REPORT

OF THE

ROYAL COMMISSION

ON

LIFE INSURANCE

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REPORT OF THE ROYAL COMMISSION ON LIFE INSURANCE

His Excellency, the Governor General of Canada, in Council:

The Commissioners appointed under the terms of the Royal Commission, dated the 28th February, 1906, issued under the provisions of chapter 114 of the Revised Statutes of Canada, intituled 'An Act respecting Inquiries concerning Public Matters,' and the Order in Council thereunto annexed:

'1. To inquire into,

(*a*) the general subject of life insurance and life insurance systems in Canada;

(*b*) the operations of the various companies chartered by the Parliament of Canada, or by any province and licensed under the Insurance Act, transacting life insurance in Canada, including expenses of management, invesment of funds and other allied questions.

'2. To make the like inquiry, as far as deemed necessary, into the operations of companies other than those chartered by the Dominion or province, transacting in Canada the business of life insurance.

'3. To inquire into the operation of the laws of the Parliament of Canada relating to and governing the business of life insurance, both as regards Canadian companies and companies other than Canadian, and to consider and report upon any amendments thereto that may be deemed necessary.

'4. That the Commissioners so appointed have power to employ expert assistance, to summon before them witnesses and require them to give evidence on oath orally or in writing or on solemn affirmation, if they are persons entitled to affirm in civil matters, and to produce such documents and things as such Commissioners deem requisite to the full investigation of the matters hereinbefore referred to, and generally to exercise all the powers conferred by the said Act,'

have the honour to submit their report embodying the results of their inquiry and their recommendations in connection with the various matters into which they were directed to inquire, as well as the proceedings had and the evidence taken before them.

Simultaneously with the appointment of your Commissioners, Mr. Henry T. Ross, of Bridgewater, Nova Scotia, was appointed Secretary of the Commission, and Mr. George F. Shepley, K.C., was appointed counsel for the conduct of the inquiry, with whom was associated Mr. W. N. Tilley, as junior counsel. The government of the province of Ontario appointed Mr. I. F. Hellmuth, K.C., and Mr. G. R. Geary, counsel to represent the policy-holders of that province before the Commission, and Mr. Calixte Lebeuf, K.C., was appointed by the government of the province of Quebec, counsel to represent the policy-holders of that province. The Commissioners appointed Mr. Miles M. Dawson, of the city of New York, consulting actuary.

The Commissioners met at the office of the Chairman in the city of Ottawa, on Monday, the 5th March, 1906, for the purpose of organization, and also to consider the best means of satisfactorily discharging the important duties imposed upon them. After due notice had been given, the first public meeting of the Commissioners was held in the city of Ottawa on the 7th March, 1906, when the text of the Commission was read and announcement was made that the Commissioners would proceed with the public inquiry on the 14th day of March, in the city of Ottawa.

The Commissioners have, during the inquiry, made a careful examination of the statutory laws upon the subject of insurance, not only of the Dominion, but also of the different provinces, and have considered the bearing of such laws upon the subjects under inquiry.

The Commissioners have also thought it proper to ascertain the views of persons skilled in the subject, upon many points and from different aspects of the important matters with which the Commission has had to deal.

The Commissioners have examined into the operations of the various companies chartered by the Parliament of Canada or by any province and licensed under the Insurance Act, transacting life insurance business in Canada, of which the following is a complete list, namely:

(1) The Canada Life Assurance Company, incorporated by the Act of the late province of Canada, 12 Vic., cap. 168; — 1849

(2) The Sun Life Assurance Company of Canada, incorporated by Act of the late province of Canada, 28 Vic., cap. 43; — 1865

(3) The Mutual Life Assurance Company of Canada, incorporated by Act of the Legislature of Ontario, 32 Vic., cap. 17; — 1869

(4) The Confederation Life Association, incorporated by Act of Parliament of Canada, 34 Vic., cap. 54; — 1871

(5) The Federal Life Assurance Company of Canada, incorporated by Act of the Legislature of Ontario, 38 Vic., cap. 68. Incorporated in 1898 by Act of the Parliament of Canada, 61 Vic., cap. 103; — 1874

(6) The London Life Insurance Company, incorporated by Act of the Legislature of Ontario, 37 Vic., cap. 85. Dominion extension of charter, 1884, 47 Vic., cap. 89; — 1874

(7) The North American Life Assurance Company, incorporated by Act of the Parliament of Canada, 42 Vic., cap. 73; — 1879

(8) The Manufacturers Life Insurance Company, incorporated by Act of the Parliament of Canada, 50 Vic., cap. 104; — 1887

(9) The Dominion Life Assurance Company, incorporated by Act of the Parliament of Canada, 52 Vic., cap. 95; — 1889

(10) The Excelsior Life Insurance Company, incorporated by letters patent, August 7, 1889, under 'The Ontario Joint Stock Companies' Letters Patent Act.' Dominion license, 23rd June, 1897; — 1889

(11) The Home Life Association of Canada, incorporated by Act of the Parliament of Canada, 53 Vic., cap. 46; — 1890

(12) The Great West Life Assurance Company, incorporated by Act of the Parliament of Canada, 54 Vic., cap. 115; — 1891

(13) The Northern Life Assurance Company of Canada, incorporated by Act of the Parliament of Canada, 57 Vic., cap. 122; — 1894

(14) The Imperial Life Assurance Company of Canada, incorporated by Act of the Parliament of Canada, 59 Vic., cap. 50; — 1896

(15) The National Life Assurance Company of Canada, incorporated by Act of the Parliament of Canada, 60 Vic., cap. 78; — 1897

(16) The Royal Victoria Life Insurance Company, incorporated by Act of Parliament of Canada, 60 Vic., cap. 81; — 1897

(17) The Continental Life Insurance Company, incorporated by letters patent, Ontario; Dominion license, 31st December, 1901; — 1899

(18) The Crown Life Insurance Company, incorporated by Act of the Parliament of Canada, 63 Vic., cap. 97; — 1900

(19) The Central Life Insurance Company, incorporated by letters patent, Ontario, Dominion license issued 20th May, 1905; 1901

(20) The Sovereign Life Assurance Company of Canada, incorporated by Act of the Parliament of Canada, 2 Ed. VII., cap. 102; 1902

(21) The Union Life Assurance Company, incorporated by Act of the Parliament of Canada, 2 Ed. VII., cap. 109; 1902

(22) The Monarch Life Assurance Company, incorporated by Act of the Parliament of Canada, 4 Ed. VII., cap. 96 1904

Fraternal Societies.

(23) The Commercial Travellers' Mutual Benefit Society, incorporated under the provisions of R. S. O., 1887, cap. 167. Dominion license, February, 1889; 1882

(24) The Supreme Court of the Independent Order of Foresters, incorporated by an Act of the Parliament of Canada, 52 Vic., cap. 104; 1889

(25) The Grand Council of the Catholic Mutual Benefit Association of Canada, incorporated in Ontario, 1890; incorporated by an Act of the Parliament of Canada, 55 Vic., cap. 90; 1890

(26) The Canadian Order of the Woodmen of the World, incorporated by Act of the Parliament of Canada, 56 Vic., cap. 92; 1893

(27) The Subsidiary High Court of the Ancient Order of Foresters in the Dominion of Canada, incorporated by an Act of the Parliament of Canada, 61 Vic., cap. 91. 1898

The following table collects information showing the magnitude of the interests involved in the operations of Canadian insurance companies.

Canadian Life Insurance Companies, 1905.

Name.	Year of Incorporation.	Capital Authorized.	Capital Paid up.	No. of Policies in Force.	Amount in Force.	Premiums for Year.	Net Re-insurance Reserve.	Surplus on Policy-holders' Account.
		$ cts.	$ cts.		$ cts.	$ cts.	$ cts.	$ cts.
Canada Life	*1849	1,000,000 00	1,000,000 00	51,304	106,322,909 36	4,104,594 86	28,505,936 00	1,393,403 28
Sun Life	1865	1,000,000 00 Subscribed, 700,000 00	105,000 00	74,441	95,250,512 00	4,301,022 10	19,100,198 92	1,840,698 59
Mutual Life of Canada	1869	Nil.	Nil.	29,788	43,937,288 33	1,547,506 45	8,210,064 24	952,001 12
Confederation Life	1871	1,000,000 00	100,000 00	28,368	42,278,455 00	1,380,053 94	10,140,198 00	800,499 31
Federal Life	1874	1,000,000 00	130,000 00	12,070	16,850,136 11	572,226 46	2,170,425 45	223,749 32
London Life { Ordinary	1874	1,000,000 00 Subscribed, 250,000 00	50,000 00	4,778	**9,113,00 31	132,748 66	1,692,755 00	111,148 26
London Life { Industrial				55,624		251,393 69		
North American Life	†1879	300,000 00	60,000 00	26,142	36,933,106 00	1,354,607 50	6,210,338 00	630,010 43
Manufacturers Life	‡1887	3,000,000 00 Subscribed, 1,500,000 00	300,000 00	30,395	41,710,314 00	1,645,385 58	6,200,932 00	902,758 64
Dominion Life	1889	1,000,000 00 Subscribed, 400,000 00	100,000 00	4,573	6,184,089 00	194,990 01	869,226 58	179,382 81
Excelsior Life	1889	500,000 00	75,000 00	8,124	8,614,522 45	263,083 88	880,393 39	105,551 64
Home Life	1890	1,000,000 00	216,980 00	5,070	6,102,517 00	164,985 44	602,019 73	148,779 69
Great West	1891	1,000,000 00	250,000 00	16,468	23,694,352 00	791,403 00	2,467,842 16	612,213 45
Northern Life	1894	1,000,000 00 Subscribed, 836,800 00	213,650 00	3,898	4,597,488 00	151,440 51	393,663 43	191,923 36
Imperial Life	1896	1,000,000 00	450,000 00	10,985	17,988,123 00	680,798 09	2,064,099 00	650,621 91
National Life	1897	1,000,000 00	199,860 70	3,262	4,823,960 00	157,717 09	395,050 00	163,508 75

*Commenced business, 1847.
‡Manufacturers Proper, 1887; Temperance and General, 1884.
†Guarantee Fund.
**Of this, $4,597,132 Industrial.

Canadian Life Insurance Companies, 1905—*Concluded*.

Name.	Year of Incorporation.	Capital Authorized.	Capital Paid up.	No. of Policies in Force.	Amount in Force.	Premiums for Year.	Net Re-insurance Reserve.	Surplus on Policyholders' Account.
		$ cts.	$ cts.		$ cts.	$ cts.	$ cts.	$ cts.
Royal Victoria	1897	1,000,000 00	200,000 00	3,445	4,403,837 00	138,591 93	440,241 43	44,732 09
Continental Life	1899	1,500,000 00	180,255 94	3,847	4,401,935 00	143,958 30	347,788 00	117,222 17
Crown Life	Letters Patent, Ont. 1900	Subscribed, 1,000,000 00 1,000,000 00	129,465 29	2,199	3,460,744 00	125,932 59	232,044 00	19,758 32
Central Life	1901	Subscribed, 609,600 00 1,000,000 00	75,100 00	579	576,450 00	18,721 65	31,303 06	38,394 83
Sovereign Life	Letters Patent, Ont. 1902	Subscribed, 500,000 00 1,000,000 00	225,595 68	938	1,878,903 00	80,632 47	136,068 00	222,878 51
Union Life	1902	1,000,000 00	100,000 00	*42,779	7,095,526 00	167,241 01	108,907 00	112,041 10
Monarch Life	†1904							
Commercial Travellers	1882	Nil.	Nil.	1,878	1,876,000 00	**30,190 88		
I. O. F.	1889	Nil.	Nil.	233,293	248,801,000 00	a3,003,682 24		
C. M. B. A.	1890	Nil.	Nil.	19,750	26,393,500 00	‡336,601 05		
Canadian Order of The Woodmen of the World	1893	Nil.	Nil.	10,438	11,499,000 00	**107,091 76		
Ancient Order of Foresters	1898	Nil.	Nil.	1,163	1,048,882 00	23,464 00 (Life Ins.)	72,670 54	

†Commenced business, 1906.
*Including Industrial.

**Excludes Annual Dues.
‡Excludes Membership Dues.
aExcludes extension of the Order Tax.

With regard to the British companies doing business in Canada, the Commissioners have thought it proper to obtain and have obtained valuable opinions from British actuaries and insurance managers upon subjects with which the Commission has had to deal.

The Commission has also availed itself of the proceedings and evidence taken during 1906 before a Committee of the House of Lords upon certain aspects of the subject of insurance, and has also had the advantage of examining the report of that Committee. These proceedings are among the papers accompanying this report.

With regard to United States companies doing business in Canada, the Commission has treated as part of the material before it and available for its purposes the evidence taken before and the report made in February, 1906, by the Joint Committee of the Senate and Assembly of the State of New York, appointed to investigate the affairs of life insurance companies.

The Commission has also had an opportunity of examining the report of a Commission appointed to recodify the insurance laws of the Commonwealth of Massachusetts, made to the Governor of the Commonwealth in June, 1906; the report of a Committee on Uniform Legislation appointed at a Conference of Governors, Attorneys-General and Insurance Commissioners held at Chicago on 1-2 February, 1906, commonly known as 'the Committee of Fifteen'; the report of a sub-committee of the Committee of Fifteen, appointed to consider standard forms of and standard provisions for life insurance policies; the report of another Committee appointed at the same Conference to consider the subject of Annual Accounting and Distribution of Surplus; the report of a Committee appointed by the Governor of the State of Indiana, to investigate, among other subjects, the Insurance Department of that State and the condition of Legal Reserve Companies doing business in that State, and an advance abstract of a report made by a Legislative Insurance Investigating Committee of the State of Wisconsin, bearing date the 12th December, 1906.

In some cases of United States companies this information has been supplemented by specific inquiry, as will more fully appear from this report, but the Commission has deemed it inexpedient to prolong this inquiry by examining independently into the matters of fact with which the reports of the committees mentioned above have dealt.

CANADA LIFE ASSURANCE COMPANY.

This is the oldest of the Canadian life insurance companies, and had its origin in a meeting held in Hamilton on the 21st August, 1847, at which certain conclusions were reached by those present, looking towards the foundation of a life insurance company. This meeting was followed by a deed of settlement, dated 1st January, 1848, which provided for the constitution and government of the company, conformably to the conclusions arrived at by the meeting.

The capital stock was fixed by the deed at £50,000, divided into 500 shares of £100 each. The deed provided for the election of a Board of Directors, and expressly nominated the first board, consisting of 20 persons The deed further contained suitable provisions for the transaction of the proposed company's business, and for the government of the company by means of by-laws and regulations, for the making of which the deed made ample provision. The provisions of the deed with respect to profits were as follows:—

> 'That for the first two years no dividend of interest or profits shall be made, but the same, after defraying the expenses of management, shall be retained to answer contingencies, and that thereafter it shall be in the power of the directors to appoint and declare dividends to be made among the shareholders in proportion to their respective shares, provided always that it shall be in the power of

the directors for the time being to lay aside and accumulate such parts of the profits as they may deem advisable, and provided further that it shall be in the power of the directors, from time to time, to allot and divide to and among the assurers upon the participation scale, at the rate of 75 per cent of the profits to arise and be realized from this branch of the company's business in proportion to the amounts of premiums paid up by him, her or them.'

The deed conferred authority upon the directors to apply for an Act of Parliament, or a Royal Charter, incorporating the company, and 'to alter, modify or amend the whole of the terms of the constitution of the company so as to meet the views of Parliament. ..

In 1849, on April 25, by an Act of the late province of Canada (12 Vic., cap. 168), the Canada Life Assurance Company was incorporated. The capitalization provided for in the Act followed the terms of the deed, and the insurance powers conferred were as follows :—

'To make and effect contracts of assurance with any person or persons, bodies politic or corporate, upon life or lives, or in any way dependent upon life or lives, and to grant or sell annuities, either for lives or otherwise, and on survivorships, and to purchase annuities, to grant endowments for children and other persons, and to receive investments of money for accumulation, to purchase contingent rights, whether of reversion, remainder, annuities, life policies or otherwise, and generally to enter into any transaction depending upon the contingency of life, and all other transactions usually entered into by life assurance companies, including re-assurance.'

In this respect also, the Act followed the provisions of the deed.

With respect to profits, the Act conferred upon the directors, in the management clause, power to

'Allot and divide among the assurers upon the participation scale, so much of the profits realized from that branch, and at such times as they may think fit.'

And also power to

'Declare and cause to be paid or distributed to the respective stockholders any dividend or dividends of profits in proportion to the shares held by them, at such times and seasons as they shall think proper, or add the same to the paid-up portion of the capital stock ;

thus enlarging the power conferred upon the directors in respect of profits by the Deed of Settlement.

Power was also conferred upon the company to increase its capital stock to a sum not exceeding £250,000, or $1,000,000.

The powers of the company so incorporated with regard to investments, so far as they are necessary to be considered, were conferred in the following words :—

'But it shall be lawful, nevertheless, for the said corporation to purchase and hold, for the purpose of investing therein, any part of their funds or money, any of the public securities of this province, the stocks of any of the banks or other chartered companies, and the bonds and debentures of any of the incorporated cities or towns or municipal districts, and also to sell and transfer the same, and also to make loans upon or purchase bonds, mortgages and other securities, and the same to call in, sell and reloan as occasion may render expedient.'

By the Act 42 Vic., cap. 72, certain amendments were made in the powers of the company with regard to the division of profits. The Act recites a petition by the company, representing that—

'The directors have heretofore allotted and divided among the persons assured upon the participation scale 75 per cent of all the profits realized from the entire business of the company, and that in view of the increasing business

it is or may be desirable to vary the relative proportions in which such profits should be allotted and divided as between the shareholders and the persons assured.'

The Act goes on to provide that the directors, instead of continuing to allot the profits as mentioned in the recital, are authorized:—

'In their discretion to make such new allotment and division of such profits among the persons assured on the participation scale and the shareholders of the company, at such times and in such manner as they may think fit, and also from time to time to alter or vary the relative proportions in which such profits shall be allotted and divided as between such assured and the shareholders; provided always that the proportion of such profits allotted to such assured shall not be less than 90 per cent thereof and the proportion to the shareholders shall not exceed 10 per cent thereof.'

By the same Act power was given to the directors to establish agencies or branches within the Dominion of Canada or elsewhere and it was provided that in addition to the powers in that behalf contained in the Act of Incorporation, the directors might invest the funds in any of the public securities of the Dominion of Canada, or of any of the provinces thereof, or of Great Britain and Ireland, or of any foreign state or country, no greater amount being invested in the securities of Great Britain and Ireland or of any foreign state or country than might be required for the purpose of complying with the requirements of the country or foreign state for carrying on the company's business through its agencies established or to be established.

By the Act 56 Vic., cap. 99, it was provided, in order to remove doubts as to the directors' power of investing moneys in Canada,

'That they have had and shall have power to invest the funds of the company in the bonds or debentures of any municipalities in Canada and in mortgages on real estate in any of the provinces or territories of Canada, and they may invest such funds in the bonds or debentures of any of the states of the United States or of any municipalities in the United Kingdom or in the United States or in mortgages on real estate therein; but the amount so invested in the United Kingdom shall not at any time exceed the reserve upon all outstanding policies in force in the United Kingdom, and the amount so invested in the United States shall not at any time exceed the reserve upon all outstanding policies in force in the United States.'

At the date of incorporation £2 or $8 per share, amounting in all to $4,000, had been paid on account of the £50,000 capitalization then presently existing, and no further payment was made in cash by the shareholders from that date till the year 1856, when the authority to increase the capital to £250,000 was exercised by the company, and the sum of $24,780.50 was called up in cash. In the meantime, however, between the years 1849 and 1856, inclusive, $35,590.50 had been applied by way of bonus or dividend in payment on the capital stock. In the succeeding years, from 1857 to 1865 inclusive, the cash payments by shareholders in respect of their stock were, by yearly decreasing amounts, raised to a total of $63,573.50, while bonuses or dividends out of profits were further applied so as to make the total payments from this source $61,426.50, making in all $125,000 paid on account of the total capital of $1,000,000.

In the year 1900, after the passing of the amendments made to the Insurance Act in the year 1899, and under certain circumstances which will be discussed more fully in a later part of the report, the remainder of the capital stock was called up; and between the years 1900 and 1903, $875,000 was accordingly paid by the shareholders which, with the $125,000 paid up in the year 1865, made the full $1,000,000 of authorized capital.

Down to the year 1865, inclusive, the shareholders received dividends in addition to the amount ($61,426.50) applied in payment of their stock, as follows:—

Year.	Per Cent.	Capital.
1856..	11	$ 33,350
1857..	11½	64,378
1858..	10	83,733
1859..	10	98,550
1860..	8	110,120
1861..	6	119,440
1862..	5	122,930
1863..	5	124,090
1864..	5	124,520
1865..	5	124,902

And between the years 1866 to 1890 inclusive, they were paid dividends as follows:—

Year.	Per cent.	Capital.
1866 to 1869...	5	$125,000.
1870.......	8	" with an extra of $6 per share.
1871 to 1874...	8	"
1875.......	10	" with an extra of $17 per share.
1876 to 1879...	15	"
1880.......	15	" with an extra of $17.50 per share.
1881 to 1884...	15	"
1885.......	17½	" with an extra of $25 per share.
1886 to 1889...	20	"
1890.......	20	" with an extra of $25 per share.

From 1891 down to 1899, inclusive, dividends were paid to shareholders amounting to 20 per cent per annum upon the paid-up capital, besides a special bonus of $25 per share, or in all $62.500, paid in 1895.

Since the capital was increased to $1,000,000 regular dividends at the rate of 8 per cent ($80,000) per annum have been distributed to the shareholders.

In the early history of the company rates of interest were high, and expenses were upon a moderate scale to which the methods of insurance of recent years present no parallel. The first reserves were computed upon the basis of 6 per cent, and the rates of commission to agents prevailing in the earlier history of the company were as low as 10 per cent on initial premiums, and 7½ per cent on renewals. These were the rates of commissions paid to district agents in 1862. Between that date and 1887 there had been a gradual increase in the case of initial premiums from 10 per cent to about 20 per cent, and in 1887, the rate was increased to 35 per cent. In 1900 it was increased to an average of probably 50 per cent, commissions in respect of some classes of insurance being then fixed as high as 55 and 60 per cent.

The Hon. George A. Cox, the president of the company, formed his first connection with it in the year 1862, becoming in that year the local agent of the company at Peterborough. The limits of his agency were enlarged from time to time until 1887, when the seat of the agency, then known as the Eastern Ontario Branch, was removed from Peterborough to Toronto, and the rates of commission re-adjusted.

In 1892, Mr. Cox went upon the Board of Directors under circumstances which call for some observations. He had before that date become largely interested in many important financial institutions. He was president of the Canadian Bank of Commerce, the founder and almost sole owner of the Central Canada Loan and Savings Company, connected with and in control of the Toronto Savings Company, and was closely identified with other large and important business and financial interests. He had been earnestly devoted to the business of the Canada Life Assurance Company, the success of which was, no doubt, in a large degree due to his zeal and industry in the territory covered by his agency. The stock of the company strongly

appealed to him as an investment, and he had, from time to time, increased his early small holdings, till, in the year 1891, the year preceding his going upon the board, he either held or controlled 489 shares of the capital stock.

Among some of the members of the board there appears to have been a feeling of alarm at the growing power of Mr. Cox. There are indicated upon the minutes two grounds upon which this alarm was based; one the danger of undue influence or control falling into any one hand; the other, the danger to the independent management of the company involved in the acquisition of a preponderance of its stock by one of its servants or employees.

On the other hand, Mr. Cox seems to have been firmly pressing his claim to a seat on the board. He thought he had been unfairly treated by the board upon the occasion of removing the Eastern Ontario Agency from Peterboro' to Toronto after the completion of the company's new Toronto building. He removed the office of the Central Canada Loan and Savings Company at the same time, and had expected office accommodation for that company in the new building, and attributed his being disappointed in that respect to certain members of the board. He says he then determined that he would himself go upon the board, and that they should go off.

The result was that negotiations were entered upon by the board and Mr. Cox, which finally resulted in his election in 1892, upon the terms of his vesting 400 shares of the stock held by him in three trustees, who were to have the sole control and management of the same, free from any interference by Mr. Cox, so long as he held the position of director, he, however, receiving the dividends upon them.

The instrument vesting the 400 shares in trustees provided that, upon Mr. Cox ceasing to be a director, the shares should be retransferred to him.

Upon this arrangement Mr. Cox was elected to the board at the annual meeting in March, 1892.

In January, 1897, Mr. Cox desired a retransfer of the shares held in trust, feeling, as he said in a letter written during the discussion, that he could not any longer properly occupy a seat at the board with his stock held in pledge as a guarantee of his good behaviour. He was, as he quite understood and intimated in the correspondence, entirely master of the situation at this time, as, by resigning his seat at the board, he could compel a retransfer of the shares, and his ownership and control of stock at that time would, no doubt, have re-insured his re-election. The board yielded to the request of Mr. Cox, and accordingly his shares were released from the trust. At the same time, owing to objections made by Mr. Cox, two gentlemen, who lived in Montreal, retired from the board, and their places were taken by Mr. Alexander Bruce and Mr. B. E. Walker.

In January, 1900, Mr. Cox was elected president, Mr. Ramsay retiring upon a pension of $12,000 per annum, provision for which was made by the purchase of an annuity, the purchase money of which entered into the general expenditure account of that year. The retirement of Mr. Ramsay had been provided for as early as 1897, in an agreement under which he was to continue as general manager so long as he should be able to efficiently discharge the duties of that position, and until the board should express a desire for his retirement; and upon his retirement be paid an allowance of $12,000 a year during his natural life.

When Mr. Cox became president and general manager, his son, Mr. E. W. Cox, who, up to that time, had been in partnership with him in the office of agent for the Eastern Ontario Branch, became assistant general manager; and another son, Mr. H. C. Cox, succeeded the firm as agent for the branch. Hon. Mr. Cox paid his son, E. W. Cox, $40,000 for his half interest in the business, and handed over the whole agency as a gift to the other son, H. C. Cox. Mr. Cox's salary, as president and general manager, for 1900 and 1901 was $20,000 per annum. Mr. E. W. Cox's salary as assistant general manager was at first $6,000, but was subsequently raised to $7,500, to which Mr. Cox added $5,000 from his own salary of $20,000, making his son's salary

$12,500 and his own $15,000. In 1903 and 1904 Mr. E. W. Cox received a salary of $15,000, and in 1905 a salary of $20,000, Hon. Mr. Cox receiving $15,000. Since the year 1900, when Mr. H. C. Cox took over the agency for the Eastern Ontario branch, he has been in receipt of net profits in respect of the agency ranging from $12,850.90 in 1901 (the minimum), to $19,895.25 (the maximum), in 1904.

Mr. Cox had, in 1896, added to his Eastern Ontario Agency the Michigan branch, under an arrangement by which he purchased the agency from the person who, prior to that, had been in charge of the branch. He applied the profit of the branch from the year 1890 to 1895 in wiping out the charge upon the business created by the payment of the purchase money; and from 1896 to 1899 the branch continued to show a profit which Mr. Cox was receiving. In 1900, when he became president, the arrangement with Mr. H. C. Cox covered this territory also, and the profits of the Michigan branch, in the six years that have elapsed since then, aggregate about $11,000.

With regard to the Ottawa agency, the statement made is that the Ottawa agent, Mr. Haycock, had transferred to a person from whom he had borrowed a considerable sum of money, a one-half interest in the earnings of the agency. The Ottawa agency was a sub-agency of the Eastern Ontario branch, and Mr. Cox, while he was manager of the Eastern Ontario branch, arranged that this loan should be taken up. For this purpose a company was formed, called R. H. Haycock & Sons, Ltd., with a capital of $40,000, of which $20,000 was issued to the Eastern Ontario branch and was pledged with the Canadian Bank of Commerce for a loan of $15,000, guaranteed by Mr. Cox. The amount of this loan was used to discharge the agent's indebtedness and for other purposes connected with the agency, and one-half of the profits of the Ottawa branch has since been paid to the agent, and the other half has been applied in reducing the loan made by the bank, until at the date upon which the inquiry took place the same stood at $9,000.

There seems to be no written record of the transaction, and in form at least, half the capital stock in the Ottawa agency is, subject to pledge, owned by the Eastern Ontario branch. Mr. Cox, however, states that on payment of the balance of $9,000 and the release of the stock from the pledge to the bank, the agent will be entitled to all the stock of the company so as to reinstate him as sole owner of the business. It seems unfortunate that so important a transaction should rest upon nothing more tangible than the recollections of the parties.

The Hon. Mr. Cox now owns or controls 57 per cent of the capital stock of the Canada Life Assurance Company.

Before discussing the subject of the strengthening of reserves by the company in anticipation of the requirements of the legislation of 1899, reference should be made to what are known as the minimum policies issued by this company, the holders of which were, or appeared to be, more noticeably affected by the method adopted in strengthening the reserves, than the holders of any other class of policy, inasmuch as the result in the case of those who had taken their profits in cash, was to reduce the face of the policy by creating a lien upon it. The history of the minimum policy was very fully given by Mr. Cox. It was adopted to give the policyholders an immediate participation in anticipated profits by way of reduced premium rates. The management, having regard to the profits earned in previous years, assumed that they would never in any year fall below 1¼ per cent by way of bonus addition to the sum assured, and made an equivalent reduction in the premium. The company proposed to recoup itself in respect of the premium reduction by retaining the profits to the extent of the 1¼ per cent. If the profits amounted to exactly 1¼ per cent in any year, the company retained all; the holder of the minimum policy received none, having already received an equivalent advantage in reduction of premium. If the profits exceeded 1¼ per cent the minimum policyholder was entitled to the benefits of the excess; if they fell below 1¼ per cent the deficiency was made a lien upon his policy. It appears that for some years after the minimum policy was adopted the profits always exceeded the 1¼ per cent. When, however, the large drain upon the divisible profits was made for the pur-

pose of strengthening the reserves, the result was the creation of two successive liens upon such minimum policies as had taken the excess profits during the intermediate period in cash instead of by way of bonus addition. One of these was for the difference between the 1¼ per cent and the declared bonus addition of ¾ per cent; the other for the difference between the 1¼ per cent and the declared bonus addition of 1 per cent. In the case of those who had taken the excess profits during the intermediate period by way of bonus addition, the creation of these liens did not impair the face policy value, because they were not large enough to wipe out the bonus additions.

Before the legislation of 1899, the government standard for reserves was the Hm. table and 4½ per cent. The company had valued its policies upon this basis in 1880. It is in proof that afterwards there was a considerable reduction in the current rate of interest obtainable upon investments. In 1894 the reserves were placed upon the basis of the American Experience Table and 4 per cent, the result being to increase the reserves by a sum of $898,000 or thereabouts, provision for which was made by setting apart out of profits approximately $500,000. In 1898 a sum of $225,000, and in 1899 a sum of $275,000 were set apart out of profits, and treated as a reserve liability in anticipation of what was deemed to be an imminent necessity for further strengthening the reserves, and in 1899, when the legislation was passed, the liabilities contained a net insurance reserve calculated upon the American Experience Table with 4 per cent, and these two special appropriations, amounting to $500,000. The Government standard existing prior to the legislation of 1899 had, therefore, been considerably exceeded in the company's valuation. In 1900 the company appears to have valued its policies upon the Actuaries' Table with 4 per cent interest, and in 1901 the ultimate requirement of the legislation of 1899 was anticipated by computing the reserves in respect of all business written prior to 1900 upon the Hm. table with 3½ per cent. In the meantime and in respect of new business, the company had, since January 1, 1900, been computing the reserves upon the Hm. table with 3 per cent, thus adopting a basis of valuation producing in respect of the new business larger reserves than the ultimate Government requirement.

The result of these alterations in the basis of reserve was to absorb in 1894, approximately, $500,000; in 1899, approximately, $1,070,000; and in 1901, approximately, $995,000, which would otherwise have been available for distribution of profits. The whole of these sums would, of course, have been taken out of profits ultimately had the company taken the full time given by the statute for valuing upon the statutory basis. The contrast drawn is, therefore, between an immediate strengthening of reserves up to the legislative requirement, and a gradual strengthening, taking advantage of the full statutory period.

It will be remembered that in October, 1900, the balance of the capital stock, $875,000, was called up. The capital, however, has not been treated as impaired in the process of strengthening the reserves, but the whole of the moneys used for that purpose have been taken out of profits.

In 1899 (62-63 Vic., cap. 99), the company applied for and obtained an Act which, among other things, gave the policyholders of the company certain voting rights in respect of the election of directors. They were not by the Act given any other voice in the management of the company's affairs, or at the meetings for which the statute made provision. They were entitled separately to elect six of their number, holding certain policy qualifications, as directors. The shareholders were give a separate right to elect nine directors. Thirty days' notice in writing was required by the Act to be given by some policyholder qualified to vote, of the name of any person, other than a retiring director, intended to be proposed for election. Proxies were permitted, but every policyholder's proxy was required to be in the hands of the secretary at least twenty days before the meeting at which it was to be acted upon. In case of a vacancy, the board filled the vacancy from the class of qualified shareholders or qualified policyholders, as the case might be. The directors selected by the policyholders were not permitted to have any voice in the question of the proportion of profits to be allotted to the shareholders. This Act was passed on the 10th July, 1899. The

records of the company disclose that in the year 1900, 1905 policyholders were represented out of a possible 6,500. In 1901, 293 out of a possible 7,230. In 1902, 266 out of a possible 7,230. In 1903, 253. In 1904, 294. In 1905, 403 out of a possible 8,632. In 1906, 768 out of a possible 8,800. The policyholders' proxies appear to have been all or nearly all made out to the president and the vice-president.

In the year 1900, when the balance of the stock was called up, the company was about to make very considerable extensions of its business in other countries; and the evidence of Mr. Cox, the president, would seem to indicate that in his view and that of the Board of Directors, the calling up of the balance of the capital stock was due to these proposed extensions, although he also says that it was desirable to have the additional capital to answer any possible shrinkage in assets under investment, by reason of a drop in the rate of interest or otherwise.

In another part of his testimony he speaks of the policy of the company as being a 'forward' policy, involving meeting foreign companies in their own territory, rather than confining the competition to the Canadian field.

With the standing and reputation which the company undoubtedly possessed in 1900 it is difficult to arrive at any sound economic reason, from the standpoint of policyholders, for calling up the $875,000 capital. Mr. Cox says: 'It would improve the standing of the company in the United Kingdom and the United States,' but no real necessity for the step is indicated. He points out that the bringing in of this additional capital has been followed by a reduction in the rate of dividend from 30 per cent to 8 per cent. His language is as follows (pp. 988-989):—

> 'I will ask you to bear in mind that the $1,000,000 paid in by the shareholders earns at the average rate of the company's invested funds about $47,000, leaving only about $33,000 per year from the profits of the company to make up the 8 per cent which they received as dividends. It took practically the same amount to pay 30 per cent on the $125,000 prior to 1900.'

The 30 per cent is made up of the 20 per cent dividends and the bonus of $25 per share paid in 1895.

It is manifest that there is nothing to limit the management for the future to 8 per cent dividends. Up to 10 per cent of the total 'profits' the statute permits the shareholders to take, and the possible dividends are bounded by this percentage only.

But it is equally manifest that if the inherent earning power of the additional capital is only 4·67 per cent, its engagement in the concerns of the Canada Life without any real need is a simple method of raising that earning power to 8 per cent, the difference, under whatever name, being unnecessarily taken away from the policyholders whose accumulations have earned it.

There seems to be no reason to doubt that the competition engendered by the invasion of the Canadian field on the part of foreign companies, together with the like competition engendered by the invasion of the foreign field by this company, with others, has done much to enhance the expenses of Canadian insurance companies, especially in respect of the initial cost. The gain and loss exhibit prepared by the company shows this in very precise terms. In the year 1905 the cost of first year insurance exceeded all provisions made for that cost by approximately $450,000.

The observations of your commissioners upon the general subject of excessive cost and excessive ratio of expense to income will have their appropriate place in the general observations which are to be offered after a discussion of the peculiar features of each particular company. It would appear that in the case of this company a very marked increase in expenses and in the expense ratio coincided with the acquisition by Mr. Cox of the controlling interest in the capital stock of the company. The significance of this circumstance is, however, lessened by the fact that the experience of other similar Canadian companies has not, to any marked extent, differed from the experience of this company.

It is first to be observed that the company has always taken the widest possible view of the powers conferred by the original Act of incorporation (12 Vic., cap. 168).

In that statute occur the words 'The stocks of any of the banks or other chartered companies,' and the view taken of its powers by the board of directors from time to time has been that this language is sufficiently wide to enable investments to be made in the stock of any company having a Dominion or provincial charter, without regard to the nature of its undertaking or the field of its operations. This difference between the charter of this company and the General Insurance Act must be borne in mind when the propriety of certain investments made by the company is considered. It is also to be observed that the powers of investment conferred by the General Act have not been substituted for special pre-existing powers of investment, and there seems to be no room for doubting the soundness of the contention of this and other companies that the powers set out in the general Act are cumulative and do not impair any such special powers. The language of the General Act is as follows :—

> 'The said Act is hereby amended by adding thereto the following section: provided that nothing therein contained shall be construed to diminish, impair, or in any way take away or limit any power of lending or investing now possessed by any company therein mentioned or referred to.'

Correspondence, which was put in evidence, between the company and the Department of Insurance, together with the opinion of the Department of Justice with regard to the investment powers of the company, has been made a part of the record.

The absolute control, real or potential, residing in the president and general manager, and in which his stockholding and offices secure him, have to a marked extent influenced the investments of the company, which have been made to serve not only the interests of the Canada Life Assurance Company, but also his own interests and the interests of other institutions in which he was largely concerned. He says he has always made the interests of the Canada Life Assurance Company his first and chief concern, but many of the investments made by or on behalf of that company have been made to serve other interests as well. The dual position and conflicting interests of Mr. Cox in many of these transactions have been most clearly defined. The Central Canada Loan and Savings Company, in which there is a large, independent shareholding, is under Mr. Cox's control to such an extent that to use his own language, we are to treat it as being himself. This company has been very largely interested in the promotion of enterprises of a more or less speculative nature, the success of which largely depends upon facilities for carrying and marketing the stocks and bonds of those enterprises. Mr. Cox has, from time to time, as he frankly stated, brought about the investment in securities of this description, of the funds of the Canada Life Assurance Company, in aid of transactions in these securities on his own part and on the part of other institutions which he controls. He has not hesitated from time to time, as occasion seemed to arise, to lend the moneys of the Canada Life to others to assist them in carrying similar securities. Upon one occasion, referred to hereafter, when he was himself, both directly and in respect of some of his business associates and some one or more of the institutions in which he had a controlling interest, largely concerned in maintaining the market price of a security of this description, he made use of the funds of the company to purchase the security for the express purpose of strengthening or upholding its market price.

