

Subsection (2) of section 35 is silent as to the terms on which a shareholder is to pay the balance of his share capital. It is quite unnecessary for this subsection to contain a declaration that a subscriber to the memorandum of association shall be deemed to be applying for allotment to him for the number of shares set opposite his name. Any provisions with regard to payment of share capital should apply to all shareholders, and not merely to subscribers. If the minimum number of shares to be held is to be at least twenty-five, it appears to be almost unnecessary to divide the capital of the association into shares of £1 each. It appears to be quite unnecessary, and possibly dangerous, to allow an association to be registered without the nominal capital being stated.

*Section 36.*—This should be altered to make it clear that the total number of directors of an association is five.

This section contains reference to the articles of association, but apparently from subsection (1) of section 35 there is no necessity for an association to register articles. If the names of the first directors are included in the memorandum, then it is quite unnecessary to name them in the articles.

It would be preferable to prescribe the form of articles for use by all these associations, and to permit no deviation from the approved form except by statute.

The provisions contained in subsection (4) of section 37, and in section 54 and 59, exempting the associations and others from payment of fees and duties are objectionable.

*Section 38, Subsection (3).*—This appears to be in conflict with the provisions previously contained regarding the number of directors.

*Section 42.*—As the Bill is drawn, this section would seem to allow the Board to substitute fresh articles of association for those registered by the association when incorporated. While it is, no doubt, desirable that there should be uniformity in the articles used by associations, the proper method of obtaining this is to prescribe a statutory form of articles from which no departures are permitted.

*Section 47.*—Subsection (2) does not make it clear what are the relative rights of the Board and the bank in respect to advances made to the association. If every borrower from the association repays his loan in full, then, of course, no difficulty will arise. In view, however, of the class of loans contemplated, some losses must be expected, and the Bill should contain provision accordingly. Nothing is said as to the liability of shareholders in the association for loans made to the association. Presumably their share capital would have to be applied in case of need in repayment of such loans, but this is by no manner of means clear.

Subsection (4) of section 47 does not make it clear what rights, if any, are conferred upon the bank or other financial institution as a result of the endorsing by the Board of a bill of exchange. A bank or other financial institution discounting Bills should have the full right of recourse against the Board as endorser, including the right to recover the amount of any Bill as against the Board's Redemption Fund in priority of all other claims against that fund.

The limitation of interest contained in subsection (9) of section 47 should not name any rate, but the rate should be fixed from time to time by Order in Council, so as to provide for market variations.

*Sections 51 to 54.*—The principle of allowing surrender of shares is wrong. With the exception of the provision contained in the Dairy Industry Act, such a provision is unknown in the Companies Acts of the English-speaking Dominions. As framed in this particular case, it means that the only real capital of the association will be £500—that is, twenty shareholders with twenty-five shares apiece. Of this amount, £100 will be paid up and £400 will remain unpaid. Any capital in excess of £500 can be withdrawn practically at a moment's notice. There should be no prohibition against the transfer of shares in an association other than that which is usually found in the articles of well-conducted public companies. If a shareholder is a borrower from the association, then the usual provision regarding paramount lien should appear in the articles. The management of an association should deal with transfers of shares in the association, and not an outside body as is proposed in the Bill. There appears to be no real reason why the association should not issue share certificates, or some other evidence that a shareholder does hold shares in the association.

*Section 58* is regarded by the banks as conferring upon the Board a right to inquire into the business relations of a co-operative society with a bank or other financial institution, which is absolutely unjustifiable. There is, of course, no reason why the Board should not have returns from a society indebted to it as frequently as it desires: otherwise the Board has no right to know what the position is between a bank and any of its customers.

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LETTER FROM THE FARMERS' CO-OPERATIVE WHOLESALE FEDERATION (N.Z.), LTD.

Wellington, N.Z., 27th September, 1927.

The Clerk, Rural Intermediate Credit Bill Committee, House of Representatives, Wellington.

DEAR SIR,—

I have to acknowledge your letter of the 21st instant, and, in reply, beg to advise you that this federation is not desirous of tendering evidence.

I understand that provision will be made precluding the possibility of advances being made to associations or societies for the purpose of financing the marketing of merchandise.

Yours faithfully,

FRANK BUSHELL, General Manager.