

ASTONISHING FINANCIAL TANGLE REVEALED

Liquidator Drayton, of the Dominion Trust Company, Makes a Detailed Report

The following is the full text of the report, dated December 9th, of Mr. C. R. Drayton, provisional liquidator of the Dominion Trust Company:—

On October 27th, 1914, a petition for the winding-up of the Dominion Trust Company was presented, and an ex-parte order for my appointment as provisional liquidator was made. My appointment gave me practically no powers except to take possession of the property, documents and securities of the company. On November 9th, 1914, however, a winding-up order was granted by the court under the Dominion Winding-up Act, and I was appointed provisional liquidator with limited powers.

By that order I was authorized to employ, and did employ, the firm of Marwick, Mitchell, Peat & Company, chartered accountants, to make a complete investigation and report on the affairs of the company. They immediately began their work here, and gave instructions to their various branches to take up the work at the branches of the Dominion Trust Company. The whole work is now well in hand. Owing to the large number of adjustments required in the books at the head office and Vancouver branch, and to the limited time at their disposal, they have naturally been unable to prepare final figures as at October 26th, 1914, the date of the winding-up. I have, however, prepared a statement of assets and liabilities which is presented herewith.

Ramifications Were Large.

As the ramifications of the company were very large, and the persons and interests affected by the company's failure very numerous and widespread, it has been necessary for me to attend personally to a great deal of the detail work, and impossible for me, therefore, to make a complete valuation of the company's properties and securities, and give a full report as to the exact position of these. Many of their investments are outside of Vancouver, and it would require a few months to inspect them and get an absolutely correct valuation. However, as, before my appointment, I was more or less familiar with quite a number of their investments, I have been able, in the short time at my disposal, to approximate more or less closely the value of some of the more important of the properties and securities. This approximate valuation will be found in the statement submitted herewith:

Causes of Liquidation.

The direct causes of the liquidation, so far as I have been able to ascertain, may be shortly stated as follows:

1. The fact that in violation of its powers the company received deposits and kept in hand little or no liquid assets with which to meet a possible run.
2. The fact that moneys in hand, both trust moneys and the company's own moneys, were invested, not as required by the provisions of its charter, but in highly speculative assets and in the shares or bonds of highly speculative companies, where more and more advances were necessary to protect the company's security.
3. The fact that moneys entrusted for investment were not kept separate, nor in a separate bank account, although the company's charter required this to be done. At the date of liquidation the company had under its control trust moneys amounting to between four and five million dollars. Part of this was always uninvested and always carried in the company's bank account, mixed with its own money, and often, if not always, dealt with as if it were its own money.
4. The fact of the misappropriation of trust and other securities. This appears to have been a vain attempt to save the situation and has been most noticeable during the few months prior to liquidation. The inability of the company to hand over trust funds when demanded rendered the situation acute.
5. To sum up the situation, the company seems to have done most things that a trust company should not do, and this company had no power to do, and few things that a trust company should do.

Before dealing with the above clauses in detail, I would like to state that in my opinion the extraordinary conditions prevailing to-day on account of the war should not have contributed very materially to the downfall of the company. Since August 1st, 1914, practically no funds have been received from the old country for investment, so that the company have had no means since that date to replenish their own bank account as they had done in the past. This naturally helped to make the situation acute, and in view of the fact that the situation was bound to grow worse so long as the company was managed as it had been, the war was probably a blessing in disguise for the Dominion Trust Company.

Returning to the first cause of the liquidation, the taking of a large amount of deposits with no liquid assets, I would like to state that in my opinion the depositors have to a very large extent been victimized. The old company, the Dominion Trust Company, Limited, which was incorporated by letters patent of the province of British Columbia, subsequently confirmed and extended by chapter 59 of the Statutes of 1908 of British Columbia, applied for and received a Dominion charter incorporating the Dominion Trust Company on April 1st, 1912.

New Company's Powers.

This charter gave the new company power to acquire the business of the old company and of the Dominion of Canada Trusts Company, conditional upon the assumption by the new company of the obligations and liabilities of these companies. The charter gave no power to take deposits, and in fact stated that nothing in the act should be construed to authorize the company to engage in the business of banking. Its powers by the Dominion charter were largely confined to those of receiving money in trust for investment on first mortgages on improved freehold property, in Dominion, provincial, municipal or school bonds, or in securities authorized by the terms of the trust.

However, on March 1st, 1913, the legislature of the province of British Columbia passed an act ratifying the agreement to take over the property and rights of the old company, and at the same time professing to give to the company the power expressly refused by the Dominion parliament, namely, the power to take deposits. On March 4th, 1914, the same legislature repealed the last-named power.

Trust Companies Act.

The next act affecting this company was the Trust Companies Act, passed by the province of British Columbia on March 4th, 1914. This act allowed companies doing a trust business eighteen months from the passing of the act in which to comply with its provisions, and to apply for registration thereunder. Its provisions regarding the management and investment of moneys received on deposit were very stringent. All moneys received on deposit had to be kept separate from the company's own funds, and in a separate department, and all investments of the moneys deposited had to be kept separate and distinct from the general business of the company.

The act also required every trust company to have on hand as a reserve in lawful money of the Dominion of Canada at least 25 per cent. of all such deposits received by the company which were withdrawable on demand. The act also required that no company should carry on a trust business in the province of British Columbia after July 1st, 1914, unless it had deposited with the minister of finance and agriculture a deposit of not less than \$25,000 nor more than \$200,000 as the inspector of trust companies may from time to time require. In accordance with this provision a bond of the Railway Passengers Assurance Company dated May 29th, 1914, for \$200,000, and a bond of the London Guarantee and Accident Company, Limited, of London, England, dated April 30th, 1913, for \$50,000, were deposited with the minister of finance and agriculture. No application, however, was made by the company for registration under the act, so that the provisions of the act regarding the management of deposits did not apply.

Depositors' Pass Books.

The new company issued a pass book to depositors, in the front of which was an agreement between the company and the registered owner of the pass book, called "the depositor," wherein the company acknowledged to have received from the depositor the sums entered therein in trust for investment on account of the depositor, some of the conditions mentioned being as follows: