

land nor any satisfactory redress against the company, for he is not normally in a position to enforce his claim, and in many cases the company may have nothing to satisfy it with. The sale of a commodity may be checked because it becomes known that it is unsatisfactory, or not worth its price by comparison with other similar commodities. The failure or incomplete success of a bond-selling proposition may not be known for some years, and meanwhile the sale of bonds goes on. Not only does the bondholder lose his investment, which is greater than the price of most goods, but also there is considerable social waste because labour and capital have been used in an unsuccessful enterprise. Finally, it is unconvincing to argue that no action should be taken to remedy a particular evil because similar, even equally serious, evils remain unchecked. If this attitude were adopted, there are few evils which could be remedied.

Our investigations prompt us to make the following recommendations:—

- (4) That an invitation to subscribe for so-called “bonds,” “debentures,” or other forms of contract issued in series (if their continued use is to be permitted), should be regarded as a prospectus, and that all provisions relating to prospectuses for shares or debentures proper should apply.
- (5) That every prospectus shall be required to state all dealings with land or other assets or any interest in such land or assets known to the directors or any one of them, within, say, two years prior to the incorporation of the company, or made in contemplation of the formation of the company.
- (6) That every prospectus should include a statement of the price or prices at which land was transferred during the previous five years, or in respect of the three previous transfers, whichever covers the longer period.

The evils arising from the common danger of furthering, while concealing, the interests of promoters and directors by the device of antecedent, affiliated, or subsidiary companies may, we think, be satisfactorily dealt with if the provisions of the Companies Act, 1933, are effectively amended, supplemented, and administered along various lines suggested in this report.

(b) *Valuers' Reports.*

We have drawn attention to the fact that valuations of property taken over are not reliable because valuers have proved unduly amenable to the wishes of promoters. Having regard to the interests of honest promotion and the effects of fictitious valuation on the future prospects of concerns through loading of capital, it is highly desirable that reliable and independent valuations should be procured.

We wish to refer again, for example, to one glaring instance of unjustifiable valuations provided by a tobacco company and its immediate antecedents. The whole of the relevant transactions are related on pages 16–18 hereof. The land was purchased in May, 1929, for £7,500, being £10 per acre, and was valued by three valuers at from £80 to £87 10s. per acre in June and July of the same year. Even the most charitable interpretation possible of these valuers' reports would require us to believe that the valuers have taken into account the potential value of the land if successfully used for the purpose which the promoters claimed to have in view. The valuers must have known, or should have known, the price at which the promoters purchased the land—namely, £7,500—and the knowledge was available to them that similar land could be bought in the same locality at a price of from £10 to £15 per acre. Nevertheless, these valuers purported to value the land “for tobacco-growing purposes,” and in this fact, and in the fact that their valuations purport to show a value up to eight times the amount at which the land was purchased a few weeks earlier, there is an irresistible inference that they were amenable to the wishes of the directors and promoters. If the eventual bond-selling tobacco-growing company had succeeded in raising the share capital and bond capital it required, and had with efficiency planted, grown, manufactured, and sold tobacco, the plain facts of the case are that the promoters, with the help of the valuers, had capitalized the future prospects of this industry, added them to the original price of the land, secured the profit of this transaction to themselves, and thus precluded the business from having any reasonable prospect of success.

We have not been able to formulate a practicable method whereby this evil can be wholly eliminated, but suggest the following provisions as at least a step in the right direction.

We recommend,—

- (7) That whenever a valuer is required to make a report for inclusion in a prospectus he must be informed by the promoters or directors of that purpose.
- (8) That in every such report the valuer must include a statement to the effect that he was informed by the directors that his report was intended for inclusion in a prospectus.
- (9) That all transactions in the land or other assets the subject of the valuation, known to the promoters to have taken place prior to the issue of the prospectus, shall be disclosed by them to the valuer (including the selling-price in each case), no matter who the parties to such transactions were.
- (10) That the valuer, in his report, shall refer to such transactions, and, in his valuation, shall justify any profits or intended profits indicated by the selling-prices in those transactions.
- (11) That no valuer shall give a valuation for inclusion in a prospectus unless he is registered as a valuer with the Corporate Investments Bureau.

The above recommendations are all in the direction of greater publicity. This we consider to be the most adequate safeguard against unconscionable profits out of all proportion to any services