

The Legal News.

Vol. I.

JULY 6, 1878.

No. 27.

SHAREHOLDERS AND DIRECTORS.

Amid the embarrassments of financial depression an unusual number of shareholders in joint stock concerns are smarting under the losses which reckless management, inattention, or fraud on the part of directors have inflicted upon them, and various attempts have been made to hold the latter accountable. In the case of *Rhodes v. Starnes et al.*, a case which came before the Superior Court at Montreal, Mr. Justice Johnson, on the 28th ult., disposed of one of these actions, and as the points examined by the learned Judge are of much interest at the present time, we give our readers the opportunity of perusing his Honor's remarks *in extenso*.

In connection with this case we may notice one which was recently decided by the Supreme Court of Illinois, *Chetlain v. The Republic Life Ins. Co.* The action was by the company to enforce payment of notes given by one Walker, deceased, now represented by the appellant, Chetlain, in payment of twenty per cent. on the shares subscribed by him. The Court stated the principle that the directors of a corporation are the agents or trustees of the stockholders, and the latter are bound by their acts within the scope of their authority; when their acts are outside of, and beyond the scope of their authority, the stockholders are not bound by such acts, and may in a reasonable time proceed in equity to have the act cancelled. In the case under consideration, however, it was held that even if the purchase, by the directors, of an expensive building for the corporation, was *ultra vires*, yet, after a delay of over two years and a half, on the part of appellant's intestate, to take any steps manifesting his disapproval, or to avoid the purchase for that reason, it was too late to insist upon the plea of *ultra vires* as a defence to the action to enforce payment of notes given for subscription to stock. The same was said with reference to an act of the directors specially complained of, viz.: the purchase of the stock of the National Life Co. The fact that the

directors had acted beyond their power, or abused it, would not discharge a stockholder or debtor from his obligations to the corporation. The Judge remarked: "The mere mismanagement of the affairs of a corporation has never been held to release stockholders or others from their obligations to the company. When Walker purchased and became the owner of this stock, whether paid for in money, notes or otherwise, he became entitled to all of the privileges and benefits of a stockholder, and liable to all the burthens the relation imposes. Had there been dividends, he would have been entitled to share in them. Had there been losses imposing liabilities on stockholders, he would have been required to respond to them. The stockholders are the owners of the franchise, property and assets of the company, which remain after its debts and liabilities are discharged. For convenience in the transaction of business, and to carry out the purposes of the organization, the charters of such bodies usually authorize the stockholders to choose a certain number from among themselves as directors, who are empowered to transact its business and exercise its franchises. And in doing so, they are agents or trustees for the stockholders, and the latter are bound by their acts, within the scope of their authority. When their acts are outside of and beyond the scope of their authority, the stockholders are not bound by such acts, and may, no doubt, in a reasonable time, proceed in equity to have the act cancelled, and their rights protected from injury and loss, growing out of the unauthorized act."

TESTS OF INSANITY.

In a work recently issued from the press by Prof. Ordonaux, State Commissioner in Lunacy for New York, entitled the "Judicial Aspects of Insanity," the writer criticises the dictum of the N. Y. Court of Appeals, in *Flanagan v. The People*, 52 N.Y. 467, that "the test of responsibility is the capacity of the defendant to distinguish between right and wrong at the time of, and with respect to, the act complained of, and that the law does not recognise a form of insanity in which the capacity of distinguishing right from wrong exists without the power of choosing between them. "A hour's conversation with the insane in any asylum," remarks Prof. Or-