a certain priority as against certain unsecured obligations of the railway, and must therefore be preserved as a protection to the Government. For this purpose, a Securities Trust is established by the Bill to hold all claims of the Government against the railway. Shares of the Securities Trust will be wholly held by the Minister of Finance, and will be given a stated value equal to that part of the securities, held by the Trust, which represents investment in the railway property. The stated value of the shares will be shown in the railway balance sheet as part of the proprietor's equity. The purpose of forming a corporation to hold these shares is to permit the consolidation of their stated value in the railway balance sheet.

The Bill also provides for a consolidation of the component parts of the railway in one corporation. At present Canadian National Railways include the Grand Trunk Railway, with some sixty subsidiary companies. On the other hand, the Canadian Northern Railway, with some forty subsidiary companies, has a separate corporate identity. The stock of both railways is held by the Minister of Finance, and both railways have a common board of directors. Similarly, the Intercolonial and Canadian Government Railways are owned outright by the Dominion of Canada, and are entrusted to Canadian National Railways for management.

Unification of these three separate identities in a single corporate structure will facilitate reduction of the number of subsidiary companies and thus simplify the accounting.

I have stated that the need for a revision of the accounts of the Canadian National Railways had been emphasized by the first chairman, Sir Joseph Flavelle, as well as the chartered accountants who reported on the subject in 1925; likewise by the Duff Commission in 1931, and the auditors of the railway on several occasions. It is significant that every one who has had to do with the Canadian National Railways has urged the necessity for the procedure which is being followed in this Bill. We have first the Drayton-Acworth Commission of 1917. Then we have the two firms of chartered accountants who were appointed by the Government to make a report on the accounts as between the Government and the National Railway. Those accountants recommended the step which is now being taken. They are Edwards, Morgan and Company, and Peat, Marwick, Mitchell and Company. They recommended that the Government advances for deficits be not added to the investment account, but be absorbed in the consolidated revenue fund of Canada.

I am quoting now from the memorandum read by the Hon. Minister of Transport in the other House:

Then we have the report of the Duff commission of 1931-32 under the chairmanship of the Right Hon. Sir Lyman P. Duff, which made two significant statements on the writing down of the capital liabilities of the Canadian National Railways. In considering the earning power of the railway the commission said, at page 30:

"It is obvious that on this basis of earnings the capital liabilities would require a very drastic writing down."

In recommending the early attention of the board of trustees to the whole matter of the capital structure the commission further emphasized the need of liability adjustment as follows:

"This commission is of the opinion that it must be frankly recognized that a very substantial part of the money invested in the railways comprised within the Canadian National system must be regarded as lost and that its capital liabilities should be heavily written down."

Then we have the Canadian National-Canadian Pacific Act of 1933, passed by the late Government, which provided that "income deficits shall not be funded." We have the financial legislation since 1932 which specifically limits the borrowing powers of the railway to capital expenditures and refunding, and which specifically declares that deficit appropriations should be applied against the accountable advances. Then we have a very interesting letter from which I think I might take time to read a few lines, addressed to Right Hon. Arthur Meighen, then Prime Minister of Canada, by Sir Joseph Flavelle, Bart., dated Toronto, August 12, 1921. At the time Sir Joseph was chairman of the board of the Canadian National Railways. He pointed out his idea of the proper capital structure for the railway. On page 7 the letter says:

"The new National Railway Company to be formed shall have a nominal capital of say five million common shares and two million five hundred thousand six per cent preference shares."

The total share capital would thus be $750,000,000, with the Government taking common shares at par in payment of its existing advances to the various systems. These, as of December 31, 1920, were $320,000,000 of loans and $33,000,000 of Grand Trunk Pacific debentures.

"The figure would no doubt be increased by December 30 next, or whatever date was fixed for taking over. The Government would turn over to the company the equity in the system"—There you will observe the Securities Trust.—"subject only to the bonds and debentures and guaranteed stock issued to the public, and to the fixed charges which may result from the Grand Trunk arbitration."

In other words, the debt of the railway was to be made a closed book, and advances from the Government were to be covered by common stock. The paragraph continues:

"Thus, the existing Government advances, excluding the capital cost of the Intercolonial and Transcontinental, were to be represented by common stock ownership only, and no part of the interest on it would be a fixed charge or would be cumulative."