

## CANADIAN NORTHERN ARBITRATION AWARD

### Arbitrators Value Stock at More Than Limit Set by Government

The award of the Board of Arbitration sitting on the Canadian Northern Railway case was announced on Monday. The 600,000 shares of stock are valued at \$10,800,000, and the award also stated that the assets of the road are worth \$25,000,000 more than the amount of its obligations.

The Canadian Northern Railway had been pushed forward at an unprecedented rate up to the beginning of the war. It then found itself practically cut off from a money market, and was in a bad way for equipment and for the completion of connections. The Dominion government already held 400,000 of the 1,000,000 shares of common stock; Mackenzie and Mann owned 510,000, a controlling interest, and the remaining 90,000 shares were scattered among smaller holders. The company entered into an agreement for the taking over by the government of the 600,000 shares, at a price to be set by arbitration, a limit of \$10,000,000 being set. The board consisted of Sir Wm. Meredith, C.J.O. (chairman), Chief Justice Harris and Mr. Wallace Nesbitt, K.C. The board sat in Osgoode Hall, Toronto, from March to May 15, on 50 days altogether. The evidence has totalled 1,500,000 words, 211 exhibits have been produced and the total cost will be \$100,000.

#### Text of the Award.

The award reads as follows:—

"(1) That the value of the said six hundred thousand shares as of the date of the agreement was the sum of \$10,800,000.

"(2) That the parties shall respectively pay and bear their own costs of the arbitration, except that the government of Canada shall pay the expenses of taking and transcribing the evidence, the remuneration of the secretary and messenger employed by us, and the incidental expenses incurred by the secretary.

"The question to be determined by the arbitrators was one of great difficulty and one which, of necessity, admitted of great diversity of opinion. We heard much testimony and had the benefit of assistance of experienced and able counsel on both sides, and carefully investigated every matter which seemed to throw any light upon the question to be determined.

#### Assets Exceeds Liabilities.

"As to whether or not there was a surplus of assets over liabilities was naturally a subject which engaged much time and consideration. It is, of course, not a conclusive test as to the value of the stock, but it is an element which cannot be ignored. Its importance was, perhaps, emphasized by the fact that a Royal Commission had reported the assets and liabilities of the company to be about equal. This report, which was made in a proceeding to which the company and its shareholders were not parties, was admittedly based on a misconception of some of the facts, and there were omissions of both assets and liabilities. It should also be pointed out that the work of the Royal Commission had reference to a date anterior to the first day of October, 1917, that there were changes in the interval.

#### Accept Depreciation Estimate.

"In arriving at the surplus of assets over liabilities, the report of Professor Swain as to the reproduction cost new of the physical property, based on pre-war prices, and also his estimate of the depreciation, have been adopted, and, after a careful examination, we found the surplus of assets over liabilities of the company on the 1st day of October, 1917, on a conservative basis, to be not less than \$25,000,000, after deducting the full amount of depreciation found by Professor Swain, and making such reduction in the value of the land grants and other assets as deemed reasonable.

"It is to be pointed out that a valuation of the physical property of a railway company by the reproduction new method, less depreciation, is not to be regarded as an ascertainment of the actual value. It is only a means to that end, but as it was the best, and, in fact, the only estimate available, it has been adopted as a basis for the foregoing calculations.

"While the surplus of assets over liabilities is an element for consideration, as has been already pointed out, it is not conclusive as to the value of the stock of the company. Its prospective earning power is perhaps more important than any other element in ascertaining such value, and in arriving

at a conclusion we have given careful consideration to the past history of the company, its earnings and expenditures, the present financial position of the company, the location of its lines and their construction, the other railways already existing in competition, the rate of interest on the funded and other debts of the company, the probable future growth of the population and business of the country, and all other factors which seemed to us to have any bearing upon the question.

"It is apparent that there was great room for difference of opinion in a matter involving so many elements of uncertainty and speculation, but after taking into consideration all the circumstances which appeared to us to be entitled to weight in determining so difficult a question, we came to the conclusion we have mentioned."

## THE FEDERAL LAND BANKS

The first consolidated statement of the condition of the twelve Federal Land Banks of the United States as of April 30th, 1918, has been made public. The Farm Land Act requires that the board shall, from time to time, require examinations and reports of condition of all land banks established under the provisions of the act, and shall publish consolidated statements of the results. Because of the fact that the year's business has practically been completed, the board has supplemented the statement of condition with a statement of income account. The banks have made loans to farmers to the amount of \$91,865,586. There is considerable accrued interest on these loans, and the banks also hold United States government bonds and certificates to the amount of \$1,350,030. The total assets are over \$104,000,000. The capital stock of the banks has been increased during the year from \$9,000,000 to \$13,594,895. The United States government owns about two-thirds and the balance is held by various farm land associations. The bulk of the funds required are secured by the issue of farm land bonds, of which \$83,750,000 are now outstanding.

The operations for the year resulted in a deficit of \$411,954, which is about 3 per cent. of the capital. It is officially stated that the excess of expenses and charges over earnings represented at one time about 7 per cent. of the capital stock, and has been rapidly reduced during the last four months as the volume of business on the banks' books increased. The figures represent practically twelve months' expenses and six months' receipts. The expenses include the cost of appraisal and part of the costs of determination of title on additional loans to the amount of about \$83,000,000, which have been approved but not yet closed. These expenses, incurred on future business, represent about 60 per cent. of the apparent deficit to date. Most of the loans are at 5 per cent. and the balance at 5½ per cent. Two of the banks already show an actual surplus, and before the end of the present calendar year it is expected that a majority of them will be in the same position. One bank has doubled its capital stock of subscriptions by farm loan associations, and will from now on be repaying semi-annually, in accordance with the provisions of the act, the capital originally subscribed by the government and individuals. The total payments by borrowers overdue on April 30th amounted to less than \$14,000, which is less than 2 per cent. of the total amount due, and more than half of this is only 30 days overdue, the amount 90 days overdue being less than half of 1 per cent.

The federal farm loan bonds are continually offered to the public by the Federal Farm Loan Board of the treasury department, Washington. The bonds are in denominations of \$25, \$50, \$100, \$500 or \$1,000, in either coupon or registered form. They bear 5 per cent. interest, payable semi-annually, May and November, and are exempt from all taxation, federal, state, municipal and local. They are acceptable at par as security with all public securities, and are legal investments under the laws of the United States and a majority of the States. The price of the bonds is 101, accrued interest netting over 4¾ per cent. to the redeemable date and 5 per cent. thereafter. The bonds are secured, dollar for dollar, by the pledge of first mortgages on farm lands, cultivated by the owner, and worth at least twice the amount of the mortgage. In addition to this, the prompt payment of principal and interest is guaranteed by the capital of the issuing bank and the joint liability of the whole twelve Federal Land Banks for every bond issued by any one of their number.