It will be useful to examine some of the transactions of the company, having regard to the common interest of Mr. Cox in the various transactions and his relation to the various persons and corporations dealt with by the company. It may be premised that the Provident Investment Company, in whose name some of the transactions were carried out, is owned exclusively by Mr. Cox and not merely controlled by him, and that the Dominion Securities Corporation, incorporated in March, 1901, under the General Companies Act of the Province of Ontario, with certain powers of buying and selling and carrying on a brokerage business in stocks, bonds and other securities, was exclusively owned by the Central Canada Loan and Savings Company. After its formation many investments of a class which had hitherto been made directly by the Canada Life Assurance Company was made by and through the Domin-

ion Securities Corporation as intermediary to the profit of the Dominion Securities Corporation. The transactions so carried through were numerous and large, and were carried on down to the date of the investigation.

The Commission made an exhaustive inquiry, as will appear in the evidence and exh ts, into the books and affairs of all the other companies in which Mr. Cox was interested, in so far as it seemed likely that such inquiry was relevant. In the result it is believed that all dealings bearing upon the inquiry were disclosed and fully examined into.

Commencing with February, 1902, and ending with June, 1903, the Canada Life Assurance Company loaned approximately $1,150,000 to various borrowers upon the security of shares of Dominion Coal stock. Of these loans, three, amounting to about $26,500 in all, were made to employees of the Canada Life Assurance Company, who appear to have been carrying the stock on margin, and one of $500,000 to the Dominion Securities Corporation.

Between April, 1902, and April, 1903, the Canada Life Company purchased the stock of the Dominion Coal Company to the extent of $447,500, and between April and July, 1903, reduced its holding by sales to $300,000.

In January, 1904, more of this stock ($10,000), was purchased by the company.

In 1902, the Dominion Coal Company, which had a bond debt of $2,704,500, a preferred stock of $3,000,000 and a common stock of $15,000,000, leased all its property and undertaking to the Dominion Iron and Steel Company at a fixed rental of $1,600,000, which rental was fixed with a view to the payment of the interest upon the bond debt, which was 6 per cent, and a dividend of 8 per cent upon both the deferred and common stock. There seems to be no doubt that before the lease was actually executed those who were interested in the Dominion Coal Company or likely to be interested in it, had some idea of what was contemplated; and the result was that the stock rose from 54 in January of 1902, to 123 in March of the same year; then in April it rose to 148; in may it fell to 141; in June it fell to 141½; in July, 137½; in August, 144; in September, 147; in October, 135; in November, 131; in December, 132¼; in January, 1903, 132½; in February, 130; in March, 127¾; in April, 112; in May 110¾; in June, 99¼.

The Dominion Securities Corporation, acting for Mr. Cox, in February, March and April, 1902, purchased and sold for him 6,000 shares of this stock.

It has also been disclosed that a syndicate was formed in May, 1902, for the purpose of making profit in buying and selling Dominion Coal Company stock. The parties to the syndicate and their interests were as follows:—

	Per cent.
A. E. Ames & Co.	15
Canadian Bank of Commerce	10
General Canadian Loan and Savings Co.	15
Home and Foreign Securities Co.	7½
Pellatt & Pellatt	15
F. Nicholls	10
B. E. Walker	5
J. H. Plummer	5
Atlas Loan Co.	7½
McCuaig Bros. & Co.	10

The total purchases of the syndicate during its operations were $2,609,183.72, and its total sales were $1,127,846.11, having a balance of $1,481,337.61, representing the cost to the syndicate of 11,400 shares, which were distributed on 30th April, 1903, when the syndicate was dissolved.

Mr. Cox was himself interested in Dominion Coal stock, having had a holding as far back as 1898.

The Dominion Securities Corporation had borrowed $500,000 at 5 per cent from the Canada Life Assurance Company, secured by the guarantee of the Central Canada

Loan and Savings Company, being one of the loans by the Canada Life on the Dominion Coal stock mentioned above, the moneys for that purpose having been largely borrowed by the Canada Life Assurance Company at 5 per cent. In connection with this loan the Canada Life Assurance Company secured from the Dominion Securities Corporation an option to purchase a thousand shares of the stock at 70, which was subsequently exercised, the transaction being part of the purchases totalling $447,500 above referred to.

In April, 1903, the Canada Life Assurance Company's board authorized the purchase of 1,000 shares of Dominion Coal Company stock, together with 1,000 shares of another stock (Twin City), and in connection with that purchase Mr. Cox states that the Bank of Commerce, of which he was the president, was acting in concert with the Canada Life Assurance Company, purchasing a like quantity of both stocks. He also states that the object of the purchase was to strengthen the market, as the market for these securities was then declining, and to protect his own holdings and the market generally. This is manifest, because, so far as the Canada Life Assurance Company was concerned, its holdings although the market was falling, might then have been disposed of at a profit.

Investments were also made by the Canada Life Assurance Company in the bonds of the Dominion Rolling Stock Company and the Cape Breton Real Estate Company, subsidiary companies of the Dominion Coal Company, of $275,000 each. An investment was also made in the bonds of the Dominion Iron and Steel Company to the extent of $100,000.

The transactions by way of purchase with the Central Canada Loan and Savings Company, the other self of Mr. Cox, and with the Dominion Securities Corporation, the creature of the Central Canada Loan and Savings Company, were numerous and profitable to those institutions. Following is a summary of them:—

1900—	Ottawa Electric Bonds	$ 269,000
	Toronto Railway Bonds	200,000
	Canadian Northern Bonds	200,000
	Canadian Northern Land Grant Bonds	300,000
1901—	Toronto Railway Bonds	50,000
	Toronto Electric Light Bonds	350,000
	The Kingston and Pembroke Ry. Bonds	300,000
1902—	Toronto Railway Bonds	25,000
	Bay of Quinte Bonds	150,000
	Dominion Rolling Stock Co.	300,000
1903—	Imperial Rolling Stock Co. (Trust Account with Central Canada Loan and Savings Co. and Canadian Bank of Commerce)	1,333,000
	Montreal Light, Heat and Power Bonds	250,000
	Wyandotte & Detroit Railway Bonds	50,000
	Père Marquette Railway Bonds	250,000
	Vancouver Power Bonds	250,000
	Lake Erie and Detroit Railway Bonds	25,000
1904—	Minneapolis Street Railway Bonds	25,000
	Union Electric, St. Louis	200,000
	Hamilton Cataract Power	100,000
	Cape Breton Real Estate Bonds	180,000
	Dominion Rolling Stock	80,000
	Sao Paulo	200,000
	Crow's Nest Electric L. and P. Bonds	125,000
	Toronto and York Radial Bonds	100,000
	Morrissey, Michel and Fernie Bonds	100,000

1905—	Winnipeg Electric Railway	$ 25,000
	Niagara, St. Catharines and Toronto Bonds	50,000
	Grand Trunk Pacific Bonds	125,000
	New Brunswick Coal and Railway Bonds	50,000
	Lindsay, Bobcaygeon and Pontypool Bonds	500,000
	La Clede Gas Co., St. Louis	100,000
	Dominion Coal Bonds	71,000
	Shawinigan Water and Power Bonds	250,000
	Portland Electric Bonds	100,000
	Imperial Rolling Stock Bonds	250,000

These transactions indicate to your commissioners that the funds of the company were employed with the utmost freedom in transactions with institutions in which Mr. Cox was largely interested. In many of these transactions the conflict of Mr. Cox's interest with his duty is so apparent that the care of the insurance funds could not always have been the sole consideration.

A transaction having a different significance should also be referred to. In October, 1902, a large loan was made by the company to A. E. Ames & Co., upon the security of the Metropolitan Bank and Sao Paulo stock. At December 31, 1902, the loan amounted to $389,500, and was secured by 1,800 shares of Metropolitan Bank stock and 1,040 shares of Sao Paulo.

On that day, being the last day of the year, A. E. Ames & Co. appear to have discounted a note with the Canadian Bank of Commerce, out of the proceeds of which they paid off the loan from the company, and the parties went through the form of releasing or transferring the securities; but on January 2, 1903, the company paid off the bank and received the shares back.

Although it is represented that this transaction did not result from a desire to conceal this loan from the Insurance Department, it was certainly calculated to have that effect, and it is impossible to give credence to the theory that there was any real paying off of the loan, in view of the circumstances.

There should be borne in mind also the letters of September 10, 1902, and December 15, 1902, from the Department to the Minister of Justice, in which securities of the Sao Paulo class were being questioned. It is difficult to believe that there was no connection between the raising of the question by the department and the temporary calling in of the loan at the critical date of the annual return.

THE SUN LIFE ASSURANCE COMPANY OF CANADA.

This company was incorporated in 1865 by an Act of the late province of Canada (28 Vic., cap. 43), under the name of 'The Sun Insurance Company of Montreal.' As incorporated, the company had powers in respect of fire, marine, accident and guarantee insurance, as well as in respect of life insurance; but, with the exception of some accident insurance, which may be disregarded for the purpose of this report, none of the powers conferred by the Act, except in respect of life insurance, have ever been exercised, and the powers in respect of fire and marine insurance were expressly taken away by subsequent legislation.

The original capitalization provided by the Act was $2,000,000, in shares of $100 each.

Section 16 of the Act, which provided for the sharing of profits with policyholders, was as follows :—

> 'It shall be lawful for a majority of the said directors, if they shall deem it for the interest of the said company, to return to the holders of policies or other instruments, such part or parts of the actual realized profits of the company, in such parts, shares and proportions, and at such times and in such manner as

the said directors may deem advisable, and to enter into obligations so to do either by endorsements on the policies or otherwise; provided always, that such holders of policies or other instruments shall not be held to be in anywise answerable for the debts or losses of the said company, beyond the amount of the premium or premiums which may have been actually paid up by him, her or them.'

The Act further contained a provision that before commencing the life department of the business, $800,000 of the stock should be subscribed for, and an additional sum of $100,000 paid up and invested in securities of the province, for the special security of the assurances on lives to be effected with the company.

The powers of investment conferred by this Act are subsequently the same as those conferred upon the Canada Life Assurance Company by its original Act of Incorporation.

The Act also made the corporate rights conferred by its subject to the provisions of any general enactment thereafter to be passed with reference to insurance companies or the business of insurance.

In 1870, before the company had commenced to do business, the Act was amended (33 Vic., cap. 58).

By the amending Act the Act of Incorporation was extended, so that the capital stock was to be $1,000,000, with power to increase the same in sums of not less than $1,000,000 to a sum not exceeding $4,000,000.

The general privileges of insurance companies with respect to obtaining licenses on the deposit of $50,000 were extended to the company as fully as if the company had complied with the requirements of the original Act.

The business of life and accident assurance was to be established and maintained as a distinct branch of the business, and the authorized capital stock of $1,000,000 was to be applied solely to that branch, with a power of increasing the same to $2,000,000.

The similar provisions made in respect of fire, marine and guarantee insurance, which were to be established and maintained as a distinct branch under the name of the General Branch, may be disregarded, save to observe that there were to be seperate accounts of stock, and the expenses, profits, claims, losses, liabilities and assets under that branch were to be kept separate.

Section 11 forbade any director or other officer to borrow the company's funds or become surety for any borrower.

The securities which the company might hold were to include the securities of the Dominion of Canada or of any of the provinces comprising the Dominion.

In the following year the company began business, and obtained an Act of Parliament (34 Vic., cap. 53), changing its name to the Sun Mutual Life Insurance Company of Montreal, and restricting the powers of the company to life and accident insurance, repealing for that purpose all inconsistent provisions of the incorporating and amending Acts.

Two further Acts may be referred to, both Acts of the Parliament of Canada; one, the earlier, passed in 1882 (45 Vic., cap. 100), again changing the name of the company to the Sun Life Assurance Company of Canada; reducing the qualification of directors from 50 to 25 shares and giving the company, in addition to the powers given by the Act of Incorporation in respect of investments, the power to

> 'invest their funds, or any part thereof in the public or other securities of Great Britain or any of her dependencies, or of any foreign state or states, whenever it shall be necessary so to do, in order to enable the company to carry on business in such foreign state or states, and in such manner as the directors may elect, and may, from time to time, vary or sell the said securities and investments, or pledge the same as occasion may require; provided always, that the investments of the company in the securities of any foreign state or states for the purpose of carrying on business therein as aforesaid, shall at no time exceed the amount necessary

to enable the company so to do in accordance with the laws of such foreign state or states.'

The other Act was passed in 1897 (61 Vic., cap. 82), and makes further provision in respect of the powers of investment, in the following terms:—

'The Sun Life Insurance Company of Canada, hereinafter called "the company" may, in addition to the powers heretofore conferred upon the company, invest its funds in ground rents on real estate or mortgage security thereon, in any province of Canada, and in or upon any bonds or debentures of any state of the United States, or of any municipality in the United States, or in mortgage on real estate therein; but the amount so invested in the United States shall not at any time exceed the reserve upon all outstanding policies in force in the United States; and such reserve sall be calculated upon the basis prescribed by the Insurance Act.'

The company commenced business in 1871 with a subscribed capital of $500,000, of which 10 per cent was paid up, and in 1876 another 2½ per cent was paid up, making the the total paid up capital $62,000. The paid up capital remained at that figure until 1897, the company having in the meantime prospered and no other capital being at any time required.

In the year 1897, however, the company was proposing to enter into business in the State of New York, and under the law of that state was required to have a paid up capital of $100,000. This was arranged for by an issue of further capital stock to the amount of $200,000, at a premium of $30 per share, and the new stock so issued was called up to the extent of 15 per cent. The total amount received by the company, therefore, in respect of each share of the new issue was $45, of which $15 was on account of the share and $30 the premium. At the same time a bonus of 2½ per cent was declared upon the original subscription of $500,000, making that also stock upon which 15 per cent had been paid. This bonus was paid out of the profits of the company.

From 1897 down to the present time, therefore, the total capitalization of the company has been $700,000, upon which 15 per cent or $105,000 has been paid up, disregarding, of course, the premium of $30 per share upon the issue of 1897.

The company did not at that time extend into the State of New York, because of a requirement of the Insurance Department of that state that $10,000 should be deposited to cover and secure the expense of preliminary investigation, which the company declined to do.

It is made plain by the evidence that the issue of new stock was not necessary for any financial reason connected either with the operations of the company in Canada or with the proposed extension into the State of New York.

It is to be observed that the management of this company have had differences with the Department as to their investments, and as to the classification of accounts and other matters of detail. The company has constantly adhered to its own view without regard to the view of the Department.

In the conduct of the affairs of the company there does not seem to have been any serious diversity of view among the directors. Although the president and secretary (Mr. Robertson Macaulay and Mr. T. B. Macaulay), own or control only 1,740 shares out of the 7,000, it has appeared that the policy of the president has been always adopted by the Board of Directors to as great an extent as if there had been a more absolute control of the stock. The personnel of the board has remained practically the same since 1891, the only changes being the removal of some of the members by death and their places being filled.

It was disclosed in the evidence that the company invested in the securities of a certain undertaking, and portions of these securities were handed over to certain members of the board on the same terms as the company acquired its holding. It is

reasonably clear that by this transaction the members of the board so obtaining these securities did so on more advantageous terms than would have been possible for them as individuals. It is claimed that this was in pursuance of an arrangement made when the acquiring of the securities was discussed at the board, but there is no written evidence of such arrangement. The verbal testimony does not even establish that there was any proposal, when the matter was before the board, by any director but one that the investment should be shared with any of the directors of the company, and as to that single director there is a complete absence of proof that he specified any particular quantum of the stock, or that either he or the company became in any way bound to divide the purchase. It had to be conceded that if, before the transaction was carried out, either he or any other director had sought to enforce the alleged understanding, he was not in a position to do so; and also that, if the investment had turned out to be an undesirable one, it would have been impossible to enforce upon either the director mentioned or any of the other directors any obligation to take any share in the venture.

The theory of the company has always been that the capital stock was entitled to interest, besides its ascertained share of profits. So far back as 1892, interest has been allowed in addition to such proportion of the profits as the directors chose to allot to shareholders. A shareholders' account has been kept, to which has been credited not only the interest but also the proportion of the profits allotted to them from time to time, and it is out of this account that the dividends have been declared.

During 1891, and the first half of 1892, dividends at the rate of 12 per cent, and since and including the latter half of 1892, at 15 per cent, have been declared, besides the bonus of 2½ per cent upon the old stock in 1897.

Carrying to the credit of the shareholders' account the ascertained proportion of profits and interest has not, however, enabled the company to pay these dividends, and from time to time the directors have resorted to various devices for the purpose of increasing the shareholders' account, so as to enable it to pay the dividends which have been paid.

The first of these devices was to credit the practically defunct accident branch with considerable sums of money, upon the theory that that branch in years past had been charged more than its proportion of the general expenses of the company. The accident branch being so credited out of the current profits, the sums so credited were brought into the shareholders' account for the purpose of augmenting it and so enabling the dividends to be paid. Three sums were so credited to the accident branch and brought in to the detriment of the policyholders and in case of the shareholders; $2,000 in 1895; $4,000 in 1900; and $30,000 in 1902; and the evidence is that there are still at the credit of the accident branch considerable sums of money, the intention being to bring these also into the shareholders' account. It is manifest that in revising the charges made in past years to the accident branch, the directors of the present day have undertaken to overrule what may be presumed to have been the well informed and deliberate decision of the directors of former years as to the proper proportion of expenses to be charged to that branch, and your commissioners think it clear that the revision was undertaken solely as a device for maintaining the shareholders' account.

Another improper means by which the shareholders' account has been enabled to provide the dividends paid to shareholders is by similarly revising the rate of interest allowed upon capital in addition to its share of the profits in past years. The method adopted has been to go through the years as far back as 1877 and to allow, instead of the rates which were allowed, a rate of 6 per cent, which has been improved at 6 per cent, compound interest, from 1877 down. The result of this has been to bring into the shareholders' account $9,088.34 (in 1901).

A third method of swelling the shareholders' account has been to go back to the year 1897, when the new capital was issued at a premium of $30 per share, and to bring into the general shareholders' account interest, compounded at 6 per cent, upon

that premium. This revision of the earlier dealing with this premium, to the prejudice of policyholders, was also, in the opinion of your commissioners, improper. In this way the shareholders' account was swollen in 1905 by the sum of $37,930.73.

Still a fourth method of maintaining the shareholders' account was to take out of moneys realized upon the sale of investments large sums, in addition to the proportion of profits allotted to the shareholders. This is claimed to have been done by way of anticipation of profits to be ascertained and declared in the future, the suggestion being that when the time arrives for the distribution of these profits, the shareholders, upon the principle of distribution which has been adopted, will be entitled to the sums so forestalled, or greater sums.

In many respects the methods of bookkeeping adopted by this company are not only defective but likely to mislead and deceive. An account has been maintained, under various names, having as its ostensible object the recording of profits and losses on the sale or realization of investments in the nature of stocks and bonds. In the main, the credit side of this account is, though incomplete, intelligible in principle, assuming the propriety of this method of bookkeeping, inasmuch as it records actual cash profits made on the sale or realization of securities. As this account has grown in magnitude and importance, however, the cash profits shown upon the credit side have been made use of by means of fictitious entries upon the debit side to confuse and conceal the true state of other assets and investments of the company, and its income and expenditure. Assets and securities in respect of which there has been depreciation, anticipated loss or loss in fact have been treated as made good out of the profits shown upon the credit side of this account. An an example, large arrears of interest upon certain mortgages have been made to appear as having been collected, the profit made upon the sale of other securities (stocks and bonds) being depleted for that purpose.

Expenses which ought to have been included in expense account and returned as expenses in the government returns, have been similarly wiped out and concealed by being taken out of these profits.

Balance due from agents, which were not entitled to be treated as assets, have been made good out of the same source.

In connection with the agents' balances another irregularity, which does not concern the account just dealt with, should also be referred to. Where there has been a considerable balance bue by agents 'A,' 'B' and 'C,' and a considerable balance due by the company to agents 'X,' 'Y' and 'Z,' the latter being an undoubted liability, and the former an asset which the company was not entitled to include in its return, the one has been set off against the other so that, to the extent of the excluded asset, the admitted liability has remained undisclosed.

This company's favourite field for investment has been securities of companies promoted for the establishment of what are called public utilities. The policy of the directors has been to invest in these promotions at an early stage, with the hope of reaping such advantages as the development of these schemes promised.

One feature of these investments which has apparently recommended itself particularly to the Board of Directors has been the allotment or distribution of what are called 'bonus' stocks among the subscribers to the early issues of bonds, and the company has purchased largely bond securities of enterprises of this kind, receiving therewith the bonus stocks and holding the latter with a view to their ultimately earning dividends and so acquiring a market value.

Among these enterprises is that of the Shawinigan Water and Power Company. This company's stock did not represent any real investment of capital, but was issued as fully paid up. The promoters of the scheme found the money for its development by issuing and selling to the public the bonds of the company secured upon the undertaking, the lure to the public being gilded with accompanying transfers of the stock by way of bonus. This familiar method of promotion—objectionable though it is in the opinion of your commissioners—is not uncommon in the history of such

enterprises, and seems to have appealed strongly to the speculative instincts of the board.

In May, 1901, a purchase was made by the company of the bonds of this enterprise for $50,000, par value, at 95; and in February and March, 1902, two other purchases were made, each of $25,000 par value, both at 98, making altogether a purchase of $100,000 of these bonds, par value. The capitalization of the company was $6,000,000, of which it was stated that $5,916,500 had been issued as fully paid up. Mr. T. B. Macaulay says that he did not at all suppose that anything like that sum of money had ever been put up by anybody in cash or in assets.

At that time the Shawinigan Company was authorized to issue bonds to an amount not exceeding 75 per cent of the paid up capital, and it was part of this issue that the company so purchased. It is not clear that at the date of the purchase the Shawinigan Company was in operation, though Mr. Macaulay says his recollection is, 'that the plant was in partial operation, but was not complete.'

In November, 1902, the Shawinigan Company borrowed from the Sun Life Assurance Company $250,000 at 6 per cent, upon the security of bonds of a new temporary issue, to the par value of $313,000, the lenders receiving as the consideration for the loan a bonus in so-called paid-up stock of the company to the par value of $125,000.

In May, 1903, a further loan upon the temporary bonds of the Shawinigan Company was made, the sum loaned being $100,000, and the security pledged being bonds to the par value of $111,000. The lenders in this case received 15 per cent of the amount loaned (or $15,000), in so-called bonus stock.

The earlier of these two loans seems to have been part of a total underwritten loan of $650,000, the company being a subscriber with others to the amount loaned by it; and the later of the two loans was apparently part of an underwriting of a total loan of $250,000.

Both these loans matured in November, 1903, and it was then arranged that interest upon the loan, amounting to $6,500, should be capitalized, making the total amount of the loan $356,500. At this date the company was pressing vigorously to have the loan paid off, and indeed was not in funds to carry it. The end of the year was approaching and the banking account of the company would have shown a large overdraft had some arrangement not been made. It was agreed that the Merchants Bank—which was the banker of the company—should loan $200,000 upon the note of the Shawinigan Company, endorsed by the Sun Life Assurance Company, and should take over a proportionate part of the securities held. This left the company carrying $156,500 of the loan, including the $6,500 of capitalized interest, and the Shawinigan Company agreed to hand over further bonus stock to the extent of 10 per cent upon the whole debt so arranged, or $35,700, including the bonus upon the capitalized interest.

By the arrangement the bank was to receive a proportionate part of so much of this bonus as was attributable to the $200,000 assumed by it, having regard to the time during which the bank's money should remain lent. The note to the bank was at six months from the 19th November, 1903, and, therefore, would have matured on the 22nd May, 1904; but on the 1st March, 1904, the Sun Life Assurance Company borrowed $200,000 from the bank, paid the note and took back the securities and the bonus stock, less $3,500 of that stock, the bank's share. The Shawinigan Company was paying 6 per cent, and the Sun Life Assurance Company paid the bank 5 per cent for the money loaned to release these securities. The company was then reinstated in the position of lender to the Shawinigan Company, to the extent of $356,500, for which they held bonds to the value of $424,000 in pledge, and in respect of which they held and were entitled to retain bonus stock to the face value of $172,200. This, of course, was in addition to the $100,000 of bonds which they had directly purchased in 1901 and 1902. In August, 1904, the $100,000 of bonds were sold at a profit, and in the same month, or in September, the loan was extinguished by the company becoming purchasers of bonds to the extent of $411,000 par value, without any bonus stock, at 85 and interest. In 1905 these bonds were also sold at 90 and interest, so that a profit was made in respect of them also.

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The $172,000 of bonus stock continued to be carried by the company, and was omitted from the government returns.

The connection of the Sun Life Assurance Company with the public utility enterprise now included in the Illinois Traction System forms an important chapter in the history of the company.

In the fall of 1902 the management of the company, which has always apparently been surrounded by an obedient board, took up the policy of extending the company's investment in the direction of traction and kindred schemes. It is manifest that the reason underlying this important change in the company's policy was that mortgage and municipal securities and the like did not offer sufficient opportunities for making large speculative profits. At page 2890 of the evidence Mr. T. B. Macaulay says:—

'I know our policy was to dispose of municipal debentures.

'Q. They were only bringing 4 or 4½? A. Yes, and we considered it good investment to drop those things and take up this one,............

'Q. Was not the great inducement to go into this rather than to go into other investments of an equally safe character, the fact that out of this you hoped to reap large profits in addition to the interest on your money? A. Undoubtedly. We consider safety is the first thing, but if we have the choice of two investments equally safe, then we are bound to take the one with the best return.

At page 2885 he says:—

'We were abandoning mortgages and of all the new forms of investments that opened before us, we considered that traction securities were the most desirable for many reasons.

'Q. Now, you have just stated in the last sentence that you uttered, an answer to my question; you were abandoning a class of security which you had been investing in largely in the early part of your history—that is mortgage securities—and you were seeking to substitute what you considered the most desirable form of investment that you knew of, that is these traction securities? A. Yes.

'Q. And that, you say, was the policy which you were advocating. A. Yes.

'Q. Were you enquiring........among those who were projecting roads, or among those whose enterprises were complete and in a fairly satisfactory position, or how were you doing in regard to that? A. We wished to see in the first place all those that we had already any of the bonds of, and then while we wished to get a grasp of the entire situation, for educational purposes, yet we wished principally to get into touch with companies that might be likely to bring out securities of their own in the near future. Companies that were absolutely completed and would not be likely to bring out any new securities would not interest us, because we had business in view, and we wanted to get into touch with corporations likely to have bonds issued.

'Q. I take it you wanted to get into touch with corporations which were projecting works?—A. Yes.

'Q. So that you might furnish the money for financing the works and so have your securities a charge upon the undertaking?—A. Yes.'

In pursuance of this policy the management laid before the board on November 4, 1902, a proposition looking towards the carrying out of this policy, and the result was that Mr. T. B. Macaulay and Vice-President Kingman were authorized by the board to visit the States of Ohio, Indiana, Illinois and Michigan 'to look over the whole ground.'

Before starting upon his mission, Mr. Macaulay addressed thirty-five circulars to persons whose names he found in the Street Railway Supplement to the Commercial and Financial Chronicle of New York, all of them being presidents or managers of companies which seemed likely to be engaged in enterprises suited to the management's new policy. Among those from whom replies were received was a gentleman named McKinley, of Champaign, Ill.

Mr. McKinley, who is a professional promoter, describes himself as:—

'The manager of about a dozen gas, electric light, street railway and inter-urban railway properties which I have promoted and financed in the east.'

He says:—

'New *propositions are offered me constantly*, many of which are not attractive and some occasionally have a great deal of merit.'

Among other propositions which his reply puts before Mr. Macaulay are two, one of which is spoken of as the Danville property, and the other as the Gas, Electric, Light, Steam Heat and Street Railway Systems of Urbana and Champaign. These two properties and the connecting link of a projected inter-urban railway between them, were the nucleus of the Illinois Traction System.

Mr. Macaulay and Mr. Kingman proceeded to Chicago, saw a large proportion of the field which they had intended to cover, and spent 'between one and two days' of the time in looking over Mr. McKinley's scheme. Subsequently Mr. McKinley visited Montreal, and the matter began to take shape. The ultimate plan adopted was to form a parent company, whose assets should be the capital stock of certain subsidiary companies; that the Sun Life Assurance Company should find the money for the purpose of purchasing the subsidiary stock in pursuance of this plan, and that the subsidiary companies should then issue their bonds which were to be given to the Assurance Company in payment of its advances.

It was arranged that Mr. McKinley should put up one-third of the cash necessary to purchase these various stocks, and that the Assurance Company should put up two-thirds, and that in the end the Assurance Company and Mr. McKinley should be equally interested in the financial results. The company put up its share in the form of loans to Mr. McKinley, with which the stock was purchased. Between January and March, 1903, the Assurance Company advanced to McKinley, $365,400, with which he purchased the shares of two contemplated subsidiaries, the Vermilion Railway and Light Company, and the Urbanas and Champaign Railway. Gas and Electric Company. The parent company then proposed to be incorporated was to be known by the name of 'The Illinois Railways and Light Company.'

The two subsidiaries whose stock had so been purchased appear to have been united in a further subsidiary company, known as the Danville Urbana and Champaign Railway Company, and that company's bonds, to the extent of $1,000,000, were equally divided between McKinley and his associates upon the one hand, and the Assurance Company and certain of its directors and their friends on the other hand.

The $500,000 to which the Assurance Company was entitled was distributed as follows:—

The Assurance Company received bonds to the extent of $406,000 in discharge of the debt of McKinley for $365,400.

The President of the Assurance Company received $13,000 of the same bonds; the secretary, $50,000; Mr. H. R. Macaulay, $10,000; Director Kingman, $10,000; Director Tasker, $6,000; and a Mr. Stevenson, $5,000; all of which was paid for at the advantageous rate for which the Assurance Company had stipulated.

It seems manifest that from the first the management of the Assurance Company was actively engaged in the promotion of the parent and subsidiary companies. They were to nominate one-half of the board of the parent company which was to own all the subsidiary companies' stock. From the beginning Mr. T. B. Macaulay controlled and managed all that was done, no doubt consulting Mr. McKinley from time to time, but retaining with a firm hand the reins of management. This is made abundantly manifest by the correspondence between himself and the attorney whom he nominated.

The first parent company was incorporated in the State of New Jersey and its capitalization was $3,000,000, which was equally divided between the Assurance Company and its directors and friends mentioned above upon the one hand, and Mr. McKinley and his associates upon the other. Of the $1,500,000 of stock which fell to the Assu-

rance Company, $1,218,000 was taken by it; $39,000 by the president; $150,000 by the secretary; $30,000 by H. R. Macaulay; $30,000 by Director Kingman; $18,000 by Director Tasker; and $15,000 by Mr. Stevenson. This bonus stock was, of course, issued to them as fully paid, and the other $1,500,000 was issued to McKinley and his associates in the same way.

Mr. Macaulay and Mr. McKinley were naturally looking about for other subsidiary schemes and companies to be brought within the domain of the parent company. Indeed the policy upon which the management of the Assurance Company had embarked prevented them from standing still. To extend and consolidate their interests was a vital necessity. Others were seeking to occupy the field which they had opened, and to have permitted this would have been to invite disaster. Accordingly in December, 1903, we find another subsidiary company incorporated, called the Decatur, Springfield, and St. Louis Railway Company. This company purchased the Decatur Street Railway, a local undertaking, and was intended to acquire certain gas and electric franchises in that city and to build a line of railway from Decatur westward to Springfield. Difficulties arising, however, under the state law, the proposition assumed a somewhat different form. Three subsidiaries were substituted for the proposed Decatur, Springfield and St. Louis Railway Company: (1) The Decatur Light Company, to acquire and operate the Decatur Street Railway and the Decatur gas and electric franchises and plant. (2) The Illinois Central Traction Company, to build a railway between Decatur and Springfield, and (3) The St. Louis and Springfield Railway Company, to buil a railway from Springfield south towards St. Louis. With regard to the enterprises which the parent company had thus to purchase, $780,-000 of its stock was issued by way of purchase money to the vendors.

At the same time a new parent company was formed called The Illinois Traction Company. This company was incorporated in the State of Maine to escape the corporation tax of the State of New Jersey. The capitalization of the new company, which acquired all the assets of the old company, was originally $4,000,000, divided as follows: $1,600,000 preferred and $2,400,000 common stock.

As the subsidiary enterprises have grown and multiplied capitalization has increased, and the total authorized amount now is $11,000,000, of which $4,000,000 is preferred and $7,000,000 common. The actual amount outstanding is $3,274,300 prefered, of which at the time the matter was made the subject of inquiry before your Commissionners the Assurance Company held $658,900, and $5,822,000 common, of which the Assurance Company holds $3,625,400.

The holdings of the Assurance Company are all bonus stock. $580,000 of the preferred stock, however, was acquired for the company and some of its directors under the following circumstances: Mr. McKinley offered this $580,000 of preferred stock to the Assurance Company in exchange for bonds of subsidiary companies to the amount of $353,000.

This was considered a desirable transaction by the management, and it was arranged and carried out about December 31, 1904. Subsequently some of the directors claimed that there had been an understanding at the board meeting when the transaction was authorized to be carried through, that they should be permitted to take part in this purchase of preferred stock, and a month later entries were made by which the transaction was put upon that footing. This is the transaction in respect of which your Commissioners have already pointed out that there was no minute at the board meeting of any such arrangement, and that it had to be conceded that there was no binding arrangement which could have been enforced either by or against the directors. The directors in this manner acquired $223,100 out of the $580,000 of preferred stock, as follows: T. B. Macaulay, $94,900; A. Kingman, $4,600; R. Macaulay, $48,100; S. H. Ewing, $20,000; J. R. Dougall, $5,000; MacPherson estate, $2,500.

The preparation and signing, in the following September, by R. Macaulay, S. H. Ewing, A. Kingman and J. R. Dougall of a memorandum intended to explain and

justify this dealing with the directors, in the opinion of your Commissioners indicates doubts on the part of the directors themselves as to the propriety of the transaction.

It is unnecessary to follow the course of development of the enterprises of the Illinois Traction Company. Below will be found a list of the subsidiary companies, with a statement of their bonded debt, and of the investments, so-called, of the Assurance Company in the various bond issues. This, of course, is in addition to the enormous holding of bonus stock, both preferred and common.

Company.	Bond Issue.	Bonds owned by Sun Life.	Ledger value of bonds.
	$	$	$
Bloomington & Normal Ry. Electric & Heat Co.	600,000	None	
Bloomington & Normal Ry. & Light Co.	450,000	450,000	382,500
(This issue is subject to the $600,000 mentioned in the preceding line.)			
Central Railway Co. of Peoria	570,000	None	
Chicago, Bloomington & Decatur Ry.	1,000,000	454,000	385,900
Consumers Light & Heat Co.	180,000	180,000	153,000
Danville G. E. L. & St. Ry. Co	24,000	None	
Danville St. Ry. & Light Co.	673,000	None	
Danville, Urbana & Champaign Ry. Co.	1,650,000	"	
D. U. & C. Ry. Co. 2nd mortgage	328,000	328,000	285,934
(Subject to issue of $1,650,000 mentioned in preceding line.)			
Danville & Northern R.R.	17,000	None	
Decatur Gas & Electric Co.	90,000	"	
Decatur Gas & Electric Co.	300,000	None	
Decatur Ry. & Light Co.	600,000	"	
Decatur Traction & Electric Co.	212,000	"	
Illinois Central Traction Co.	1,370,000	"	
Jacksonville, G. L. & C. Co.	175,000	"	
Jacksonville Ry. Co.	34,000	"	
Jacksonville Ry. & Light Co.	375,000	169,000	143,650
(Subject to issues of $175,000 and $34,000 mentioned in preceding two lines.)			
Peoria, Bloomington & Champaign Traction Co.	1,333,000	1,052,000	894,200
Peoria Railway Co.	2,750,000	690,000	617,898
Peoria Traction Co.	353,000	353,000	300,000
(These two bond issues Peoria Ry. Co. $690,000 and Peoria Traction Co. $353,000 are subject to the bonds of the Central Ry. Co. $570,000 mentioned above.)			
Springfield & North Eastern Traction	470,000	470,000	399,500
St. Louis Decatur & Champaign Ry.	760 000	760,000	646,000
St. Louis & North Eastern Ry. Co.	2,390,000	2,378,000	2,021,300
St. Louis & Springfield Ry. Co.	1,520,000	616,000	536,410
Urbana Light, Heat & Power Co.	51,500	None	
U. & C. Ry. Gas & Electric Co.	202,000	"	
U. & C. Ry. Gas & Electric Co (Consolidated)	274,000	"	
	18,760,000	7,900,000	6,756,292

It is plain to your Commissioners that the large interest of the Assurance Company in these various enterprises is greatly in excess of the limits of reasonable investment. Apart from any question of statutory power, it seems to your Commissioners that to engage the funds of an insurance company in enterprises of this character to such an extent as necessarily to involve the directors of the insurance company in promotion, construction and management, is foreign to the purposes of an insurance company and calculated to imperil its funds. In the opinion of your Commissioners, the embarking upon such enterprises is no legitimate function of an insurance company and is a misuse of powers of investment, however wide. It does not seem to your Commissioners that the success or failure of any particular undertaking has any bearing upon the question of principle involved, or affords any true standard of propriety. Other enterprises, similar in character, as will be seen in a later part of this report, have ended in serious loss, although the directors were so sanguine in regard to them as their evidence showed them to be in the case under discussion.

Mr. Macaulay, who no doubt voiced the company's policy in this respect, was apparently much alarmed at the suggestion that these securities should now be converted at a profit as he claimed to be possible. He looked upon this suggestion as involving an 'awful sacrifice to the policyholders.' (page 2919).

'Q. You say you could realize at a profit? A. We certainly could.

"Q. But you would be abandoning all ideas of these grand prospective profits which you see in the future.—A. Precisely. We would be giving that over to the brokers and speculators.'

Notwithstanding the magnitude of the amount already at stake, the field is not yet completely occupied. Mr. Macaulay says: (page 2919.)

'Q. With these large views of yours, for the future of this traction scheme, you no doubt expect and intend to put large sums of money in it in addition to what you have put in.—A. My idea is that the Illinois Traction Company, as a field for investment, will be one into which money can be put with profit for about another couple of years. After that the field will be pretty well occupied and we will have to look elsewhere.

