province or doing business in the Province must file its prospectus with, and make out and deliver an annual return to, the Provincial Secretary. The prospectus and the Annual Return closely resemble that which is to be filed under the British Companies Act.

In the year 1930, the Legislature of Quebec also passed the Security Frauds Prevention Act, the provisions of which were copied from a similar measure passed by the Ontario Government. The Security Frauds Prevention Act requires the registration of all brokers doing business in the Province. It also calls for an audit of brokerage accounts at least twice a year, once on a permanent date, and again at a date that is not known in advance but is to be determined by the Governing Committee of the Stock Exchange. The appointment of brokers' auditors and the responsibility for seeing that the audit is carried out are left in the hands of the Governing Committee.

It is noteworthy that this Act does not attempt to curb speculation in any way but that it does attempt to protect the investor against the bucket shop and dishonest broker. It will also be noted that the enforcement of the provisions of the Act is left practically to the Stock Exchange itself.

The Security Frauds Prevention Act has been accepted in good part by the brokerage community in the Province. The attitude of the Montreal Stock Exchange has been one of hearty co-operation; in fact, one of its by-laws requires its members to give that co-operation. Thus two of the provisions, at least, to which the New York Stock Exchange was emphatically opposed have come into effect in Montreal with abounding good will on all sides. Perhaps it is only fair to say that the shadow of coming events has resulted in a changed attitude on the part of the exchanges. The latest proposals for the regulation of Exchanges are of a startling nature. The Fletcher-Rayburn bill, which at the time of writing is before the United States Congress, proposed in its original form marginal requirements of sixty per cent. The Hughes Committee recommended in 1909 that the minimum be twenty per cent. Although it is impossible to say now what form the bill will eventually take, there will very likely be a drastic curtailment of marginal buying and short selling. The attitude of the New York Stock Exchange is best summed up in a statement of its president which was wired recently to the members of the Exchange:-

"The revised bill for the regulation of stock exchanges introduced in the House of Representatives still contains the most objectionable features of the original Fletcher-Rayburn bill. The amount of credit available for the security business is restricted by rigid provisions. The power to operate security exchanges is vested in the Federal Trade Commission and the ability to control listed corporations is likewise given to the Federal Trade Commission.

"Although the Federal Reserve Board is given some degree of control over margins, its power is restricted by the mandatory requirements prescribed in the bill. The bill contains absolutely unworkable provisions with respect to the segregation of the functions of brokers and dealers. The effect will be to abolish odd lot dealers on most exchanges and to abolish specialists on all exchanges."

The question is whether speculation has an economic value, and if it has where should the line be drawn between proper use and abuse. Charles Duguid in his work entitled "The Stock Exchange" gives a rather nice definition of the three classes of business -- the investor, the speculator, and the gambler.

"The investor," he says, "lends his money on perfectly safe security to the aid of commerce and industry, expecting a comparatively small return but that a safe one. The speculator, less conservative, risks money, the loss of which he is perfectly able to afford, in the furtherance of experiments in commerce and industry, be it the trial of a patent or the opening of a mine. He expects a big return should the experiment prove successful but is prepared to face a loss should it turn out otherwise. He hopes to enrich himself and without his aid commerce and industry would make none of those rapid strides which are for the welfare of the world, for speculation is the handmaid of enterprise. The gambler, frequently usurping the name of the speculator and thus bringing legitimate speculation into ill-odour, risks money which he cannot afford to lose, staking all in an inordinate desire for riches."

If we are to accept this definition of speculation, it should then be the object of legislation to make the lot of the gambler hard but to leave the speculator free from onerous restrictions. The proposed curbs appear to violate this principle, particularly in its treatment of short selling.

Short selling has been subject to more popular criticism than any other phase of security trading, yet it has, on the other hand, been consistently defended by the majority of writers who have studied speculation. It is defended on the grounds that is prevents a one-sided market, that it acts as a stabilizing factor in a panic, and that without it dealings in odd lot shares would suffer very great disadvantages. Under the present system, an investor who wishes to buy or to sell seven, eight, or nine shares can immediately fill his order from the odd-lot dealer, who charges one-eighth more or less than the market price, depending upon whether he is buying or selling. The odd lot dealer rarely has the required number of shares but executes the order by selling short. He relies on obtaining enough odd lot orders to make a full board lot, which he can therefore purchase at the market price, one-eighth less. If there was no short selling, the small investor wishing to buy an odd lot number of shares would have to pay a much higher price for them than that to which he is at present accustomed.[1]

Yet despite the many legitimate grounds for opposition to the proposed legislation; there is the other side of the picture to consider. There has just been a disastrous depression, unparalleled in its severity. This depression was preceded by an excess of speculation that was equally unparalleled. Moreover, every previous trade depression has always been preceded by the same speculative fever.[2]

1. For a detailed discussion of short selling see S. S. Huebner, "The Stock Market" -- New York, 1930.
2. Many of the arguments against stock market regulation, written prior to 1929, lose their force in the light of recent events. Thus in Germany, the Nazis have again banned short selling.

What is to be done then? Are we merely to fold our hands and let the same thing happen all over again? The sponsors of stock market regulation answer with the Fletcher-Rayburn bill.

Many observers point out that the prevention of boom and depression could be effected by the proper control of credit through a central banking institution. The judicious control of credit by the Bank of England before the war resulted in an era of great business stability. From 1866 to 1914, England experienced no major trade depression.

In conclusion all that remains to be considered is the effect that the regulation of the American exchanges may have in Montreal. How much, if any, of American business will be drawn to Canadian centres, particularly Montreal and Toronto? The Fletcher-Rayburn bill attempts to provide against such a contingency by stipulating that no broker shall deal in an American security on foreign stock exchanges. This provision could be avoided by having companies listed on American exchanges re-incorporate in Canada.

Many conservative brokers in Montreal are not anxious that the large speculative operators in New York transfer their interest here. Although it might result in larger profits for a time, they feel that in the end it will prove a boomerang and injure the prestige and good name which the Montreal Stock Exchange now enjoys.

Besides it is not absolutely certain that the Canadian exchanges themselves will not be subject to some kind of regulation. The point was recently raised in Ottawa. It is questionable, however, whether the Federal Government has the power to regulate the Stock Exchange. The Montreal Stock Exchange is incorporated under a charter of the Province of Quebec and is not therefore subject to Federal jurisdiction. On the other hand, the Federal Government has the power to regulate trade, and trade in securities might come within the scope of that definition.

If the Canadian stock exchanges should ever be regulated by a Federal Act, it is to be hoped that their present organization will be left intact. To supplant the exacting regulations which the stock exchanges enforce on their members by the mandatory provisions of a statute might easily prove unsatisfactory. It is sometimes possible for an offender to escape punishment for his offence through a technicality in the Law; or else it might be difficult to establish proof of his guilt before a court. The beauty of the present system lies in the discretionary powers which the stock exchange enjoys in reagrd to disciplining its members. If the majority of the members are satisfied that one of their number is guilty of an offence, their decision is final. There is no appeal to a court of law with the consequent delay and uncertainty that it entails. The happiest and wisest legislation would be of a nature that would leave to the exchanges their present discretionary powers, and merely attempt to provide against certain specific evils. Such legislation would be welcomed by everyone.

However events turn out, the future of the Canadian stock exchanges is a promising one. Canada herself, as all her loyal sons believe, faces a future of ever-growing progress and prosperity. In the promotion and enjoyment of that prosperity the Montreal Stock Exchange should take its full share.

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