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COMPANY RESERVE FUNDS.

The forcing into liquidation of a number of large companies during the past two years has afforded the public a great deal of light on the internal management of joint-stock companies. And the carriage of the liquidation proceedings through the courts has pointed out a number of breakers in the sea of finance that those responsible for the management of companies should keep constantly in mind. Not only the winding up of the Farmer's Loan, but the more recent winding up of the Atlas Loan and Elgin Loan and Savings Company, of St. Thomas, consequent on the investments of these latter two companies in speculative stocks, which would appear to be entirely outside of the field of a loan company, give the best-known illustrations of gross mismanagement that are available.

During the course of the winding up of the Atlas Loan Company it was ascertained that the manager of the same, A. E. Wallace, with that aggressive spirit common to the A. E. Ames group of latter-day financiers, endeavored to place his company in a very brief time in a position occupied by only one other loan company in Canada. He began under the authority of the Loan Corporation Act by getting the shareholders of the company to pass a by-lay authorizing the maintenance of a reserve fund, consisting of sums already set apart for that purpose together with such other sums as might be contributed, and added thereto from undivided profits and the profits and increase of such sums. Not being satisfied to allow this reserve fund to accumulate itself from the excess of profits over dividends paid, he recommended that the shareholders of the company should pay into the company's coffers an amount equal to the paid-up capital of the company, said amount paid in to be credited to the Reserve Fund, which would place the company in the enviable position of having a reserve equal to its paid-up capital. This was followed by a circular issued to the shareholders, setting out the tremendous advantages of this course; and subsequently a meeting of shareholders was held at which a resolution was carried that the directors should take immediate steps to procure from each of the shareholders a written agreement to so pay up the Reserve Fund. Although no immediate action was taken at this time, the shareholders were subsequently, in 1901, called on to pay up this amount to the credit of a reserve fund, although no expressed by-law was passed authorizing the step.

Later on, the balance above was paid into the company, and the shareholders were evidently of opinion that this extra amount paid in would be considered in the nature of a deposit, and that it would be much safer than if they had simply taken up stock in the ordinary course. As no by-law had been passed, however, covering the situation, and as nothing appeared to show any reason for this extraordinary method of upbuilding the company, the reserve fund was resorted to when the company went into liquidation as a fund out of which the general creditors of the company should be paid their claims.

The contributors to the reserve fund consequently made a claim to rank as creditors along with the depositors and debenture holders, and on the first hearing before the Master-in-Ordinary he decided that they were so entitled. An appeal was, however, taken by the creditors generally, when the de-