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PRINCIPAL CONTENTS OF THIS ISSUE

ISSUING BANK STOCK BELOW THE MARKET

Many holders of Canadian bank stocks would no doubt be pleased if the banks adopted the suggestion made by Mr. J. B. Forgan regarding the issue price of new shares. Mr. Forgan told the banking and commerce committee that the market quotations for bank stocks in this country would be improved and the banks would be able to get new capital from their stockholders with more facility if the new stock was issued at prices giving more valuable rights.

He said that, in his opinion, some of the Canadian banks have been rather hard on the rank and file of their shareholders in requiring from them practically the full value of the old stock every time they have asked them to subscribe for the new.

In the United States the old shareholders, as a rule, are given the opportunity to take new stock at prices making it a very attractive investment; and if a shareholder does not find it convenient to increase his investment at the time the new stock is offered, a market is there for the rights, and he does not lose anything by his inability to subscribe.

Owing to the relatively unfavorable terms offered to stockholders of Canadian banks there is often a considerable block of the new capital not taken up when an issue is made.

This unsold portion has to be sold by tender, or on the market, and naturally the price of the old stock is depressed to a certain extent when it is being placed.

In the advertisement of the Bank of Montreal, offering the unsubscribed portion of its last issue, it was announced that the stock not taken up by shareholders would be sold to the highest bidder and the proceeds, over and above the price at which the stock was allotted to old shareholders would be divided among the individual shareholders who had failed to take up their new stock.

In other words, these stockholders would not lose or suffer because they did not exercise their right to subscribe.

The Bank Act merely provides that when allotted stock is not taken by a shareholder, the bank may sell it to the public on such terms as the directors prescribe.

What the general practice is in disposing of the proceeds we do not know; but apparently in some cases the surplus amount realized (over and above the issue price) has gone into the bank's profit and loss account; and those shareholders who, through ignorance, negligence, or inability to pay, failed to exercise their right to subscribe, thereby lost all benefit of the new issue.

Upon reverting to the suggestion made by Mr. Forgan, that new stock should be allotted at lower prices, the case of the Canadian Pacific Railway naturally comes to mind. Largely because of the Canadian Pacific Railway policy of issuing new stock to old holders at prices far below the market, the quotations are usually on a level at which the net return runs from 3½ to 4½ per cent. Another result of the policy is that the company can get huge blocks of fresh capital from its stockholders almost at will, regardless of tight money periods.

If the banks were to form the habit of putting out their new stock at prices 60 or 70 or 100 points below the market, it seems likely that the market price of bank stocks would rise sharply, and the regular dividends would represent a smaller return on the market quotations.

The rights to subscribe would then have a substantial value. Suppose a bank with capital $5,000,000, rest $5,000,000, dividend 12 per cent., and stock selling at 220, issues $1,000,000 new at 120, and the directors let it be understood that in case of future issues it was the intention that the rights should possess substantial