Q. Do you expect and intend to take part in the putting in of further money during those couple of years?—A. Unquestionably.

Q. And you expect and intend to take a large part?—A. Unquestionably.

Q. And bear a large additional expenditure?—A. Unquestionably.'

That enterprises which are so favourably viewed by the management of this company may sometimes fail to answer the large expectation of profit entertained, and may sometimes result in serious loss, is shown in the case of some similar enterprises in which the company engaged.

Among these are what may be spoken of as the Appleyard enterprises. Appleyard occupied the same position with regard to these as McKinley did with regard to Illinois Traction.

The Appleyard enterprises were said by Mr. Macaulay to have had the same inherent merits as the Illinois Traction, and the unsatisfactory result of the operations in them he attributed largely to two circumstances; first, mismanagement by Appleyard; secondly, absence of control by the Assurance Company. He says:—(page 2922.)

'Q. Who was Appleyard? Did he occupy the same position with regard to this system as McKinley did with regard to the other?—A. Yes, except that there was all the difference of a mile between the two men.

Q. But his attitude towards the proposition was the same as the attitude of the other man?—A. Yes, with this difference, that he controlled these other things.

Q. Who?—A. Appleyard controlled the Ohio property, while under the way we fixed things with Mcêinley; Mcêinley did not control them.'

Page 2929:—

Q. You did not invest in these without thinking they were A1 stocks?—A. Yes, but our judgment was not as matured then. It was not sound.

Q. Is this loss wholly explained by want of experience on the part of the investor?—A. We would have had no loss at all but for the wrong doing of Mr. Appleyard.

Q. When you say wrong doing, you mean incompetence?—A. Incompetence and wrong doing, mismanagement right through and through.

Q. Well, do you think that you have any insurance against mismanagement in other quarters?—A. We know that this has taught us one lesson, and that is the importance of control. There was no trouble at all with those properties, except Mr. Appleyard. If they had been controlled by Mr. McKinley, or any other first-class man, there would have been no trouble at all. If we had been able to exercise control in the same way as we have the power in the Illinois Traction Company, not only would we have had no trouble, but we would have made an immense amount of profit. One lesson we draw from this is the importance of being able to control the policy, and doing the thing we have been doing——

Q. And underlying all that is the personality of the man in charge?—A. Yes.'

Page 2930:—

Q. Take, for instance, the Cornwall Street Railway, that did not turn out in its early maturity to be a good investment?—A. No.

Q. And I think practicaly that has involved a life insurance company running it?—A. Fes.

Q. Do you consider that desirable?—A. I do not. Your Honour, we have learnt certain things from our experience with investments.

Q. But you do not mean to say that you have learnt all there is to be learned?—A. No, but when we have learned a lesson——

Q. If you are an apt pupil you would be learning year after year?—A. Yes.

Q. And the thing that seems rosy this year may not be rosy five years later in your experience?—A. Possibly so, but when we have learnt a thing to be bad, we have learned it. The Appleyard lesson burned into us the importance of management, and the Cornwall affair burned into us another lesson, the importance of population. Now there was no trouble at all with the Cornwall Street Railway except the lack of population——

Q. Really do you tell us that you had to go through the experience you had with the Cornwall Street Railway to have that proposition burnt into you, to learn a lesson?—A. In the first place that was our very first investment.

Page 2931:—

Q. You had a considerable experience in Levis County Railway Bonds?—A. Yes, same lesson exactly.

Q. How much?—A. $100,000. I correct that, and say $85,000.

Q. $100,000 bought at 85?—A. Yes.

Q. Did you have to foreclose on your bonds?—A. There was $250,000 of bondholders, and we held $100,000 and the bondholders foreclosed.

Q. Who is running the road?—A. The bondholders.

Q. A life insurance company is taking part in running another road as the result of investment in the traction proposition?—A. Yes, and again there was a very large amount put behind those bonds in hard cash, but the lesson shows the folly of any kind of restriction that limits us to Canadian enterprises. We would not have invested in the Lévis County matter were it not for the restriction.

Q. You did not invest in it knowing it was bad?—A. We had thought it was good, but knowing it was inferior to those in the United States. It was as good as we could get in Canada.'

Speaking of an investment of $500,000 in Montreal Terminal stock, he says; (Page 2932):—

'The Montreal Terminal was another of the very early investments we made when we first began....But it came as a result of that and partly from what we saw in connection with the Central Market (one of the Appleyard stocks) 'that one of our positive rules is that we will not touch a competing road in any city. That is one thing that can be learned from that........In those olden days we had a great idea about the desirability of having a competing city railway, but my ideas have all changed on that point, and I have no use now for a competing city railway.'

The Appleyard transactions began with a series of loans to Appleyard, upon certain traction securities offered by him. They involved altogether advances to about $500,000, and covered securities aggregating about $700,000. There was, in each case, an engagement on the part of Appleyard to repurchase the security at an advance. In the result Appleyard was unable to pay, and the amount of the debt, with the advance added, was $539,000. In August, 1903, an agreement was made by which certain other stocks and bonds aggregating about $1,250,000, par value, and apparently estimated at the time as of a market value of $739,000, were sold at the latter figure by

Appleyard to the company, and out of the proceeds the company paid itself the debt of $539,000, accounting for the balance in cash and other stocks and bonds.

In connection with the securities acquired from Appleyard, the following writings off have taken place:—

Central Market Railway preferred stock (the whole)..	$67,425	$ ....
Central Market Railway bonus stock (the whole..	100,000	....
Columbus, London & Springfield Ry. Co., preferred stock..	....	145,881
" " " bonds.	....	80,000
" " " bonus stock.. ..	227,500	....
Dayton, Springfield & Urbana preferred stock..	....	125,000
" " bonds..	....	5,000
Dayton, Lebannon & Cincinnati bonds..	....	20,000
" " bonus stock..	380,000	....
Totals..	$774,925	$375,881

In respect of the securities whose estimated value in the settlement between the company and Appleyard was $739,000, the writings off in the second column above, aggregating $373,881, were made.

Besides the Appleyard securities, the following investments are noticeable:—

In the case of the Levis County Railway Bonds, which were purchased to the extent of $100,000, at 85, the bondholders, including the Assurance Company, have foreclosed and are operating the road.

In the case of the New Hampshire Traction Company, the Assurance Company bought bonds to the extent of $218,000, par value, paying $198,105 for them, receiving at the same time bonus stock to the extent of $24,000.

In October, 1905, this holding was exchanged for preferred stock of the same company, par value $100,000, valued in the books at $100,000; common stock par value $118,000, valued at $70,800, the balance of the original investment $27,305, being written off. In December of the same year $10,000 was written off the preferred stock, and $40,000 off the common.

The investment made in connection with the Cornwall Street Railway has undergone many changes in form, but in the ultimate result the Assurance Company is operating the railway, having written off its books $100,000 in respect of the investment.

It should be said that in respect of several of these securities, Mr. Macaulay claims that there will not be an ultimate loss, and that in some cases there will be a profit, but the history of the transactions illustrates the precarious and speculative nature of transactions of this class, and, as pointed out above, success or failure furnishes no standard of propriety.

The company's method of accounting with respect to bonus stocks, should be mentioned. The transactions whereby these stocks were acquired involved the acquisition of both bonds and stock in consideration of the payment of money or exchange of securities. It would seem to your Commissioners that under these circumstances the company should show in its books the full amount of both bonds and stocks received as against the consideration given. Instead of this the company has treated the payment made as the consideration for the bonds only, leaving the stocks in its hands as representing no value and involving no outlay or cost. To preserve a record of all the bonus stocks received, an account was kept in which they were entered, the value in each case, irrespective of amount, being placed at the nominal sum of $1.

The result was that the company had in its possession large holdings of bonus stocks, which, it was contended by the officers of the company, were of real and substantial value, upon which no value was placed in the books, and which were not in any way shown in the annual returns made to the Government.

Besides stocks so acquired, the company, as stated above, from time to time wrote off other stocks against which certain values had appeared in their books. This seems to have been done when the opportunity offered as the result of large unusual profits obtained by the company from other securities and when loss occurred or was threatened with respect to the stock so written off.

These stocks, along with the bonus stocks, were treated by the company as forming what is described as its 'contingent account' which, at the date of the hearing included the following stocks, then worth, it was alleged, the values indicated below:

SECURITIES IN CONTINGENT ACCOUNT, SEPTEMBER 30, 1906.

	Par. $ cts.	Cost.	Value. $ cts.
Canton Akron Railway Co.	75,000 00	29	21,750 00
Capital Power Co.	5,000 00	10	500 00
Central Market Street Railway, preferred	74,500 00	Cost.	67,425 00
Cleveland, Painesville and Ashtabula Railway	50,000 00	20	10,000 00
Columbus, London and Springfield Railway, preferred	457,000 00	26½	121,350 00
Cornwall Street Railway Co., preferred	100,000 00	50	50,000 00
Cripple Creek Central Railway, preferred	30,000 00	70	21,000 00
Dallas Electric Corporation	30,000 00	25	7,500 00
Dayton Springfield and Urbana Electric Railway, preferred	250,000 00	40	100,000 00
Detroit, Ypsilanti, Ann Arbor and Jackson Railway	36,000 00	35	12,600 00
Electric Development Co.	188,800 00	50	94,400 00
Flint Ridge Coal Co.	17,560 00	10	1,756 00
Illinois Traction Co.	3,625,400 00	55	1,993,970 00
Jersey Central Traction Co.	18,800 00	25	4,700 00
Kelly Coal Co.	113,750 00	25	28,437 50
Madison County Light and Power Co.	75,000 00	50	37,500 00
Mexican Light and Power Co.	93,500 00	52	48,620 00
Michigan State Telephone Co.	104,300 00	50	52,150 00
Northern Consolidated Holding Co.	90,000 00	10	9,000 00
Rio de Janeiro Tramway L. and P. Co.	221,400 00	43	95,202 00
Springfield and N. E. Traction Co.	1,008,750 00	12½	126,090 00
St. Louis, Decatur and Champaign Railway	74,600 00	110	82,060 00
St. Louis Electric Terminal Railway Co.	75,000 00	25	18,750 00
Urbana Light Co.	52,500 00	20	10,500 00
Vermilion Coal and Coak Co.	28,437,50	50	14,218 75
York Haven Water and Power Co.	16,000 00	100	16,000 00
Yougnstown and Southern Railway	64,000 00	15	9,600 00
	6,975,297 50		3,055,079 25

—the values indicated aggregating in all the sum of $3,055,079.25.

As already stated the company did not in any way show these stocks as of any value in their books or in their returns, and your Commissioners consider that the maintaining of such a large undisclosed asset in the hands of the company indicates the feeling the directors of the company must have had as to the uncertain nature of the enterprises upon which the company was embarked. The result of not disclosing these assets was to enable the company to conceal losses on these or other investments, and the ultimate object, if the enterprises proved to be permanently successful, was to enable the company to show itself in a stronger position than it would have been in, had it confined itself to usual and proper investments.

The accumulation of so large a contingent fund, earned and maintained by the speculative use of the moneys of the company, including for the most part policy-holders' money—especially without giving the present policy-holders the benefit thereof—is, in the opinion of your Commissioners, improper.

Without this contingent fund, which was not disclosed in the returns, the holding of foreign securities was enlarged by the Illinois Traction dealings to a sum largely in excess of the authority to make foreign investments. This was made the subject of correspondence between the Department and the company after the returns made for 1905. It does not appear that the company departed on this occasion from its characteristic course, which was to dispute the correctness of the views put forward by the Department, and to continue holding the position to which objection had been made.

In the case of this company, the Commissioners cannot pass over, without comment, the improper advertising use made by the company of portions of questions

asked by one of the Commissioners during the examination into the company's affairs Wrested from their context, which plainly gave them a hypothetical significance, they are made to serve as final opinions, deliberately expressed, approving of the management of the company in all its details. It is scarcely necessary to say that none of the Commissioners would have thought it fitting to express any final view in advance of their report, and the Commissioners have no doubt whatever that this was quite understood by those who made use of the circumstance in the way mentioned.

THE MUTUAL LIFE ASSURANCE COMPANY OF CANADA.

This company was incorporated in 1869 by Act of the Province of Ontario, 32 Vic., cap. 17, under the name of the Ontario Mutual Life Insurance Company, and was re-incorporated under the same name by Act of Parliament in 1878, 41 Vic., cap. 33, the name being changed in 1901 to 'The Mutual Life Assurance Company of Canada,' by an amending Act, 63-64 Vic., cap. 112.

The company is authorized to carry on the business of life insurance on the mutual principle, and is the only strictly mutual company of Canadian origin carrying on business in Canada.

It is managed by a board of twelve directors, of whom four constitute a quorum, and who qualify upon a policy holding to the amount of $1,000. One-third of the directors retire annually, their successors being elected to hold office for three years. The election is by ballot and each policy-holder is entitled to one vote. The directors have each year appointed an executive committee, consisting of six directors and the manager, who is not a director.

Hon. Mr. Justice Britton and Hon. Mr. Justice Garrow were, at the date of the inquiry, members of the Board of Directors, the former being also Second Vice-President and a member of the executive committee.

The annual meeting is held on the first Thursday in March of each year. No less than one month's notice must be given by advertisement. The notice must also be printed on every renewal notice issued within twelve months preceding the meeting.

The practice has been to publish the notice in Toronto and local newspapers, to print it on renewal notices, and to insert it in Vancouver and Montreal papers, besides printing it on all policies.

Policy-holders may vote in person or by proxy, but their proxies must be filed with the manager at least ten days before they are used. Very few policy-holders attend the annual meetings in person, possibly from thirty to thirty-five, of whom the large majority (twenty-eight in 1906) are agents of the company.

Section 16 of the Dominion Act provides that—

> 'No director or officer of the company shall become a borrower of any of its funds, nor shall any officer, agent or subagent of the company receive, hold or use any proxy or proxies at the meetings of the company.'

A question arose in 1890 as to the right of the president and directors to hold proxies, and the opinion of Mr. Christopher Robinson, Q.C., was obtained. He considered that while the directors were in some sense officers of the company, yet, from the language of the clause quoted and other provisions of the Act, they were not to be regarded as coming within the term 'officers' used in the clause, and that, as the word 'director' was omitted from the clause, they were not within the prohibition. As the president and vice-president must be directors he saw no sufficient reason why they should not also be exempt.

The company has acted on this opinion, and, with the exception of a very few all proxies are held by directors.

The following statement shows the extent to which proxies have been used since 1898, before which date no record was kept:—

Year.	No. of Policyholders entitled to vote.	No. of Proxies.
1898..	13,346	5,966
1899..	14,435	5,730
1900..	15,995	6,090
1901..	17,283	6,405
1902..	18,515	6 111
1903..	20,079	7,246
1904..	21,872	9,315
1905..	23,581	8,848
1906..	25,497	8,501

A printed form of proxy is sent out each year to persons who have insured during the preceding year. In it are printed the names of Robert Melvin, the president and some other director, and it authorizes either of them to vote at all annual and special meetings. A circular letter from the president is also sent asking for the signing and return of the proxy in a stamped envelope inclosed for the purpose.

Should the policy-holder object to the form submitted, or desire to appoint some other person another printed form will, on application, be sent him, in which is left a blank for the name of a single person, but it provides that in the absence of the person named, the president may act as proxy. It was stated that application had not been made for the second form on more than six occasions.

No information is given as to the names of other policy-holders entitled to vote. No application for a list has ever been made, and the manager was unable to say what attitude would be taken if such a request were made; he thought that in such a case he would ask the object of the applicant and would probably put him off until the next meeting of the board, but what attitude the board might take he was unable to imagine.

The result is that the voting power has been almost exclusively in the hands of the board and there has been very little change in its personnel except by reason of deaths.

In 1891 an agent procured enough proxies to elect himself. He was at once required to resign either his agency or his directorship, and went off the board. The director whom he had supplanted was elected in his place. Section 4 of the Company's Amending Act of 1894, 57-58 Vic., cap. 123, enacts that no agent of the company shall, while he is such agent, be elected or continue to be a director of the company, but its provisions are to have no force or effect until they have been approved by a vote of two-thirds of the members of the company at a special meeting. No such meeting has been held.

On one other occasion a person was elected against the wishes of the outgoing board. The intruder remained in office for one year only.

In 1895 the company strengthened the reserves by changing the basis of valuation from the Hm. Table with 4½ per cent to the Actuaries' Table with 4 per cent. On all insurance written during 1900, 1901 and 1902 the basis is the Hm. Table with 3½ per cent, and on all insurance effected since 1902, the Hm. Table with 3 per cent.

Prior to 1897 Mr. I. E. Bowman, M.P., was president and Mr. William Hendry, manager; their remuneration during the last year of office was $2,153.90 to the former, and $4,000 to the latter, making together $6,153.90.

In 1897, on the death of Mr. Bowman, Mr. Melvin was elected president. In the following year Mr. Hendry, who was in ill-health, resigned, and Mr. Wegenast was appointed manager in his stead. The minutes indicate that Mr. Hendry on his retirement was appointed consulting actuary, with an allowance of two-thirds of his pre-

vious salary. It appears, however, that he has not rendered any service to the company in that capacity, nor was it intended that he should. The wording of the resolution was due to the doubts the directors had as to their power to pension a retiring officer.

Since this change the remuneration of the president, manager and directors has been steadily increased, until in 1905 the president was paid $5,241.88, the manager about $6,900, including executive committee fees, and the remuneration of the board of directors, including president's salary, which in 1896 amounted to about $5,000, in 1905 amounted to $13,620.

In explanation of this increase it is pointed out that, during the period mentioned, the amount of insurance in force had about doubled, and the assets of the company had almost trebled.

The investment powers of this company have been specially dealt with from time to time by the Dominion Act of Incorporation and some of the numerous amending Acts: 52 Vic., cap. 96 (1891); 57-58 Vic., cap. 123 (1894); 63-64 Vic., cap. 112 (1900) and 3 Ed. VII., cap. 159 (1903), but the special powers of the company do not in any way exceed the general powers given by section 50 of the Insurance Act.

In practice the company has confined its investments mainly to municipal and school debentures, loans on policies and loans on real estate.

At 31st December, 1903, the company had made loans in advance of its receipts, and had an overdraft in the Molsons Bank, of about $200,000. To cover it up in the annual return the company arranged a pretended sale to the bank of certain municipal debentures amounting to $24,000, at cost. After the first of the year, the securities were to be returned to the company. In the usual course the company received considerable sums of money early in the month of January, 1904, and was able to take up these debentures without showing any overdraft.

THE CONFEDERATION LIFE ASSOCIATION.

This Association was incorporated by Act of the Parliament of Canada in 1871, 54 Vic., cap. 54, with an authorized capital stock of $500,000, and power to increase the same to $1,000,000. Ten per cent or $50,000 of the authorized capital was required to be and was paid up.

In 1881 the stock was increased to $1,000,000, and 10 per cent upon the increased capital was called up and paid out of profits or bonus, 6 per cent or $30,000 in 1881, and 4 per cent or $20,000 in 1886.

The statute was amended, 53 Vic., cap. 45, sec. 2, so as to prohibit in terms anything like centralizing of power, providing that no one person should hold at one time either directly or indirectly, or as trustee or otherwise, more than 500 shares of the capital stock.

By the Act of Incorporation policy-holders who were entitled to participate in profits were declared to be members of the Association, and there was a provision for their representation upon the board, the statute requiring that not less than one half the board should consist of shareholders, and not less than one-third of policy-holders. All the directors were required to be elected by the general vote of all the members, the qualification for a director being a holding of stock or participating insurance to the extent of $5,000, and each policy-holder whose policy amounts to $1,000 or upwards was entitled to vote.

There was no express prohibition against the use of proxies by policy-holders, but in practice the directors have never permitted any such proxies to be used.

The president of this company qualifies as a policy-holder and owns no shares.

The original powers of investment of the Association were somewhat less wide than those now found in the General Act, and the Association has, since the General Act assumed its present form, considered itself to have the powers conferred by the

General Act. As, however, the Association has never extended its business except into Newfoundland, Mexico and the West Indies, some of the important questions which arise in the case of other companies in respect of United States investments are not of moment in the case of this Association.

These original powers have been somewhat extended. Legislation with respect to them will be found in the latest of the two amending Acts, of which there are three; 37 Vic., cap. 88 (1874), 42 Vic., cap. 72 (1879), and 53 Vic., cap. 45 (1890).

There is an express prohibition against directors or officers borrowing the funds of the Association, or becoming surety for any borrower.

As the result of the amendments which have been referred to, the directors have power to charge holders of participating policies with losses, to the extent to which they have been credited with profits during the current quinquennial period, if the losses require it, but your Commissioners were informed that this power has never been made use of.

With regard to the division of profits, the directors are required to ascertain the part of the profits derived from participating policies, and to distinguish such part from the profits derived from other sources, and it is provided that the holders of participating policies shall be entitled to share, to the extent of not less than 90 per cent thereof, in the portion so ascertained and distinguished. It is also provided that the portion of such profits which shall remain undivided upon a declaration of dividend shall never be less than one-fifth of the dividend declared, and quinquennial distribution among participating policies is authorized.

In practice the method of ascertaining profits is said to have been as follows:—

(1) The rate of interest which the investments of the company have earned is ascertained yearly, and interest at that rate is first set apart out of the profits as being interest upon the paid-up capital stock.

(2) The balance of the year's surplus is then divided between participating and non-participating policy-holders, upon the basis of the respective share of each class in the reserve.

(3) The amount so found attributable to non-participating policies is carried to the credit of the shareholders' fund, along with the interest on capital.

(4) Out of the share so ascertained for participating policies, 10 per cent in former years, in later years 5 per cent has been taken out and carried to the credit of the shareholders' fund.

(5) The ultimate balance is treated as the allocation to which participating policy-holders are entitled.

A very large portion of the business of this company is written upon the deferred dividend system. The method which has obtained of dealing with policies of this class has been peculiar, and in the opinion of your Commissioners has not been in accordance with the terms of the policy contract, or with the fundamental principles upon which this species of contract is founded. When a given number of policies have attained contemporaneously their tontine period, the profits arising out of lapses in the original class of which they were members have been treated as belonging, not solely to those of the same class completing the period, but generally, though provisionally, to all deferred dividend policy-holders then alive, irrespective of when their deferred dividend period may arrive. For example, if one hundred persons insure in 1885, with a 15-year period maturing in 1900, and if fifty lapse, the benefits arising from such lapse are not divided among the survivors of the hundred, but are provisionally divided among all persons holding tontine policies who are then alive, without reference to the date of insurance and without reference to the completion of the period.

In 1896 the association, which was then maintaining its reserves upon a 4½ per cent basis, made a change in respect of new business to be subsequently written, providing in respect of such business for a reserve upon a 3½ per cent basis.

After the statute prescribed a change in the rate upon the basis of which reserves were to be maintained, the association made a further provision, in respect of new business from that date forward, placing reserves in respect of such new business upon a 3 per cent basis.

The result is that, in respect of business prior to 1896, the reserves are now maintained upon a 4½ per cent basis; that in respect of business written between 1896 and 1899 the reserves are upon a 3½ per cent basis, and that in respect of business written since 1899, the reserves are upon a 3 per cent basis.

The management of this association has been practically in one hand for many years, the managing director, Mr. J. K. Macdonald, having very wide powers, and exercising them with the practical effect of control. He has treated himself as being authorized without specific authority in the particular instances from his board, to enter into transactions of great importance. His language (speaking of loans upon unauthorized securities), is as follows. (Page 848.)

'Q. I would not expect you to recall everything, but was it customary for transactions of that kind to go through without appearing on the minutes of one of your committees?—A. They would all go upon the records. They would enter into the statements that were submitted from time to time.

'Q. Was the propriety or impropriety of making loans upon such securities as we have been speaking about ever discussed at your board meeting?—A. Never.

'Q. What was the position there with regard to matters of that sort, would the loan be made first and the attention of the committee be called to it afterwards?—A. The loan might be made and then it would appear in the statements as so much on loans on stocks or bonds, whatever it might be, reported through the cash statement.

'Q. You would consider it to be within your power as managing director to carry through a transaction of that sort and report it subsequently, rather than to take authority for it first?—A. Oh, I would consider myself authorized to carry out the transaction of a loan of that kind. That authority is supposed to be exercised by me just the same as the cashier of a bank would.'

Mr. J. K. Macdonald's shareholding at the time of the inquiry was 379 shares. His son, Rev. D. B. Macdonald, had 30 shares, another son, Mr. C. S. Macdonald, 25 shares, a daughter, Miss C. H. Macdonald 45 shares, a daughter-in-law, 10 shares, besides 200 shares which Mr. J. K. Macdonald says he transferred, 100 shares to his son, C. S. Macdonald, and 100 shares to the actuary of the company, Colonel W. C. Macdonald, and as to which he states that Colonel W. C. Macdonald is the beneficial owner.

Roughly, he says, the shareholders' proxies, made out to and held by himself and the president on behalf of the management, represent approximately 2,000 shares.

In 1891 Mr. J. K. Macdonald was in receipt of a salary of $12,000, which was continued to the year 1900 without any increase. In the last named year he received a bonus of $2,000, applicable to the business of the year 1899. In 1901 his salary was increased to $13,000, and in that year he received a further bonus of $1,000. In 1902 his salary remained at $13,000. In 1903-4-5 his salary was $14,000, with a bonus of $1,000 in 1905.

In 1901 Colonel Macdonald, the actuary, was in receipt of a salary of $2,500. In 1892 it was raised to $3,000. From 1893 to 1898, inclusive, it was $3,600. In 1899 and 1900 $4,200, with a bonus of $500 in 1900. In 1901 it was $4,500, in 1902, $5,000, in 1904, $5,500, with a bonus of $500. In 1905, $6,000, with a bonus of $500.

Down to and including the year 1898, the favourite investments with the management of this association were municipal debentures and mortgage securities. In the year 1899, however, the company seems to have become infected with the desire to enter upon the more speculative field of investment offered by bonds and stocks, and

in that year they purchased Commercial Cable bonds to the extent of $15,000. In 1900, $10,000 more of these bonds were acquired, and Bell Telephone Company bonds, to the extent of $9,000, were also acquired. In the same year, the bonds of the Quebec Harbour Trust were purchased to the extent of $75,000, and bonds of the Toronto Hotel Company to the extent of $10,000, with which came $1,000 of bonus stock. In 1901 further purchases of Bell Telephone Company's bonds were made, to the extent of $25,000 in July, and $8,000 in December. In that year also $25,000 of Toronto Electric Light Company bonds were purchased.

It was in this year also that Mexican Government bonds to the extent of $20,000 were purchased, having regard to the extension of the business of the Association into that country. In this year also the Association purchased Calgary and Edmonton Land Company's bonds, to the extent of $45,000.

It is fair to the management of the Association to point out that the powers conferred by the amendment made to the General Act in 1899 were supposed to have considerably widened the range of legitimate investment, and it would appear in respect of all the investments that have been mentioned, with the exception of the Toronto Hotel Company's bonds and the Calgary and Edmonton Land Company's bonds, that the investments were well within the power conferred by the legislation of 62 and 63 Vic., cap. 13 (1899). With regard to the purchase of the bonds of the Toronto Hotel Company, the management seems rather to have been inspired by a feeling of public spirit in connection with the interests of the city of Toronto than by any desire to make a profitable investment, and with regard to the Calgary and Edmonton Land Company's bonds, the investment was thought to be justified on the ground that these bonds covered the real estate of the colonization company, and were, therefore, the equivalent of mortgages upon real estate.

In 1903 the Association made two purchases of bonds, which were not, your commissioners think, in any view within the competence of the Association. Those investments were in Nova Scotia Steel and Dominion Coal bonds. The amounts expended in these investments were not large, being $9,000 and $7,500 respectively, par value, purchased for $10,017.25 and $8,281.57 respectively. These securities were made to do duty in certain transactions which fell to be considered at the end of 1904 and the beginning of 1905. During 1903, Montreal Light, Heat and Power debentures were purchased to the extent of $75,000. In 1904 Mexican Gold bonds were purchased to the extent of $100,000, and Victoria Rolling Stock Company bonds to the extent of $73,000. In 1905, Winnipeg Electric Railway Company bonds were purchased to the extent of $121,000, and Niagara Falls Park and River Railway bonds to the extent of $50,000. In 1903-4-5 Canadian Pacific Railway stock was purchased to the par value of $180,000, and a profit was made upon the realization of this unauthorized security to the extent of over $68,000.

It is further to be observed that, with the Mexico Government silver bonds purchased in 1902, $20,000, and the Mexican Government silver bonds purchased in 1904, $100,000, the powers of the Act in respect of investments in that country seem to have been exceeded. This is sought to be justified upon the construction of section 50, subsection 3 of the Act of 1899. Your Commissioners, however, are not able to concur in the proposed construction by which it is sought to make the power to invest in Mexican securities unlimited in amount.

Prior to the alteration of its policy in respect of investments as mentioned above, and the turning attention towards stocks and bonds of a more or less speculative character, the management had never anticipated its means in the making of investments. The alteration of policy, however, perhaps because it involved the necessity for large transactions in order to secure large anticipated profits, provided the occasion for breaking through this salutary rule, and your Commissioners find a series of transactions, to which brief reference has already been made, involving among other securities the Nova Scotia Steel Company's bonds and the Dominion Coal Com-

pany's bonds referred to above, which partake largely of all the evils attendant upon speculation upon margin.

In October and November, 1904, the management authorized Messrs. Osler & Hammond to purchase for the Association 610 shares of Consumers Gas stock. Mr. Osler was a director of the Association. Certain moneys seem to have been paid on account of the purchase price by the Association to Messrs. Osler & Hammond, leaving a balance due of $27,041.14, which it was necessary to pay in order to obtain a release of the shares.

It was arranged that Osler & Hammond should hand over 500 shares out of the 610, retaining 110 shares, the value of which, at the price at which the transaction was carried through, was $11,578, and receiving at the same time the Nova Scotia Steel bonds, $9,000, and the Dominion Coal Company bonds, $7,500. Messrs. Osler & Hammond then held as security for the debt of $27,041.14, the three securities: Consumers Gas stock, 110 shares, $11,578; Nova Scotia Steel, $9,000; Dominion Coal, $7,500.

In December, 1904, Messrs. Osler & Hammond were further instructed to purchase the Mackay Company's stock, and did so, paying $28,033.62, for 373 shares. On the 31st December a transaction was arranged between the Association and Messrs. Osler & Hammond, by which the Association paid Messrs. Osler & Hammond $8,400, and were handed over 150 shares of the Mackay stock. This left a debt outstanding in respect of the remaining 223 shares of Mackay stock as follows:—

$28,033.62, amount necessary to release 373 shares
8,400.00 paid for the release of 150 shares.

Balance, $19,633.62, necessary to release remaining 223 shares.

According to the books of Osler & Hammond, this transaction was consolidated with the previous transactions in respect of Consumers' Gas stock. The matter seems to have taken this shape :—

Balance due in respect of Consumers' Gas purchase....	$27,041 14
Amount due in respect of Mackay purchase....	28,033 62
Total..	$55,074 76
Less paid on December 31..	8,400 00
Balance	$46,674 76

then due Messrs. Osler & Hammond, who were carrying 110 shares Consumers' Gas, $9,000 Nova Scotia Steel, $7,500 Dominion Coal and 223 shares Mackay's.

The transaction was further involved by the interchange of fictitious cheques between Messrs. Osler & Hammond and the Association, each cheque being for $44,100, the Osler & Hammond cheque purporting to be,

for Nova Scotia Steel	$ 9,719 33
for Dominion Coal	8,100 27
for Calgary & Edmonton Land Co. bonds	27,680 40
Total..	$44,100.00

and the cheque of the Association purporting to be for Consumers' Gas

stock	$ 40,386 60
for Mackay's stock	3,731 40
Total	$ 44,100 00

These cheques had no reality, nor had they any place in the real history of the transaction. The manifest intent with which the exchange was arranged was

that Osler & Hammond should appear to have purchased the Nova Scotia Steel, the Dominion Coal and The Calgary & Edmonton bonds, so that these unauthorized securities might disappear from the assets of the Association in the Government return, and that the Association might appear to have purchased outright the Consumers' Gas stock and Mackay's stock to the amounts named.

This enabled the Association to conceal in its return altogether the circumstance that it had been purchasing upon margin, and that in respect of the margin transactions they owed a large sum of money to Messrs. Osler & Hammond, for which the unauthorized securities were pledged.

Mr. J. K. Macdonald, at page 859, says:—

Q. Let us sum up, because then it goes to the Mackay preferred on the same day; that would indicate, according to their showing in their own account, that you owed them $55,074.76, that when that was paid you would be entitled to get 110 Gas, 373 Mackay, $9,000 of Nova Scotia and $7,500 of Dominion Coal?—A. That is what it is.

Q. Then I see that on the same day according to this account, you gave them a cheque for $8,400, and took over delivery of 150 shares of the Mackay?—A. I presume so.............

Q. You have 150 of your 373 of Mackay's and the ywere holding 223 shares?—A. Yes.

Q. And that 223, like the 110 Gas and the Nova Scotia and Dominion Coal did not find its way into the return to the Government?—A. No, because it was not ours.

Q. It had been purchased for you, you owed this money on account of it; at all events that was the fact; we won't stop to differ about that at present?—A. Yes, but the present is the time to deal with it, and the present is these were not purchased for that year's account. We instructed them to purchase so many of these shares, and we simply took them up when we were ready to take them up.

Q. You had acquired a right and you had paid money for them?—A. Not for these that you refer to.

Q. You had partly paid, you know?—A. Certainly, but not for these particular shares you now refer to.

Q. Yes. There was no distinction made in your payments between any one block of a particular stock and any other?—A. I fail to see what point you want to make out of it.

Q. I am not trying to make out any point, I want to get out the facts?—A. There is the fact that these were to be taken up when we wanted them to be taken up, and had the money for them; if we had put them in on the one side then we would simply have to offset it. I fail to see what difference it makes to the Government statement or any other statement.

Q. Are the dealings which appear in this account between the 4th January, 1905, and the 13th, real dealings all right?—A. I presume so.

Q. Apparently they collected coupons on the Nova Scotia Steel and Coal Company, amounting to $270?—A. Yes.

Q. Apparently you gave them that cheque for $20,000 on the 5th January?—A. I presume that is correct.

Q. And they collected dividend on the 373 shares of Mackay?—A. Yes.

Q. Amounting to $373, and on the 12th January you gave them a cheque for another $10,000?—A. Apparently.

Q. Then there was some interest charged up, and then on the 13th January they carried down a balance of $21,101.08 against 110 Gas, 223 Mackay, $9,000 Nova Scotia and $7,500 Dominion Coal?—A. Yes.............

Q. The releases took place in January; however I do not think that is very material; at all events that $21,101.08 was paid?—A. Yes.

Q. And it was paid about that time?—A. It was paid along in January apparently.

Q. I want to ask you what you did with these various securities which would then become released?—A. Took them over.

Q. The Consumers' Gas went into its appropriate place as a security in your books?—A. Yes.

Q. The same with the 223 Mackays?—A. Yes.

Q. What about the Nova Scotia and Dominion Coal; where did those go?—A. They would simply come back into the securities again, they were afterwards sold.

Q. I am told they came back into a suspense ledger.—A. I do not know personally, but I see the actuary nods his head, that is correct.

Q. They had not been in the Government return at the end of the previous year?—A. No.

Q. And they did not appear in any subsequent Government return, because they were sold during that year 1905?—A. Yes.

Q. If these were not sold in 1905, is it possible in your view to justify keeping them out of the Government returns, and if so upon what ground?—A. If we had held them at the end of 1904—I have already explained that we supposed these bonds were actually out of the ownership of the company in Osler & Hammond's hands when they came back if we had had them as securities of the company at the close of 1905 they would have gone into the Government report.

Q. In 1904, as a matter of fact upon what subsequently developed, whether you are aware of it at the time or not, they were not securities which had passed out of your hands, they were securities which had been put in your brokers' hands to sell, and which he had not sold?—A. That is true. I cannot give any other explanation than I have already given in regard to it.

Q. I want to get the position from every possible standpoint, and if there is a point that can be made in favour of it, I want to have that just as well as a point ag inst it. When you say you were under the impression that they were actually sold, do you mean to say you were under the impression that Osler & Hammond, prior to the 31st December, had actually disposed of them for you?—A. No, they had not; we supposed that they would have sold them and for that reason—we had an unsettled account with Osler & Hammond at the close of that year, into which these securities entered, and they were not put in the report for that year, I presume, under the supposition that they would be sold and were actually out of the hands——

Q. But not under the supposition that they had actually been sold?—A. No, they were not actually sold.

Q. Supposing they would be sold, but knowing they had not actually been sold, do you think still you were justified in keeping them out of the government returns?—A. I think under the circumstances there was justification for it, because they entered into the unsettled account that was in Osler & Hammond's hands.

Q. Of course the Osler & Hammond account, upon the omission of this security from the return, was also omitted as a liability?—A. Yes.

Q. So that neither did these securities appear as an asset, nor did the debt appear as a liability?—A. Let me admit at once that these things under the circumstances ought to have gone into the government report. That is all.'......

With regard to the crossing of the two cheques for $44,100 (Page 861):—

'Q. Under what arrangement were those cheques exchanged?—A. I am unable to say there was any arrangement.

Q. Did you make the arrangement?—A. I do not know that I did, that I made the arrangement, they gave us the arrangement—I do not think as a matter

of fact that I did personally make any arrangement of this kind, or arrange for the cheques.

Q. You do not remember?—A. I am almost positive that I did not........

Q. Of course it goes without saying that this cheque was not that accounting, the accounting was, as we have seen from the books, as they entered the transaction from time to time; the cheque in other words was a mere matter of form and had no substance as applied to the real transaction.—A. I really cannot speak decidedly, I only know the figures as facts that are before us.

Q. We have gone through the real transaction as carefully as, with my imperfect knowledge of them, I could?—A. Yes.

Q. And we have traced the real transaction through the books with real cheques, which passed from time to time, indicating the transactions which afterwards took place?—A. Yes.

Q. These cross cheques have no place in that history?—A. I think they have; for example, we have here the proceeds of the sale of the Calgary and Edmonton bonds; has not that some part in it: that is a bona fide transaction.

Q. That was a bona fide transaction, and was settled in reality, not by those at all, but by the dealings which we have gone through?—A. All I can say is, this is the proceeds that is entered in here, on which they have given the cheque, and they give a cheque apparently for the other amount.

