(9) Creditors' claims may not be admitted by the company in which event summary application must be made by either the company or the creditor to the court for a decision.

(10) The company may permit creditors' claims for the purpose of voting but later deny such claims.

(11) The statement of affairs prepared and submitted by the company is not usually verified. It may not classify the creditors nor fully disclose the debtor's true position so as to enable the creditors to judge whether the proposal is feasible and fair.

While the creditors may demand an examination and further information, the fact remains that they are at a decided disadvantage in not having that control which the Bankruptcy Act provides in similar circumstances.

(12) Should an examination of the debtor's affairs be asked, the debtor cannot be compelled to pay the cost thereof, creditors are reluctant to assume such expense as the company may at any time elect to withdraw its proposal or it may make an assignment.

(13) The Act may be and has it is believed been used by companies formed for the express purpose of effecting a compromise.

To illustrate this point I should like to read a report which was supplied us by the Better Business Bureau regarding such a case.

They say an interesting case is that of X & Company, a registered partnership consisting of a father and two sons. This partnership transferred all its liabilities and assets on October 31, 1937, to a company to be formed under the name of————. A charter was issued on November 5, 1937. The creditors were not notified of the transfer of the assets at this time and whilst these changes were going on within the firm, creditors were continuing to grant credit. On November 12, the company applied to the court to be allowed to proceed under the Creditors' Arrangement Act.

The first news to reach the creditors was when they opened their mail on November 15 and found a notice of a meeting of creditors, which asked to approve of an arrangement for the settlement of all claims of unsecured creditors. The notice of the meeting did not state what offer would be made to the creditors but merely that at the meeting an offer would be submitted. At the meeting the creditors were asked to accept its preferred shares.

The new company was capitalized at 50 shares of common and 900 shares of preferred. Practically all the common shares were issued to the former partners. The preferred shares, having a par value of $100 each, were to be allotted in settlement of creditors' claims. The principals were able to gather enough proxies to secure the necessary majority to carry the proposal at the meeting of creditors held on November 27. Three days later it was ratified by the court.

Before the proposal submitted under the Creditors' Arrangement Act was ratified by the court, the company had assets, fixed and otherwise, of $190,653.08, and liabilities of $161,081.33. Of the latter figure, $116,722.83 represented unsecured trade credit liabilities subject to the arrangement. The net result of the arrangement, therefore, was to hand over the uncontrolled management of the company to the former partners for the preferred shares carrying no voting privileges. The trade creditors now virtually become partners or part-owners of the business, without any voice in the management. Any new debts incurred from November 15 will rank against the assets; the old creditors by taking shares forfeited their rank.

At the meeting of creditors the lawyer for the company stated quite frankly that the assets had been transferred to a limited company, particularly with