

As security for the performance of its contract, the parent company usually agrees to set aside, as a trust fund, a certain amount from, or proportion of, the price received for each fully paid-up bond. This amount, or proportion, varies from company to company. The trust fund itself, and usually the income from the fund, are the property of the company as long as its contract is properly performed. The trust deed usually provides that a given amount or proportion of the trust fund shall be paid to the company each year, as long as the area is satisfactorily maintained, and that the balance of the fund shall be handed over on completion of the contract. In some cases sufficient from each bond is held in the fund to cover the estimated cost of the plant necessary for processing the product.

In the case of most companies issuing bonds trustees have been appointed to look after the interest of bondholders. The conditions of their appointment, the circumstances under which they may be removed and new trustees elected, their powers and duties, their relation with bondholders, the powers and duties of bondholders, and the conditions of the contract embodying the obligations of the company are set out in a trust deed. The original trustees will be appointed by the company and the conditions of the trust deed which determine and limit their powers and duties will be drawn up by the company.

The constitution and personnel of the trustees varies a great deal. The trustee may be an insurance or trustee company, a public trustee, an individual or group of individuals, or a separate company set up for the purpose.

In some cases no trustee has been appointed, the companies merely contracting to set up a trust fund.

#### 4. FINDINGS.

##### A. PROMOTION.

##### (1) METHODS OF FLOTATION.

Reference has been made earlier in this report to the very common practice of establishing a land-utilization project by means of the flotation by a small group of people of a private company with a small paid-up share capital. We have disturbing evidence of many undesirable features associated with this method of promotion: these arise largely from the prominence, as promoters and original directors, of land-holders or holders of options over land, and of agents and brokers. The names of some such individuals appear as promoters and original directors in the documents of several companies. In many cases they are sole promoters, retain the largest interest in the company, and dominate its policy. In more than one instance the interests of such individuals have been at variance with those of other directors and shareholders, have led to internal conflict, and have endangered the success of the company. These results frequently follow the control of a subsidiary brokerage company by directors of a "parent" company. The practice has undoubtedly been an important contributory factor to the failure of more than one company, for it has loaded the company with excessive capital charges or excessive brokerage costs. We have convincing evidence that in many cases the main incentive has been the desire to earn large profits from the sale of land or from brokerage on the sale of bonds. There is little doubt that in such instances the ultimate success of the company as a land-utilization venture was or became a subservient consideration in the minds of its promoters and directors. Later in this report we shall furnish evidence of the inflation of land-values, which strongly supports our opinion. The common practice of floating a subsidiary company with the sole right to sell bonds or shares is corroborative evidence. Excessive charges in respect of land, brokerage, and promotion services have been facilitated by the device of the private company, because in such case the publicity afforded by the filing of a statement in lieu of prospectus and the checking and oversight of the early transactions by the statutory report and statutory meeting are avoided. By this procedure and by the device of antecedent companies or syndicates dealing in land and subsidiary brokerage companies, excessive profits accruing to promoters and others may be effectively concealed.

##### (2) (a) INFLATION OF CAPITAL AND THE LOADING OF EXCESSIVE COSTS.

We quote below a number of examples of companies in which costs of promotion and brokerage appear to have been excessive, or whose assets have been inflated to a fictitious value. It will be noted that in many cases the devices referred to in the preceding paragraphs have been used to facilitate these practices.

The companies and witnesses are referred to by numbers, a confidential key being attached to the report. This procedure is adopted to fulfil a promise given to many companies and witnesses who supplied freely a great deal of confidential information and gave us copies of their accounts.

Company No. 5 is a public (forestry) company with a nominal capital of £25,000, of which £7,509 was subscribed on going to allotment. The original promoters were three individuals, who were included among the first directors. Two of these were vendors of land to the company, amounting in the aggregate to 5,414 acres. Information is not available in respect of all transactions,