Q. You have a cross cheque?—A. Here is the cheque which had been given to them for the amount.

Q. I know I am not putting it lucidly to you at all, but I want you to follow me if you can. The transactions we have been going through from the books of Osler & Hammond, supported by your own books, indicate what was really done in connection with all those matters?—A. I think so.

Q. And in that history which is taken from Osler & Hammond's books there is no mention of these cross cheques?—A. They must have given their cheque for it.

Q. They gave that cheque, that is part of the history of it, but that cheque has no place in the historical account of your dealings in these securities?—A. I do not know as to that, I do not know how they treated it. Here is the way in which it was treated by us in the office. (Produces cheque).

Q. You will observe that that indicates that they were buying out on the 30th December which is the date of the cheque, the Nova Scotia Steel and Dominion Coal?—A. That is wrong.

Q. They were not buying them out?—A. No, they did not buy them out.

Q. Can you tell me whether the crossing of those cheques in that way was made for the purpose of supporting the Government return—I do not want to put it offensively?—A. I do not think it was, I do not see how it could have been at this date.

Q. You see the result of it was you were able to keep out of the Government return the Nova Scotia and Dominion Coal and Calgary & Edmonton; you were enabled to put into the Government return the Consumers' Gas and Mackay, although as a matter of fact you did not discharge your obligation in respect of those until the following January?—A. As a matter of fact these were sold and we had their cheque for it, which was included in their cheque of $44,000.

Q. No, that was an assumed amount, $26,280, and the real proceeds were $25,793.33?—A. But that probably includes the interest, so that, so far as this cheque is concerned, to the extent of the proceeds of the sale of the Calgary & Edmonton bonds, that was a real thing entering into cheque.

Q. With the interest it is $26,344.64?—A. I take it that shows the interest upon those bonds.

Q. And excluding interest they were charging, it is only $25,431 instead of $25,793. I am not able to see how that $26,280 can be made to tally with the real

entry?—A. I cannot tell you, Mr. Shepley, I am only supposing it may include the interest.

Q. You were not, by receiving that cheque and giving your cross cheque, intending to allege as against Osler & Hammond that they became the purchasers of those two——?—A. We did not allege that.

Q. You did not intend to when the cheques were passed?—A. No.

The management has since 1891 had certain loans on call. In many cases the securities upon which the loans were made were unauthorized. Among them were the following stocks:—Dominion Coal; Canadian Pacific Railway; Sun Life; Temperance & General Life; Manufacturers' Life; Manitoba & North West Land Company; General Electric; Nova Scotia Steel, and there were borrowings upon the stock of the company itself which is prohibited.

Mr. R. S. Baird, who is the Toronto agent for the Association, seems to have been carried upon margin by the Association in his small dealings in Dominion Coal Company's stock, 50 shares of which he pledged for a loan from the Association.

The management of the Association was manifestly aware of the impropriety of the loans made upon the Association's own stock. Accordingly we find that in the case of these loans they were got out of the way regularly on the 31st December, and put on foot again on the 2nd or 3rd January, thus suppressing their existence in the Government return.

The Association has loaned money to the Managing Director upon his policy of insurance upon his life, and has also loaned money to the actuary, Col. W. C. Macdonald, upon the pretext of an advance against unearned salary.

THE FEDERAL LIFE ASSURANCE COMPANY OF CANADA.

This company was incorporated in 1874 by an Act of the Legislature of the province of Ontario, 38 Vic., cap. 68, under the name of 'The Industrial and Commercial Life Assurance Company of Canada,' to carry on the business of life insurance and do things pertaining thereto in "the province of Ontario and elsewhere." By an amending Act passed by the same legislature in the following year, 39 Vic., cap. 1, the name of the company was changed to 'The Industrial and Commercial Life Assurance Company of Ontario,' and so much of the Act of Incorporation as purported to empower the company to carry on the business of life insurance elsewhere than in the province of Ontario was repealed. Subsequently by an order of the Lieutenant Governor of Ontario in Council, of April 11, 1882, the name was again changed to "The Federal Life Assurance Company of Ontario."

Before the company had in any way undertaken the business of life insurance, its charter was purchased from the original incorporators by David Dexter, now president and managing director of the company, who proceeded to obtain subscriptions for stock. In 1882, the company was organized for business, and on making a deposit of $50,000 with the Receiver General of Canada, obtained a license to carry on life insurance business throughout Canada. Thereafter the company carried on business without further alteration of its charter powers until 1898, when it was reincorporated under the name of "The Federal Life Assurance Company of Canada," by Act of the Parliament of Canada, 61 Vic., cap. 103.

The authorized capital of the company has always been $1,000,000, of which $700,000 was originally subscribed. The first call was 10 per cent, producing $70,000 of paid up capital. In 1885, an additional call of 3 per cent on the subscribed capital was made, and on November 1, 1900, the balance of $300,000 capital stock was issued at a premium of $5.20 per share, in addition to the 13 per cent call thereon. The amount of paid up capital still remains at $130,000.

Prior to 1897, no dividends were paid to shareholders. From 1897 to 1900, inclusive, the dividend was 6 per cent, and in 1901 it was raised to the present rate of 8 per

cent per annum. It was stated that the additional issue of capital in 1900 was not made because additional capital was required but to give the company greater stability. The premium was added to assist the company in overcoming an impairment of capital, and was justified on the ground that it equalized the new stock with the old, upon which no dividends had been paid prior to 1897.

In early years no single shareholder, nor any group or set of shareholders combined either by relationship or common interest, had control. To prevent control falling into any one hand, an agreement was made on December 20, 1897, between the following directors and officers of the company, W. Kerns, first vice-president, Dr. A. Burns, second vice-president, Dr. A. Woolverton, medical director, Rev. Dr. John Potts, director, David Dexter, managing director and Thomas C. Haslett, solicitor, whereby they agreed to form a joint fund, for the purpose of acquiring further shares (not exceeding 1,200, without the further consent of the majority of the parties), for their joint benefit. All shares acquired, the dividends thereon, and the voting power with all privileges attaching thereto were to be the joint property. No individual interest could be disposed of without the common consent. On the same date the same parties with James H. Beatty, president, and Rev. John G. Scott, a director, further agreed upon a pooling and option arrangement. After the additional $300,000 capital had been issued and offered to the shareholders 1,162 shares were unsubscribed, and a further agreement was made for the acquisition of further shares on joint account. By the addition of shares acquired under these agreements to their other holdings, these parties have had control of the company since 1900, holding at the date of the inquiry in their own names either individually or in trust, and in the names of members of their families, 5,117 shares out of the whole capital of 10,000 shares. The managing director has also for some years held proxies entitling him to cast about 1,000 additional votes at general meetings of the company.

In 1890 the capital after allowing for the reserves on outstanding policies had become impaired to the extent of about $40,000, and to lessen the impairment the following payments were then made by the directors named:—

James H. Beatty	$10,000
Dr. M. H. Wilson	10,000
Dr. M. H. Aikins	2,000
W. Kerns	2,000
Total	24,000

On March 4, 1890, certain shareholders agreed with these directors to guarantee the repayment of these advances with interest at 6 per cent per annum, one-half in one year and the balance in two years, and they further authorized the payment over to them of all the bonuses, dividends and profits accruing on the guarantors' shares. The understanding was that the directors' advances should really be repaid by the company but the agreement was intended to prevent their being shown as a liability of the company, and to conceal the impairment of capital.

The receipt of the $24,000 was shown in the annual return for 1890 under the heading 'Shareholders' Contribution, $24,000.' The superintendent of Insurance appended to the return a foot note referring to the agreement of March 4, 1890, but does not seem to have been aware of the real understanding behind it, that the company should eventually make the advances good.

From 1891 to 1895, inclusive, a similar foot note was appended to the return, except that in 1894 and 1895 a reduced amount was stated, payments having been made on account.

The company paid its president in 1891 and following years a bonus equal to the interest at 6 per cent on the amount of the advances remaining unpaid from year to year, and in addition various sums in different years between 1893 and 1894, making in all $24,000, and all the bonuses were applied towards satisfying the advances. Besides the bonuses and the usual directors' fees the president received no remuneration

during the years in which the advances were repaid. On February 4, 1897, a release executed by those directors who then were entitled under the agreement of guaranty. It acknowledges due payment and satisfaction of all claims, released and discharged the guarantors, and declared the guaranty void.

Copies of the agreement and the release were verified by the statutory declaration of David Dexter, the managing director, and were forwarded to the superintendent. The important paragraph of the declaration is the 3rd:—

> '(3.) No liability on the part of the said The Federal Life Assurance Company of Ontario now exists—if ever any did exist—for the payment of said moneys or any part thereof to any person or persons whomsoever.'

It appears that upon the date of the release an agreement was made in terms very similar to the old agreement of guaranty then released between a lesser number of guarantors, lesser number of new agreement was obtained because of a change in the personnel of the contributors entitled to receive the money and in order that new shareholders might assume the obligation, but it seems reasonably clear that the real object of the release was to obtain the sanction of the superintendent of insurance for omitting from the company's return the foot note above referred to, while the object of the new agreement was to restore the contributors simultaneously to the position which the superintendent of insurance was asked to believe had been abandoned.

The company in the early years of its existence, on the advice of Mr. Sheppard Homans, an eminent actuary of his time, wrote considerable renewable term insurance, to obviate the necessity of showing as a liability the large reserves necessary in level premium insurance. The term policy was attractive at the younger ages because of it cheapness, but as the rates increase on each renewal term dissatisfaction naturally results. Not enough care was taken when soliciting the class of business to make its features clear, and some of the literature circulated had a misleading tendency, and there were extravagant estimates of profits. The attempts of the company to induce a transfer to the level premium plan naturally emphasize the general dissatisfaction because they disclose the small value of the term policy when burdened by the lien necessary to make good the difference in premiums. These attempts have not been very successful and have produced much dissatisfaction.

The company's premiums before 1900 were low and its estimates absurdly high. It is fair to say that both were fixed to meet competition, rather than as the result of any bona fide actuarial calculation. In that year changes were made in both premiums and estimates, but the latter were still in excess of anything the company might reasonably expect. Some glaring examples of misleading estimates were given in evidence. For example, on a 20-year endowment policy at age 31 the company estimated profits before 1892 at $1,022.00 and in 1900 at $511, while the actual profits realized in 1902 were only $214.58. On a 20-payment life policy, age 43, the estimated profits before 1892 were $1,011.63, and in 1900 were $514, while the actual results in 1902 were $226.03.

The original Act of Incorporation, under which the company carried on business from 1882 to 1898 contained broad powers of investment. By section 23 of that Act it was provided that, besides the public securities of Canada and the Provinces, the company might invest in

> 'the stocks of any chartered banks or building societies or in the bonds or debentures of any incorporated city, town or municipality authorized to issue bonds or debentures, or in mortgages on real estate or in such other securities and in such manner as the directors may elect.'

The powers of investment under its Dominion Act of Incorporation were much more restricted than under its provincial charter and the company has always entertained the view, which seems to be correct, that since the passing of that Act it has no wider powers of investment under its special Act than are granted to all companies by section 50 of the Insurance Act.

By section 18 of the company's Dominion Act of Incorporation it is provided that the Companies' Clauses Act, except sections 18 and 39 thereof, shall apply to the company. This renders the company subject to section 38 of that Act which prohibits loans to shareholders.

The following investments of the company seem to require special mention.

On 11th October, 1902, the company advanced to David Dexter, the Managing Director, $5,831.25, and on the 15th of the same month a further like amount, being the purchase price of 50 shares of Bank of Hamilton stock at 233, which Mr. Dexter then bought and pledged to the company. The advances were subsequently approved by the Executive Committee to the extent of $11,150 and the sum of $512.50, being the amount necessary to reduce the advances to the authorized amount was paid to the company by Mr. Dexter on October 28, 1902. On August, 31, 1903, the company advanced to Mr. Dexter a further sum of $1,110, with which to take up 6 shares of a new allotment issued by the bank at 185, and on March 24, advanced $5,775 with which Mr. Dexter purchased 28 other shares of Bank of Hamilton stock at 206. The Superintendent of Insurance having objected to this loan the account was closed on June 17, 1904, by crediting to Mr. Dexter the amount then due thereon, but the amount so credited was at the same time charged in the company's books to G. E. McLaughlin, Mr. Dexter's son-in-law, to whom the shares were transferred and held by him as trustee for Mr. Dexter, subject to the pledge to the company, the transaction that then took place being a mere matter of bookkeeping. The loan was ultimately paid off in June, 1905.

Dr. A. Woolverton, medical director of the company, borrowed $1,000 on the security of 10 shares of the Landed Banking and Loan Company's stock, valued by the company in its books at $1,200. The loan was made on March 15, 1894, and was paid off on March 10, 1904. He also borrowed $4,650 on July 13, 1904, on the security of 50 shares of the Hamilton Cataract Power, Light and Traction Company, Limited, valued in the books of the company at $5,000. This loan was paid off on 15th April, 1905.

Hugh Murray, a director of the company, borrowed $700 on February 28, 1905, on the security of 41 shares Hamilton Masonic Hall Company and 10 shares of the capital stock of the Aid Savings and Loan Company. The loan was paid off on December 28, 1903.

Two loans on real estate, one to John Wakefield and the other to William Kerns, both directors of the company, were made on what appeared to be reasonable security and both were paid off in due course.

A loan was made to Thomas C. Haslett, solicitor of the company, acting on behalf of clients, amounting to $12,000 on the security of 160 shares of Canadian Westinghouse stock. The advance was made on April 19, 1905, and was repaid in instalments ending November 5, 1905.

A small loan of $200 was made to W. H. Rae on the security of 50 shares of the insurance company's own stock. Mr. Rae was an agent of the company and the transaction seems to have involved the taking by the company of the shares in question as security for advances made to him on account of commissions to be earned.

The company at different times held certain unauthorized investments, including 200 Hudson Bay shares, bought February 19, 1903, and sold April 4, 1905, at a profit of about $35,000.

The company also purchased Sao Paulo Tramway bonds, amounting to $25,000 in 1903, and two lots of $25,000 each in 1904. They were sold in 1905 on objection taken by the superintendent of insurance, at a profit of about $3,000.

The company made a loan of $38,000 on several stocks, included in which were certain shares in the stock of life insurance companies and 100 shares of the Dominion Iron and Steel Company. It was claimed on behalf of the company that the loan was really secured by shares in the Brantford Electric Light and Power Company's stock, London and Canadian loan stock and certain policies of insurance, which were

proper and sufficient security, and that the unauthorized securities were taken as additional security merely.

This company has in process of erection in Hamilton an office building which will be eight storeys high, and which, it is estimated, will cost $250,000. The president stated that he believed the company will receive in rentals 4 per cent interest on the moneys invested, charging the company itself a reasonable rental for the portion of the building occupied by it. He was not prepared to say, however, what rental the company would be charged and he admitted that the investment must be in part justified on the ground that the building would be a good advertisement. It was stated that the present head office building in Hamilton is altogether too small for the company's requirements. It is not yet sold, but it seems to be anticipated that there will be no difficulty in selling it for at least the cost thereof, about $18,000, as soon as the new building is ready for occupation.

THE LONDON LIFE INSURANCE COMPANY.

This company was incorporated in 1874, by Act of the Legislature of Ontario, 37 Vic., cap. 85, to carry on life and accident insurance. The capital originally authorized was $100,000, which the company was empowered to increase to $500,000. The capital originally subscribed was $112,500, upon which 20 per cent, or $22,500 was paid. On March 21, 1877, the capital subscription was increased to $223,000, and on February 25, 1881, by means of a 5 per cent call the paid-up capital was raised to $33,650. In 1884, the company was reincorporated by Dominion Act, 27 Vic., cap. 89. This Act authorized the business of life insurance but not that of accident insurance, except to the extent necessary to wind up and complete business already undertaken. By section 24, the "Canada Joint Stock Companies Clauses Act, 1869," except section 39 thereof, was made part of the Act. This section was regarded as objectionable, because section 18 of the Companies' Clauses Act required 10 per cent of the subscribed capital to be paid in each year, until paid in full. It was not intended to require or even permit the capital to be paid in full, and the company obtained, in 1885, an amending Act, 48-49 Vic., cap. 94, repealing section 24 of the Act of 1884 and substituting a new section, excepting sections 7, 8, 18, 24, 39 and 44 of the Companies' Clauses Act. Certain further provisions were made as to levying assessments on shareholders, to which reference will be made hereafter.

From 1874 to 1885, the company carried on business exclusively in the province of Ontario, but after the passing of the Act of 1885 it procured a Dominion license, and commenced business thereunder.

By the Act of 1884 the authorized capital was made $1,000,000, divided into 10,000 shares, of which 2,230 shares were to be those already issued upon which the sum of $33,650 had been paid. Subsequently, on December 3, 1891, and September 6, 1894, there were further subscriptions of capital, of $2,000 and $25,000 respectively, the latter increase being at a premium of $4 per share. This made $250,000 in all, being the present amount of subscribed capital. By subsequent calls the whole of the capital was put upon a 20 per cent paid up basis, so that the capital subscribed is now $250,000, and the capital paid up $50,000. More than one-half the stock is held by the widow and family of the late Joseph Jeffrey, who was president until 1894.

Prior to 1883 the company issued non-participating policies only. To remove any doubt, the Dominion Act of Incorporation authorized the granting or apportioning among policyholders all or any portion of the profits after payment to shareholders of such portion thereof, or of such interest upon paid-up capital or such percentage or commission upon the amount of insurance effected as should be deemed proper. In the amending Act of 1891 authority was given to establish distinct classes or branches of insurance wholly or partially upon the mutual principle, and to keep separate accounts of business transacted in such classes or branches—each class or branch sharing its own profits and paying its proper proportion of expenses.

By the Act of 1884, authorizing participating insurance, it was made competent for the shareholders to add to the board such number of policy-holders' directors as might be fixed by by-law. Their election by the holders of participating policies was provided for; their qualification as well as the voting qualification prescribed, and their powers declared to be the same as those of ordinary directors. The policy-holders now elect three directors, and the shareholders six, making in all a board of nine. One of the three present policy-holders' directors is also a shoreholder and another, Archibald Bell, is the judge of the county court of the county of Kent.

When participating insurance was decided upon, there was a very large impairment of capital amounting to about $20,000 out of the then paid-up capital of $33,650. It was essential to the new venture to make the impairment good. It was recognized that an unimpaired capital was implied in the very term 'profits,' whether paid to shareholders or to policy-holders. It was in this view that the Act of 1884 provided for the issuing of preference shares at a premium, but this means of relief was not adopted.

By the Act of 1885 a much more drastic remedy was given. Impairment was permitted to be made good by compulsory assessment upon the shareholders over and above all calls, with the power to sell so much of the holdings as might be necessary to meet the levy in case of default, and the transfer of shares upon which any assessment was unpaid was prohibited, and the assessments were only permitted to be refunded when that was possible without leaving any impairment and without encroaching upon policy-holders' profits. It was stated that all the shareholders consented in writing to this plan. Two special assessments were levied, one on November 3, 1885, of $9 per share, yielding $20,070, and the other on November 29, 1889, of $4 per share, yielding $8,920. The first made good the impairment then existing, and the second was made perhaps before an actual impairment, but in anticipation of losses on the realization of certain assets which involved impairment.

The company commenced paying dividends to shareholders in 1886, and has paid a dividend each year since, except in 1889, at 7 per cent until 1895, at 8½ per cent from 1896 to 1899 inclusive, and at 8 per cent since 1900. In 1889 no dividend was paid, that being the year in which the assessment of $4 per share was made. The dividend was formally declared, but was retained to assist in making good the losses. In 1894 the amount of the dividend passed in 1889, with interest, was credited in a special shareholders' fund created for the purpose of repaying the assessments which had been levied. This fund was the source of the increase from 7 to 8½ per cent in the dividends, but it was absorbed and disappeared in the change made from 4½ to 4 per cent in the valuation of policies.

Industrial insurance, which is about half the whole business of the company, commenced to be undertaken four years before the Act of 1891, which authorized the establishment of distinct branches, wholly or partially upon mutual principle, and has since been continued under the confirmation of authority which that Act was supposed to effect, so far as the partial application of the mutual principle to the company's industrial methods is concerned. At December 31, 1905, 55,624 industrial policies were in force, insuring $4,597,132, and with a weekly debit of about $5,000.

It was stated that the industrial business had been built up gradually, the object being to establish branches in a limited number of places and extending over moderate areas. Prior to 1900, when it became compulsory to complete reserves on new business at 3½ per cent, the business had cost about 65 times the weekly debit, and it was on a paying basis after about the third year.

As industrial premiums are collected by personal canvas, the business tends to become personal to the agent, and it is of importance that agency should be permanent. In 1895 this company and the Metropolitan Insurance Company, which also carries on a large industrial business, made an agreement intended to prevent poaching upon each other's agency preserves. Its provisions are stringent, but do not appear to have been applied in any oppressive way.

Prior to 1898 the company valued its ordinary policies on the Actuaries Hm. Table with 4½ per cent, and its industrial policies on the combined experience table with 4 per cent.

At December 31, 1898, ordinary policies issued before the beginning of that year were valued on the Hm. Table with 4½ per cent, ordinary policies issued in 1898 on the Hm.Table with 4 per cent, and all industrial policies on the combined Experience Table with 4 per cent.

At December 31, 1899, the company valued all policies issued before January 1, 1898, on the Combined Experience Table with 4 per cent, industrial policies issued after that date on the same basis and ordinary policies, issued after that date on the Actuaries H (m) Table with 4 per cent.

A year later it valued all ordinary policies issued up to December 31, 1899, on the Actuaries Table with 4 per cent, and all ordinary policies after that date on the same table with 3½ per cent; all industrial policies issued up to December 31, 1899, on the Combined Experience Table with 4 per cent, and all industrial policies issued after that date on Farr's English Table, No. 3, with 3 per cent. These last methods of valuation have ever since been adhered to.

Besides these changes in valuation, a fund has been set apart each year to be used in the further strengthening of the reserves at future periods, in accordance with the Act. This fund amounted at the end of 1905 to $18,000.

This company has not adopted Mr. Harvey's method of valuing industrial policies, by passing reserve altogether during the year of entry, but values in the usual manner in that year.

The company's special powers of investment do not in any way extend beyond the provisions of section 50 of the Insurance Act. Its principal loans have been made on the security of real estate in Ontario and Manitoba. Certain loans have been made on the security of bonds and stock, some of them to directors and shareholders of the company, contrary to the provisions of section 18 of the Companies' Clauses Act. A statement of such loans was prepared by the manager, from which it appears that they include many loans on the security of shares in the capital stock of the Ontario Loan and Debenture Company, which seems to have a close affiliation with the London Life. Both companies have the same president, two of the directors and the manager of the Ontario Loan Company are directors of the London Life, and about one-third of the capital stock of the Ontario Loan is owned or controlled by the London Life and its shareholders or directors. The following loans have been made to shareholders of the London Life on Ontario Loan stock:—A. C. Jeffrey, vice-president, $4,500 on January 7, 1901; A. S. Emery, director, $1,800 on May 18, 1894; J. E. Jeffrey, shareholder, $350 on January 22, 1898, $300 on March 22, 1901, and $1,525 on September 27, 1901; John C. Richter, shareholder and manager, $6,000 on December 22, 1891, $500 on September 1, 1893, $850 on July 16, 1894, $950 on November 30, 1904, $4,000 on December 29, 1894, $200 on February 27, 1897, $1,200 on January 7, 1901, $5,000 on August 3, 1901 and $7,500 on October 1, 1901; and Thomas H. Smallman, director, $10,000 on May 30, 1893.

While these loans were all repaid without loss and the interest return seems to have been fair, it should be mentioned that much of the stock pledged as security was not fully paid and carried a liability of $80 per share. The loans were in many cases repaid in small monthly instalments, indicating the accommodation of the borrowers rather than investment of funds. Loans were also made to two shareholders on the security of Agricultural Savings and Loan Company stock, one to John Mills of $700, on October 30, 1897, and the other to John Wright of $1,750, on August 31, 1896.

THE NORTH AMERICAN LIFE ASSURANCE COMPANY.

This company was incorporated in 1879 by Act of Parliament, 42 Vic., cap. 73, under the name of the North American Mutual Life Insurance Company. The name was changed in 1882 by the amending Act, 45 Vic., cap. 98, to the North American Life Assurance Company.

It has no capital stock, so-called, but its Act of Incorporation required that before commencing business there should be subscribed a guarantee fund of $100,000 (which might be increased to $1,000,000), and that applications for assurances should be made and accepted amounting to not less than $100,000. Guarantors and policy-holders are members of the company. The guarantee fund was originally subscribed to the amount of $100,000, upon which $50,000 was paid. Later an additional $200,000 was subscribed and $10,000 paid, making the subscribed fund $300,000, with $60,000 or 20 per cent paid up.

The guarantee fund may be redeemed if a majority of the members so decide, but until redemption the guarantors are really shareholders. They have five votes for each subscribed share. Participating policy-holders have one vote for each $1,000 of insurance. Their votes greatly exceed those of the shareholders in number, but they vote in person only, and very few ever attend a meeting. The result is that the control is vested practically in the directors, who hold many proxies. The estate of the late managing director, William McCabe, owns 860 shares. This is the largest individual holding. If the executors, of whom the present managing director is one, desire to sell, they must first be offered to the president for the time being. This makes for the continuity of control which the arrangement was designed to effect.

The Act of Incorporation authorized the payment of dividends to the guarantors, but no rate was specified. In 1897, by an amending Act, 61 Vic., cap. 79, dividends not exceeding 15 per cent per annum on the amount paid up was authorized. Ten per cent has been paid for many years.

The late William McCabe promoted the company and became its managing director and actuary holding that position until his death in 1903. For many years Mr. W. T. Standen has been the consulting actuary. After McCabe's death, the actuarial work was done by a clerical staff which included Mr. D. E. Kilgour, who, in 1905, was given the position of assistant actuary and on the inquiry he was examined as to the actuarial features of the company's business. Mr. Goldman, the manager, who also has the title of actuary, stated that Mr. Kilgour was better qualified to give the information than he. It was impossible, however, to obtain any satisfactory information as to the methods of distributing profits during McCabe's management. It was suggested that in 1900 he made a somewhat exact calculation and distribution, but no records existed to show the methods adopted.

Estimates of profits seem to have been compiled arbitrarily to meet competition, and the distribution gave more or less to a class as more or less was given in the estimates. It is, however, not possible to reconcile it with any scientific basis. In the rate book for 1886, the profits estimated on a 20-payment life policy, at age 25, were $463.95, while the actual results were $220; at the age 35, estimate $640.35, result about $280; at age 45, estimate $957.15, result about $360. At age 55 the estimate was $1,854.55. In the rate book for 1892 the estimates although lower, were still too high. In the 1903 rate-book, the estimates were again reduced.

The distribution as between policy-holders appeared to be unfair. The profits allotted to policies with deferred dividend periods were much too large by comparison with those allotted to quinquennial policies. For example, in 1905 the company paid $114 profits on a 20-year endowment policy issued at age 31, on which profits were distributed quinquennially, and $403 on a 20-year endowment policy issued at age 34, with a 20-year dividend period. The policy-holder who insured at age 31 did not indicate in his application whether he desired his profits distributed every five years or at the end of twenty years, and they were allotted to him on the former basis. Election to take his profit at the end of the endowment period would have given him about $400.

This difference was confessedly inexplicable, and indicates a marked absence of method in the distribution.

Surrender values do not seem to have been fixed on any scientific principle. A policy-holder insuring at age 25 under a 20-payment life policy for $1,000, on which he had paid sixteen annual premiums of $25.65 or $410.40 was informed that the sur-

render value of his policy was $180.99 notwithstanding the reserve on the policy was then $282.85. If he had insured upon the rate-book now in use, he would have been entitled to the full reserve at any time after the tenth year. The passing of new rules dealing more liberally with persons insured under old policies, was said to be under consideration, and Kilgour suggested that the policy-holder in question might now receive more liberal treatment.

The company issues what it calls a commercial fund policy the form of which was changed in 1897. It is in the nature of term insurance, the premiums advancing each quinquennium, and the first premium containing an extra provision for initial expenses. Under the old form it was agreed that one fifth of each premium, less the expense charge, should be carried as a special contingent fund, to be used for the payment of death losses in case only of unusual mortality from epidemics or otherwise, and that after the policy had been in force fifteen years, and at every regular quinquennial dividend period thereafter, it should participate in the accumulated special contingent fund remaining in surplus. The company claims to return to such policyholders of that class one fifth of each premium other than the first, but they have never been permitted to participate in the accumulations of the special contingent fund arising from investment, lapses or other accretions.

In 1901 the company's agent at Kingston, Mr. W. J. Fair, learned that a policyholder in another company, whose endowment had matured, was offered by the insuring company $2,700 in cash, or a paid up policy for $4,440. Manifestly that company could give him more paid up insurance than he could then purchase from any other company with the cash surrender value. For $2,700 the North American could give him a paid up policy for $3,805 only. The agent communicated with the head office in terms which clearly indicated that he was misrepresenting matters to the policyholder. He sent an application for an ordinary life policy for $4,500 at a level annual premium and the policy was issued. It turns out that the agent retained the $2,700 cash and he has been paying the premiums, the policyholder believing he had what was equivalent to a paid up policy. In 1906 the management insisted on the agent taking up the transaction with the insured and making his insurance paid up. It was stated that the agent was compelled to bear the cost of doing this. Your Commissioners think the conduct of the management in this case when the application was made, calls for severe censure. The correspondence makes it plain that the agent was persistently fixed upon getting the insurance, without regard to whether the insured suffered in the transaction and with full knowledge that his company could not deal with him upon terms nearly so advantageous to him as the originally insuring company could offer. The very fact of the application being for $4,500 ordinary life insurance while the paid up insurance which the other company offered was $4,400, and that the inquiry was how much paid up insurance could be bought with $2,700 cash, compels the inference that the management knew or should have known that the risk was being received for their company by misrepresentations on the part of their agent.

The Manager stated that rebating amongst insurance agents is general or frequent, and conceded that the agents of this company practised it in common with the agents of rival companies. Although he would not admit that rebating had been practised by the head office itself, his refusal to so admit has not much force, because the company received no applications on which commissions were not paid. Even clerks in the head office received commissions. If an application were made direct to the head office the Manager seemed to think the clerk who received it would claim and receive the commission and do whatever rebating was done.

The company made the following loans to directors; $22,780 to Mr. J. K. Kerr, in 1887, on 85 shares of the British Canadian Loan & Investment Company and 368 shares of the Land Security Company. In 1894 additional advances were made, bringing the total loan to $20,280. To another director, Mr. Robert Jaffray, $10,000

was loaned in 1890, and $5,500 in 1893, on the security of shares of the Land Security Company. Mr. Jaffray's loan was repaid in 1900, and the loan to Mr. Kerr was ultimately secured by a real estate mortgage, and he assigned his share in the guarantee fund of the company as collateral security. Payments have since been made, and the balance of principal now due is $27,000, for which the real estate is regarded as ample security. These loans were quite improper, and the Land Security Company stock, while not an unauthorized investment, was a security which no prudent trustee would have been justified in lending upon. It was only partly paid up, and its ownership involved a large liability. The company's experience with these loans brought about a by-law prohibiting loans to directors, which by-law has been uniformly observed.

It is in accordance with the practice of the insurance branch to permit companies to take credit in their annual returns for the excess of the market value of securities over their ledger value. Should the market value be below the ledger value, a corresponding reduction is required. The North American in 1902 and 1904 wrote up the values of certain securities, using the asset thus created to offset certain agents' advances. This came under the notice of the superintendent upon or after the filing of the return for 1904, and he insisted on including in the company's return of assets as published in the blue book, the item 'stocks and debentures written up, $24,655,' and, as expenditure, the item 'written off agents' advances, $24,665.' This was the proper method of treating these items, because otherwise the company's expenses would have appeared to be less than they were. The securities thus written up were:—

	1902.
Imperial Bank	$ 5,000 00
Canadian Bank of Commerce	3,000 00
Bank of Hamilton	9,829 75
Bank of Ottawa	2,000 00
Dominion Bank	3,000 00
Toronto General Trusts Corporation	15,000 00
Toronto Electric Light Co.	7,000 00
	$44,829 75

	1903.
Imperial Bank	$ 1,000 00
Canadian Bank of Commerce	2,000 00
Bank of Hamilton	1,000 00
Toronto General Trusts Corporation	8,000 00
Toronto Electric Light Co.	8,000 00
Sandwich, Windsor and Amherstburg Ry. bonds	4,665 00
	$24,665 00

In almost all instances these amounts represent a mere appreciation in the securities, though in a few cases they include profit realized on actual sales. In the year 1903 there was little or no margin in market over book values, and being unwilling to carry agents' balances into the statement as an asset and so swelling the surplus, the management wrote the item off, showing it in the returns as an expenditure for the year.

The company loaned large sums on mortgages, some of which fell into arrear. A real estate contingency fund was established so that profits realized on the sales of some mortgaged properties might off-set losses arising on others. In 1902 the company sold a large holding of Commercial Cable stock, upon which a profit of $15,148.28 was realized, and this was carried to the credit of the account to cover losses in the mortgage securities. Neither the true profit on the one transaction nor the true loss on the other was shown in the return. The sale of certain vacant land in Toronto to a builder was authorized. He gave a mortgage for the full purchase money, including the cost of buildings erected thereon, on the understanding that when the property was sold the profits would be divided between the company and the builder. By this device the company was enabled to treat the amount so invested as a loan on real estate, although itself a part owner.

The company purchased certain bonds, receiving with them bonus stocks. In October, 1902, bonds of the par value of $200,000, part of an issue of $1,000,000 of bonds of the Chicago & Milwaukee Electric Railroad Company, were purchased. With this no bonus stock was given. Later the Chicago & Milwaukee Electric Railroad Company was incorporated, and isued $5,000,000 of bonds to build further extensions. The company purchased $100,000 of the new issue of bonds in 1903 and $100,000 additional in 1904, both at 95, with 20 per cent bonus stock. These bonus stocks were not

shown in the returns until 1905, when they were included in the schedule without any values set opposite to them. They were purchased through Messrs. Osborne & Francis, who were floating the bonds in Canada. Mr. Henry Osborne, a member of that firm, is the son of Mr. J. Kerr Osborne, a director of the company. The firm also borrowed from the company large sums on Chicago & Milwaukee bonds: $195,000 in 1903, $223,000 in 1904 and additional loans in 1905; the total borrowings being $739,050, and the largest amount owing at one time being about $414,000. The company thus had at risk on Chicago & Milwaukee bonds over $800,000.

Your Commissioners think it was most imprudent to put so large a sum into a single security, especially at a stage when construction was not yet completed, and they cannot overlook the fact that although careful inquiry seems to have been made with regard to the nature of the security, the bonds were being handled by a firm of which a son of one of the directors was a member. It was in the circumstances improper, in the opinion of your Commissioners, that the company should have become interested to so large an amount in the successful flotation of these securities.

In 1905 British Columbia Telephone Company bonds were purchased, to the amount of $350,000, for which $332,500 was paid, 250 shares bonus stock being given with the bonds.

The company commenced business in the United States in 1900, and since then has made large investments in United States securities. These exceeded the United States reserves at the end of 1902 and of each year thereafter. At the end of 1905 the reserve was $369,969, while the company had invested in United States securities and in Canadian securities deposited in the United States, the following:—

1. Loans on real estate..	$116,901 72
2. Loans on policies..	11,601 30
3. Cash in banks..	1,288 06
4. Bonds of United States corporations owned	569,000 00
5. Loans on United States securities	277,300 00
6. City of Halifax bonds deposited in New York	260,641 60
Total..	$1,236,732 68

The superintendent wrote the manager on February 14, 1906, pointing out that the limit for United States investments, the reserve and ten per cent, or $406,966, was greatly exceeded and asking an explanation. The manager replied on March 3 that the loan referred to in item five, the Osborne & Francis loan, was then paid off, but he argued that as the moneys were not 'lent out of Canada' they were not within sub-sections 3, 4, 5 and 6 of section 50 of the Insurance Act. As to item six, these bonds, he argued, were Canadian securities, and should not be treated as foreign investments at all. He also argued that the limitation for this company to United States investments was $869,969, arriving at that figure as follows:—

Reserve on United States policies under subsection 4 of section 50..	$369,969
Amount deemed 'desirable' to invest in respect of branches in United States under subsection 3, five branches, $100,000 each..	500,000
	$869,969

But sub-sections 3 and 4 are not cumulative, and the latter is only to be resorted to when the reserve on United States policies exceeds the amount that may be invested or deposited under sub-section 3. The construction sought to be placed on sub-section 3 is, your Commissioners believe, inadmissible. Parliament did not intend that any number of branches might be established in one foreign country, the establishment of each enabling $100,000 to be diverted from Canadian channels of investment. This construction would make it possible to carry everything but the government deposit out of the country, by opening enough small local branches in the United States. But

even in this view the company was clearly contravening the Act. At the end of the year it had $976,091.08 'invested in foreign securities,' and an additional $260,641.60 'deposited outside of Canada,' or a total of $1,236,732.68.

In the company's return for 1905 its list of foreign assets included items 1, 2, 3 and 6 above mentioned, a total of $390,432.68, but the superintendent appended to the return printed in the blue book a foot-note as follows: 'The value in account of the foreign bonds and stocks held at the head office is $569,000; and of loans on foreign securities $277,300.' A somewhat similar note had been added to the return as printed for 1904.

The company joined Messrs Osborne & Francis in the purchase of bonds of the Sandwich, Windsor & Amherstburg Railway Company of a par value of $147,000, paying therefor $133,677.37. The company advanced all the purchase money and Osborne & Francis were to have one-half the profits realized. Out of the $147,000 bonds $27,000 were sold between February and December. The management then concluded to carry the balance as an investment and acquired the interest of Osborne & Francis on a basis of 93, which gave the brokers a profit of about 1½ per cent. While the price at which the bonds were taken over was not unfair, your Commissioners must express the strongest disapproval of any transaction in which an insurance company advances all the money and assumes practically all the risk, the partner taking half the profit. The transaction becomes still more objectionable when the partner happens to be related to a director.

The company values its policies issued in 1897-8-9 on the Hm. table with 4 per cent; policies issued before those years on the same table with 4½ per cent. and policies issued after 1899 on the same table with 3½ per cent. It is said to be the intention of the company to raise the reserves on policies issued prior to 1897 to 4 per cent, taking the year 1896 in 1907, and an additional year in each year following, until 1910, when it is expected that all the business can be put upon the basis of 3½ per cent. It is said to be the intention to retain the bonus stocks until 1910, and to use the proceeds then to strengthen the reserves, without taking credit meantime for any appreciation in their values.

