

ISSUE OF BONUS STOCK.

The provisions of the Quebec Companies Act are much more drastic than those of the Federal Act.

Art. 6036 R.S.Q. 1909, enacts as follows: "The capital stock of the company shall consist of that portion of the amount authorized by the charter, which shall have been *bond fide* subscribed for and allotted, and shall be paid in cash, unless payment therefor in some other manner has been agreed upon by a contract filed with the Provincial Secretary at or before the issue of such shares. . . .

No stock shall be issued to represent the increased value of any property. Any such issue shall be null and void.

The practice commonly known as watering of stock, is prohibited, and all stock so issued shall be null and void.

The capitalization of surplus earnings, and the issue of stock to represent such capitalized surplus are also prohibited, and all stock so issued shall be null and void, and the directors consenting to such issue of stock shall be jointly and severally liable to the holders thereof for the reimbursement of the amount paid for such stock.

Every form and manner of fictitious capitalization of stock in a company, or the issuing of stock which is not represented by a legitimate and necessary expenditure in the interest of such company, and not represented, with the exception mentioned in paragraph 1 of this article, by an amount in cash paid into the treasury of the company, which has been expended for the promotion of the objects of the company, is prohibited, and all such stock shall be null and void."

This legislation is in line with leading English decisions. It is universally conceded that shares cannot be issued at a discount. Under the Federal Act they may be paid for either in cash or the equivalent of cash, but, under the Quebec Act, any payment in manner other than cash, requires to be evidenced by contract filed with the Provincial Secretary, at or prior to the issue of the shares.

In *North-Western Electric Co. v. Walsh*, 29 Can. S.C.R., Sedgewick, J., p. 46, lays down the general rule, basing himself on the *Ooreum Gold Mining Co. v. Roper*, [1892] A.C. 125, as follows: "It is elementary law that no joint stock company can issue stock below par, unless authorized to do so by the legislature under whose authority it was created."

The principle laid down by sec. 6036 R.S.Q., has been approved by the Supreme Court in *Morris v. Union Bank*, 31 Can. S.C.R. 594.

"It is impossible," said the Chief Justice, "in the teeth of the statute which requires that when shares are contracted to be paid for, not in money, but in money's worth, there must be an agreement in writing, to otherwise dismiss this appeal."

The issue of bonus stock by companies has been condemned in many decisions; *Eddystone Marine Ins. Co.*, [1893] 3 Ch. 9. See also *Bury v. Fatatina Development Corp.*, [1910] A.C. 439.

"The public are sometimes induced to take debentures of a company,