

APPROVED ALGOMA CENTRAL PLAN

Position of Bondholders of Railway and Terminal Companies—Question of Litigation

Mention has been made in brief in the columns of *The Monetary Times* of the bondholders' approval of the bond arrangement placed before them by the committee, and also of the criticisms of the bondholders' defence committee. Mr. Beckwith Smith, representing the trustees, presided at the meeting of bondholders. He stated that on behalf of the bondholders' committee, he represented £1,112,980 of bonds, or considerably more than a clear majority in value. The bondholders' committee, he said, was appointed at a meeting held in London in February of last year. They had at once placed themselves in communication with the receivers of the railway company, who had been appointed in Canada, and had also taken steps to ascertain the financial position of the Lake Superior Corporation. It was not until the end of July last year that they obtained the information they required, and in August they issued their first report and asked bondholders to deposit their bonds. The scheme before the meeting was the outcome of negotiations with the terminal bondholders' committee. In brief, it provided that the control of the company was to be vested in the bondholders through a committee, of which they nominated two members, while the terminal bondholders nominated two, and a fifth might be elected by other members of the committee.

By Approval of Committee.

To that committee was to be paid over £200,000, which terminal bondholders were providing, only to be spent with the approval of the bondholders' committee. The net earnings of the line were to be applied first so that the terminal bondholders were to get 3 per cent. on their bonds, to be cumulative, but not a fixed charge till 1921; next, the terminal bondholders and themselves were to get 2 per cent. each, and thereafter they were to get the balance until they, too, had had 5 per cent. All arrears on each class were to be paid next; then, the sinking fund on the terminal bonds would be paid, after which they would get an extra 1 per cent. on their bonds, and the terminal bondholders an extra ½ per cent. on their bonds. As compensation for waiting for their interest the preference shareholders were to surrender to the bondholders 60 per cent. of their shares, of which they got three-quarters and the terminal bondholders one-quarter.

Basis of Criticism.

The scheme had been mainly criticized because it admitted the priority of the terminal bondholders for 3 per cent. instead of litigating to establish that they were not entitled to priority at all, and secondly, because there was not an attempt to make the Lake Superior Corporation pay under its guarantee. If, however, they litigated with the terminal company—which would probably take two years—they might get back the properties which had been bought from them, but those would be of comparatively little use to the railway company without the additional properties which the terminal company had bought from other persons, and while the litigation was in progress no one would know to whom the earnings of the line belonged. If they were successful even then the first £50,000 each year would belong to the terminal company, and presumably earnings up to £50,000 per annum would have to be accumulated to wait the court judgment.

Difficulties in the Way.

The bondholders' defence committee seemed to base their demand for litigation upon the fact that the bondholders' committee had stated in their circulars that they had been advised that they had a good case. Naturally, however, the bondholders' committee did not want to dilate in a circular upon the difficulties of their case from a legal point of view; but there were considerable difficulties, and they had been advised by their lawyers, both in Canada and London, that the case was distinctly one for compromise. They should not be misled by the bondholders' defence committee into thinking that they had only got to hold a pistol to the head of the terminal bondholders. In view of those considerable difficulties, the bondholders would, perhaps, understand how it was that it had been found impossible to raise money on the security of the railway company's property until the disputes between the railway company and the terminals company had

been settled. He was certain the bondholders' defence committee were much mistaken in thinking that they could raise money on the railway company's assets without difficulty. Moreover, they were not really conceding to the terminals company a priority for the full £30,000 a year, because they were to receive £9,000 per annum interest on the Algoma Eastern Terminal bonds and would save £15,000 per annum—the least it would cost to raise £200,000 from anyone else. As regarded the guarantee of the Lake Superior Corporation, that undertaking had only one asset of any present value, which was pledged to its own first mortgage bondholders. Some of its other assets were of potential value, but they were not the only persons having claims. The scheme provided that no bondholder individually should take action without consent of the committee, to avoid prejudicing the chance of the general body eventually getting something out of the guarantee.

Depended upon Co-operation.

At one time it had been suggested as an alternative to the scheme that they should stop operating the line, and so bring pressure to bear on the Lake Superior Corporation and the industries at the Soo to find the money for them; but if they did that they would receive short shrift at the hands of the board of railway commissioners in Canada. The later suggestion of the defence committee that the service should be cut down was a curious suggestion for improving their position. No more trains had been operated than the traffic required. The bondholders' committee were confident, too, that the salvation of both the railway bondholders and the terminal bondholders depended upon both working together; the success of the two companies was interdependent. They had been approached by the defence committee with the suggestion that the meeting should be adjourned for a month. They could not agree to that because the session of the legislature in Canada was fast drawing to a close, and any postponement would mean deferring the whole of the arrangements until possibly the beginning of next year. He was satisfied that the terminal committee would not submit to that. Regarding the future of the line, conditions in eastern and middle Canada had improved rapidly lately; had there been no war, he believed there would have been no default, and while he did not want to raise false hopes, he did not want any bondholder needlessly to sacrifice his bonds.

Mr. Robb (speaking on behalf of the bondholders' defence committee, recalled the circumstances under which the bonds had been issued in London, and criticized at much length the proposals of the bondholders' committee. If it were going to be competent, he urged, that a company which had given a specific first mortgage on specific property to bondholders could, without calling a meeting, without any notice to those bondholders, and without consulting them, take away a portion of the security, and put the bondholders in the position of second mortgagees, confidence in Canadian credit and in Canadian securities of that description would be destroyed. The main criticism of the defence committee of the scheme was that it appeared to be a surrender to the terminals company; a vital principle was at stake.

Representative of Stock Exchange.

Bondholders of the small investor class feared that the committee had been so obsessed by the £200,000 in the coffers of the terminals company, that they had taken the line of least resistance, and had not made such vigorous and independent efforts as they might have otherwise made. They feared that the fact that the terminals company had got that money had enabled them to make advantageous terms, and that the bondholders' committee had been persuaded to abandon valuable rights. They also thought that the committee was a little too much representative of stock exchange and financial interests. He was certain it would be inimical to the general interests of Canada if any attempt were made to override the small investor simply because the plan appealed to the stock exchange. Generally they contended that the terms were too onerous, having regard to the comparatively small amount they were getting from the terminals company. Criticism, without an alternative constructive policy, was never very acceptable, so the defence committee had ventured to throw out one or two mild hints. They thought that the railway company occupied such a strategic position that, to the financiers connected with the issue, it should be child's play to raise £150,000. They could not agree with the statement in the circular that there was no security; they took a more hopeful view of the enterprise than did the committee. There might, of course, be objections to dis-