THE MANUFACTURERS LIFE ASSURANCE COMPANY.

The present Manufacturers Life Assurance Company was incorporated in 1901, being an amalgamation of two companies theretofore carrying on business, called the Manufacturers Life Insurance Company and the Temperance & General Life Assurance Company, which had been in operation from 1887 and 1886 respectively. In 1901, pursuant to authority granted by Dominion Act (1 Ed. VII., cap. 105), an agreement was entered into between these two companies and the new company incorporated by said Act, called the Manufacturers & Temperance & General Life Insurance Company, whereby the new company acquired all the business, assets and good will of the old companies, paying therefor by issuing its capital stock to the holders in the old companies. The name of the new company was changed to The Manufacturers Life Insurance Company by Order in Council, dated December 30, 1901.

The paid up capital of the old Manufacturers Life was $200,000, and the paid up capital or guarantee fund of the Temperance & General was $100,000, making altogether $300,000; and the new company issued to the holders thereof $1,500,000 of its authorized capital of $3,000,000 as 20 per cent paid up stock, making the paid up capital of the new company $300,000.

Prior to 1898, Mr. George Gooderham owned a controlling interest in the capital stock of the Manufacturers Life, but no one person controlled the Temperance & General, although the Hon. Mr. George A. Cox was the largest shareholder therein, holding some 230 out of 1,000 shares. In 1898, Mr. Gooderham acquired the control of the Temperance and General, purchasing 550 of its shares. Notwithstanding that Mr. Cox then controlled two life insurance companies, the Canada Life and the Imperial Life, he was annoyed when the control of the Temperance & General was

acquired by Mr. Gooderham. Later, after some negotiation between Mr. Gooderham and Mr. Cox, the latter was offered the shares held by Mr. Gooderham in both the Manufacturers and the Temperance & General, which he at once accepted. An agreement was entered into between them, dated 1st December, 1898, whereby Mr. Cox was to pay $140,000 for 3,105 shares of Manufacturers Life stock, or *pro rata* for any less amount down to 2,732 shares (with an option to purchase any additional shares Mr. Gooderham might acquire, at cost), and $132,000 for 550 shares in the guarantee fund of the Temperance & General. The agreement indicates that Mr. Cox then had in his mind the amalgamation of these two companies and possibly the Imperial Life, as it provided that Messrs. Beatty, Blackstock, Galt & Fasken should be the solicitors for the companies until they were amalgamated with another company, and thereafter to be retained for a relative proportion of the business of the new company; that Mr. George Gooderham, Mr. T. G. Blackstock and Mr. E. W. Gooderham should go on the boards of directors of several life insurance companies in which Mr. Cox was interested, and that Mr. Gooderham should be at liberty to acquire a substantial interest, at or near the average cost to Mr. Cox, in the said two companies. Mr. J. F. Junkin, the Manager of the old Manufacturers Life, thought it objectionable that any one person should have absolute control, and endeavoured to arrange for the purchase of the shares held by Mr. Cox in the Manufacturers Life by Messrs. C. J. McCuaig and William Strachan. Mr. Cox, however, refused to sell the Manufacturers stock without that of the Temperance and General, and the result was that his stock in both companies was purchased by McCuaig and Strachan on 1st January 1901, at an advance of $658 over the cost thereof. The intention of Messrs. McCuaig, Strachan and Junkin seems to have been to sell this stock in small lots to friends of McCuaig and Strachan in the east and of Mr. Junkin in Ontario, so that the capital stock would be broadly scattered and there would be no control vested in any one person. This proved impossible, as McCuaig and Strachan were unable to interest their friends at the price paid by them. Realizing that a value attached to the block as controlling both companies, they accordingly refused to deal further with Junkin upon any terms which did not relieve them of the whole stock. Meantime steps had been taken to procure the Act permitting amalgamation of the two companies, and while the Bill was before Parliament, Mr. Junkin, fearing that McCuaig and Strachan might so dispose of the stock as to ensure the control which he desired to prevent, agreed on 1st May, 1901, to purchase the stock at the cost to McCuaig and Strachan, with interest added. He was simultaneously arranging for a distribution of the stock, and in the end the substituted stock in the new company was divided as follows:—Lloyd Harris, 1,350; H. M. Pellatt, 1,000; William Strachan, 1,073; S. G. Beatty, 1,000; William Mackenzie, 2,000; D. D. Mann, 2,000; McLaughlin & Johnson, 400; J. F. Junkin, 323, making in all 9,146 shares.

When the amalgamaution of the two companies was proposed, it seems to have been the plan that Mr. Junkin, the manager of the old Manufacturers Life, and Mr. Sutherland, the manager of the Temperance and General, should be joint managers of the new company; but on the amalgamation coming into effect Mr. Junkin became the manager and an agreement was entered into with Mr. Sutherland, which was ratified by the executive committee of the new company, September 9, 1901, by which, in consideration of receiving from the new company $2,000 per year for five years as an honorarium for retiring as managing director of the Temperance and General, he agreed to refrain from injuring either of the companies named, by inducing policyholders to surrender policies or otherwise; to refrain from verbal, written or printed criticisms of or reflection upon the companies or their management or officers, to assist the companies in any way in his power by inducing agents to remain with the new company and policyholders to retain policies, and, if requested, to sign letters to the agents and policyholders pointing out his confidence in the companies and containing an expression of hope that they would see their way clear to continue their connection with the company. It further provided that if Sutherland again became engaged in insurance business he would not employ any agent or

officer of the companies named until twelve months after the termination of his service; and that payments under the agreement should cease if at any time, in the opinion of E. R. Wood and Thomas Bradshaw, or the survivor of them, he failed to carry out the agreement. The last payment under the agreement was made on July 1, 1905.

The original issue of capital stock of the old Manufacturers Life was not subscribed at a premium, and the capital became impaired in establishing its business. After the stock had been issued, a premium of about $18 per share, producing about $100,000, was paid, but this did not overtake the impairment. Mr. George Gooderham, rather than call for further aid from the shareholders, thereupon advanced to the company about $30,000, small sums being advanced by S. F. McKinnon, R. L. Patterson and C. D. Warren, directors of the company. It was intended to repay this advance as soon as the company should be in a position to do so, but it was important that it should not appear as a liability meantime, otherwise the impairment of capital would still remain disclosed. Accordingly an agreement, dated September 17, 1891, was entered into between the company and George Gooderham, whereby alleged renewal commissions, pretended to have been commuted, were to be paid him in respect of premiums to be collected at the head office, until the advance, with interest at 6 per cent per annum, was repaid. The object of this agreement was, no doubt, to enable the company to treat the payments to Mr. Gooderham as commissions to agents, in order to keep the liability concealed in its returns.

When Mr. J. F. Junkin became manager in 1895, he found that for some time no payments had been made to Mr. Gooderham, and none were made till December, 1897, when another transaction occurred, whereby the company undertook to pay Mr. Gooderham a further sum which it was also desired to conceal. During Mr. Gooderham's presidency a loan had been made to one Leslie, on property in Toronto, and, the payments falling into arrears, the company foreclosed. After the foreclosure the following resolution was passed by the executive committee on December 30, 1897 :—

> '*Re* Leslie property: The position of this mortgage having been discussed, valuation considered, &c., and W. G. Gooderham, Esq., having offered for the whole property the sum of $60,000, it was decided to accept such offer, and that the balance of the account should be written off.'

Although the purchase price thus appeared to be $60,000, it was understood that the company would repay $20,000 of it. Accordingly, at the same meeting, a resolution was passed which, after reciting that the president had given a great deal of valuable time, care and attention to the company, and had been of great assistance in financial matters, provided that his annual honorarium should be increased from $2,000 to $5,000, the increase to take effect from January 1, 1898, and to be payable quarterly during his lifetime. This increase was in reality the cloak under which it was intended to repay the $20,000 and conceal the liability.

On 3rd January, 1898, a further agreement was made with Mr. Gooderham whereby, after a recital of the old advance of 1891, and other recitals, maintaining the original pretense of commuted commissions, all profits from lapses, surrenders, &c., as well as commissions on all renewal premiums on which agents' commissions were not paid, were made over to Mr. Gooderham to secure repayment of $20,500, with interest, that sum being fixed as the balance then due in respect of the advance of 1891.

At a meeting of the board on 21st January, 1900, these undisclosed liabilities to Mr. Gooderham and the other directors named were discussed, and it was decided to repay them forthwith. At the same meeting 3,790 shares of new stock were issued at a premium of $12 per share. The total premium thus received amounted to $43,608, which was used to repay the following sums: George Gooderham, $39,044.72; S. F. McKinnon, $2,500; R. L. Patterson, $1,000, and C. D. Warren, $801.93. The amount paid to Gooderham included the $20,000 undertaken to be repaid to him in respect of the Leslie transaction, after crediting his increased remuneration as president for the year during which it had been paid. These payments were approved at the annual meting of the shareholders on 15th March, 1900. The receipt of premium on the new capital issued and the payments made to Mr. Gooderham and the other directors were

not shown in the company's return for that year, as filed with the superintendent, but upon their being discovered amendments were insisted upon by the superintendent, and they accordingly appear in the return as printed in the Blue Book.

Until the amalgamation of the companies in 1901 Mr. Gooderham remained president of the Manufacturers, but after the transaction just mentioned he took very little interest in the company, being away most of the time. The duties of president were performed by Mr. Robert Jaffray, vice-president, who had become a director, with Mr. J. J. Kenny, at the annual meeting in 1899, after Mr. Cox's purchase of the Gooderham shares. Mr. Gooderham's remuneration as president had ceased to be paid at the end of 1899. In February, 1902, a demand was made by him for remuneration for the period of a year and a half from the beginning of 1900 till the amalgamation, and a resolution was passed authorizing the payment of $1,000 to him in settlement. This was accepted, and Mr. Gooderham's connection with the company thereupon ceased.

Mr. Gooderham was insured under Policy No. 1 of the old Manufacturers Life. It was a 10-year endowment policy for $50,000. He was allowed a commission of 30 per cent on the first premium and 10 per cent on the renewals. In 1897, when the policy came due, Mr. D. P. Fackler, the consulting actuary of the company, stated that the commission was too high. He pointed out that a company might pay 30 and 5 on small policies which might lapse and so yield some compensating profit. He discussed the matter with Mr. Gooderham, who consented that the excess commission received by him should be accumulated for five years at 5 per cent, and charged against his tontine dividend. This was done, and the tontine dividend which would otherwise have amounted to $4,598 was reduced to $954.60.

The company's powers of investment are entirely governed by section 50 of the Insurance Act.

During 1901, the first year of the amalgamated company's business, its transactions in stocks and bonds, while fairly large, do not indicate any speculative tendency. In the years 1902 and 1903 the management seems to have become more adventurous, and the dealings in stocks and bonds during those years exhibit a pronounced attraction towards the more or less speculative securities of companies in which directors had large interests. These dealings were of such a class that those undertaking them would be compelled to keep constant and vigilant watch upon rapidly fluctuating quotations. In 1902, commencing with May 16, the company bought altogether 1,700 shares of Canadian Pacific Railway stock and 1,000 shares of Commercial Cable, and in October and November it bought 700 shares Dominion Coal.

Four hundred of the Commercial Cable shares were sold before the end of the year, leaving 600 shares shown in the annual return, and sold in 1903. The Canadian Pacific Railway and Dominion Coal were both unauthorized securities, and on December 31, 1902, the company went through the form of selling 400 of the Canadian Pacific Railway shares and all the Dominion Coal shares to Pellatt & Pellatt at the original cost, and on January 2, 1903, Pellatt & Pellatt went through the form of selling them back to the company at the same price. The fact that all the Canadian Pacific Railway shares were not taken off and restored to the books in the same way may be accounted for by the circumstance that the management does not seem to have been aware of the unauthorized nature of the security. In 1903 further purchases were made from time to time of Canadian Pacific Railway shares to the number of 900, and sales were made of 1,600 shares, leaving 1,000 shares on hand at the end of the year, as shown by the annual return. After certain intermediate dealings with these shares which will be reviewed hereafter, they were finally sold in October, 1904. The company bought in 1903, mainly in March, during a rapid decline in the market, 1,125 additional shares of Dominion Coal, making 1,825 shares. The ownership of these shares was concealed at the end of 1903 by a pretended sale to Mackenzie, Mann & Co., hereafter referred to. The company also bought and sold 525 shares of Twin City Rapid Transit stock in 1902, bought 1,300 and sold 500 in 1903, and sold the balance, 800 shares, in 1905. It bought 400 Toronto Electric Light

shares in 1901; bought 600 in April and May, and sold 235 in October, 1902; bought 735 in January and May, 1903, and sold 675 in October, 1904; leaving 825 on hand at the end of 1904, which it retained as an investment until the date of the inquiry. It bought 1,000 shares of Winnipeg Electric Railway stock in January, 1905, and 664 additional shares in May, 1905, which it also retained as an investment. It also purchased 202 shares of Crow's Nest Coal stock, an unauthorized security in March, 1903. These shares, with the Dominion Coal, were passed off the books at the end of the year by the pretended sale to Mackenzie & Mann, and were finally disposed of under circumstances which will, with that pretended sale, be hereafter more fully noticed. It was expressly admitted that some of these purchases were made not as permanent investments, but with the intention of holding for a short time, in anticipation of a rise in the market.

The company acquired large blocks of bonds carrying bonus stock. In 1901 it took over from the companies that were then amalgamated, and it still owns $47,000 Quebec Railway, Light & Power Company, and $10,000 Toronto Hotel Company bonds, each carrying 10 per cent of bonus stock. In June, 1903, it bought $50,000 Mexican Light and Power bonds at 90, carrying 70 per cent of bonus stock and $50,000 Electrical Development Company bonds at 95, with 90 per cent of bonus stock. The resolution of the Finance Committee as to the latter bonds authorized the purchase 'on the best terms possible by the managing director.' It was stated by Mr. Junkin that some time prior to the meeting at which this resolution was passed he had asked Colonel Pellatt to arrange that the company be allowed to become an underwriter of the bonds. Col. Pellatt, Mr. Junkin and S. G. Beatty were at that time three of the underwriters at 90, with 100 per cent of bonus stock, but through some objection of a member of the committee in charge of the underwriting the company was not permitted to take part. The bonds underwritten by Mr. Junkin, amounting to $25,000, had been sold prior to May 22, 1905, the date of this resolution. After the passing of the resolution Mr. Junkin agreed to purchase from Mr. Beatty $50,000 of the bonds underwritten by him, on the basis of 95, with 90 per cent bonus stock. He stated that at the date of the resolution he had no intention of making the purchase from Beatty but that this was a better price by some 5 per cent of bonus stock than he could obtain elsewhere; $40,000 of the bonds so purchased were taken over on June 11, 1903, and the balance of $10,000 on February 22, 1904, at which date a resolution was passed by the executive committee confirming the purchase of the $10,000, balance of the $50,000. Mr. S. G. Beatty was present at this meeting and also at the meeting of the finance committee, when the purchase was authorized, but nothing appears on the minutes to indicate that the purchase had been made from him. In June, 1904, the company also purchased from Osborne & Francis $62,000 bonds of the Chicago and Milwaukee Electric Railway at 97, with 10 per cent of bonus stock. All these bonus stocks were omitted from the annual returns of the company until December 31, 1905, when those then on hand were shown, but no value was placed opposite them in the return. Nor did the company keep a complete record of them in its ledger, as it did with other securities, but they were mentioned in the company's minutes authorizing or adopting the purchase from time to time, and in the statements from time to time presented to the executive committee. This method of treating the bonus stocks in the books and returns seems to have resulted from the view taken by the management that the cash payment represented the bonds only, and that the stocks did not involve any actual payment of money.

The company made large investments on call loans to brokers and others. In these transactions it loaned to its directors as freely as to other persons, notwithstanding the prohibition contained in the Companies Clauses Act elsewhere referred to. It loaned to Pellatt & Pellatt, Mackenzie, Mann & Co., William Mackenzie, D. D. Mann and William Strachan. Some of the securities received by way of pledge—such as Canadian Pacific Railway, Canadian General Electric and Dominion Coal—were not authorized under the Insurance Act. The company also made large loans on bonds and

stocks of the Sao Paulo and Mexican Light and Power Companies, which, though incorporated in Canada, carry on all their operations elsewhere. At the date of the inquiry the company had called in these loans.

The board of directors meets once a month. In the interval practically all its powers are exercisable by an executive committee, consisting of the Toronto members of the board and Mr. Lloyd Harris, which meets weekly.

On November 17, 1902, after the company's transactions in stocks and bonds had become active, a finance committee was appointed, as it appeared expedient to have a small committee to deal with this class of investments. The committee were given power to:—

> 'approve the sale of stocks and bonds owned or which may be owned by the company, and to approve the purchase of all stocks and bonds by the company.'

Messrs. Pellatt (chairman), Mason and Beatty, with the managing director (or in his absence, the assistant manager), were appointed members of the committee, and Mr. D. D. Mann was added in 1903. At the end of that year the committee was not re-appointed.

The transactions between the company and Pellatt & Pellatt, the company's brokers, especially the dealing in Dominion Iron and Steel stock, furnish matter of comment. It is also matter of comment that Sir Henry Pellatt, a member of the firm and vice-president of the company, should have permitted himself to be placed on this small committee, with its broad powers of dealing on behalf of the company with securities of the class in which his own firm was constantly being concerned. The only explanation which conforms to all the facts is that his firm's operations on the stock market, both for themselves and their clients were so large and the tendency of the market value of securities was towards such depressed conditions, that it seemed desirable in his and his firm's interest and for his own and his firm's purposes that he should acquire as complete control as possible over the company's investments. In that view the smaller the committee and the more important his position on it, the better. It will be seen shortly that in the minute preceding the creation of the committee a most important and significant transaction between Pellatt and Junkin, involving the company in an unauthorized speculation, without the knowledge of any other member of the board, had taken place. Pellatt's firm was largely interested for itself and its clients in the securities in which the company's funds were being invested, and acted almost exclusively as the company's brokers. On some occasions the firm filled the company's order to buy out of the firm's own stock. Some of these securities became depreciated in 1902, and a general decline occurred in 1903. Clients' margins became exhausted and the firm's financial burdens became greatly increased in its efforts to carry the securities. In the end it was unable to obtain the release of some of the company's securities which it had been allowed to pledge. The indications all point to an intended manipulation of the company's funds and securities in the prolonged and serious financial campaign which its brokers were undertaking.

On March 5, 1903, Lloyd Harris, H. M. Pellatt, James Mason and S. G. Beatty, directors of the company, and R. J. McLaughlin, one of the company's solicitors, procured the incorporation of a company called 'Canadian Securities Limited,' with a share capital of $500,000. divided into 5,000 shares of $100 each, and with power to buy, sell and deal in bonds, stocks and debentures.

It was said that the real object of incorporating this company was to constitute it a purchasing agent for the insurance company ; that many times bonds were offered in such large quantities as to be beyond the amount that any one investing company would buy; that in such cases it was intended the Securities Company would tender for the whole issue, give the insurance company what it wanted, practically at cost, and sell the balance elsewhere. The insurance company subscribed for $20,000 stock, or one-half of the stock issued, which was subsequently increased by a stock dividend to $28,000. This it held until December 30, 1905, when it was sold at par to Mac-

kenzie, Mann & Co., Ltd., acting, it was said, for one R. D. Davidson. During that time the Securities Company bought and sold bonds and debentures, amounting to more than $2,250,000. It sold to the insurance company about $630,000 bonds and debentures, of which the largest part were debentures. The company's operations proved to be successful. Besides the stock dividend above referred to, it paid cash dividends of 10 per cent each year, and it was expected it would be able to continue dividends at that rate for some time to come. While it seems to have dealt fairly in its transactions with the insurance company—that company realizing more on its capital investment in the Securities Company than the Securities Company realized on its sales of bonds and debentures to it—yet your Commissioners cannot but regard operation through and by such a subsidiary company, the capital stock of which is almost entirely owned by the insurance company and its directors and shareholders, as prejudicial in the long run to the interests of the insurance company. It was proper for the latter company to dispose of its stock in the Securities Company and, if further dealings are to take place between the two companies, all the directors and officers of the insurance company should also free themselves of conflicting interests.

As already stated Messrs. William Mackenzie and D. D. Mann became the purchasers of 4,000 shares of Manufacturers Life stock. The purchase was completed on December 1, 1902, at which date both these gentlemen were directors of the company. Mr. Mann had been appointed in 1901, and Mr. Mackenzie in 1902, the former qualifying as the holder of 161 shares of the company's stock, and the latter as a policyholder. Mr. Junkin endeavoured to effect a sale to them for some time before it was arranged, believing that their names would give strength to the company, and for some months it was understood that they would acquire a substantial holding, but to what amount was not definitely ascertained. The stock cost them about $185,000, of which the Manufacturers Life advanced $127,580.05 on a call loan receiving as security 200 bonds of $500 each of the Inverness Railway and Coal Company, and the 4,000 shares of Manufacturers stock, the latter being transferred to the manager in trust. Both these securities were unauthorized under the Insurance Act. Besides, under section 38 of the Companies Clauses Act, as qualified by section 21 of the Company's Act of Incorporation, the company was expressly prohibited from making any loan to its directors. The loan was approved at a meeting of the Executive Committee held on December 1, 1902, at which Messrs. Lloyd Harris, G. W. Ross, H. M. Pellatt, R. L. Patterson, James Mason, managing director (J. F. Junkin), assistant manager (Robert Junkin), and assistant secretary (L. A. Winter), were present. Under section 21 of the Companies Clauses Act, all these directors and officers who made or assented to the loan became jointly and severally liable to the company for the amount thereof, and would have been responsible for any loss had the borrowers not ultimately repaid the whole advance. It was intended that the loan should be merely a temporary one, to be paid off before the end of the year, but the borrowers seemed to be in no hurry to pay it off. On May 4, 1903, the Executive Committee also approved of a loan of $11,000 to Mr. Mackenzie, the application being made by Pellatt & Pellatt, and the security being 30 bonds of $500 each of the Inverness Railway & Coal Company. Messrs. Mackenzie & Mann as directors must have known that these transactions were improper, as they assisted in concealing the securities at the end of each year. The first loan was treated in the books of the company as being paid off on December 26, 1902, and readvanced on January 8, 1903. Both loans were treated as being paid off on December 28, 1903, and readvanced on January 25, 1904. These devices did not in reality put an end to the transactions. They amounted to a mere arrangement between Mackenzie & Mann, the bank and the manager, whereby the company was able to show at the end of the year a cash item instead of the loan, the bank advancing the money for that purpose.

At the end of 1903 the company had on hand, as previously stated, 1,825 shares Dominion Coal and 202 shares Crow's Nest Coal, which were unauthorized investments and which had cost the company and stood on its books at $230,903.86 and $15,162.62,

respectively. At that time Dominion Coal shares were quoted on the market at 73 asked and 72¾ bid. At the latter price the stock would bring $132,768.75 or $98,135.11 less than cost. The Crow's Nest Coal shares were not in demand at the time, and it is difficult to estimate what they would have brought on a forced sale. The company also held the unauthorized securities pledged for the call loans to Mackenzie & Mann and to William Mackenzie, just referred to. All of these securities the management desired to conceal in making the annual return. It was necessary that the two coal stocks should be represented by assets equalling their cost, otherwise the loss on them would appear. To accomplish this, the finance committee, at a meeting held on December 29, 1903, at which Col. Pellatt (chairman), S. G. Beatty, Col. James Mason and J. F. Junkin were present, passed the following resolution :—

> 'Sale of 1,800 shares of Dominion Coal at 126½ and 202 shares of Crow's Nest Coal at 300¼ to Mackenzie, Mann & Co., with a guarantee from this company against loss in the transaction was approved.'

The day before the resolution Mackenzie, Mann & Co. gave the company their cheque for $386,443.51, made up as follows :—

Mackenzie & Mann, call loan	$128,959 00
Wm. Mackenzie, call loan	11,418 03
1,825 shares Dominion Coal	230,903 86
202 shares Crow's Nest Coal	15,162 62
	$386,443 51

The receipt of these amounts appears in the company's December cash-book. In the cash-book for January, 1904, the repayment of them appears, and in addition the payment of $1,482.26, representing interest charged on the loan by the bank. This whole transaction was purely fictitious. The stocks still remained the property of the insurance company, subject to the pledge to the bank. This large deposit to the credit of a bank account which had been very small or adverse during the year and the repayments in January attracted the attention of Mr. Blackadar on his inspection in February, 1904. After consultation between him and the Superintendent of Insurance, it was insisted that the directors responsible for these transactions should take over the securities. The management promptly set itself about accomplishing this, and on March 3, 1904, procured the rearrangement of the call loans by a new loan to Mackenzie, Mann & Co., Limited, and in the same month the Dominion Coal and Crow's Nest Coal shares were disposed of to the Prudential Securities Company under circumstances which will be hereafter set out.

The new loan to Mackenzie, Mann & Company, Limited, was $138,432.75, which covered the amount due on the two call loans. The security taken was 1,600 shares, $100 each, Canadian Lake and Ocean Navigation Company; 1,650 shares, $100 each, Imperial Rolling Stock Company; 8,566, $20 each, Vancouver Gas Company, which were said to be worth in the aggregate, $214,500. The company also retained its own shares, standing in the manager's name in trust, as additional collateral security. The loan was partly paid off in July, and the balance in December, 1905. At the time this new loan was made the Mackenzie & Mann interests in the company were represented on the board by D. B. Hanna, William Mackenzie and D. D. Mann. It might have been supposed that those interests were sufficiently represented by the two directors, but as Mr. Mackenzie did not attend the meetings the manager seems to have suggested the addition, not the substitution, of Mr. Hanna. A transfer was made to Mr. Hanna on January 20, 1904, of 50 shares out of the 4,000 standing in the manager's name in trust to qualify him, his appointment to the board being made at the annual meeting in that year.

By an agreement, dated March 7, 1904, between D. D. Mann, William Mackenzie, Lloyd Harris, H. M. Pellatt, S. G. Beatty, James Mason, A. R. Wood, E. J. Lennox, R. L. Patterson and J. F. Junkin, directors of the Manufacturers Life (other than Wood, who was an ex-director), of the one part, and the insurance company of the other part, after reciting that said directors authorized the purchase of the Dominion Coal and Crow's Nest shares at a cost of $240,000, which, if sold, would show a loss to the company at present prices, of $125,000, and that the company had required the directors to take up the securities and make good the loss, it was provided that the directors should incorporate a company to act as a holding company; that the insurance company should sell it to the Dominion Coal and Crow's Nest shares and $35,000 Mexican Power Company and $45,000 Ontario Electrical Development Company common stock for $240,000; that $100,000 of the price should be paid in cash and the balance should be represented by a call loan from the insurance company, sufficiently secured by securities authorized under the Insurance Act; that the directors should subscribe for sufficient stock in the new company and pay up same in cash or by transfer of securities which could be used for a call loan, each being responsible for one-tenth part of the transaction; that, if any of the directors refused to sign, it should not affect the liability of the others, and that $10,000 paid-up stock in the company to be formed should be transferred to the insurance company as a further consideration for the sale of the Coal stocks and for the Mexican and Electrical Development Co. shares. It will be noted that the sum mentioned, $240,000, was not the full cost, by about $6,000, of Dominion Coal and Crow's Nest shares, and that no cash payment was made for the Mexican and Electrical stocks. These were the bonus stocks received by the company on the purchase of the Mexican and Electrical Development bonds previously referred to. It is obvious that the $10,000 paid-up stock in the new company was no adequate consideration for the transfer of these bonus stocks, and that the transaction actually carried out was by no means a simple taking over and making good of the investments, but the pretension is put forward that as the directors were assuming a very heavy loss and had acted throughout in what they believed to be the interests of the company, it was not unfair that some allowance should be made them. The Mexican stock was sold on December 5, 1905, at 65¼, and the Electrical stock was sold, 75 shares, on May 22, 1905, at 62¾, and 375 on June 9, 1905, at 51¾.

Pursuant to the agreement, these directors incorporated the Prudential Securities Company, Limited, with power to invest and deal in debentures, bonds, stocks and other securities, and to borrow money upon the mortgage or pledge of any of its property. It acquired the stocks set out in the agreement, on the terms stipulated, except that it paid $212,000 cash instead of $100,000, and treated the balance, $28,000, as a call loan on the security of 170 shares Western Assurance, 180 shares Royal Loan and Savings Company and 155 shares Toronto Railway Company. It seems to have been the intention of the parties that this company should buy and sell other stocks and bonds in order, if possible, to make good the loss sustained by it on the two Coal stocks. It was, no doubt, realized that its connection with the insurance company would enable it to conduct its transactions largely by means of loans of the insurance company's funds. Accordingly the Prudential Company bought large blocks of Winnipeg Railway stock and Mexican Light and Power bonds and stock. The moneys required to make these purchases were largely advanced by the insurance company, the amount loaned being, in some cases at least, the full purchase price of the security. The total advances made to the Prudential by the insurance company amounted to $264,136 in January, 1905. It remained at about that figure until May, 1905, when it was paid off. The Prudential Company was then wound up, and the insurance company received for its $10,000 stock in the Prudential Company $8,000 in cash and 50 shares of Mexican Light and Power Company stock, which was sold on December 6 for $3,262.90. $4,000 of the cash payment was credited to the Electrical Development Company bonds and a like amount to the Mexican Light and Power bonds, as the company regarded the $10,000 stock in the Prudential as being the equivalent of the bonus stocks received with such bonds.

In October, 1902, a series of transactions commenced, at the suggestion of Sir Henry M. Pellatt, which must be referred to with some detail. His firm had, prior to that month, become bound, in the course of its own operations and in consideration of a payment previously made to them, to take delivery of 2,500 shares of Dominion Iron and Steel stock if put to them in that month, 1,500 shares at 70¼ and 1,000 at 68¼, the transaction being in reality a bet on the market. In August, 1902, this stock had been selling at about 79½. On September 29 the market price was down to 70½ and immediately thereafter it declined rapidly. On October 1, it was 63; on October 6, 57⅛; on October 7, 52¼ and on October 8, 47¼. With this break in price, and in view of his firm's obligation just mentioned, it was important that Pellatt should obtain some buying orders to support the market. The stock was not then a dividend paying stock, nor was it an authorized insurance investment. He, however, induced Junkin, the managing director of the company, to purchase 1,000 shares in October, on the statement that, in his opinion, the stock would shortly recover and be worth par, and on his offering to protect the company from any loss. Junkin stated he agreed to the purchase in his anxiety to make money for the company; that while he knew Pellatt was a large holder of the stock, he did not know that he was buying and selling on his own account, but thought his transactions were those of a broker only. The 1,000 shares were bought in the following lots and prices, which include ¼ of 1 per cent commission to Pellatt's firm. October 4, 300 at 63½ and 200 at 63⅝; October 6, 200 at 57¼; October 7, 100 at 52¾ and 200 at 52. At the same time his firm was being required to take delivery of the 2,500 shares above referred to, 500 at 70¼ on October 1; 900 at 70¼ and 1,000 at 68¼ on October 7, and the balance, 100 shares at 70¼ on October 15. With these and other shares the firm owned, it had on hand 3,983 shares of the stock on October 9. Brokers bought notes for the 1,000 shares were duly sent, addressed 'J. F. Junkin, Esp., Toronto,' from which the printed *requirement as to margin was struck out. No record of these transactions was made* in the company's account in the brokers' books, but they were entered in the personal account of Mr. Junkin, for whom the brokers were then carrying 100 shares C.P.R., and 100 shares Dominion Iron and Steel, bought on September 8 and 15, respectively, upon which no margin whatever had been paid. The brokers had also carried into this account entries relating to the purchase of 400 shares C.P.R. on September 30, and 125 shares Dominion Coal on October 4, 1902. These all remained in the account until October 10, when reverse entries were made and they were carried into the company's account. It was said that making all these entries in Junkin's account was a mere mistake, which was corrected as soon as discovered. It seems to be fairly clear that the 100 shares C.P.R. were purchased for the company, as it was reported to and approved by the Executive Committee at its meeing on October 2, 1902, and the cost thereof, $55,650, was paid by the company in instalments, the last being paid on November 4, following. But the fact that the C.P.R. shares were entered in the wrong account does not demonstrate that the entry of the Steel stock was a mistake, and had the latter gone up in price as quickly as it had gone down, there was no record of the transaction in the books of the company or the broker's firm to indicate that the company was entitled to the resulting profit. No director besides Pellatt and Junkin was aware of the transaction. At about the time these entries were reversed the managing director of the company, without the knowledge or authority of the Board or Executive Committee, gave to the brokers some 400 shares or more of Commercial Cable stock, to assist them to carry the Dominion Iron and Steel stock, that is to say, it was handed to the brokers to be pledged by them with their bankers. Later this Cable stock was sold for the company and C.P.R. stock was substituted therefor. On March 30, 1903, a purchase of 400 shares of Dominion Coal was made for the company, but here again no authority was given for the purchase. No payment on account was made, but 400 additional shares C. P. R. stock were delivered to the brokers for the purpose of carrying the Dominion Coal stock. The managing director said this purchase was made with the expectation of making a profit to help out the Steel stock.

But an examination of the brokers' books reveals a condition of affairs that leads to the impression *that Pellatt induced the purchase to be made, for his firm's benefit.* The brokers had been members of the syndicate buying Dominion Coal stock which is more fully referred to in the report on the Canada Life The operations of that syndicate had resulted in a loss, and these brokers had to take delivery of 15 per cent of the syndicate's holdings of 11,400 shares, or 1,710 shares, which they did on 15th April, 1903. It cost them about 129, whereas the market price was then about 110, and it was greatly to the interest of the brokers that the market should be supported as much as possible. Whatever motive prompted these dealings, the result was that Pellatt & Pellatt in the end had the company's 1,000 shares of C.P.R. stock, which could be and were pledged by them, and the company had in its vault, 1,000 shares of Dominion Iron and Steel stock and 400 shares Dominion Coal stock, purchased from the brokers, which were practically useless to them as securities on which to raise money and which were not authorized investments for the insurance company. Matters remained in this position until October, 1903. In the meantime the market price of Dominion Coal was declining in the same way as the Steel stock and the loss was continually getting heavier. The managing director called upon Pellatt to carry out his promise and make good to the company the loss on these two stocks. This Pellatt was willing to do, but required assistance to obtain a release of the company's C.P.R. stock which had been pledged for $101,800, the price of the Steel and Coal stocks. For this purpose a loan had to be made to him, and as the other directors of the company were not parties to or aware of the transactions, some reason for the loan had to be given to them. It was stated that as Pellatt was assuming the loss on the Steel and Coal stocks it was thought to be unnecessary that any information should *be given about them. Accordingly it was represented by the managing director to* the Finance Committee at a meeting held on October 14, 1903, attended by Messrs. Mason, Wood, Patterson, Beatty and J. F. Junkin, that the loan was occassioned by circumstances set out in the minutes as follows:—

"The *managing director* reported that the company had purchased through Pellatt & Pellatt, acting in their capacity as brokers, 1,000 shares of the Canadian Pacific Railway, which had been paid for in instalments from time to time, and that when the last instalment was made the said brokers were unable to deliver the stock, it being hypothecated to certain banks, the amount required for the release of the same being $101,800. Though not in a position to pay cash for the release of the said stock, Pellatt & Pellatt offered to give the company the following security for the indebtedness:—

1. A mortgage upon Lieut.-Col. Pellatt's Scarborough Beach property, comprising lots 1 to 17 (except 5) both inclusive, according to Reg. Plan 117, together with the water lot in front thereof, and lots 1 to 4 and 37 to 40, all inclusive, according to Reg. Plan 958 adjoining the first described property.

2. To transfer to the company:—

(*a*) 1,000 shares Dominion Iron and Steel Company stock.

(*b*) 400 shares Dominion Coal Company stock.

(*c*) 500 shares Mexican Light and Power Company stock.

(*d*) Lieut.-Col. Pellatt's equity in 1,000 shares of Manufacturers Life Insurance Company stock.

This was followed by a brief minute authorizing the taking of the proposed security.

On October 26, the same directors and Mr. Harris being present, the matter was more formally dealt with by a specially prepared resolution which records in the most precise terms the representation then being put forward.

The resolution was prepared by the manager in consultation with the company's solicitor, and while Pellatt did not know the terms of the resolution he knew that the transaction was not to be fully stated to the ex[illegible]ive committee. By this means the

real facts with regard to the purchase of the Steel and Coal stocks were kept from the knowledge of the other directors of the company until the matter came out in the course of the inquiry made by this commission. On October 28, 1904, security was given on the property mentioned in the resolution, whereupon $101,800 was advanced to the brokers to release the 1,000 shares Canadian Pacific Railway stock. This stock was delivered to the company and the 1,000 shares Steel stock and 400 shares Coal stock became the property of Pellatt, subject to the pledge thereof to the company. This mortgage was finally paid off and discharged in March, 1906.

THE DOMINION LIFE ASSURANCE COMPANY.

This company was promoted by Mr. Thomas Hilliard, the present president and manager. It was incorporated in 1889, by Act of Parliament, 52 Vic., cap. 95. No amending Act has been passed.

The organization expenses were small, Mr. Hilliard having obtained nearly all the subscriptions for stock. His whole charge for organization services was $800 and travelling expenses.

The head office is at Waterloo.

Included in its assets in the returns to the government for 1889 and 1890 was the sum of $1,329.25, under the heading 'Preliminary Expenses,' and in the return for 1891 $1,000 was included under a similar heading. The department objected, and in the printed return the item was deducted each year.

The authorized capital is $1,000,000. The subscribed capital at December 31, 1889, was $250,300. Of this 25 per cent was called up. No substantial change took place until 1900, when the subscribed capital was increased to $400,000 and the paid-up to $100,000. This increase was issued at a premium of $50 per share, and 25 per cent of both capital and premium was called up, realizing $37.50 per share, of which $25 was carried to capital and $12.50 to surplus funds.

The directors had considered the question of increasing the capital prior to the Dominion legislation altering the basis of reserve. It was believed that additional capital would tend towards stability and better the security of policyholders. Each shareholder was offered one new share for every two shares. A small amount was left unsubscribed, and this was redistributed to those who asked for it, the relative holdings not being materially altered.

The capital has never been seriously impaired, the impairment of about $2,300 in 1890 and 1891 having been made good by the end of 1893.

Prior to 1894 no dividend was paid. In that year the dividend was 3 per cent; in 1895, 4 per cent; in 1896, 1897 and 1898, 5 per cent; in 1899, 1900 and 1901, 6 per cent; in 1902, 7 per cent, and in 1903 and subsequent years, 8 per cent.

