

compelled to take this step, firstly, by the logic of the foregoing reasons, but, secondly, because the Southern British National Trust is faced with numerous claims in the form of actions for rescission of contracts to take debentures, the ground in each case being misrepresentation. Up to the beginning of March of this year, eighty-one such writs had been filed. It is feared that if these come to a hearing, most, if not all of them, will be successful, and each successful claim of this description means the subtraction of at least 20s. in the pound to meet that debenture-holder's claim, and in consequence a heavier proportion of the loss to fall on other debenture-holders.

The New South Wales Government takes the view that, seeing that it is practically certain that nearly all, if not all, the contracts to take debentures were induced by misrepresentation, the only fair basis is to put all the debenture-holders on an equal footing. This also will act as a measure of protection to the debenture-holders of the Investment Executive Trust, most of whom, it is believed, could with equal reason claim that their debentures were taken up under misrepresentation.

AN INNOCENT COMPANY INVOLVED.

13. Finally, there is the position as affected by the activities of the Transport Mutual and General Insurance Co. (see the report of the Inspectors on the affairs of this company). The money of the debenture-holders of the Investment Executive Trust was passed to the Transport Mutual and General Insurance Co. and there extravagantly used to purchase, at appreciably more than current market prices, shares in certain other companies, chiefly those of a Dunedin trustee company. Mr. McArthur, in his written statement handed in to the Royal Commission in Sydney, thus describes his object (see page 250 of the official proceedings):—

The plan to obtain a controlling interest in these companies is conceived primarily in the interests of the Investment Executive Trust debenture-holders, and its success will have the effect of adding to the Investment Executive Trust capital, a large amount of funds without appreciably increasing the costs of management and administration.

In their report on the Transport Mutual and General Insurance Co., the New Zealand Inspectors (see page 158 of printed reports) say:—

The company has acquired by way of purchase from shareholders in the Trustees, Executors, and Agency Co. of New Zealand, Ltd., 3,845 shares in the latter company. The majority of these share transfers have not been registered in the books of the Trustees, Executors, and Agency Co. of New Zealand, Ltd., but under normal circumstances, and subject to any restrictions in the articles of association or the regulations of the company the shares of which are the subject of transfer, a holding of nearly 40 per cent. of the total shares issued would give the holders potential control. The Inspectors would draw attention to the facts that the companies concerned administer trust and other funds amounting in the aggregate to several millions of pounds, that these companies have been granted special privileges by private legislative enactments, and also are subject to certain restrictions with obligations on shareholders and on directors in regard to reserve liability in the event of winding up and in respect of domicile of shareholders. The activities of the Transport Mutual and General Insurance Co., Ltd., in the organized purchase of shares illustrates that it is practicable for the directorate of such a trust company to be superseded and the administration devolve on others who would have been unknown to the persons who had confided the management of their affairs to the trustee company.

The proposed reconstruction scheme clearly involves the preservation and perpetuation of this scheme to obtain control of the Dunedin company, which, to quote the words of Mr. McArthur, "would make a large amount of funds available." The funds in question are presumably the trust funds, running into some millions, of the Dunedin trustee company. Any benefit that might accrue from the successful consummation of this scheme of obtaining control is, however, no longer a benefit to the Investment Executive Trust, for an option over all the shares in the Dunedin trustee company has been given by the directors of the Transport Mutual and General Insurance Co. to a Brisbane citizen.

The effect of this scheme on the finance and credit of the Dunedin company may easily be imagined. Mr. McArthur makes it clear that his object is to change the control by making alterations on the directorate of the Dunedin company. He says that the directors at the present time are of an average age of over eighty