

I have been supplied with a certified copy of a valuation by a Sydney company, Richardson and Wrench, Ltd. It is addressed to J. W. S. McArthur, Esq., and is given in response to his written request; it is dated 21st September, 1934. The valuers go fully into details, and they finish, "We estimate the present market value of the property at £296,000."

This is not put forward as conclusive evidence of the value of the building, but merely to indicate to debenture-holders that if they have been influenced in favour of the idea of carrying on, by the publication of certain carefully chosen valuations and the suppression of others, they may realize that the financial success of their investment in this building is by no means assured. I am informed by the advisers of the Government in New South Wales that none of them anticipate a sale of the building at a price which, with all the other assets of the debenture-holders, will return them as much as 14s. in the pound.

RELATIVE POSITIONS OF DIFFERENT SERIES OF DEBENTURES.

9. One of the most troublesome problems that will arise, either in the liquidation of the companies or on any attempt to carry them on, if such attempt should be made, lies in the uncertainty relating to the relative positions of the different series of debenture-holders. Let us view the position for a start as it is between the A Series and the B Series of the Investment Executive Trust. The printed conditions on which the A Series of debentures were issued by the Trust, and taken by the debenture-holders, contain an undertaking that the company shall invest the moneys received by it from the sale of debentures in the series "in such of the investments and securities mentioned in the Schedule hereto as it shall think fit." The Schedule referred to sets out the investments which are to be chosen for the A Series. In brief, it may be stated that the only authorized investments for the A Series are Government and local-body stocks and authorized trustee investments under the Trustee Act, 1908, of New Zealand.

In the case of the B Series, however, the corresponding Schedule includes the above-mentioned securities, but, in addition, it includes shares, stocks, debentures, debenture-stocks, bonds, obligations, and securities issued or guaranteed by any company, bank, trust, or other corporation constituted or carrying on business in Great Britain, Australia, New Zealand, or in any other part of the world. In brief, the B Series debenture-moneys may be invested in the same Government, local-body, and trustee securities as the A Series, and, in addition, in the shares or debentures of *companies* or other *corporations*. The security of the B debenture-holders is the investments, according to the Schedule, held by the Trust as representing the investment of the debenture-moneys of the B Series holders.

The simple facts of the case are that the directors of the Investment Executive Trust seem to have made no attempt at all to carry out those conditions. They have never hesitated to use the debenture-moneys of all series or of any series to serve their own purposes. In the period in which the first £60,000 of the money of the debenture-holders passed through the Sterling Co. to serve the personal purposes of Mr. J. W. S. McArthur, the money of the A Series debentures was so used as well as the money of the B Series. If at any time money were wanted for either some specific purpose or for the general purposes and expenses of the company, the directors never hesitated to take it from whatever bank account seemed best able to supply their needs.

This means that, instead of the cash of a series or class of debenture-holders being invested in securities proper to that class, it will be found that it has been drawn out of the bank account of the series and paid into the bank account of another series to facilitate some transaction attributed to that series. Sometimes these sums of money have been paid back again, but the net result as shown in the books of the company is that a considerable amount of the money of the A Series debenture-holders, for instance, is represented not by investments in the authorized investments of the A Series, but by a record of money owing to the A Series by the B Series. Not only so, but the records show money owing to, say, the A Series, *by the shareholders*; and the latest accounts show quite a considerable sum under this latter heading, due to the fact that *the funds of the debenture-holders have been taken as required and transferred to the general account of the company to meet its general costs and expenses*.