

DOMINION TRUST'S PRODIGAL ACCOUNTS

Company Guaranteed Second Mortgage on Alvensleben's House for \$50,000 at 15 Per Cent.

"I might say in conclusion that in our capacity as auditors we have been aware for the last nine months that the funds were not being applied in all cases to our satisfaction, and we have pointed this out on two or three occasions by letter addressed to the directors." This statement concludes a letter written on September 30, 1914, by Mr. W. E. Hodges, of Riddell, Stead, Hodges and Winter, the Vancouver firm of auditors which acted for the Dominion Trust Company, to the provincial-inspector of trust companies, and reprinted in the Victoria Times.

Reporting to the inspector on October 20 last, Mr. Hodges says:—

"I have to report that the present financial condition of the company is most unsatisfactory, which is due to the fact that very large amounts of money have been invested in real property which has depreciated in value; also to the fact that very large amounts of the company's own funds and trust and agency funds held for clients have been used for real estate and other speculations, which have not been successful, in which some of the directors and officers of the company are interested personally, and also indirectly as shareholders and directors of other companies.

Partial List of Investments.

"I am submitting herewith a statement showing a partial list of the investments made in the securities above referred to, together with a short memorandum of the security held. Although I am not in a position to report upon the value of the securities, at the same time in some instances I am convinced that the loans are not sufficiently protected. The following is a list of the loans and assets which require comment:—

W. R. Arnold's account, consisting of:	
(a) W. R. Arnold	\$ 142,938.17
(b) Syndicate No. 8	595,310.59
(c) William Philip	259,494.34
(d) George A. Barrett	62,903.39
Total	\$1,060,646.50

Indebtedness of Arnold.

"All of the above really represent the indebtedness of W. R. Arnold to the company, with the possible exception of a comparatively small amount in William Philip's account. I have recently found out that William Philip really exists, at the same time Arnold held his power of attorney and used his name for fictitious purposes.

"There are some documents on file signed by Mr. Arnold in which he had directed his accountant to charge his personal account with all the disbursements made on behalf of Syndicate No. 8, which originally consisted of about 15 persons, although there is no evidence to show what interest they held in the syndicate. It appears that a portion of the amounts paid out by the company and charged to Syndicate No. 8 were used for the purpose of purchasing back the interest on some of the members from time to time when they became dissatisfied, and I do not think there is enough documentary evidence at hand to determine the liability of the other members to pay any portion of the indebtedness.

Use of Life Insurance.

"Therefore, I am of opinion that the only recourse the company can have for recovery is against the estate of Arnold who, in his will, has directed that all his life insurance, with the exception of about \$95,000, is to be paid to the Dominion Trust Company, and to be applied to reduce the indebtedness of Syndicate No. 8. It has been estimated that the amount of this bequest will be about \$300,000. The assets of Syndicate No. 8 consist of about 30 or 40 different parcels of real estate, which are encumbered, or have liabilities on them under agreements. The syndicate's largest investment consisted of the assets purchased from Barrett and Deane, which consisted mainly of the Empress Theatre, apartment house adjacent thereto and a parcel of land, in Burrard Inlet at Roche Point.

"There is a first mortgage against the theatre and apartment house of \$225,000, and it has recently been discovered

that there is a second mortgage of \$120,000, bearing interest at the rate of 60 per cent. per annum, which is guaranteed by the Dominion Trust Company. The fact of the liability of the Dominion Trust Company under this guarantee was not revealed by the managing director nor by any of the officials either to the directors or to the auditors of the company, and it is only since the death of Mr. Arnold that it has been found out.

"I may add that this guarantee is signed on behalf of the Dominion Trust Company by E. P. Miller, general manager, and A. H. Bain, secretary, and I would suggest that you recommend to the directors that the services of these officers be dispensed with at the earliest possible moment, because I consider the withholding of this information practically amounts to fraud.

Value of Assets Indefinite.

"From the above, and, also because there are numerous liabilities on the real estate of this syndicate, it will be seen that the value of the assets is indefinite, because it may be that the Dominion Trust Company will be unable to fulfil their obligations in order to protect property.

Barrett and Deane	\$ 22,500.00
Vancouver Industrial Sites, Limited	45,881.09
Imperial Car and Shipbuilding Corporation, Limited	4,495.82
Total	\$ 72,876.91

"These loans were made on indifferent security, and all of them were made on behalf of the Vancouver Industrial Sites, Limited, and also the Imperial Car and Shipbuilding Corporation, Limited, in which I believe Mr. Arnold had a private interest.

Western Canada City Properties	\$407,198.85
Vancouver Dock and Harbor Extension Company, Limited	140,000.00
Pretty's Timber Exchange	21,500.00
T. R. Pearson	191,089.96
Pearson's, Limited	26,411.66
R. L. Cliff	50,000.00
Total	\$836,200.47

Interest Not Paid in Cash.

"All the above appear to have been made either to T. R. Pearson personally, or to companies in which he held a large interest, and was also a director. I may add that Mr. Pearson was a member of the advisory board of the directors whose duty it was to authorize all loans before they were made. The interest on several of the above loans has not been paid in cash, credits being passed by which the indebtedness to the Dominion Trust Company was increased each time the interest became due. Interest, amounting altogether to \$79,212.35, has been credited as paid in this way.

"I will point out that the loan to the Vancouver Dock and Harbor Extension Company, Limited, of \$140,000, was made out of funds belonging to J. W. Oxley, and practically the only securities given were equities in lands purchased on Lulu Island, presumably for the Vancouver dock and harbor extension scheme. In order that Oxley's title may be secured it is necessary to still pay large sums of money under the agreements by which the land was originally purchased; therefore his security is practically worthless.

Alvensleben Real Estate Deals.

Alvo von Alvensleben	\$1,143,549.41—
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"This figure is the result of numerous transactions in real estate deals between Alvo von Alvensleben, Arnold, Philip and the company. The company holds several securities of all kinds, the value of which at the present time it is impossible to determine. I am of the opinion, however, that at least one-half of the account will be lost. In addition to the amount shown above, I find the Dominion Trust Company have guaranteed a second mortgage on Alvensleben's house at Kerrisdale for \$50,000 at 15 per cent. per annum. The fact that this liability existed was wilfully withheld both from the directors and auditors of the company, and it was only by making an independent search of the property that I became aware of the liability, which I communicated to the directors.

Natural Resources Security Company, Limited	\$83,920.16—
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