

do not know; we have not made any contract." "But how do you suppose that we can put a price upon the value of a railway when you cannot tell us when it will be opened? What is the basis of calculation? It is no good your coming to us unless you can pay interest during its construction. If you attempt to raise the money by payment of deferred interest, you are resorting to the most improvident thing which can be conceived." Now, that is exactly what my friend of the Metropolitan Railway has done; he has done it with very great ingenuity. First of all, payment of interest out of capital being contrary to law, the company are precluded from doing that, but in the course of their business they issue stocks at a price which realizes a considerable premium, and they carry that premium to a reserve fund, and then, having carried that capital to a reserve fund, they obtain power in an Act of Parliament to apply it in a certain manner. This is clause 30 of "The Metropolitan Railway Act, 1877": "The company may form a fund, to be called the reserve fund, and may carry to such fund all premiums paid to the company upon the issue or sale of new shares or stock, and any other moneys which the company may from time to time have at their disposal, and are not applicable to any specific purpose by virtue of any Act relating to the company. And the company may from time to time invest the reserve fund, and the annual income derived therefrom, or any part thereof respectively, in such securities as they may think fit, and may from time to time apply the reserve fund and the annual income derived therefrom, or any part thereof, for any such purposes connected with their undertaking"—and this is the important part—"not being in payment of dividends or interest on any of the stocks or shares of the company as may from time to time be directed at a meeting of the company." Therefore, having built up their reserve fund by issuing stock at a premium, and having put themselves in 1877 under an express disability to apply it to the payment of dividends or interest, in 1879 they, conjointly with my company, get a power to raise this large amount of money for the Inner Circle; and in "The Metropolitan Railway Act, 1880," clause 33, is this: "The company may from time to time, until but not after the expiration of three years from the day on which any of the railways authorized by the Act of one thousand eight hundred and seventy-nine shall have been commenced, apply their reserve fund and the annual income derived therefrom, or any part thereof, in payment of interest upon any calls or capital sums expended in carrying out the undertaking authorized by the Act of one thousand eight hundred and sixty-nine, and therein called 'the joint undertaking.'" Now, that is a means of evading the Standing Order. That is a distinct payment out of capital.

280. *The Chairman.*] Then the Standing Order has been evaded by the great companies who are opposed to the repeal of the Standing Order, or its alteration, as well as by new companies desirous of promoting fresh enterprises?—That is one mode of evading it. There is another mode: that is the allotment of stock in respect of which this power is reserved, and it carries out the idea of improvidence, the first allotment of £500,000 4 per cent. perpetual preference stock. That is issued to the shareholders in the Metropolitan Railway Company for the purpose that I have described, and the condition is the balance of the call being paid "on the 1st of April next"—that is, the 1st of April, 1881. "The dividend upon the stock will not commence to accrue until the 1st of April, 1882." Now, that stock was issued at par. At this very moment the 4-per-cent. preference stock of the Metropolitan Railway Company is worth from 105 to 107. Now, if they had issued that stock bearing 4 per cent. interest from the date of issue, every penny of it would have been placed at a premium. If it is worth 105 to 107 now, it would have been worth 105 to 107 then if it had carried interest. They have, in fact, paid from 5 to 7 per cent. in order to save one year's interest at 4 per cent. That is as regards the preference. Now, here is the balance of the stock, £750,000 new ordinary stock; £750,000 and £500,000 make the £1,200,000 which is their half of the contribution to the Inner Circle completion. That is issued, and the call is spread over a considerable time. It comes to this: It was issued at par, ranging *pari passu* with the ordinary stock of the Metropolitan Company for dividend, but the dividend only to accrue in October, 1884. That stock was issued at par at the moment when the ordinary stock of the Metropolitan Company was at 124 to 125. That is a most improvident method of raising money.

281. *Mr. Shaw.*] It was issued to their own shareholders, I presume?—Yes.

282. Then it is all in their own pockets?—It may be, but it is improvident, nevertheless; it is paying interest out of capital.

283. *The Chairman.*] You are of opinion that the evidence we have heard, and the representation of the Chairman of Committees, is correct, that this Order has been systematically violated in practice; but do you not think that, after the recent decisions of the Courts, these violations will be put an end to?—Not in the least. There was a decision on a case of the Metropolitan Company many years ago, the well-known case of *Salisbury v. the Metropolitan Company*, in which the contractors were made use of in the same way to pay interest during construction; and that was challenged, and a very strong decision against it given by Vice-Chancellor James; but it goes on.

284. Then this decision of Sir George Jessel's is not the first on the same lines?—It is by no means the first. The case I have mentioned was a device for setting aside the Standing Order under which the contractor paid the interest during construction.

285. *Mr. Shaw.*] I do not quite understand how you make out that operation on the reserve fund, to which you referred just now, to be a payment of interest out of capital?—Because, if you issue stock at a premium, you issue it at a greater rate of interest than need be, and it becomes a greater charge on the permanent income of the company.

286. But it is within themselves; it is their own money and their own business altogether?—That may be.

287. They are not spoiling their business and giving it to an outsider?—That is a mere question between the company and the shareholders; it does not affect the principle of the thing. If you give anybody for £100 what is worth £120, the fact of giving it to a present shareholder in the railway does not in the least affect the principle; he benefits, but his successor loses.