By section 13 of the Act of Incorporation the company is required to maintain three separate accounts of its business in the 'General,' 'Abstainers' and 'Women's' sections, keeping the receipts and expenditures distinct, each section sharing its own profits and each section paying its proper proportion of expenses. In the distribution of profits the directors are required to allot to the participating policyholders at least 90 per cent. In practice the premium income of each section is kept distinct, the death losses of each section are charged to it, and the general expenses are divided proportionately between all the sections. There is no distinction in the premium rates of the several sections, but in the Women's section there are no non-participating policies. The mortality in the Abstainers' section is lower, and in the Women's section higher than in the General section. Each section takes the exclusive advantage or bears the exclusive burden of its own rate of mortality.

At December 31, 1899, the company valued its policies issued before January 1, 1896, on the Institute of Actuaries Hm. table with 4½ per cent and all policies subsequently issued on the same table with 4 per cent. At December 31, 1900, policies

issued before January 1, 1900, were valued at 4 per cent and all later policies at 3½ per cent. The amount required to set apart this additional reserve was furnished out of the premium on the capital issued in 1900.

The company's investments have consisted, almost exclusively, of loans on real estate, loans on policies and municipal debentures.

In 1903 Sao Paulo bonds to the amount of $10,000 were purchased. On objection being made to the investment it is said it was decided to sell, but the sale was not completed until shortly before the inquiry.

The company in 1893 loaned $9,000 to the Ontario Mutual Life Assurance Company, without security. The loan was temporary, and was made at a time when moneys were lying idle in the bank and the company's bank account was overdrawn.

The company's chief investments consist of mortgages, $818,459.45 out of $1,000,000 of invested assets being of that class at December 31, 1905, and about one-half being on lands in Manitoba. The applications for these loans are received through the firm of solicitors of which a director, Mr. A. J. Andrews, is a member. They report on the applications, and are paid by the company a commission of 1 per cent on all applications accepted, in addition to the ordinary solicitors' fees, which are paid by the borrower.

Shareholders are allowed a commission of 25 per cent on all insurance taken by them, there being no agent's commission. Policies at special rates of premium have been issued in a few instances.

THE EXCELSIOR LIFE INSURANCE COMPANY.

By letters patent dated August 7, 1889, issued under the Ontario Joint Stock Companies Act, and section 4 of the Ontario Insurance Act, R.S.O., 1887, cap. 167, E. F. Clarke, J. D. Wells, Dr. John Ferguson, William Bell, J. L. Hughes and Rev. William Galbraith were incorporated to carry on business as a life insurance company, under the name of 'The Protestant Life Insurance Company of Ontario, Limited,' with a capital stock of $500,000.

The letters patent authorized the business to be carried on within the limits of the province, but this limitation was afterwards expunged by supplementary letters patent, when the company had it in contemplation to apply for the Dominion license, which was issued on June 23, 1897.

The name was changed to 'The Excelsior Life Insurance Company of Ontario, Limited,' by order in council of December 11, 1889, and was further changed to 'The Excelsior Life Insurance Company' by order in council of December 21, 1899.

The capital originally subscribed was $350,900, on which a call of 15 per cent was made, producing $52,035. In 1904 the balance was issued at a premium of $50 per share, and a call of 15 per cent was made on both capital and premium, producing $22.50 per share, or in all $33,547.50. Of this, $22,365 was credited on capital, making the total paid-up capital $75,000, and the balance, $11,182.50, was carried to profit and loss account. The company was then rapidly extending its business, and it was said to be fairer that the shareholders should furnish the necessary money than that it should be taken from policyholders' profits. The capital would have been impaired but for the premium.

The company paid no dividends until 1901 and has since paid 6 per cent on the paid up capital.

The capital originally subscribed not having been issued at a premium, the usual impairment occurred. In 1892 the Superintendent of Insurance for Ontario refused to treat as an asset an item called 'Commuted Commissions.' This would have increased the impairment shown, and E. F. Clarke, president, Dr. Ferguson, Dr. Urquhart, J. W. Lang and David Fasken, directors of the company, gave their promissory note which was discounted and the proceeds, $5,500 placed to the company's credit with

its bankers as a special deposit. This was treated in the return as part of the cash on hand. It was not, however, shown in the statement of income, and the expenditure shown was less by its amount than the usual expenditure. It was applied in making the following reductions; head office salaries, $1,000; agents' salaries, $1,000; commissions $2,000; agents' travelling expenses, $1,000; agency expenses, $100; office expenses, $100; legal expenses, $200; advertising, $100. Total, $5,500.

To provide a fund with which the directors might be indemnified, an agreement was made between the company and E. F. Clarke, its president, providing for certain yearly payments to him as renewal commissions, which there was no pretense of his earning. An account was then opened under the heading 'Commuted Commissions,' and enough moneys were placed to its credit from time to time to pay the interest on the note quarterly and $600 yearly on account of principal.

To make good capital impairments in 1893 and 1898, the company collected from the shareholders two bonuses of 5 and 6 per cent respectively on their capital. The first was paid by all but two or three small holders. The second was advanced in full by Mr. David Fasken, and he has been nearly recouped by the advance, less the bonus on his own holding.

In the course of explaining and endeavouring to popularize the second bonus, local meetings of shareholders were called together and addressed by the president and secretary. It is suggested that the management were apprehensive of an attempt from outside to take advantage of the crisis, and to make it the opportunity for acquiring the stock of timid and cautious shareholders, in alien interests. Mr. Fasken determined to purchase all the stock that such holders were desirous of selling. He believed it to be a good investment. He invited other directors to join him, but though Messrs. Grass, Gooderham, Gowan and Parker took some of the stock offered, Mr. Fasken practically had the whole occasion in his hands.

Mr. Fasken's holding at that time amounted to fifteen shares only. In November and December, 1898, he increased his holding to 1,010 shares. Subsequently he made further increases as opportunity offered, and on December 31, 1900, he held 1,538 shares. Some of these were afterwards sold to Mr. George Gooderham, and at the date of the inquiry Mr. Fasken held 1,231 shares of the original issue. To his holding of the first issue he added 665 shares of the second issue of capital, made in 1904, making his total holding 1,896 shares. Mr. Gooderham's estate holds 813 shares. These two holdings constitute, therefore, a clear majority of the total capital. Mr. Fasken disclaimed any intention to acquire control and stated that no occasion had arisen which made it necessary to consider whether his present holding gave him such control. He also said that it was uncertain that the Gooderham estate shares would be voted with his.

The capital was again threatened with impairment in the year 1904. The head office building was written up by $10,542.35 and the premium of $7.50 per share on the stock issued that year, amounting to $11,162.50 was got in. With these two items a surplus over capital was shown of $9,341.05.

The head office building was purchased in 1902, but improvements had been made and the rentals received had greatly increased.

During 1900, 1901, 1902 and 1903 the company's return valued its policies, issued on or before December 31, 1899, on the Actuaries Hm. Table with 4½ per cent and policies issued after that date on the same table with 3½ per cent.

At the end of the year 1904 the valuation was made on the same basis, except that policies issued in 1890 and 1891 were brought up to 3½ per cent. At the end of 1905 policies issued in 1892 were also brought up to 3½ per cent.

The management states that it is intended each year similarly to bring up the policies of one preceding year, commencing with 1893, to 3½ per cent. This is the gradual method proposed for raising all its reserves to the statutory basis.

THE HOME LIFE ASSOCIATION OF CANADA.

This company was incorporated in 1890 by Act of Parliament, 53 Vic., cap. 46, and carried on business as an assessment society from May 12, 1892, until July 10, 1899, when an amendment to its Act of incorporation was passed, 62-63 Vic., cap. 114, and it became a regular life company.

By its Act of incorporation a guarantee fund of $100,000 was authorized. Of this $42,400 was subscribed and $5,561.50 paid in thereon in 1892, and further subscriptions were afterwards obtained and payments made on account thereof, until, at the end of 1896, the whole was subscribed and $25,524.14 paid in thereon. In 1898 $26,442.14 was the amount paid in.

The following statement shows the income of the company during the years it carried on business on the assessment plan:—

INCOME.

Year.	Assessments Mortuary and Expense.	Interest.	Guarantee Fund.	Total.
	$ cts.	$ cts.	$ cts.	$ cts
1892	2,049 31	17 00	5,561 50	7,627 81
1893	5,121 79	113 28	2,644 59	7,879 66
1894	9,967 57	137 40	6,225 92	16,330 89
1895	14,711 84	....	4,879 77	19,591 61
1896	19,618 53	....	6,212 36	25,830 89
1897	22,245 13	37 80	166 00	22,116 93
1898	23,123 63	382 33	1,084 00	24,589 96
	96,837 80	687 81	26,442 14	123,967 75

In anticipation of the change that was made in 1899, the company in 1898 received, on account of calls to be made on capital to be issued, $4,740, and for premium thereon $1,185, making $5,925 received from prospective shareholders. This, added to $26,442.14, the amount paid in by subscribers to the guarantee fund, made the total contribution on proprietors' account of $32,367.14, and the total receipts of the company down to December 31, 1898, $129,892.75.

Prior to December 31, 1898, the company's death claims had not been excessive, only twenty policies having become claims in that period. The amount actually paid out by the company in death claims in those years was $22,291.22, but the general expenses of the company exceeded $97,000, being more than the total assessments paid in to the company by the insured for both mortuary and expense purposes.

The result was that on December 31, 1898, the company's funds, either on hand or invested, amounted to $9,753.61, which included the sum of $5,925 above mentioned. Notwithstanding these large expenditures, the company's business was not progressing satisfactorily. The insurance in force from year to year was as follows:—

1892, $197,000; 1893, $523,000; 1894, $828,000; 1895, $1,139,500; 1896, $1,254,250; 1897, $1,350,250; 1898, $1,384,880. The increases during the different years were as follows:—

1892, $197,000; 1893, $326,000; 1894, $305,000; 1895, $311,500; 1896, $114,750; 1897, $96,000; 1898, $34,630; total, $1,384,880.

Notwithstanding the large falling off in the increase of business during the later years, the expenses continued steadily to increase from about $5,800 in 1892 to over $15,000 in 1895 and over $21,000 in 1898.

These figures indicate that the company was not succeeding as an assessment society, and that the change from assessment to ordinary insurance was necessitated by the company's experience in the period of seven years during which it was operating.

The company's capital stock was issued subject to a call of 20 per cent and a premium of 5 per cent, making $25 payable on each share. At the end of 1904 all the capital, amounting to $1,000,000, had been subscribed and $167,796 (which included $26,442.14 originally paid in by subscribers to the guarantee fund), had been paid in thereon, and the company had received from shareholders by way of premium on capital stock $36,917.77. In 1905 the paid up capital stock was increased to $216,980 under the circumstances hereafter mentioned.

Before considering the progress of the company on the regular life plan, reference should be made to some transactions which have affected the apparent financial position of the company in certain years.

In 1901 the company purchased a large office building in Toronto, formerly owned by the Freehold Loan and Savings Company. A portion of the land on which the building stands is leasehold and the balance freehold. The purchase price was $175,000, of which $25,000 was payable in cash and the balance secured by mortgage, under which the first instalment of $10,000 on account of principal was due December 1, 1906, and the balance was payable in instalments over an extended period, the interest being 2 per cent for the first five years, 2½ per cent for the second five years, 3 per cent for the third five years and 4 per cent thereafter. After making the necessary adjustments, the company paid $26,030.13 cash on December 31, 1901, at the closing of the transaction. On the same date it added to the ledger value of its equity in the property $73,969.87, making it appear in its books at $100,000, at which figure it was carried into the annual return for the year. On December 31, 1904, the company made a further increase in the ledger value of $85,000, no additional payment having been made on the property meantime. At the suggestion of the superintendent of insurance, a valuation was made by two valuators, who estimated the company's equity to be then worth $125,000, and the asset was placed at that amount in the company's published return for that year.

In 1904 the company acquired $44,000 bonds of the Grand Valley Railway Company, with certain bonus stock, at a cost of $37,710. At the end of that year the market value of the bonds was placed at $46,200, the company taking credit for the difference under the heading, 'Market value of bonds and stocks over ledger value.'

While the Superintendent of Insurance was furnished with evidence that the bonds were worth 105, at which rate they were computed as to market value, your Commissioners think that it is abundantly clear that the bonds should not have been taken into the return at more than the cost price thereof. In fact the management of the following year reduced this asset to its original cost.

In the year 1905 a transaction occurred between this company and the People's Life Insurance Company which makes it important to consider the history and progress of the Home Life. To arrive at proper conclusions, your Commissioners feel that the foregoing increased asset values should be disregarded. At best, these were but fortunate investments of the company's funds, and were not profits derived from its insurance operations. So treating the matter, the company's total impairment of capital at the end of each year, after 1889, was as follows:—

1899, $11,768.63; 1900, $22,506.43; 1901, $37,814.54; 1902, $63,054.87; 1903, $77,210.23; 1904, $108,692.79.

In addition, the shareholders had, as above stated, contributed by way of stock premium, $36,820.67, making the total amount of shareholders' moneys lost by the company in its insurance operations in twelve years' business, ending December 31, 1904, $145,413.46. Besides this, the company was carrying on its books securities of

the Ontario Light, Heat and Power Company at a value of $11,350.70, which were practically worthless, and were so treated by the management in the following year.

The inspection which followed the filing of the company's annual return for 1904 was made by Mr. Blackadar, and the company's position as then disclosed was much discussed between the Superintendent of Insurance, Mr. Blackadar, Mr. Pattison, the managing director of the company, and Mr. Firstbrook, its president. Mr. Blackadar made a special report on the company's business, of which copies were sent to Mr. Pattison and Mr. Firstbrook upon request. The report deals with the general expenses of the company, in paragraphs 8 and 9 thereof, as follows:—

'8. An analysis has been made of the general expenses of the company for the past four years into (1) Commissions, (2) Salaries, and (3) other management expenses. In commissions are included 'commissions to agents,' commissions from renewals, and agents' expenses. In salaries are included executive salaries, salaries of clerks, agents' salaries, directors' and auditors' fees. The other expenses include the taxes and miscellaneous expenses as given in the returns.

Year.	Commissions	Salaries.	Other Expenses.	Total Expenses.
	$ cts.	$ cts.	$ cts.	$ cts.
1901	16,851 06	20,034 97	12,367 84	49,253 87
1902	34,113 92	23,765 52	20,850 25	78,729 69
1903	31,060 22	26,168 75	17,759 21	74,988 18
1904	28,040 18	31,667 09	17,506 12	77,213 39

The premiums have also been separated into first year and renewal premiums as follows:—

Year.	First Year.	Renewal.	Total.
1901	27,365	45,986	73,351
1902	36,890	56,765	93,655
1903	36,138	81,131	117,269
1904	31,938	98,167	130,105

'9. A large proportion of the general expenses is for new business. It may be assumed that 15 per cent of the renewal premiums may be expended in carrying on the old business of the company, and that the balance of the loading, and all the loading upon the first year premiums may be used for procuring new business.

'Of this 15 per cent, 5 per cent may be applied to commissions, 5 per cent to salaries and 5 per cent to other expenses. Assuming these ratios constant, the actual ratios of these expenses in respect to the new premiums will be as follows:—

Year.		Commissions	Salaries.	Other Expenses.	Total Expenses.
		p. c.	p. c.	p. c.	p. c.
1901	New	57.13	64.81	36.79	154.77
	Renewals	5.00	5.00	5.00	15.00
1902	New	84.78	56.73	48.83	190.34
	Renewals	5.00	5.00	5.00	15.00
1903	New	74.73	61.19	37.92	173.84
	Renewals	5.00	5.00	5.00	15.00
1904	New	72.43	83.79	39.44	195.66
	Renewals	5.00	5.00	5.00	15.00

If the gross premiums collected by the company are examined, it will be found that more than the total available 'loading' of these premiums are represented in the above figures, and that the business is being conducted at a loss. The ratios in the 'commission' column appear to be normal, but those in the other two columns are abnormally high, and instead of showing a decrease from year to year, as the renewal premiums increase, these ratios show rather an increase. The management expenses are excessively high in proportion to the amount of business written and retained upon the books.

If these ratios are maintained, it will be but a few years before the remainder of the paid up capital is wiped out.'

Upon the whole your Commisisoners are of the opinion that the company was not, to the knowledge of the management, making satisfactory progress in its insurance business and that the time when the company must make some change or re-arrangement was only postponed by the fortunate circumstance that it had purchased a head office building on which it paid only $26,030.13 in cash and was able to treat it as an asset to the extent of $100,000 the day it was bought, although the price paid was all, no doubt, that the vendor could obtain for it.

Unless some change were made in methods of management, your Commissioners are satisfied that the result which Mr. Blackadar anticipated, viz., that the capital would be wiped out, would soon have been realized, in the absence of assistance by contributions from shareholders, fortunate investment or otherwise.

Mr. A. J. Pattison was the managing director of the company from 18[illegible]2 to October, 1905, when he and the other members of the board resigned. During the period of his management he had three contracts with the company. The first, dated September 14, 1893, constituted him General Manager for five years with a remuneration of 9⅜ per cent on all assessment receipts for insurance up to $2,000,000 of insurance and 3⅛ per cent on all assessment receipts for insurance from $2,000,000 up to $4,000,000, but no salary was payable until the insurance good on the books of the company amounted to $600,000. The second agreement, dated May 1, 1897, cancelled the previous appointment and made him general manager for five years from January 1, 1897, his compensation to be 9⅜ per sent on all assessments and premiums received for insurance up to and including $2,000,000 of insurance, and 3⅛ per cent on all assessments and premiums for insurance exceeding $2,000,000, until the total compensation reached the sum of $5,000 per annum. The third contract was entered into on a report made by Messrs. Hillock, Diver and King, a special committee of the Board of Directors, appointed to consider the question of remuneration to the manager and the Chairman of the Executive Committee, Mr. John Firstbrook. The report was presented on May 9, 1898, and recommended that Mr. Firstbrook be appointed permanent Chairman of the Executive Committee, and that Mr. A. J. Pattison be appointed permanent Manager of the Association, and that the appointments be life engagements with remuneration substantially as set out in the agreements afterwards entered into with them. From the evidence, including the testimony of Messrs. Diver and King, the surviving members of the Committee, your Commissioners are of opinion that the matters outlined in the report were the proposals of Messrs. Pattison and Firstbrook, and that in this, as in all other matters, the other directors of the company were entirely subservient. On June 21, 1898, the directors of the association met and amended by-law No. 2 of the Association, by providing for an Executive Committee composed of five members and a permanent chairman. The president and managing director were to be *ex officio* members and the other three were to be appointed annually. It further provided that the permanent chairman should be appointed by the Board of Directors for such term as they deemed advisable, and that the board should fix the remuneration to be paid the manager and the permanent chairman. On November 12, 1898, at a meeting of the board, approval was given to contracts with both the manager and the permanent chairman. Thereupon a contract

with the manager was executed, dated November 12, 1898, whereby he was appointed 'Managing Director or General Manager' of the company for fifteen years from the date thereof, the remuneration being based on the annual premium income of the company as follows:—

> Five per cent on premium income up to $50,000; 4 per cent on premium income over $50,000 and not exceeding $150,000; 3 per cent on premium income over $150,000 and not exceeding $200,000; 2 per cent on premium income on all over $200,000.

The agreement contained a provision that, should the services of said manager be terminated for any reason or cause whatsoever before the expiration of the period, except by his death or with his consent or request expressed in writing, the company should, during the balance of the term, pay the full remuneration he would have received under the contract if actually engaged in the service of the company, it being declared by the agreement that the receipt by the manager of the said remuneration for the whole of the period of 15 years was the consideration upon which the agreement was based. The agreement with Mr. Firstbrook as chairman of the Executive dated February 14, 1899, after reciting that he had acted as such chairman for some time without receiving adequate remuneration, that a permanent chairman would be in the interests of the company and that the company was anxious to secure Mr. Firstbrook's services and had offered him the remuneration provided for in the agreement, proceeded to appoint him permanent chairman of the Executive for fifteen years from that date, his remuneration also to be determined by the premium income as follows:—

> 1 per cent on the premium income up to $50,000.
> 1½ per cent on the premium income over $50,000 and not exceeding $100,000.
> 2 per cent on the premium income over $100,000 and not exceeding $150,000.
> 1½ per cent on the premium income over $150,000 and not exceeding $200,000.
> 1 per cent on the premium income over $200,000.

It was further provided that he might resign and retire at any time, whereupon his remuneration would cease, but should he cease to be permanent chairman through any cause other than death or resignation in writing, he was to be entitled to the remuneration during the residue of the period of fifteen years, the agreement declaring that the receipt of the remuneration during the whole of the period was the consideration for his acceptance of the office. Since these agreements were entered into, the premium income of the company and the amounts paid under the contracts were as follows:—

Year.	Premium Income.	Manager.	Chairman.
	$ cts.	$ cts.	$ cts.
1898			
1899	2 ,123 00	1,736 64	....
1900	26,726 00	1,593 78	....
1901	56,968 00	2,893 33	578 66
1902	71,931 00	3,940 20	677 09
1903	100,773 00	3,075 00	1,127 21
1904	119,663 00	5,625 00	1,321 67
1905	129,438 00	8,506 09	1,764 16
	164,985 00	4,862 89 (To October).	1,716 00 (To October).

The premium income for 1905 is for the whole year and is largely increased by the addition of the premium income of the People's Life Insurance Company, whose business was taken over that year. In 1904 certain sums were voted to the manager for

purposes which will be explained hereafter, in addition to the stipulated remuneration, which, if based for that year on premium income, would have been $5,677.52. He seemed to think it would have increased in the future by about $1,000 each year, on the assumption that the premium income would increase at the rate of about $50,000 per annum. The company's experience does not seem to have warranted any such expectation.

These were contracts which no director or officer having a proper sense of his duty and responsibility could have permitted his company to make.

The Peoples Life Insurance Company was incorporated in 1892, by an Act of the province of Ontario, 55 Vic., cap. 102, and carried on business in that province until October, 1905, when its business was consolidated or amalgamated with the business of the Home Life, under an arrangement whereby the management of the Peoples Life obtained control of the Home Life, and the latter company thereupon re-insured the former's policies. Under its Act of Incorporation the Peoples had no capital stock, and to provide funds to carry on the business was authorized to issue debentures amounting to $20,000. In 1894, by an amending Act, 57 Vic., cap. 99, the amount of authorized debentures was increased to $50,000.

In 1900 the management of the company passed under the control of the Dominion Permanent Loan and Savings Company, that company having acquired Peoples Life debentures in exchange for its own.

Messrs. Stratton, president; Coffee, vice-president; Karn, Kloepfer and Holland were the directors of both companies.

In 1901, by a further amending Act, 1 Edw. VII., cap. 96, the company was authorized to issue what was described as 'debenture stock,' not to exceed, without the consent of the Lieutenant Governor in Council, $250,000, which it was provided the company might, but need not, repay, and which was to share ratably with outstanding debentures of the company on any distribution of the company's assets. Holders of debentures might, with the consent of the directors, exchange debentures for debenture stock.

In 1901 $105,850 of debenture stock was subscribed and paid in, and further debenture stock was issued from time to time, until, at December 31, 1904, the paid-up debenture stock amounted to $250,550, and all the debentures of the company had then been retired.

The company's business had proven to be anything but profitable, the impairment of capital at that time amounting to $221,073.64, leaving assets according to the company's own showing of less than $30,000 to repay the debenture stock then outstanding. For some years the company seems to have been without any real manager or head, and when the president assumed active control of the company's policy in November, 1904, he found its position most unsatisfactory. He seems to have made many changes, and in April, 1905, he installed Mr. J. K. McCutcheon as manager, at a salary of $5,000 per annum, with an additional 1 per cent on the annual increase of premium.

The new manager examined the company's affairs, particularly with respect to the field force, and concluded that the company's position was such that it was expedient to re-insure its contracts and in the process to create a larger corporation. He learned that Mr. Pattison, manager of the Home Life, was in the mind to negotiate, and he first proposed a simple re-insurance by the Home Life of the Peoples Life contracts. This offer was, however, refused. The negotiations continued and were directed towards the obtaining by the persons in active management and control of the Peoples Life the management and control of the Home Life.

It appears to your Commissioners that the refusal by Mr. Pattison to entertain the proposition of simple re-insurance was partly due to Mr. Pattison's state of health, partly to his desire to give up a failing insurance business, and devote his attention to certain railway interests which he, with others, including the president of the company, Mr. John Firstbrook, had acquired, and partly to the fact that the necessities of the Peoples Life afforded an opportunity to make this change with profit to himself and Mr. Firstbrook.

The fifteen-year employment contracts with Messrs. Pattison and Firstbrook seem to have been made to do duty as a basis for negotiating a large money payment to Mr. Pattison for surrendering his position and obtaining the resignation of the president and other directors.

The earlier negotiations were between Mr. Pattison and Mr. McCutcheon, and it was arranged that the capital stock standing in the names of Mr. Pattison, Mr. Firstbrook and the other local directors of the company should be turned over at $25 a share. The market value was then from $18 to $20 per share, and shares could be purchased at that figure. Mr. Pattison demanded a sum of about $110,000 in addition, which, in his evidence before the Commission, he claimed to be the commuted value of the two fifteen-year contracts. The negotiations with Mr. Pattison, which had been commenced by Mr. McCutcheon, were continued by Mr. J. J. Warren, solicitor for the Peoples Life, and finally completed by Mr. J. R. Stratton, the president, who concluded the bargain with Pattison for $90,000 in addition to $25 per share for the directors' stock.

A form of re-insurance agreement was prepared by Mr. Warren to be submitted for approval at the regular quarterly meeting of the board of directors of the Home Life Company, which was to be held on October 11, 1905, at 11 a.m. Various adjournments of this meeting were made and the transaction was not completed till the following day, October 12, at 4 p.m., when the directors of the Home Life tendered their resignations and the new board was elected, J. R. Stratton, D. W. Karn, J. J. Warren, C. Kloepfer, J. R. McCutcheon, J. W. Lyons and J. L. Hughes taking the places of John Firstbrook, Dr. J. S. King, F. Diver, Thomas Elliott, N. F. Dupuis, R. A. Wood and A. J. Pattison, and three of the old board, Rev Dr. Briggs, J. S. King and J. W Curry being re-elected.

An hour or two before this meeting Mr. Stratton obtained from the Traders Bank, on his own cheque on the Bank of Montreal, Peterboro, $90,000 in cash, being the amount which he had some six weeks or two months before, agreed to pay to Mr. Pattison in addition to the price of the stock the transfer of which he was to procure. He also had in cash $29,220, proceeds of a cheque of the Peoples Life, with which to pay for the stock. He attended the meeting at the Home Life office, and when the transaction was ready to be closed went with Mr. Pattison to the Traders Bank, he says to pay over the money. Just before leaving the Home Life office or on his way to the bank, he for the first time suggested that a reduction should be made in the money payment to which he had agreed. He says:—

> 'I intimated to him that it was impossible, not probably, that the arrangement could be carried through if he insisted on $90,000.'

And again:

> 'I told him I thought $80,000 would be all that could be at all arranged in connection with the matter,'

and that while Mr. Pattison thought it should be carried through at $90,000 he finally accepted the smaller sum. Mr. Pattison says that he was told by Mr. Stratton that he would have to reduce the amount from $90,000 to $80,000, which was all that he would pay, and that without any discussion he decided to accept it. He then received $80,000 and $29,220 in addition for the stock, and executed an agreement to transfer to Mr. McCutcheon 1,164 shares of Home Life stock, to assign his contract with the Home Life and to procure an assignment of Mr. Firstbrook's contract. This agreement was expressed to be entered into by him 'for valuable consideration,' although the document had originally been drawn with a space left in which to insert the real consideration. Mr. Stratton kept $10,000, the balance of the $90,000, in cash from the 12th until the 14th October, when he deposited it in the Bank of Montreal at Peterborough to the credit of his personal account, then overdrawn to the extent of $16,000.

After the payment of the money the directors meeting of October 12, 1905, was held, and after the new board was appointed the meeting was adjourned until Friday, October 13, at 2.30 p.m., when the minutes record that Messrs. Stratton, King, Briggs,

Kloepfer, Hughes, Curry, Warren and McCutcheon attended and the reinsurance agreement between the Peoples' Life and the Home Life together with a contract with Mr. McCutcheon employing him as manager were approved.

Mr. McCutcheon's contract appointed him manager for ten years at a salary of $5,000 per annum and a

> 'percentage of 5 per cent on the gross actual premiums collected by the company in each year, such percentage, however, not to exceed the sum of $11,100 in any one year.'

The agreement contained a proviso that

> 'in case of the death of the said McCutcheon or the termination of this contract from any cause whatever the percentage payable to the said McCutcheon, as above mentioned, shall continue to be payable to him or his successors or assigns until the termination of the ten years above mentioned.'

It was admitted that the understanding with Mr. McCutcheon was that his salary should be $5,000 per annum only, and that the percentage on premiums was to provide a fund with which to repay the amount paid to Mr. Pattison over and above the price of the stock. The computation was made on the basis that the sum was $90,000, but it was asserted that this was done before Mr. Pattison agreed to reduce it to $80,000. The agreement, therefore, created a liability against the Home Life Company equivalent to $90,000, charged on the whole premium income of the company, a liability which was not shown in the company's annual return for 1905. Mr. McCutcheon, on the same day, assigned the moneys payable to him under this contract, except his salary of $5,000 per annum, to the Traders' Bank, as security for $90,000, which the bank advanced to him on his demand note, with the assignment as collateral security. The amount of the loan was applied in payment of the amount advanced by the bank to Mr. Stratton the day before on his cheque on the Bank of Montreal, Peterborough, which cheque was thereupon returned to him.

It was stated by Messrs. Stratton, Warren and McCutcheon that it was not intended that the Home Life Company should pay under this contract with Mr. McCutcheon in the shape of commissions on premium income, more than the $80,000 which had actually been paid to Pattison, and that the reduction of the amount paid to him represented a real saving to the company rather than a personal profit to Mr. Stratton. In confirmation of that statement a cheque, dated October 12, 1905, for $10,000 was produced, drawn by Stratton on the Bank of Montreal, Peterborough, in favour of McCutcheon. This cheque was said by McCutcheon, to have been kept by him from the 13th or 14th October, 1905, until the date of the inquiry, in the vault of the Home Life Company in an envelope sealed up and marked, 'Personal property, J. M. McC.' He further stated that when the cheque was handed to him by Stratton the latter said:

> 'Your note is in the bank, $90,000; the matter has been arranged for $80,000. Now, here is the difference between $80,000 and $90,000. The loan is only a temporary loan in the bank. When that is rearranged you have this to apply on that which will reduce it in accordance with your contract to $80,000.'

His explanation of the delay in applying the cheque on the indebtedness was that your Commissioners were then engaged in the examination of insurance companies, and it was expected the Home Life would be called at any moment—an explanation obviously incorrect, as the Commission was not appointed until some months later. Stratton stated that he gave the cheque to McCutcheon to be applied at the time, and that it was arranged by Warren and McCutcheon that it was to be applied to the retirement of the note as it was only a temporary loan with the bank; that the rearrangement had not been carried through at the time, as it was intended to rearrange the whole matter so as to extend the payments to be made by the Home Life over fifteen or twenty years, instead of ten years, and it was still standing in that position, as there might be adverse criticism if the change were made while the Commission was sitting. That the

only reason the transaction was put through with the bank at $90,000 and permitted so to remain was that the papers had been drawn on the understanding that that sum would be paid, and it was not until the last moment that it was known that Mr. Pattison would accept the smaller sum, and it was thought better not to change the papers that had already been prepared. Warren stated that he did not know of the existence of the cheque at the time it was given; in fact he did not hear of it until some three or four months before the inquiry into the affairs of the company in September, 1906, and after the appointment of the Commission. It was then mentioned in a discussion between himself, McCutcheon and Stratton, and he advised that nothing be done with the cheque until the work of the Commission was finished. He says he was told by Mr. Stratton that it was

> 'a cheque he had handed to Mr. McCutcheon in case anything should happen to him, so that Mr. McCutcheon could carry out the understanding between them, that he had been holding it and not applying it in case the bank should ask for payment on account of this temporary loan, he could turn it in in that way and stave things over for three or four months longer; and he understood that it was to be cashed at any time the bank made a call for money.'

The statements of Stratton, McCutcheon and Pattison are not reconcilable with each other, and are very unsatisfactory.

The trend of the evidence as first submitted to the Commission was cautiously confined to the terms of an arrangement involving the payment of $80,000 and no more. The production of the bank's security for an advance to McCutcheon being insisted upon by counsel prosecuting the inquiry, it became necessary to disclose the withdrawal from the bank of the additional $10,000; its retention by Stratton on the 13th of October; its deposit in his overdrawn bank account in Peterborough on the following day and the alleged origin and destiny of the cheque for $10,000.

The inference to be drawn from these transactions and the various accounts given of them by the participants are plain and obvious.

If the cheque was given to McCutcheon in October, which is doubtful, it was not, your Commissioners are satisfied, intended that ultimately the company should pay less than the whole $90,000, or that any person but Stratton should have the ultimate benefit of the $10,000. Otherwise the $10,000 cash itself would have been immediately returned instead of being carried in Stratton's pocket during the whole of the 13th October, 1905, and taken to Peterboro and deposited there on the following day in his own overdrawn account, and the demand note would have been drawn for $80,000 instead of $90,000. Very little importance should be attached to the circumstance that the papers had been prepared. The agreement with the bank could have been made to fit the altered condition by merely striking out 'ninety' and inserting 'eighty,' or could have been entirely retyped as it was less than two folios long, and a whole day elapsed between the payment to Pattison and the completion of the arrangement with the bank.

It was stated by Stratton that the $10,000 would be returned and the transaction rearranged so as to extend the payments to be made by the company over a longer period, as soon as the work of the Commission is completed.

Having regard to all the circumstances your Commissioners are compelled to conclude that what really took place between Stratton and Pattison was that the former demanded and the latter conceded a share, to the extent of $10,000, in the moneys which were being paid to the latter and charged to the Home Life.

In addition to the $80,000, Mr. Pattison at the same time received from Mr. Stratton $29,220, the purchase price of 1,164 shares of capital stock, that amount having been advanced by the Peoples Life as a loan to McCutcheon on the security of the Home Life shares. He distributed it among the transferors, who were the local direc-

tors and the president's brother, paying $25 for each share and an ad tional bonus out of the $80,000. The distribution appears by the following statement:—

———	Capital.	Bonus.
	$	$
R. A. Wood	1,250	500
Dr. J. S. King	1,250	500
F. Diver	1,250	1,250
Rev. Dr. Briggs	1,250	500
J. S. King	1,250	500
W. A. Firstbrook	1,625	250
John Firstbrook	3,375	11,500
J. W. Curry	1,250 1,000	500
N. F. Dupuis	1,250	250
Tho. Elliott	1,675	625
A. J. Pattison	12 475	63 375
Adjustment	120	
	29,220	80,000

Pattison also paid Mr. McPhilips publisher of an insurance journal, through whom the negotiations seem to have begun, $1,500, leaving the balance retained by him, $61,875. All the shareholders in the above list were directors of the Home Life Company, excepting Mr. W. A. Firstbrook, whose shares were purchased on the terms indicated pursuant to arrangement with his brother, the president. All the Toronto directors, viz.: Messrs. John Firstbrook, R. A. Wood, Dr. J. S. King, F. Diver, Rev. Dr. Briggs, J. S. King and J. W. Curry were called as witnesses. They all knew that an arrangement was being made between Pattison and Stratton whereby the former was to be paid a sum of money, but none of them was given or sought any information upon the subject except the president who, at one stage, appears to have mildly suggested to Pattison that he might let him know how much he was getting, but he received no information and did not press the matter. The amount paid to Pattison seems to have been a surprise to all. Each director seems to have been dealt with separately in fixing the amount he was to receive and the bonuses seem to have varied only with the degree of suspicion of the director with regard to what Pattison was being paid. The last to be settled with was Mr. Diver, who on being approached said he assumed Pattison was making a good thing out of it, and insisted on receiving a bonus of $1,250. Had the directors known that Pattison was receiving so large a sum as he did the only effect would have been to increase their personal demands upon him. Mr. Firstbrook received more than the rest under colour of his contract with the Home Life, as Chairman of the Executive Committee. He says he regarded it as worth about $25,000, and he bargained for about $15,000, but Pattison valued it at about $22,000 only, and divided that sum by two, because the services would no longer be performed. They compromised on $11,500. Pattison was not willing when examined to name any amount as a fair deduction from the future payments to himself in respect of his own relief from service.

The re-insurance agreement between the Home Life and the Peoples Life provides that the Home Life shall re-insure all outstanding policies of the Peoples as at August 31, 1905, discharge all liabilities in respect thereof, pay all the Peoples head office and agency expenses and assume all its policies written after that date. The Peoples agreed to pay the Home Life the value of its policies computed on the basis of the Hm. table of mortality, at 4½ per cent as to policies issued up to December 31, 1903, and 3½ per cent as to policies issued after December 31, 1903. The contract contained the following provisos:—

'Provided, however, that in no case shall the Peoples be in any way bo[illegible] to pay the re-insuring company a sum exceeding $214,453 and interest [illegible], or on such parts thereof as may not be paid, at 3½ per cent per annum.

Provided that the Peoples shall be entitled to deduct from the amount payable to the re-insuring company, in respect of each such policy, a sum by way of initial commission equal to 50 per cent of the annual premium payable to the Peoples under the said policy, provided that such initial commission shall not be less than 50 per cent of $97,883.83, the last mentioned sum being the amount admitted by the parties hereto as the total annual premium income of the Peoples.

Provided further that the Peoples shall be entitled to deduct from the net present value of policies not to exceed $214,453 and interest as aforesaid, the amount of outstanding and deferred premiums as at August 31, $49,100.66, and the amount of advances to agents at the same date $15,763.12, less 10 per cent in each case for cost of collection, and......the value of office furniture as stated in the last Government report, $2,392.99.'

The agreement further provided that the Home Life should pay the Peoples' Life during the ten succeeding years 7½ per cent of all the premiums collected in respect of the said policies or the policies of the Home Life substituted therefor or

'at the option of the Peoples' in lieu of such 7½ per cent, a fixed renewal commission of $6,350 for any one of the ten years mentioned.'

