

The Chronicle

Banking, Insurance & Finance.

ESTABLISHED JANUARY, 1881

PUBLISHED EVERY FRIDAY.

Vol. XXXIII. No. 48

MONTREAL, NOVEMBER 28, 1913.

Single Copy 10c.
Annual Subscription \$5.00

A NEW COMPANIES' LAW.

Reports are emanating from Ottawa that the Dominion Government is looking into the question of a revision of the existing companies' law of the Dominion with a view to new legislation. It is to be cordially hoped that such is the case, although action at the present juncture after a several years' orgy of high-financing seems not unlike shutting the stable-door when the horse has been stolen. However, if the Government can elaborate a code which will put Dominion legislation regarding limited liability companies in line with modern legislation elsewhere, and at the same time avoid being foolishly fussy, a substantial piece of work will have been accomplished which should have a considerable effect in sustaining and increasing the credit of Canadian industrial and commercial undertakings in the eyes of investors abroad.

Apparently one matter in connection with this new legislation to which the Government are now giving some attention is the question of over-capitalisation. It is not an exaggeration to say that no single factor has done more harm to Canadian credit in recent years than this. A certain class of Canadian promoters have carried beyond all bounds the practise which is entirely legitimate up to a point, of capitalisation of good-will and future earning power. In their simple greed of profits for themselves they have watered the capital accounts of their undertakings to the point of saturation. In more than one instance in recent years, this watered common stock has been deftly made the basis of a stock exchange gamble; all sorts of bull tips have been given in strict confidence on the street; insiders have unloaded at handsome profits—and, finally, as in recent months, the public has been left "to carry the baby." The discovery is duly made that, at best, the undertaking has insufficient working capital and hopelessly extravagant terms have to be arranged to make up the deficiency; at worst, that an entire re-organization has to be taken in hand.

No one supposes that any changes in the law, however drastic, will be sufficient entirely to put a stop to this and other undesirable practises of promoters, but it can hardly be beyond the powers of Ministers of the Crown to come down

heavily on some of the more glaring doings of this kind, if they have a mind to. Another matter to which the Government may profitably give its attention is publicity. At the present time the directors of a corporation whose shares are held by the public and actively traded in on the local stock exchanges need not give any information at all beyond the hasty reading out of such figures as it is considered necessary to reveal at the shareholders' annual meetings. It is somewhat astonishing that the committees of the Canadian stock exchanges, who have a duty to the public as well as to their own members, have hitherto permitted the stocks of companies following this indefensible policy of silence to be quoted on the exchanges. They could, no doubt, bring very powerful pressure to bear upon boards of directors who follow this practise to amend their ways, and make available for public scrutiny not trade secrets, but a financial statement in such a form that there can be obtained from it the essential facts regarding a corporation's financial standing and its earning capacity. It is to be hoped that the Government will insist in any forthcoming revision of the Companies' Acts on drastic provisions in favor of greater publicity and more information both in regard to annual statements and to prospectuses. Judging by the lack of information about the average prospectus now in circulation, the promoter usually imagines that the public is willing to buy a pig in a poke, or has a confident faith which regards as mere encumbrances any such trifling things as facts.

Restrictions upon over-capitalisation, compulsory publicity in regard to annual statements and more information in prospectuses are merely three out of many points, which in regard to company legislation need attention at the present time. Thanks to the greed of our promoters and the corresponding undesirability of some of their promotions, British investors at the present time regard Canadian industrials with a considerable suspicion, for which they can hardly be blamed. A thorough overhauling of the companies' law of the Dominion would at least show the determination of Canadian authorities to protect so far as is possible the interests of investors sending capital to Canada—a determination which has not up to the present time been very obvious.