In the last edition of "Brice on *Ultra Vires*" it is stated that "in the United States it is quite settled that corporations cannot purchase or hold or deal in stocks of other corporations, unless expressly authorized to do so by law" (p. 175.)

In the same jurisprudence it has been affirmed that parties dealing with corporations are bound to know the law governing them; and that therefore a party dealing with a corporation with limited powers, must be presumed to know the scope and restrictions upon its powers and purposes as granted and defined by the charter of its incorporation: *Connecticut Mutual Life Insurance Company* v. *Cleveland, etc., R.R. Co.*, 41 Barb. N.Y., 9; *Merritt* v. *Lambert*, 1 Hoff. N.Y., 166.

But the decision of the present Chief Justice of the Superior Court of Quebec on a clause in the Savings Bank Act (R.S.C., c. 122, s. 20), which has some analogy to the clause which I have cited from this insurance company's charter, and is so much within the policy of the canon of corporation law I have referred to, that I have no hesitation in applying it to the case before me. Under a power conferred upon savings banks to loan their moneys on personal security, taking as collateral thereto "stock of some chartered bank in Canada," a savings bank acquired 307 shares in the capital stock of the Exchange Bank as collateral security for loans made to several outside parties. On the winding up of the Exchange Bank, the liquidators sought to make the savings bank liable in respect of the 307 shares standing in its name in the books of the bank; but the court held that the savings bank could not acquire or hold such shares except as pledgees, and could not become the owner of such shares within the meaning of the Bank Act, and was not therefore subject to the double liability imposed by that Act: *Exchange Bank* v. *Montreal City and District Savings Bank*, 2 Montreal L.R., 57. This judgment was afterwards affirmed on appeal to the Quebec Court of Queen's Bench on the 27th September, 1887. The case of *Railway, etc., Advertising Co.* v. *Molson's Bank*, 2 Leg. News, 207, is to the same effect.

It seems, therefore, that this company had no power under its charter to become the purchaser or owner of bank shares; and it follows that any application of its funds to such a purpose, or any purpose not allowed by its charter, would be restrained by injunction at the instance of a shareholder. And were I to declare the company subject to a liability not warranted by its charter, I would be giving a judicial sanction to a breach of trust, or to an act *ultra vires* of the company's powers.

This might suffice for the disposal of the application before me; but as I find on the evidence that the loan was for the benefit of the Central Bank, there is another series of cases applicable to that finding.

In the *South Eastern R. Co.'s case*, L.R. 14 Eq. 10, an hotel company borrowed money from the railway company upon the security of unissued shares, which were placed in the names of trustees. The hotel company was afterwards wound up, but it was held that the railway company was not to be treated as contributories but as creditors, and to be entitled to prove for the amount of their loan.

The principle of this decision has been affirmed by the House of Lords in *Beattie* v. *Lord Ebury*, L.R. 7 H.L. 10. In that case unissued preference shares of a company had been assigned to their bankers as collateral security for advances made on the company's cheques. On the winding up of the company the bankers had been placed on the list of contributories in respect of such shares, but the House directed the names of the bankers to be struck off the list, and stayed the order dismissing the appeal until the names were so struck off.

The *ratio decidendi* of these cases may be illustrated by a consideration of the rights which would have to be adjusted if it were conceded that the Central Bank had authority to borrow money from other corporations or individuals on its unissued shares, and to transfer such pledged shares to a trustee to hold as security for the loan. Such trustee on the winding up of the Central Bank might have been found on the register of shareholders, and therefore liable to be placed on the list of contributories; but on the authority of *Re National Financial Co., Ex parte Oriental Commercial Bank*, L.R. 3 Ch. 791, such trustees would, if so placed on the list, be entitled to be indemnified against all calls in respect of such shares, on the ground that a trustee is entitled to be recouped by his *cestui que trust* for any payments made by him on account of the trust estate.