The gist of the agreement was said to be that the Home Life was to pay to the Peoples one whole year's premium income of the Peoples business. This was divided into two items, one being a deduction of 50 per cent of that income from the reinsurance fund, and the other a series of 7½ per cent commissions or $6,350 annually, for ten years, the latter sum being equivalent to 50 per cent of $97,883.83, the amount agreed to as the annual premium income. Instead of deducting the 'initial commission' of 50 per cent from the reserve paid to the Home Life, a cheque for the amount, $48,942 was given to the Peoples', and that company at the same time gave a cheque to the Home Life for $49,000 in payment of $98,000 of 50 per cent paid up capital stock of the Home Life. The Peoples, in effect, took the stock in satisfaction of half the commission of one year's whole premium income. It will be noticed that no premium was paid on this stock as was the case with other stock issued by the company. Payment of the other half was to be made in ten annual payments. These arrangements were made to prevent any part of the commission from appearing as a liability of the Home Life. The amount paid by the issue of capital stock would cease to be a liability except to stockholders, but the annual charge on premium income of $6,350 a year was a liability of the company which should have been shown in its annual return. It was contended that it should be treated in the same way as a renewal commission to an agent, but the cases are entirely different. Here the sum was fixed, was not subject to any real contingency and was, in fact, a debt then owing by the company, charged on its entire premium income. The mere fact that it was payable in instalments and was secured can make no possible difference. The Home Life, besides paying the whole of the alleged premium income of the Peoples for one year, also took over at 100 cents on the dollar, less 10 per cent for collection, outstanding and deferred premiums, $49,100.66, and advances to agents, $15,763.12. The premium income was based on insurance in force amounting to $2,672,000, whereas the amount in force was only $1,763,000, the difference being made up of lapsed policies, some of which had been carried on the books for some years. Accordingly, at the end of the year the company wrote off $32,000 from the item of outstanding premiums. The valuation in the agreement of the annual premium income at $97,883.83, was admittedly excessive to at least the same amount, and could not have been more than $65,-883.83. This means that the Home Life over paid the Peoples by at least $64,000 or twice $32,000, treating as insurance in force and yielding a premium income, policies which had lapsed and should have been written off.

It was admitted that there will be a loss of at least $8,000 on the item, agents' advances, $15,763.12. It was contended that there was some gain of $52,576 to the

company resulting from released reserves, as the company paid the full reserve on the insurance supposed to be in force, but there seems to be nothing in the agreement to prevent the company readjusting the item in favour of the Peoples, as it is the only item which, under the agreement is fixed at a maximum instead of a minimum figure, it being the only sum the Peoples had to pay. It should also be pointed out that the basis of computation fixed by the agreement gave only a 4½ per cent reserve on policies issued up to December 31, 1903, while under the Dominion Act the reserves on insurance written between January 1, 1900, and December 31, 1903, are required to be computed on a 3½ per cent basis.

A perusal of the agreement definitely indicates that its ruling purpose was to ensure payment by the Home Life of the stipulated amounts, regardless of any disproportion between them and the business transferred.

The agreement and all the surrounding circumstances further demonstrate that Pattison, the managing director, from the beginning to the end of the transaction was actuated by the sole desire of personal gain, and paid no heed whatever to the company's interests, and that the other officers and directors of the Home Life, particularly the president, became and were regardless of the interests of the shareholders and policyholders, whose trustees they were and, corrupted by the desire to share in the 'good thing' which Pattison was supposed to be making, stepped down and surrendered the company to the management of the Peoples, the result of their conduct being that the Home Life was saddled with the following sums :—

Renewal commission of 5 per cent on premium income under McCutcheon contract, equal to..........	$ 90,000
Cash payment of 50 per cent of premium income of Peoples Life..........................	48,492
Annual payment of $6,350 for 10 years, equal to......	48,942
Loss of premium on capital stock purchased by Peoples Life, ¼ of $49,000.....................	12,250
Loss on outstanding premiums...............	32,000
Loss on agents' advances....................	8,000
Total.....................	$240,134
Credit released reserves if no readjustment made......	52,576
	$187,558

The Home Life received in return $1,763,000 of insurance and an inadequate reserve thereon. Assuming the true premium income of the Peoples to have been $65,883 (which would mean an average of over $37 per $1,000 of insurance), the cost of the business to the Home Life would be 285 per cent of the annual premium income rather than 100 per cent; or over $100 per $1,000 of insurance. This is in contrast with the price of $15 per $1,000 which the Home Life appears to have offered for other business when no personal profit to the officers or directors was involved.

Some light is thrown on the motives underlying this transaction, and much discredit attaches to the colourable use of the fifteen-year contracts by comparing it with a somewhat similar transaction, but without the feature of contracts to be commuted, entered into by some of the same gentlemen on the sale of the business of the Canadian Homestead Loan & Savings Company, of which also they were directors. That company's business had been carried on under Mr. Pattison's management, in conjunction with that of the Home Life, and, therefore, at small expense. After the change in the management of the Home Life Mr. Pattison 'did not see how the Homestead could be continued,' as the company was small, the interest rate falling and the expenses of management and government fees out of proportion to the capital. An offer from the purchasing company was communicated by Mr. Curry to Mr. Pattison, involving a payment to Mr. Pattison of $10,000, in addition to the amounts paid up on the direc-

tors' stock, transfers of which he was to obtain. Out of this $10,000 the following payments were made to directors: Mr. Firstbrook, $600; Mr. John S. King, $100 and Mr. J. W. Curry, $200. Here again the directors, other than Mr. Curry, were not aware what precise sum was paid to Mr. Pattison, but permitted the transaction to be completed, with the indifference incident to their own participation in whatever it was.

The impairment of Home Life capital at the end of 1905, according to the company's annual return, amounted to $86,200, and had the commission to be paid to the Peoples and McCutcheon been shown as liabilities, as they should have been, a real impairment of $207,000 would have been shown, leaving the capital at less than $10,000.

While the re-insurance agreement provided that the policy reserve should be transferred to the Home Life as and when that company issued its substituted policies, the transfer was actually made on January 25, 1906, by two cheques of the Peoples, dated December 30, 1905, one being for $9,701.83, which was the balance standing to its credit in the bank, and the other, bearing same date, for $15,064.11, being drawn on the Dominion Permanent Loan & Savings Company, which loaned that amount to the Peoples, but not until January 25, 1906. In the company's annual return for the year 1905 it treated these payments as having been made on December 31, 1905, although not made till afterwards, and although no liability then existed on the part of the Peoples to pay the amount, inasmuch as the policies had not then been re-written by the Home Life.

In 1903 the company purchased bonds to the amount of $13,000 par of the Grand Valley Railway Company, then in process of construction, at 85, with a 50 per cent bonus of stock. In 1904 and 1905 advances were made to the Von Echa Company, the contractors building the road, amounting in all to $51,000, of which there remained due at December 31, 1904, $44,712.16. On that date $18,052.16 was repaid, and in pursuance of an arrangement with the Canadian Homestead Company, bonds of the Grand Valley Railway Company to the amount of $31,000, with a 50 per cent bonus stock were handed over for the balance. The contractors really gave a 100 per cent bonus of stock. The remaining 50 per cent was appropriated by Mr. Firstbrook and retained by him until the management of the Peoples came into control. Investigation by the new management resulted in a demand upon and restitution by Mr. Firstbrook.

On February 11, 1903, at a meeting of directors at which Messrs. Firstbrook, Briggs, Boddy, King, Dr. King, Hillook, Curry, Diver and Pattison were present, on motion made by Dr. Briggs, seconded by Mr. Boddy, it was resolved:—

> 'that the manager be authorized to purchase 200 shares of Schloss Sheffield Steel and Iron stock at the market price.'

Pattison states that he expressed doubts as to the propriety of such an investment, and that he afterwards consulted the president or vice-president, and was told that he could not question the instructions of the board. Accordingly on February 20, 1903, he bought 100 shares of the stock at 71¼. While he doubted the propriety of the investment, he did not doubt its wisdom, as on the same date he bought some shares of the same stock on his own account. On December 31, 1903, he passed his own cheque to the company for the cost of the stock and purported to be a purchaser of it until January 2, 1904, when it reappeared in the books as the property of the company. This was done because he thought the superintendent would not permit the investment.

Following the making of the annual return the company's books were examined by Mr. Blackadar, who reported the purchase circumstances in February. He stated that the directors were aware of the impropriety of the security and that he had demanded a retirement of the stock and a reimbursement of the company's moneys at their hands. On June 30, 1904, the managing director wrote the superintendent that the investment had been disposed of and was represented by a special deposit of $7,125 in the Dominion Bank at Toronto.

It appears that some of the directors made a promissory note and borrowed the necessary amount from the Dominion Bank, giving the stock as security. The pro-

ceeds were arranged to be credited to a special account. The stock was sold in June, 1905, for $6,100, the proceeds being credited on the note. This involved a loss, including interest, of more than $1,200, which was charged to Pattison's account. Two resolutions of December 19, 1904, and September 20, 1905, were passed by the directors, for the purpose of reimbursing Mr. Pattison in respect of this charge and certain other interest items charged to him for which he was clearly personally liable. This intention in both cases took the disguise of rewarding him for services for which he had already been paid the contract price, disinterring these services from the dust of twelve years in one case and ten years in the other. On the change of management objection was taken to the payments made under these resolutions and Mr. Pattison and the other directors paid the company in 1906, as follows: Messrs. Briggs, Pattison, Curry, Firstbrook, $165 each; Messrs. Boddy, King, Diver and Wood, $147.23 each, to cover the Schloss stock loss, and Mr. Pattison $1,410.31 to cover the interest charges referred to.

THE GREAT WEST LIFE ASSURANCE COMPANY.

This company was incorporated in 1891 by Act of Parliament, 54-55 Vic., cap. 115. There has been no amendment.

It was promoted by Mr. James H. Brock, then a member of the firm of Carruthers & Brock, fire and life insurance agents, and the Winnipeg agents of the Canada Permanent Loan and Investment Company. His idea was to establish a company with its head office in Winnipeg, there being then no company with headquarters west of Ontario. He anticipated low mortality and good rates of interest. The prospectus emphasized these considerations, stating that an average rate of interest might be expected from one to two per cent above the average rate obtained by any company then represented in Canada.

The authorized capital was $400,000, but power was given to increase it to $1,000,000. By December 31, 1893, all the authorized capital was subscribed and 25 per cent had been paid in. In June, 1903, the company increased the authorized capital from $400,000 to $1,000,000. Of the $600,000 new stock $400,000 was on July 18, 1903, offered to and taken by the then shareholders in the proportion of one new share for each old share and at a premium of 25 per cent. It was called up to the extent of 25 per cent, making $31.25 per share, of which $6.25 was premium. The other $200,000 was offered on September 4, 1903, to the company's agents for subscription by themselves or by parties in their respective districts, at a premium of 60 per cent. It also was called up to the extent of 25 per cent, making $40 per share, of which $15 was premium. Altogether there was thus paid in $150,000 added to the paid up capital and $55,428.75 premium.

The reason given for the increase of capital was that the additional strength would put the company in a better position to obtain business, and it was stated that the agents of the company had urged the management to make the increase. There was no impairment of capital at the time. The original impairment resulting from expenditures in the course of establishing the business entirely disappeared in 1898. It was greatest in 1894 when it amounted to more than $30,000. Nor was the additional capital required for the strengthening of reserves required by the Act of 1899. Prior to 1900 the company had valued all its policies on the Actuaries' Combined Experience Table with 4 per cent, and it has continued to value its policies issued before that year on the same basis, the policies issued since being valued on the Actuaries Hm. Table with 3½ per cent. The dividend paid to shareholders, which in 1902 was increased to 8 per cent, indicates that the management considered the company's position to be good. This was also indicated by the fact that certain shareholders, including the managing director, purchased the shareholders' rights to the new issue of stock, at a premium higher than that at which it was issued. The man-

aging director bought additional shares in November and December, 1903, and in January, 1904, paid 187 for the last 40 shares acquired by him.

The manager states that prior to the formation of the company he did not intend to assume that position, but that he was prevailed on to do so by the other persons then chiefly interested. For some time after taking the position he remained a partner in the firm of Carruthers & Brock and his remuneration as manager of the company was treated as part of the firm's income. Later he parted with his interest in the firm and devoted himself exclusively to the affairs of the company.

The manager's salary for 1892 was $2,000; for 1893-4-5, $3,000 per annum; for 1896-7, $4,000; for 1898, $5,000; for 1899 and 1900, $6,000; for 1901-2, $7,500, and for the years 1903-4-5, $10,000.

The increases were not provided for in advance, but were voted as bonuses at the end of each year.

On February 6, 1906, the executive committee increased the directors' fees from $5 to $10 per meeting. They also increased the salaries of many of the officials and servants, including the managing director. The latter's salary was increased to $1,000 per month, and he was voted $10,000 cash to compensate him for the lower salary paid him in the early years. The salary of Mr. Jardine, secretary, had been advancing at the rate of $500 a year for some years and was increased from $4,500 to $5,000. Increases were also made in the salaries of the accountant, the inspector of investments, and the claims and loans clerk.

The resolution providing for these increases had not been submitted to the directors at the date of inquiry, but it was stated that any directors' meeting would be attended by one director only in addition to those composing the executive committee. The annual meeting of shareholders was held on February 9, three days after the resolution was passed, but the action of the executive was not disclosed to the meeting. In explanation of the substantial bonus and increase of salary to Mr. Brock, he stated that he had assumed the duties of managing director at a financial sacrifice, that it was always understood he should at some time be compensated, and that the action of the executive committee would probably commend itself to everybody interested in the company. It was also stated that the secretary had served the company during the earlier years at a much less salary than he could have commanded elsewhere.

The company paid no dividends on its capital prior to 1900. In that and the following year 6 per cent was paid; in 1902, 8 per cent; subsequently 10 per cent, and in 1906, 12 per cent.

There is no provision in the incorporating Act or in the by-laws governing the apportionment of profits to policyholders. There is no appropriation of profits made until the period arrives when they are to be paid, and no account is kept with the individual policyholder.

The company has written a large amount of deferred dividend insurance, the period of distribution being 15, 20 and 25 years. The manager considered a policy with a 5-year period better than policies with longer periods, but thought the public preferred the latter. It appeared, however, that no effort was made to introduce the short period policy, the management fearing there would be no profits to divide at the end of 5 years. The only rates quoted for tontine policies were in respect of 15, 20 or 25 year periods. The manager stated, however, that agents were in a position to quote rates for quinquennial policies and that a limited number of such policies had been issued but that on the advice of the actuary the rates had been intentionally omitted from the rate book. None of the longer term policies have yet reached their periods, but some will reach their period next year.

By a circular of March 19, 1903, an opportunity was offered to policyholders to increase their insurance within that month at a discount of one-third the first premium. This seems to have been proposed without reference to the company's agents and no commission was paid for insurance so effected. The plan was defended on the ground

that the business induced by it was more cheaply obtained than it could have been in the regular way. The offer does not seem to have been appreciated by policyholders and apparently was not repeated.

From time to time extra commissions or bonuses have been distributed among local agents to stimulate business. These were described as 'hot weather bonuses,' but do not seem to have been confined to any particular season of the year. In some cases they were offered in October or November for business written prior to December 31. The first prize offered seems to have been a gold watch worth about $125. In 1897-8 graded bonuses were given, the highest being $75, in addition to regular commissions, to any agent writing $30,000 between October 1 and December 31. In addition, special prizes of $50, $25, $15 and $10 were given to the four agents writing the largest amounts of paid for business in the same period. In 1899 the prizes were bi-monthly throughout the year, and were $15, $10 and $5. In November, 1900, the company offered prizes of $100, $50 and smaller amounts for business written prior to December 31. The latest competition was current at the time of the inquiry. It extended over a period of nine weeks, beginning July 1 last. The rewards ranged downward from an extra commission of 10 per cent.

The company issues to agents in the larger cities a schedule of confidential rates which may be quoted for non-participating policies for $5,000 and over. They are considerably less than those shown in the company's *manual*, and a special rate of commission is paid, a low first commission without renewals. The managing director stated that the commission allowed was ten per cent, but from circulars issued it appeared that while 10 per cent was the commission paid to outside agents, regular agents were paid from 10 to 20 per cent, the latter rate being paid under 'exceptional circumstances' only. It was explained that this schedule was issued to meet the competition of the Travellers' Insurance Company of Hartford, which had issued a similar confidential schedule.

In the beginning of 1906 the company appointed J. S. H. Matson manager for Vancouver Island. He had previously been the general agent of another company. He stipulated for, and the managing director agreed to pay, a commission of 10 per cent in addition to the usual commission on all insurance which he procured to be substituted for insurance written by the other company. The managing director quite understood that the 'switching' would involve the surrender by the agent to the assured, in whole or in part, of his first year commission. There was ill-feeling on Matson's part towards the company whose service he had left, and Mr. Brock took advantage of that ill-feeling, and the commissions were intentionally made sufficiently large to enable Matson to make the transfer attractive to the assured. Before the agreement was finally reduced to writing, Matson raised his terms, other companies desiring to secure services so exceptional, and bidding against the Great West, and the extra commission was made to apply to all business written by him, provided he wrote over $150,000 new business each year.

On July 12, 1894, an agreement was made with the Dominion Safety Fund Life Association to reinsure the latter's policies. That association's head office was at St. John, N.B. It had outstanding 1,101 policies, insuring $1,320,000. Its policies were term policies, at increasing term rates of premium, with $3 per $1,000 for expenses. The assured contributed $10 per $1,000 to a safety fund, payments made in each year being held for those insuring in the year. After five years the interest on the fund was to be applied to reduce the premiums. When the policies contributing to the fund had been so thinned out by deaths and lapses that their total did not exceed the amount of the fund, the principal was divided among them, the policies being surrendered. The fund was to provide moneys with which to maintain the government deposit. The ownership of the fund by the policyholders was, however, of its essence, and their contracts secured them in such ownership. The consideration for the contract of reinsurance was the payment to the Great West of $25,000 out of this fund. It is worthy of notice that in no other case of amalgamation that has come before the Commission

has there been a payment to the company securing the transferred business. To obtain a release of the fund, it was necessary that the policyholders who owned it should either accept new policies or release their claims to the fund. By the agreement it was made the duty of the Great West to obtain, with the assistance of the Dominion Safety Fund, the acceptance of new policies. Mr. J. de Wolfe Spurr, who had been president of the Dominion Safety Fund, became chairman of the local board of the Great West at St. John, and issued circulars to the policyholders soliciting their concurrence in the substitution. The circular stated that

> 'this re-insurance contract preserves inviolate every right and privilege of our policyholders, and no interest of any one of them will be allowed to suffer in even the slightest degree by reason of this change.'

While the circular is signed by Mr. Spurr as president of the Dominion Safety Fund, it states that he will in future represent the Great West at St. John in the capacity of chairman of its local board, and will assist in effecting the necessary substitution.

Your Commissioners are quite satisfied, notwithstanding the managing director's apparent inability to recollect clearly all the circumstances, that this circular was issued with his knowledge and approval, and that the fact of the intended spoliation of the fund was deliberately withheld from the knowledge of the policy-holders to whom it was addressed. The $25,000 was treated as premium on first year business, and the company claims to hold it free of all claims of the old policy-holders. The transaction does not reflect credit on any of the parties to it.

There is a large number of policies under the heading 'not taken' in each year. In its last return they amounted to $1,089,500, the new policies issued being only $6,220,833. It was stated that in most of these cases the premium was paid by promissory note and that on the note maturing and remaining unpaid, the policy was treated as not taken. Nevertheless the company insisted, so far as possible, on payment of the notes, and between July, 1905 and July, 1906, the company realized from such notes $7,200, credited in the return as first year premiums. The notes are not disclosed in the return.

The company's original estimates were exceedingly high. For instance, on a 20-year endowment policy for $1,000, at age 55, the estimated profits were $1,930. The estimates were considerably reduced in later rate books.

THE NORTHERN LIFE ASSURANCE COMPANY OF CANADA.

This company was incorporated in 1894 by Act of Parliament, 57-58 Vic., cap. 122. Two years were spent in obtaining subscriptions for stock, and a Dominion license was obtained and active operations commenced in July, 1896. The capital stock is $1,000,000, of which at the end of 1905 $836,800 was subscribed and $213,850 paid. The capital payment has not been called, but shareholders have been permitted to pay the whole or any part of their subscriptions. This has occasioned considerable dissatisfaction, resulting in the passing of a by-law which will require notice.

The stock was not issued at a premium, so that there has been a larger impairment than in the case of later companies, which have adopted that method. The impairment increased from year to year until, at the end of 1902, it amounted to $64,400. It had been apparently reduced by the end of 1905 to $21,926.64. This resulted from payments by a director made under the following circumstances.

Mr. D. P. Fackler, the company's consulting actuary, investigated its position as of December 31, 1902. He advised the method of making the apparent reduction of impairment which was adopted.

On August 28, 1903, Mr. John Ferguson, a director, made an agreement with the company by which he paid $10,000 for a 2 per cent commission upon all renewal premiums, subject to the company's right to terminate his receipt of the commissions

when his purchase money and 5 per cent interest had been repaid, the return of which was given priority over all capital stock liability in case of a winding up. Similar agreements were made on February 26, 1904; August 19, 1904; January 24, 1905; July 12, 1905 and February 23, 1906.

The company received from Ferguson $10,000 in 1903; $20,000 in 1904; $19,500 in 1905, and $10,000 in the first six months of 1906. All these moneys were ostensibly paid to purchase commissions upon the renewal income. All of them were applied by the company in reduction of different expense accounts. Mr. Ferguson received in the so-called commissions, $3,123.82 in 1904; $7,312.08 in 1905, and $4,442.39 in the first six months of 1906. The balance which the company was bound to pay for a release of the premium income was $44,621.71 on July 12, 1906. The payments to Ferguson were treated as agent's commissions, and not returned separately. Neither moneys paid by Mr. Ferguson nor the obligation to repay him appeared in the company's returns, and they showed expense balances only after the true expense had been reduced by the application of the Ferguson payments.

By this means the assets were apparently increased and the capital impairment apparently reduced. This was, your Commissioners think, improper. It made the return misleading in respect of income, expenditure, assets and liabilities.

In 1901, much of the subscribed stock was entirely unpaid. In that year some of it was forfeited by the consent of the subscribers and some of the rest, amounting to 1,297 shares, was transferred to Mr. T. H. Purdom, then the vice-president, in trust. This is said to have been done because of a supposed movement in some indefinite quarter to purchase control. In 1903 pursuant to resolution, transfers were made to thirteen of the directors, of eighty-six shares each, subject to call. The balance, 179 shares, was permitted to remain in the name of Mr. Purdom in trust. He says he holds this for the company. This division amongst the directors substantially increased their voting power, and while there is a large share list, indicating that the capital is fairly well distributed, it was admitted that the directors acting together are practically in a position to control the affairs of the company.

Policyholders may vote in person on all questions except the increase, issue, allotment or sale of the capital stock of the company, but on no occasion has any policyholder ever indicated any desire to take part in the management.

In 1905 it was expected that a stock dividend would soon be possible.

Some of the shareholders who had paid in more than 10 per cent seem to have been informed by the agents who took their subscriptions, that they would be allowed interest on any money in excess of 10 per cent which they paid in before profits were divided. In consequence of this and of a feeling that some preference should be given to shareholders who had paid in more than 10 per cent, a by-law was passed by the directors on December 12, 1905, and confirmed at the annual general meeting of shareholders on February 5, 1906. It provided that shareholders might pay up the whole or any unpaid portion of their stock with a premium of 25 per cent. The premium was made payable in cash but the balance of the capital might be paid in four equal payments at three, six, nine and twelve months, with interest from January 1, 1907. Alternatively, the shareholder might, if the directors thought fit, receive a new paid-up certificate for the amount paid in, transferring the unpaid portion of the shares to an officer to be held in trust for the company until sale or reallotment. Dividends were to be based on the amount paid, exclusive of premium, and those who had paid in more than 10 per cent were to receive 12 per cent on such excess in addition to the regular dividends, which were limited to 4 per cent until the special dividend.

Under this by-law the company had received, up to the date of the inquiry, premiums on stock amounting to about $15,000, but the stock itself was not paid up, the interest provision making it to the advantage of the shareholder to delay payment.

The passing of the by-law was due to the absence of uniformity in the treatment of shareholders, and its validity was recognized as doubtful.

It is to be regretted that the neglect to adopt proper businesslike methods should have resulted in a by-law the validity of which is questionable. Should it prove invalid a highly complicated situation must be faced, and possibly legislation will be found necessary.

Some of the directors are substantially interested in the Dominion Savings and Loan Company, the head office of which is also in London. Mr. T. H. Purdom, K.C., is president of both companies, and Messrs. John Ferguson, John Purdom and Francis Love are directors on both boards. The insurance company from its incorporation down to the date of the inquiry had large sums on deposit with the savings company, during the greater part of the time dividing them between a general and a special account. The latter was opened in 1898, when it was agreed that the company should keep $75,000 on deposit in a special account for three years, being allowed interest at 4 per cent half yearly. The pretension was that this was equivalent to the purchase of debenture but your commissioners do not yield to that view. In 1903, owing to objection by some of the directors, substantial withdrawals were made. The following statement shows the amounts deposited in the accounts at December 31 in each year commencing with 1898:—

	General account.	Special account.	Total.
	$ cts.	$ cts.	$ cts.
31st December, 1898	51,538 50	76,500 00	128,039 50
" " 1899	27,209 86	79,590 60	106,800 46
" " 1900	33,947 06	82,806 04	116,753 10
" " 1901	16,720 83	75,000 00	91,720 83
" " 1902	7,672 81	72,500 00	80,172 81
" " 1903	33,559 20	10,000 00	43,559 20
" " 1904	28,793 71	27,652 19	56,445 90
" " 1905	17,974 39	39,796 00	57,770 39

The company purchased $5,000 Canadian Pacific Railway stock in 1903, but resold it at a profit of about $100 when it was found to be unauthorized. It also invested $20,000 in British America and Western Fire Insurance stock, which, though authorized under the Act, the management does not, in the light of its experience, regard it as a judicious investment. The company sustained a loss of about 50 per cent.

THE IMPERIAL LIFE ASSURANCE COMPANY OF CANADA.

This company was incorporated in 1896, by Act of Parliament, 59 Vic., cap. 50, with a capital of $1,000,000, divided into shares of $100 each. The incorporators were John Hoskin, Hon. S. C. Wood, H. N. Baird, Henry O'Hara, J. W. Flavelle and Hon. William Harty. It commenced business on October 1, 1897.

The stock was issued at $125 per share and three calls were made, producing $45 capital and $11.25 premium on each share.

Although the list of shareholders indicates that the capital is fairly well distributed, it would appear that 7,318 out of the 10,000 shares are owned by the Central Canada Loan & Savings Company, which is entirely under the control of the Hon. George A. Cox. The 7,318 shares stood at the date of the inquiry in the following names, but all dividends on them are paid to the Central Canada pursuant to directions signed by the nominal holders.

H. N. Baird	50
F. W. Baillie	260
T. Bradshaw	450
Hon. G. A. Cox	250
F. G. Cox	950

H. C. Cox	50
E. W. Cox	50
Central Canada Loan & Savings Co	1,892
A. L. Davis	100
T. J. Drummond	50
Dominion Securities Corporation	500
J. Housser	125
R. Hall	235
W. S. Hodgins	300
J. J. Kenny	450
E. T. Malone	35
W. G. Morrow	100
G. A. Morrow	250
R. E. A. Moody	202
Rev. J. Potts	50
E. R. Peacock	300
F. C. Taylor	200
E. R. Wood	469
Total	7,318

The participating policyholders of this company have no right to vote, so that the control of Mr. Cox, through the Central Canada, is absolute. The effect of distributing the Central Canada shares is to create the impression of a general control by a considerable body of shareholders, each having a real voice in the management. Two of the directors, Messrs. T. J. Drummond and George A. Morrow, qualify on the shares which they hold for the Central Canada, although subsection 2 of section 5, of the Act of Incorporation provides that no person shall be a director unless he holds in his own name and for his own use at least 50 shares of the capital stock of the company.

The control of the company was governed, from January 2, 1902, to May, 1903, by the terms of an agreement between the Central Canada and Messrs. A. E. Ames and Thomas Bradshaw, made on the earlier and rescinded on the later date. The circumstances under which the agreement was made were detailed by Mr. Cox during the inquiry into the affairs of the Canada Life, and by Mr. Bradshaw during the inquiry into the affairs of this company. It was the result of negotiations carried on mainly between Messrs. Cox, Flavelle and Ames. The Central Canada was described in it as vendor and Messrs, Ames and Bradshaw as purchasers. By it the purchasers agreed to buy at an advance of 50 per cent over the amount paid up, 1,700 out of 5,350 shares then owned by the vendor, which, added to 1,950 then held by the purchasers would make the vendor and the purchasers equal holders, each of 3,630 shares. On account of this price $7,750 was to be paid in cash and the balance on the termination of the agreement. The agreement was for two years and afterwards was to continue operative until determined by one year's notice in writing given by either party after the expiration of the two years. Each party was to continue to hold 3,650 shares, unless they agreed to a reduction of their total holdings to 5,100, a clear majority of the capital; any reduction agreed upon to be in equal amounts, unless otherwise agreed. Neither party was to increase the agreed holding without giving notice and affording an opportunity to the other to take half of the increase. The parties were to agree on the composition of the directorate, but if unable to do so each party was to elect an equal number and if they left a vacancy each was to name one person and the choice between the two so named was to be left to arbitration. They were to endeavour to agree on all questions that might arise. If they failed, and either party desired an adjournment, both were to vote for it, and if still unable

to agree, they were to leave the question to arbitration. For the guidance of any such arbitrators it was declared that the best interests of the company and its policyholders and shareholders generally were to govern their decision without regard to majorities or minorities or to the special interests of the parties. It was further provided that the notice to terminate the agreement should contain as an essential part thereof an offer to sell all the shares held by the party giving the notice, or to buy the shares held by the other party at a named price. The party receiving the notice was to have three months to elect, and the purchase or sale by him was to be completed in three months after election. On June 3, 1903, the firm of A. E. Ames & Co., of which Mr. Ames was a partner, suspended payment. In May preceding, Mr. Ames, owing to his financial embarrassment, desired to realize upon his interest in Imperial Life holdings. Mr. Bradshaw was unwilling to part with his interest. It was finally arranged that Mr. Cox should pay Mr. Ames about $23,000 and Mr. Bradshaw about $13,000 for the cancellation of the agreement. Mr. Cox has since, through the Central Canada, continued in sole control of the company. The circumstances attending the making of this agreement and its rescission indicate the value placed by Mr. Cox upon such control. He 'reluctantly consented' to make the agreement referred to under some pressure by Messrs. Flavelle and Ames, Mr. Bradshaw, the secretary of the company, in whom they were interested, not being entirely satisfied with his position under the individual control then existing and foreseeing the possibility of amalgamation or some other alteration which might affect his interests. Mr. Cox took advantage of the first opportunity to regain control at a very considerable cost. This payment and certain other payments hereafter discussed, made by Mr. Cox to reduce expenses and cover up losses, were not because of the intrinsic value of the shares as an investment, but partly because of his personal interest in his son, the managing director, and partly because of his ambition to direct the financial transactions of the company, by means of a board under his absolute control.

Mr. Cox, in his evidence in the Canada Life inquiry, frankly admitted that he brought about the incorporation of the Imperial Life for the purpose of creating a position as managing director for his son, Mr. F. G. Cox, and that his object in that regard was known to the persons who joined him in the incorporation of the company. Pursuant to this purpose, Mr. F. G. Cox was at the very beginning appointed managing director and vice-president, and he continued to occupy these offices down to the date of the inquiry. His salary until the end of 1904 was $6,000, and afterwards $8,000. During nearly all this time, the real management of the company seems to have been vested in Mr. Thomas Bradshaw, the secretary and actuary of the company, and for some years past one of its vice-presidents. His salary to 1900 was $2,500; to 1902, $3,500; to 1905, $5,000, and for 1905 and 1906, $6,000.

From and including the year 1901 the company made certain special advances to a few of its general agents for the purpose, it was said, of retaining their services. They were made by the directors on the verbal guarantee of Mr. Ames. The accounts with the agents were kept as current accounts, showing advances and repayments; the balances being as follows: 1901, $3,412; 1902, $8,509.31; 1903, $11,404.03; 1904, $9,512; 1905, $6,546.35.

On December 31 in each of the years 1901 and 1902, Mr. Ames gave his cheque for the balance then due, and on the 2nd of each January following a cheque was returned him for the same amount; neither the receipt nor the payment being shown in the annual returns for those years.

In 1903, Mr. Ames' financial position having altered, Sir Mackenzie Bowell, Hon. S. C. Wood and Mr. Bradshaw waited on Mr. Cox and explained to him the position of this account, and he thereupon, according to the understanding of the committee, agreed to assume and finally discharge the liability. On December 31, 1903, he gave the company his cheque for the balance then due. He seems, however, to have taken a different view, as he expected and demanded repayment of the amount in the January following. The matter came up at a meeting of the executive committee of the com-

pany on August 3, 1903, when Messrs. S. C. Wood, H. N. Baird, J. J. Kenny, F. G. Cox and Thomas Bradshaw were present, when, on motion of Mr. Kenny, seconded by Mr. Baird, the following resolution was passed:—

'Whereas the Hon. George A. Cox paid to this company in December, 1903, the sum of $11,404.03, being the amount appearing in the books of the company as due by agents for advances, several members of the executive committee understood that Mr. Cox assumed this indebtedness on the part of the agents, and expected to be recouped from time to time as these advances were repaid, and the annual report for 1903 therefore shows nothing due on these accounts so far as the company was concerned, the duty of the company simply being to collect the moneys due and hand over the same to Mr. Cox; and whereas the Hon. George A. Cox states that such was not the understanding, that he simply advanced the money as a temporary accommodation, and that it should have been returned in January last, and that he would not have made the advance on any other terms; and whereas it must be assumed that Mr. Cox is right in his contention, therefore the chairman and managing director are hereby instructed to repay Mr. Cox the money so advanced; that as the money was deposited with the Central Canada Loan and Savings Company at Mr. Cox's request, and allowed to remain on deposit with such company at his request, the adjustment and payment of the interest must be made between that company and him. Note: It has since been found that the above money was deposited to the company's credit in the Canadian Bank of Commerce, and the payment of interest by this company to the Hon. George A. Cox is, therefore, authorized. Confirmed, S. C. Wood, chairman.'

Thereupon the amount paid by Mr. Cox in December, which had been credited to the company in a special account in the Canadian Bank of Commerce, as above indicated, was repaid to him with interest. At the end of 1904, the balance of this account, $9,512, was written off, and was not treated by the company as an asset in its return for that year. In 1905 further repayments made by agents reduced the account to $6,546.35, and it is expected that the company will not sustain any loss.

Shortly after the creation of the company, Messrs. Cox, Flavelle and Ames agreed to pay moneys into its funds from time to time to assist in meeting expenditures connected with the establishment of its business, and accordingly the following sums were paid: 1898, $7,000; 1899, $10,000; 1900, $5,000; 1901, $10,000; 1902, $35,000; 1903, $24,000; making in all $91,000. The payments from 1898 to 1900 inclusive were applied to the reduction of the expenditure in respect of officers' salaries. The payments from 1901 to 1903 inclusive were spread over many items of expenditure, making some reduction in almost all the expense accounts. These moneys were never shown in any annual return, the returns, on the contrary, showing expenditures less by the amount of these moneys than their real amount. The argument was that these moneys were an absolute gift for the express purpose of meeting expenses which might not otherwise have been incurred and not in the regular course of business.

Your Commissioners entertain no doubt that in making the return required by law it was the clear duty of the officers of this company to disclose fully all these payments and the total expenditures at their real amount.

The company first became interested in the bonds of the Sao Paulo Tramway Light and Power Company on December 19, 1900, when it loaned $30,000 upon $60,000 of them. This was part of a total loan of $100,000 on $200,000 of the bonds. The loan was guaranteed by the National Trust Company. The balance of the loan, $70,000, was advanced on January 2, 1901, the company not having in hand in December the whole amount necessary. Yearly renewals of the loan were made in December in each of the years 1901, 1902 and 1903, and it was paid off in 1904. The rate of interest each year was 6 per cent with an additional 1 per cent commission, making a 7 per cent investment. On December 31, in each of the years 1901, 1902 and 1903 the National Trust Company went through the form of paying off the loan, the amount

being returned on January 2 following. It is argued that this practice was justified in the case of this loan by a stipulation made when the money was advanced. This does not appear to lessen its impropriety.

The company on March 30, 1901, made an advance of $50,000 on the security of $56,000 of the Sao Paulo bonds and $56,600 of Sao Paulo common stock to Mr. J. W. Flavelle, who from the incorporation down to 1900 had been a director and vice-president, and had taken a very prominent part in the company's affairs, but had ceased to hold office at the end of 1900. He still remained a shareholder. This company's Act expressly incorporates the provisions of the Companies' Clauses Act, which, by section 38, prohibits loans to shareholders, and therefore the transaction was an improper one. At December 31, 1901, while the loan was still current, Mr. Flavelle went through the form of paying off the loan, giving the company his cheque. The money was repaid him on January 2, 1902. The company exercised the option and purchased the bonds and stock in 1902. The stock was sold for $7,912.50, which was credited to profit on investment. The $50,000 bonds, together with $75,000 bonds purchased on May 8, 1902, from the Central Canada Loan and Savings Company, were carried until December 29, 1905.

In the months of May and June, 1903, advances were made to A. E. Ames & Co., who were then in embarrassed financial circumstances, suspending payment on June 3. 1903, as follows: May 21, $40,000; June 5, $28,700; June 10, $2,400; making in all $71,100.

Mr. Ames was then the president of the company, but shortly after, on June 12, resigned, his resignation being accepted on June 15. Mr. Cox was assisting him in dealing with his embarrassed affairs, and arranged with Mr. Bradshaw that the company's cheques should be given to Mr. Ames, Mr. Cox undertaking to hand over 4 per cent debentures of the Toronto Savings and Loan Company as security. That company was organized by Mr. Cox in 1885 for the purpose of taking over and handling his property interests in Peterboro, and was entirely controlled by him. The bank account of the Imperial was then overdrawn to the extent of about $120,000 and the overdraft bore interest at 6 per cent. Mr. Bradshaw did not know who was furnishing the security, Cox, Ames or the Toronto Saving and Loan. The intention seems to have been to reduce the loan somewhat within a short period and to give it the final form of purchase by the Imperial of the securing debentures. No minute or other written authorization of the transaction appears. It is stated, however, that the arrangement included a verbal guaranty by Mr. Cox that 2 per cent in addition to the 4 which the debentures bore would be paid, so as to indemnify the Imperial against the 6 per cent paid to the bank on the overdraft of $120,000, which was, of course, to be increased by the amount of the advances, and continued in fact to the end of the year. The reason given for there being no minute or other record upon the subject is that it was the intention to reduce the loan as soon as possible. There were some moneys paid by Mr. Ames between the date of the advances and the end of the year, and some $12,000 was transferred to the credit of these advances from another account of Mr. Ames, with the result that at the end of 1903 the balance of the advances was $50,000. A meeting of the executive committee was held on December 30. Authority was given at this meeting to purchase $50,000 of the 4 per cent debentures of the Toronto Savings and Loan Company, payable at fixed dates and all to date from May 21, 1903, with a verbal guarantee of Mr. Cox that an additional 2 per cent half yearly, would be paid. The 2 per cent was paid up to December 31, 1903, but during 1904 and 1905 the 4 per cent debenture interest only was paid, so that at December 31, 1905, Mr. Cox was liable to the company for $2,000 on his guarantee. On December 29, 1905, at a meeting of the executive committee at which were present Hon. S. C. Wood, F. R. Eccles, E. T. Malone, G. A. Morrow, S. J. Moore, F. G. Cox and Thomas Bradshaw, it was resolved:

'that the 2 per cent charged in addition to the 4 per cent on the Toronto Loan and Savings Company debentures, $50,000, amounting to $2,000, be written off, that

the 2 per cent be not charged since December 31, 1904, and that 4 per cent be the rate of interest claimed in the future.'

There is an inconsistency in the resolution, as $2,000 was the additional accumulated interest from December 31, 1903, not 1904. Pursuant to this resolution the additional $2,000 was written off. Mr. Cox did not deny his liability, but suggested that, as the company's bank overdraft was made good by the end of 1903, the company should be satisfied with 4 per cent, and his suggestion seems to have been readily acquiesced in by the committee. Nothing could more clearly indicate the reality of Mr. Cox's control. At a time when the bank account was overdrawn to the extent of $120,000 he procures advances to his son-in-law amounting to $71,100. He procures the pledging of the company's credit to borrow money with which to make the advances. The advances bear interest at 6 per cent, but so does the overdrawn bank account. By a resolution passed two years later, on a mere suggestion from Mr. Cox, his liability is wiped out, and the transaction becomes one that the management of this company would not for a moment have considered if offered in the ordinary course of business, a purchase of debentures to yield 4 per cent.

On June 1, 1903, while Mr. Ames was president of the company two days before his firm suspended payment, and after the credit of the company had already been pledged to assist him to the extent of $71,100 as above mentioned, he presided at a meeting of the executive committee at which the others present were Dr. F. R. Eccles, Hon. S. C. Wood, H. N. Baird and Thomas Bradshaw, and submitted a document signed by Mr. Cox in the words following :—

'I hereby guarantee the repayment to The Imperial Life Assurance Company of Canada, within two years from this date, of the sum of one hundred and seventy thousand seven hundred and forty-six dollars, the purchase price of the stocks as undernoted, with interest thereon at the rate of 6 per cent compounded half yearly, less dividends received by the said company in the meantime on said stocks, provided the said The Imperial Life Assurance Company of Canada will grant to me the option of repurchasing the said stocks at the said purchase price, with interest thereon as aforesaid. It is understood that any of the said stocks may be released during the period named upon my paying the said company the full market price thereof as at date of release (which market price I guarantee will not be less than the price below named), the said full market price to be credited by the Imperial Life Assurance Company of Canada on account of the total purchase price of all the said stocks.'

The following are stocks above referred to :—

No. Shares.	Company.	Market Price.	Purchase Price.
		$	$
234	British America Assurance Co.	90	10,530
736	Western Assurance Company	90	26,496
500	Ontario Bank	131	65,500
250	Dominion Coal Co., Ltd.	94	23,500
430	Twin City Rapid Transit Co.	104	44,720
	Total purchase price		$170,746

GEO. G. COX.

After discussion it was marked 'approved' by the chairman and the minutes record the transaction as follows :—

'The purchase of the undermentioned shares was approved.

234	British America,	@ 85	$ 9,945 00
736	Western Assurance,	@ 85	25,024 00
500	Ontario Bank,	@ 121 76	60,881 86
250	Dominion Coal,	@ 72 2-3	18,165 34
430	Twin City,	@ 90	38,742 67
		Total	$ 152 758 87

At the next succeeding meeting this minute was confirmed.

The total amount mentioned in the minute, $152,758.87, was paid out by the company to different financial institutions with which these stocks had previously been carried by A. E. Ames & Company, and ledger entries were made among the records of transactions of purchase and not among the records of loans. Each stock was carried in a separate account, and, where the company owned other stocks of the same kind, all such holdings were mingled in the same account.

By the end of the year, all these stocks had been sold, under verbal instructions given from time to time by Mr. Cox at a total profit of $12.354.90. On June 26, 1903, after the earliest sales were made the entries relating to all these stocks were assembled in a single account, headed 'Special investment account,' still remaining, however, among the records of owned stocks. No explanation of this was forthcoming, but in any view of the transaction some such account would be necessary in order to ascertain the liability, if any, under Mr. Cox's guarantee. No further change was made in the bookkeeping, until the meeting of December 30, 1903, when a direction was made to amend the minute of June 1, 1903, so as to make it read,

> 'loan to Hon. G. A. Cox at 6 per cent of $152,768.87 on the security of the following stocks,'

instead of,

> 'the purchase of the undermentioned shares was approved.'

The minutes of that meeting also recorded that

> 'the loan to Hon. A. G. Cox of $152,768.87 was reported to have been paid with interest.'

This amendment seems to have been made on the suggestion of the auditors to authorize the transfer of the balance of this account, $12,354.90 to the Ames advance account. Whether the real transaction was a purchase or a loan depends upon what took place at the meeting of June 1 after the Cox guarantee was read. If it was arranged that the transaction should be a loan of a smaller amount than the proposed purchase money, the impropriety of the transaction is confined to the official relations of Mr. Ames and this typical instance of Mr. Cox's control. If the transaction was a purchase and sale the subsequent alteration of the minute and the release of the $12,354.90 was an added impropriety.

In 1903 the company joined in underwriting Electrical Development Company bonds at 90, with 100 per cent of bonus stock, its share of the underwriting being $50,000. The underwriting agreement required it to pool its holding for one year from January 1, 1903, with all the other holdings covered by the agreement. It might take up and pay for the bonds, in which case it was obliged to hold them for a year. It might permit them to remain in the pool, in which case they might be sold at prices fixed, not by the company, but by the managers of the pool. The stock was sold in 1904 at $18,875, which was partly applied in the reduction of the price of the bonds and partly carried to profit on investments. The bonds remained as an investment until April, 1906, when they were sold. Your Commissioners are of opinion that it was not a proper investment of insurance funds to place the sum of $45,000 beyond its control for a year in order to assist the public flotation of bonds.

The company bought $22,000 bonds of the Dominion Iron and Steel Company, an unauthorized investment, in April, 1902. At the end of the year, in order that the bonds might not appear in the company's annual return, they purported to sell them

to A. E. Ames & Company. On January 2, 1903, the company again took delivery of them and other bonds of the same company, making in all $50,000 bonds representing an investment of $44,484.25. One-half was sold in November and December, 1903, at prices varying from 57½ to 59, the amount realized being $14,419.25, and in December the balance were sold to the Dominion Securities Corporation at cost, or about 30 points over the market price, realizing $22,000. The loss on the whole was $8,065.

On March 16, 1903, 200 shares of Dominion Coal stock, another unauthorized security, were purchased, but no report of the purchase was made to the board until June 29. It was sold on July 6 at a loss of $2,619.67.

The Superintendent of Insurance on March 10, 1904, notified the secretary of the company that both these investments being unauthorized the directors were personally liable to make good the resultant losses. Subsequently, on May 23, 1904, he wrote to Sir Mackenzie Bowell, then president of the company, asking his personal attention to the matter. When Mr. Cox was informed that the directors proposed to make the losses good, he stepped in and made them good himself.

The company, on an application received through its agent at London, issued a policy of insurance for $25,000 on the life of A. E. Wallace, manager of the Atlas Loan Company at St. Thomas. On September 25, 1901, the executive committee approved of the purchase of five 4 per cent debentures of the Atlas Loan Company for $1,437.50 each, as payment of the first five premiums. It was also provided that the agents' renewal commission for the second, third, fourth and fifth years should be credited to interest, which would make the investment yield 6 per cent. Two debentures were received in payment of the first two premiums. Before the third became due the Atlas Loan Company became insolvent and was wound up. After crediting the dividend received from the liquidator, the loss on these debentures was $1,139.27. The policy lapsed.

THE NATIONAL LIFE ASSURANCE COMPANY OF CANADA.

The National Life Assurance Company of Canada was incorporated in 1897 by Act of Parliament, 60-61 Vic., cap. 78, and there has been no amending Act. Shareholders only vote at annual meetings, but the Act authorizes the company to extend the franchise to its policy-holders.

The authorized capital of the company is $1,000,000. The first issue was $500,000, and in November, 1905, the balance was issued and was all taken up before the end of that year.

All the capital was issued subject to a call of 20 per cent and a premium of $5 on each share. Each subscriber, therefore, paid $25 per share, $20 of which was credited to capital and the balance carried to surplus funds. The company has not yet paid any dividends.

Notwithstanding the premium contribution of $5 per share, a substantial impairment occurred. At the end of 1903 the company had a total surplus on policy-holders' account of $24,914.59. The paid up capital then amounted to $98,829.70, so that an impairment to the extent of $73,915.11 had taken place. The $5 per share premium, or $25,000 had also been expended. At the end of 1904, the total surplus on policy-holders' account was $13,258.75 and the capital paid up was $100,889.70, the impairment being $87,630.95.

A report on the company's business was made by Mr. W. T. Standen, consulting actuary, on February 7, 1905. He pointed out that the business, commencing in the fall of 1899, when competition for new business was keenest, and the cost of securing it highest, it must necessarily sink all or most of its capital before it could be hoped that the returns would permit the impairment to be reduced and the capital to be restored. He recommended an increase in premium rates to a point very near the standard rates used by the other Canadian companies. He also recommended the

adoption of some distinctive plan of term assurance, business on the usual plans being burdensome because of the heavy reserves.

Accordingly in 1905 the company adopted a 5-year option policy, giving the assured term insurance for 5 years, with the right, without medical examination, to renew on the life, endowment or limited payment plan.

The company had on its books at the beginning of the year $2,731,731 whole life insurance, $1,077,523 endowment insurance and $700,500 term insurance; at the end of the year it had $2,732,842 whole life insurance, $1,085.480 endowment insurance, and $1,307,115 term insurance. The only real increase during the year was, therefore, in respect of term insurance.

As already stated, the company in this year also issued $500,000 additional capital upon which a premium of $5 per share was paid. The premium thus received amounted to $24,500. The result of the year's operations was that at the end of it there was a total surplus on policy-holders' account of $163,508.75, the paid up capital stock then being $199,860.70, and the impairment being, therefore, $36,351.95.

While 5-year term insurance is most vigorously urged, insurance, both participating and non-participating, on other plans is also written. No profits have yet been divided among policy-holders and the first distribution will not occur for some three years. No preparation has yet been made for such distribution.

Directors have been allowed to deduct the full first year commission in respect of policies taken by them.

The company has confined itself almost exclusively to municipal debentures. Having regard to the small volume of its investments it is not believed to be profitable to establish a branch to manage mortgage investments.

For a time call loans to brokers were made, but this was discontinued, the management not feeling sufficiently in touch with the market values of securities. Two loans were made to brokers on authorized securities, in one case Canadian Pacific Railway stock, and in the other Twin City Rapid Transit Company stock. They were current for about two months and there was no loss.

The head office building was written up in value after the expenditure of considerable sums in alterations and improvements. The Superintendent of Insurance questioned the annual return in this regard, and the value of the building was determined for the purposes of the return by an independent valuation to which the Superintendent assented.

THE ROYAL VICTORIA LIFE INSURANCE COMPANY.

This company was incorporated in 1897 by Act of Parliament, 60-61 Vic., cap. 81. It has an authorized capital of $1,000,000, all of which was subscribed and a call of 20 per cent paid up thereon, by the end of 1898.

The company was promoted by Mr. David Burke, who has been its managing director since its incorporation. The organization expenses were small, by comparison with some of the younger companies. The special Act cost $485.65, and commissions on sales of stock amounted to $1,785.20, making the total organization expenses $2,270.85.

The capital stock is held by some 300 shareholders, no one person, nor any group of persons united by a common interest, having control. The directors and their friends hold about 1,300 out of a total of 10,000 shares. A form of proxy was sent to each shareholder for the first general meeting after he became a member, and proxies representing about 4,000 shares were thus obtained. These proxies are in a form which makes them available for all annual or special meetings. The large majority are in the names of the president and manager, and many others are held by individual directors. With the assistance of these proxies the directors control the votes. Policyholders have no voice.

The capital was not issued at a premium, and impairment resulted in the first year's operations. This impairment has increased year by year, the largest increase being in the year 1905. The impairment at the end of each year was as follows:—

1897, $7,919.42; 1898, $27,164.10; 1899, $37,651.09; 1900, $52,904.75; 1901, $74,595.06; 1902, $84,014.72; 1903, $108,056.02; 1904, $130,837.30; 1905, $155,267.91.

The insurance in force at the same dates was as follows:—

1897, $243,500; 1898, $920,577; 1899, $1,653,807; 1900, $2,051,660; 1901, $2,680,152; 1902, $3,358,331; 1903, $3,797,670.30; 1904, $4,204,072; 1905, $4,633,610.

In explanation of the large impairment having regard to the comparatively small amount of business in force, it was said that the company had been unfortunate in respect of death losses, that there had been an excessive mortality and that in some years policies much larger than the average had become claims. This was not, it was said, attributable to an improper medical selection but was accidental, and might have happened with any company having a small number of lives exposed. It was also said that the impairment itself made it difficult to obtain new business, and therefore greatly increased the expenses. Comparison with other companies which had received moneys from their shareholders by way of premium, or other contributions, which had no place in the capital indebtedness, was alleged to be unfair, this company not having resorted to any such device. In 1905 Mr. Blackadar made a report to the superintendent on the progress of this company's business which, later in the year, was communicated to the directors of the company. In it he referred to the abnormal death rate as one of the causes of the large impairment, but he also attraibuted it to the magnitude of the expenses of management by comparison to the new business each year. Your Commissioners agree in this conclusion that with so large a volume of expenditure there should have been a much larger volume of new business, to produce larger renewal premiums in subsequent years and so gradually overtake the impairment.

The company has given agents bonuses for business written in the last month or the last few months of the year. Possibly the largest bonuses were given in 1901. By a confidential circular to the agents dated September 25, 1901, they were offered cash bonuses for December business as follows:—$200 to the first, $100 each to the next three, $50 each to the next six and $25 each to the next eight. To qualify for the competition each agent was required to write $1,000 of insurance in September, or $2,000 in October or $3,000 in November, and all business written in September, October or November was placed to the credit of the December business. Any agent writing $3,000 of insurance between September 1 and December 31 and not securing a bonus was to be entitled to an extra commission on the first year's cash premiums of 5 per cent. This plan of bonusing agents to induce them to crowd business into the last few months of the year accounts, no doubt, for the large numbers of not taken and lapsed policies. Of the new business written in 1904, about 45 per cent either lapsed or was not taken at the end of 1905. The company seems to have been already paying substantial commissions to agents, and the December business cost approximately an additional 5½ per cent.

After its organization the company established a system of local boards, to obtain the assistance of influential persons in the different localities in which business was sought. They had no duties except to speak favourably of the company. They held a few meetings each year, for which they were paid $5 per meeting. They have not been called together for the last two or three years.

The company's powers of investment are entirely governed by section 50 of the Insurance Act. Call loans on stocks have been made to different brokers, including Macdougall Bros., shareholders in the company, and L. J. Forget & Co., in which firm Hon. L. J. Forget, a director and vice-president of the company, is a partner. These transactions are in contravention of section 38 of the Companies Clauses Act, prohibiting loans to shareholders, which is expressly made part of the Act of incorporation. Some of these loans were on unauthorized securities, the management making a dis-

tinction in this respect between loans and purchases, not because it was believed that the Act made any such distinction, but because it was thought that it should.

Loans were made to brokers on the following unauthorized stocks: In 1897, 300 C.P.R.; in 1899, Canadian Colored Cotton Mills and C.P.R.; in 1900, Canadian Colored Cotton Mills and Twin City Railway ; in 1903, Detroit United Railway, Twin City, Dominion Iron & Steel, Canadian Colored Cotton Mills; in 1905, Detroit United Railway; in 1906, Detroit United Railway.

The amount loaned on call has always been a large percentage of the company's assets, sometimes as much as one-half. Your Commissioners are not satisfied, from the evidence, that the highest rate of interest has always been obtained on these call loans, the management relying too much on the borrowing brokers for information as to current rates. In 1904 the Superintendent called attention to certain unauthorized securities which had been carried over from the previous year, and the loan was paid off. In February, 1906, attention was again called to unauthorized securities carried at the end of 1905. These were then replaced by securities authorized under the Act, and at the date of the inquiry it was stated that the company held no unauthorized securities.

THE CONTINENTAL LIFE INSURANCE COMPANY.

This company was incorporated by Ontario letters patent in 1899, with a capital stock of $1,000,000. Two years later it amalgamated with the Farmers & Traders Life and Accident Assurance Company, Limited, and an Act of the Ontario Legislature was obtained (1 Ed. VII., cap. 94), confirming the amalgamation, fixing the capital at $1,500,000, the subscribed capital at $765,400 and the paid-up capital at $63,891.64. Subsequently the subscribed capital was increased to $1,000,000, and at the end of 1905 the paid-up capital was $180,255.94.

The company obtained a Dominion license on December 31, 1901, at which time the impairment of capital was $57,581.49. In subsequent years the impairment was: 1902, $54,2[illegible]; 1903, $60,338.93; 1904, $68,872.68; 1905, $63,033.77; the last being the only year in which the company made a profit. In addition to capital the shareholders have paid premium on capital amounting to $26,712.43 since December 31, 1901.

Prior to the formation of this company, its manager, Mr. George B. Woods, was superintendent of agencies for the Merchants Life Association, carrying on business as a friendly society. It was not successful. Mr. Woods advised that it be wound up, and it accordingly went into liquidation. Its executive officers were: Hon. John Dryden, president; Emerson Coatsworth, first vice-president; R. S. Williams, second vice-president, and J. B. Reid, secretary; all of whom became directors of the Continental Life. The latter, on commencing business offered insurance to the policyholders of the defunct Merchants Life Association, at special rates, because, as stated by Mr. Woods:—

> 'at that time there were quite a number of the men on the new board that were on the old board, and they wanted to protect the policy-holders as much as they possibly could.'

The method of giving a preference was to issue 14-year payment life policies at about the 15-payment life rate, and 18 or 19-payment life policies at about the 20-payment life rate. The total insurance thus written was not large—about $33,000—but the principle was entirely wrong as it preferred the policyholders of the defunct society who had no claim whatever upon the Continental Life.

The Farmers and Traders Life and Accident Assurance Company, Limited, was incorporated in 1896 by Ontario letters patent, and commenced business in 1897 as a life company, but never operated as an accident company. It had an authorized capi-

tal of $500,000, of which $346,900 was subscribed and $34,690 paid in thereon. An offer was made by the Continental Life on December 13, 1900, to pay the shareholders 15 per cent advance on the amount paid up on their shares, the premium serving to compensate the shareholders for loss of interest while their money had been invested, no dividends having been paid by the company. The purchase price was payable either in cash or paid up stock of the Continental Life. The offer was accepted by a resolution of the Board of the Farmers and Traders. Thereupon Messrs. Henry Cargill and Henry Scott, directors of the Continental Life, paid into the Atlas Loan Company, of which Mr. A. E. Wallace, a prominent director of the Farmers and Traders was manager, sufficient money to pay for all shares. They paid their own moneys but were guaranteed against loss by the Continental Life. The stock having been purchased, officers of the Continental Life were appointed officers of the Farmers and Traders and a formal agreement was entered into, dated January 2, 1901, for amalgamation under the name of The Continental Life Assurance Company. There was paid for the stock of the Farmers and Traders $36,660.37 in cash or stock, and after realizing the assets and paying the liabilities the cost of the insurance taken over was $24,606.88. The insurance in force at the date of the agreement was estimated to be $909,500, but by December 31, 1901, it had dwindled down to $731,400, It was stated that the estimated cost of the business to the Continental Life was $26.27 per $1,000 of insurance, but allowing for the shrinkage in the volume of insurance and the fact that the premiums on the Farmers and Traders policies were substantially less than the Continental Life was charging, the cost to the Continental greatly exceeded that amount. No investigation was made. Another company having offered 10 per cent on the paid up stock, the Continental offered an additional 5 per cent, no doubt expecting to pay in capital stock instead of in cash. Very few of the shareholders accepted stock, almost all insisting on cash.

Among the assets of the Farmers and Traders were $25,000 debentures of the Atlas Loan Company, which, on the amalgamation passed to the Continental Life.

The debentures matured in 1902 and were paid off, the Continental then desiring the money and insisting on payment. Mr. Wallace, the manager of the Atlas Company, who had meantime become a director of the Continental, desired them renewed, and it was agreed that the Continental should repurchase debentures to the same amount so soon as convenient. Accordingly, in August, September and October, 1902, $25,000 debentures, bearing 4½ per cent interest, were purchased.

In May, 1901, the Continental issued a policy on the life of W. H. Murch, president of the Atlas Loan, for $25,000, the Atlas Loan being the beneficiary. An agreement in writing was made between Murch, the Atlas Loan and the Continental, providing that so long as the ordinary capital stock and debentures of the Atlas Loan continued to be worth in the market their face value, the Continental should accept them at their face value in payment of the premiums, and should renew them for further periods of 5 years, until the termination of the policy, whereupon the company was to be at liberty to pay the policy in such debentures. Debentures for $1,300 each were received in payment of premiums for 1901, 1902 and 1903, making in all $3,900.

The Continental at Wallace's request deposited $5,000 with the Atlas Loan without security, at 4 per cent. The balance at the credit of this account on the failure of the Atlas Loan in June, 1903, was $5,116.75. Dividends were subsequently received from the liquidator, amounting to 37 per cent, leaving a loss of $3,190.26. This was carried as an asset up to December 31, 1905, when Mr. Blackadar insisted on its being written off and it was taken out of the return for the year.

On the failure of the Atlas Loan the Continental still held all the debentures mentioned, amounting with interest to $29,435.38. The Continental being a young company and its business not well established, serious injury was apprehended should its liability to loss by the Atlas failure become known. Advice is said to have been given that the debentures were a first lien on the Atlas assets, with priority over claims of

depositors and that therefore there would be no loss. In these circumstances it was decided to make a pretended sale of the debentures. In form they were sold to G. T. Somers, a director, at the amount of the debt. It was provided, however, that the company should pay Somers, his executors, administrators or assigns, annually, a commission of 2½ per cent of the annual premium income of the company until the loss, if any, should be made good. This liability was not disclosed in the returns.

The money with which this pretended sale was carried out was loaned by the Traders Bank upon the note of all the directors save one. Its proceeds were deposited in the bank to the company's credit in a special account, but were not to be drawn out except as other moneys were applied in reduction of the note. Somers executed a declaration of trust in respect of the debentures themselves in favour of the directors who signed the note, including himself. In February, 1904, the company paid about $2,500 on account of the commissions which formed Somers's security. This was paid to the bank on the note and an equivalent amount of the deposit released, a fresh note being taken for the balance. In March, 1904, further payments were made of about $1,300, the surrender value of the Murch policy, and about $9,000, the dividend paid by the liquidator of the Atlas Company, releasing equivalent amounts of the special deposit. The amount at credit of the special account on December 31, 1905, was about $16,000, and the promissory note then current was for a somewhat smaller amount. During 1905, after it became certain that there would be a very substantial loss in respect of the debentures, much discussion took place, as the result of which papers were prepared, the execution of which would have relieved the company from all liability and left the directors in the position of having assumed the loss. At the date of the inquiry some of the directors had executed the papers, others had not, but Mr. Somers declared his intention to assume personally any proportion of the liability which the remaining directors refused to assume. There was no definite arrangement as to the proportions in which the directors should bear the loss, the balance of the note was still unpaid, and the special deposit was still in the bank. Mr. Woods agreed or promised to assume $1,200 of the liability, but before he consented to release the company his contract of service, still current, was replaced by a contract for a further term of five years at an increased salary. Your Commissioners are not, upon the whole, satisfied that the company has yet definitely escaped the peril against which the directors profess to be trying to protect it.

Certain directors and officers in 1903, became the incorporators of the Ontario Securities Company, Limited, a company whose business was to buy and sell stocks, bonds and debentures. This company subscribed for all the unsubscribed stock of the Continental, and in 1905 actually paid $2,100 on account of the subscription. The management of the Continental seems to have treated that company with scant respect where securities were concerned which might be turned to the profit of the Securities Company. For example, while Mr. Woods was in the west, travelling on the business and at the expense of the Continental, he arranged for the purchase of certain debentures at favourable rates. In one case the debentures were afterwards manipulated to the entire exclusion of the Continental and to the advantage of the Securities Company. In another he sold as vice-president of the Securities Company to himself as manager of the Continental at a handsome profit. No moneys were paid out by the Securities Company, its function on these occasions appearing to be to intercept the profits earned by Continental moneys, and turn them into the pockets of the directors disguised as the Securities Company. In this fashion a dividend of 10 per cent on the Securities stock has been paid to the Continental directors besides bonuses of $1,000 to Somers, $1,200 to Woods, $500 to Fuller and $300 to Dryden.

On February 1, 1906, the Securities Company in its organization of the Sterling Bank had reached the point at which a deposit of $250,000 in cash must be made, to enable the subscribers to be called together, a permanent board elected, and banking business commenced. The amount theretofore paid in by subscribers to the stock was insufficient, and more was needed. A plan was devised. The Securities Company

was handed securities belonging to the Continental to pledge with the Bank of British North America, to secure the necessary advance. The Securities Company purported to purchase from the Continental at cost, debentures of the towns of Calgary, Chatham, Steelton and Fort Francis, amounting in all to about $59,074.38. These debentures were at once pledged with the Bank of British North America, and $54,000 raised on them, and paid over to the Continental as part of the purchase money. The Continental being then in funds, the Securities Company subscribed for $60,000 of Sterling Bank stock at 125, pledged the stock so subscribed with the Continental and borrowed on it $60,000, with which it completed the necessary deposit of $250,000. The loan to the Securities Company bore interest at 6 per cent, while the debentures earned about 4½ per cent, and this was pointed to as indicating that the transaction was profitable to the Continental and therefore justifiable.

Your Commissioners, however, regard the whole transaction as one whereby the marketable securities of the Continental were used by the persons in control to carry to completion a transaction on which they had embarked for their private gain. The capital stock of the bank was not a security upon which money could be borrowed in the market. The directors, therefore, pledged it with the company which they controlled and used its marketable debentures to pledge with the Bank of British North America, the real lender of the money. The Securities Company thereafter sold the stock of the Sterling Bank thus acquired, as opportunity offered, and the proceeds were applied to reduce the loan obtained from the Continental. As that loan was repaid the Continental went through the form of repurchasing its own debentures which it had previously gone through the form of selling. That the pretended sale was a mere cloak under which directors in control of one company loaned its securities to themselves as directors of another is shown by the circumstances that it was agreed that if any of these securities should be sold pending the repayment of the loan, the profit thereon should belong to the Continental, the real owner.

THE CROWN LIFE INSURANCE COMPANY.

This company was incorporated in 1900 by Act of Parliament, 63-64 Vic., cap. 97, and received its license on September 10, 1901. It has an authorized capital of $1,000,000, and power to increase it to $2,000,000, after all the original capital has been subscribed and $500,000 of it paid. The company was promoted by Mr. George H. Roberts, who was the managing director until shortly before the appointment of Mr. Charles Hughes, the present manager, in February, 1906.

The prospectus professed to offer to the public 'an opportunity to make a permanent investment which would be absolutely safe, would rapidly appreciate in value and would soon be earning satisfactory dividends.'

The subscribed capital at the end of each year since organization was as follows:—1901, $320,000; 1902, $388,200; 1903, $400,000; 1904, $536,100, and 1905, $609,600.

It was all issued at a premium of 25 per cent and subject to a call on both capital and premium of 25 per cent, amounting to $31.25 on each share, $25 being credited to capital and $6.25 to surplus funds.

In each year the company's returns state that certain sums have been paid in cash on the subscribed capital and certain other sums on the capital premium, the former amounting in 1905 to $129,465.29, and the latter to $32,582.43, making a total contribution by shareholders of $162,047.72.

These alleged payments were not always made in cash. Promissory notes were taken, discounted within a few days before the end of the year, the proceeds treated as cash for the purposes of the return, the notes retired by the company at maturity, renewal notes taken, and at the end of the year discounted like the notes of the preceding year, and their proceeds again treated as cash. This device was adopted in the case of the medical director, Dr. H. T. Machell, although the Act of incorpora-

tion makes payment of all calls and other liabilities a condition of the directors' qualification. More recently stock subscriptions have been taken on what is described as the instalment plan, by which the capital and premium call is divided into 10 equal annual payments, bearing interest at 6 per cent.

The capital has been impaired each year by an increasing amount. In 1901 it was $1,797.56 ; in 1902, $34,896.70; in 1903, $68,486.13; in 1904, $93,233.93; in 1905, $109,706.97. The company had, therefore, at the end of 1905 expended out of capital $109,706.97, in addition to $32,582.43 premium, making together $142,289.40 out of a total contribution by shareholders of $162,047.72.

The company does not seem to have practised during these years the economy appropriate to that period of its history. The managing director, Mr. George H. Roberts, was paid a salary of $5,000 from the commencement. The president, Sir Charles Tupper, besides a salary of $2,000, was paid a commission of 1 per cent on certain capital and premium calls and received yearly, while he filled the office, a commission of 1 per cent of the gross first year premiums on policies written during the year. This charge on premium income seems to your Commissioners quite improper and unwarranted. Mr. Standen, consulting actuary, made two reports on the business of the company on August 15, 1904, one for publication and the other for the private information of the directors. In the latter he referred particularly to the remuneration of the president and directors, which then amounted to $13,600, an item from which he stated that *most young companies are entirely exempt.* Acting upon this report, the directors' fees were reduced from $10 to $5 per meeting, and it was determined to reduce the president's remuneration. He thereupon resigned.

By the company's Act of incorporation it is authorized to maintain separate accounts of the business transacted in 'Industrial, 'General,' 'Abstainers' and 'Women's' sections, keeping the receipts and expenditures distinct, each section sharing its own profits and paying its own proper portion of expenses. There is also authority *to establish a non-participating section.* The company has not issued industrial policies nor special policies to abstainers, but it has issued policies to women, and has also issued non-participating policies. No attempt has been made, however, to keep separate accounts for the different sections. The time has not arrived for declaring profits under any of its policies, but if its present methods of bookkeeping are continued it cannot, when the time does arrive, do otherwise than set apart a purely arbitrary sum for division amongst the policyholders entitled to profits in any particular year. There can be no ascertainment upon principle.

The estimates issued by this company are considerably higher than those issued by older companies, notwithstanding its lower premiums. Premiums were fixed and estimates made to attract and secure business, and not on any competent calculation.

Directors and members of the head office staff are allowed commissions on policies taken by them. The latter, with the exception of the superintendent of agencies, receive renewal as well as first year commissions on such policies

THE CENTRAL LIFE INSURANCE COMPANY OF CANADA.

By letters patent of the province of Ontario, dated February 23, 1901, Thomas Crawford, M.P.P., T. E. Bissell, Dr. James Dow, Major J. J. Craig, J. W. St. John, Dr. A. Groves and John M. Spence were incorporated to carry on the business of life insurance under the name of 'The Central Life Insurance Company,' with a capital stock of $1,000,000. On September 16, 1904, the name of the company was changed by order in council to 'The Central Life Insurance Company of Canada.'

The company was promoted by J. M. Spence. The original intention was to have the head office in Guelph or elsewhere in the county of Wellington, where the capital was expected to be subscribed, but after consideration it was established in Toronto. On April 1, 1906, owing to the increased expense of maintaining a head office in Toronto, it was removed to Guelph.

The prospectus of the company offered a limited amount of the capital to investors at a call of $12.50 per share, of which $10 would be credited to capital and $2.50 carried to surplus funds. This provision was deemed expedient in order to

'provide an immediate surplus and avoid any possible impairment of capital stock.'

The prospectus represented it to be very unlikely that another call would be made. A second call of 5 per cent was, however, made in 1905, to provide funds with which to make the necessary deposit to obtain a Dominion license.

On organization Mr. Thomas Crawford was appointed president, and Mr Spence, manager, a position it was always intended he should occupy. His contract was for a term of five years. Mr. Crawford continued president until 1905, when he resigned, and the position of president and manager were combined in the person of Mr. Spence.

The incorporators became directors, and each subscribed for twenty shares. The office is held for two years, the last election having taken place at the annual meeting in January, 1905.

By the Ontario Insurance Act it is provided that before application for license there must be $300,000 capital subscribed and $30,000 paid into some chartered bank. The necessary amount was subscribed, but 10 per cent of it was not paid in cash. Certain shareholders gave promissory notes for the amounts due by them without any cash payment. To implement the cash payments, $15,000 was borrowed from the Ontario Bank upon the joint obligation of the provisional directors, and the money so procured enabled the deposit to be made. The promissory notes received from shareholders were not discounted or pledged as security for this loan.

The directors subscribed for twenty shares each at par, without assuming any obligation to pay the premium of $2.50 per share which was exacted of other subscribers. To show to the public a substantial subscription of the shares, the directors from time to time subscribed for substantial blocks of stock for which they paid nothing, but which remained in their names until applications for allotment were received from the public, when the required number of shares would be cancelled and allotted to the applicant.

In furtherance of this device, the president, Mr. Thomas Crawford, subscribed at different times for 240 shares; Dr. Groves, for 381; T. E. Bissell, for 100; Dr. J. Dow, for 200; J. J. Craig, for 109; J. W. St. John, for 200, and J. M Spence, for 849.

After deducting shares re-allotted to other subscribers, the holdings of these directors, including their original subscriptions for 20 shares each, stood as follows: Thomas Crawford, 25 shares; Dr. Groves, 40; T. E. Bissell, 20; Dr. Dow, 20; J. J. Craig, 20; J. W. St. John, 20, and J. M. Spence, 269.

The managing director has always had absolute control of the voting power. Proxies are sent out each year with a circular signed by him, asking that the proxy be filled up, signed and returned. The names of the directors were printed on the circular, but not inserted in the proxy. The result appears to have been that Mr. Spence, perhaps because he procured most of the subscriptions and was better known than the other directors, and perhaps partly because his signature appeared in the circular, received a large majority of the proxies.

The following table shows the principal proxy holdings at the last three annual meetings:—

	Jan., 1904.	Jan., 1905.	Jan., 1906.
Thomas Crawford	177	209	....
T. E. Bissell	40	51	49
Dr. James Dow	46	155	102
Dr. Groves	43	108	109
James Spence	769	1,277	1 505
J. W. St. John	36	155	....

Before the meeting of 1905 no vote was recorded, but all resolutions were passed unanimously and the president cast one ballot for all directors. Originally there were seven directors, but Major J. J. Craig resigned in 1903, apparently as the result of his criticism of the manager, and the vacancy was not filled.

At the meeting of January, 1905, there was a difference of opinion with regard to the number of directors, some favouring seven, some six, and others five. On a vote the views of the managing-director prevailed, the board being reduced to five. The old directors were then re-elected, except Mr. St. John, with whom the manager appears to have been on unfriendly terms.

Mr. Spence appears to have then been in ill-health. In October following he was given three months leave of absence, the resolution providing that any expense incurred by reason of his illness should be deducted from his salary. Subsequently, in the same month, a meeting was held from which he was absent. A resolution was passed referring to his state of health and insisting upon his absenting himself from the office.

Mr. Spence's suspicions were aroused during his absence. He feared a scheme to oust him from office, and bestirred himself in the matter of proxies and fortified himself by insisting on the proxies being sent out by him as usual. It is not unfair to say that his inability to discharge the duties of the office made him the more determined to retain it. Mr. Crawford says that at the directors' meeting, prior to the annual meeting of 1906, he expressed his opinion that Mr. Spence's state of health did not warrant his continuing as the active manager, and that a stronger and more energetic man should be in charge. He offered to remain if this change were made, and to devote himself to the work of the company, although he did not intend to take the management himself. If the change were not made he would resign and retire on being paid for his stock.

On the other hand, Mr. Spence accused him of either wanting to take his position, or to sell out the company, which he was determined should not be done. Mr. Spence's voting power determined the result of this controversy. Mr. Crawford resigned, and Mr. Spence purchased his stock and that of his friends.

On December 31, 1904, Mr. Spence subscribed for 104 shares, being a balance which made the total subscription $500,000. He gave his promissory notes for $17.50 per share, being the two calls and the premium. The resolution accepting his subscription in no way limited his liability. On January 16, 1906, a new note was given and a resolution passed declaring the understanding to be that the stock would be sold if possible before the note matured. Later, on April 30, 1906, another resolution was passed cancelling the subscription and the note, alleging as a reason Mr. Spence's illness and consequent inability to effect a sale. Mrs. Spence then subscribed for the shares, giving her own note in payment, and a covering resolution was passed. Mr. Spence transferred to his wife 28 other shares, and admitted that the purpose of the whole transaction was to avoid liability on his part. He says the understanding among the directors always was that he should not be personally liable on the 104 shares. He seems to regard Mrs. Spence as holding them in trust for the company.

These transactions illustrate the inexpediency of contracts for long terms with officers, especially in the early history of a company, when a mistake may be disastrous. Here Mr. Spence seems to have realized that the company's progress was not satisfactory and that his illness unfitted him for his official duties, yet by virtue of his position under the contract and his voting control, he maintained himself in his office and freed himself of an inconvenient obligation, without regard to the interests of the company whose servant he was.

Prior to December 31, 1904, the company had written 1,232 policies, insuring $1,305,560. Of these 788, insuring $831,750, had terminated, leaving in force 444, insuring $473,750. The capital impairment was then $20,176.25, besides which the premium on capital, amounting to $12,512.50, had been spent. There were 579 policies insuring $601,250 in force at the end of 1905, a gain of 135 policies and $127,500 insurance. The impairment, however, had increased by $15,528.92.